



Credit Rating Basics for Municipal Bonds on EMMA®

Did you hear that a credit rating agency changed a city's or bond's credit rating? Do you want to know what that means? Use this publication to learn the basics of credit ratings for municipal bonds and how to find rating information on the [Electronic Municipal Market Access \(EMMA®\) website](#), the MSRB's website that provides free, important information about municipal bonds.

What Is a Credit Rating?

Think about your own credit score. Credit scores and credit ratings are similar. Companies use credit scores (ranging from 300 to 850) to assess people's ability and willingness to make car or mortgage payments. Investors in municipal bonds use credit ratings to assess **creditworthiness**, or the ability and willingness of the state or local government issuing the bond to pay investors their money back, plus interest. Credit ratings are symbols (e.g., AAA). Each symbol has a definition.

Credit ratings address creditworthiness only. They are intended to reflect the rating agency's assessment of the likelihood of bond issuers, or any other responsible entity, paying investors as promised. Typically, issuers promise to pay investors from taxes or another type of revenue source, such as highway tolls or energy, water or sewer payments. Credit ratings don't address other factors such as [interest rate risk and tax considerations](#) (like the *de minimis* rule) that investors should also consider.

Credit ratings address creditworthiness only. If you use credit ratings, treat them as one tool in your investment analysis toolbox.

You can use credit ratings as one factor when deciding whether to buy, sell or hold a municipal bond. If you use credit ratings, treat them as one tool in your investment analysis toolbox and not the sole basis for buying, selling or holding a municipal bond.

Who Publishes Credit Ratings?

Businesses called credit rating agencies issue, or publish, credit ratings on behalf of state and local governments, companies, foreign governments, insurance companies and other customers. The U.S. Securities and Exchange Commission (SEC) oversees credit rating agencies that register with the SEC as a nationally recognized securities rating organization (NRSRO). By law, an NRSRO:

- Has been in business as a credit rating agency for at least the three consecutive years immediately preceding its application to be an NRSRO;
- Issues ratings certified by certain sophisticated investors; and
- Issues ratings in up to five categories of ratings.



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The SEC examines these businesses and publishes its essential examination findings. Annually, the SEC sends a report required by law to Congress about the NRSROs. [Read more about the SEC's Office of Credit Ratings and its work.](#)

conflicts of interest relating to the issuance of credit ratings, including payments received from an issuer and other sources of income. [View these disclosures in Form NRSRO, Exhibit 6 online.](#)

Who Pays for Credit Ratings?

Customarily, the obligated person, or entity responsible for paying back investors, covers the cost of hiring an NRSRO to prepare and issue a credit rating. NRSROs must disclose certain

Are There Different Types of Credit Ratings?

Each rating agency has its own rating types (or categories). Table 1 provides a basic glossary of common rating types. Rating agencies publish their rating types in a public guide on their websites.

Table 1. Understanding Common Rating Types in the Municipal Bond Market

Type	Generic Description
Long-term	Ratings of long-term financial obligations. They estimate the relative risk that the obligated person will not honor its financial promises to investors.
Short-term	Ratings of short-term financial obligations (typically, obligations that terminate in three years or less). They estimate the relative risk that the obligated person will not honor its financial promises to investors.
Underlying	Ratings of the obligated person's creditworthiness on a stand-alone basis (<i>i.e.</i> , the ability and willingness to pay back investors, plus interest, in the absence of any credit enhancement such as insurance).
Enhanced	Ratings of the creditworthiness of a third-party credit or liquidity support provider (such as state intercept guarantees ⁺ or credit programs of federal and state governments, but not insurance companies) and, in some cases, of the creditworthiness of the underlying obligated person.
Insured (or Wrapped)	Ratings of the obligated person's creditworthiness given the financial strength of its financial guarantor (such as an insurance company) that the obligated person engaged. Often, insured ratings are the higher of the financial guarantor's rating or any underlying or enhanced rating for the municipal bond.

⁺ Generally, a state intercept guarantee is a promise that a state makes to tap its available funds to pay bond investors if the municipal bond investor otherwise does not pay them.

Neither the SEC nor the MSRB endorses any NRSRO, credit rating agency or its ratings.



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What Does a Sample Ratings Scale Look Like?

In the ratings guides, there will be a rating scale (e.g., AAA to D) and defined symbols (e.g., AAA or D) for each rating type. Table 2 illustrates a sample credit rating scale, with AAA as the top rating. Some scales distinguish between investment grade and non-investment grade ratings. Generally, BBB- or higher are investment grade ratings (for less risky bonds), while lower than BBB- are non-investment grade ratings (for riskier bonds). The terms “speculative” or “high yield” might be used instead of non-investment grade.

Table 2. Sample Credit Rating Scale

AAA
AA
A
BBB
BB
B
CCC
CC
C
D (default)

Some of the ratings above may be modified with a “+”, “-” or a number.

Consider asking a financial professional for help with understanding the ratings guides. Certain rating agencies expressly discourage investors who are not financial professionals from using their credit ratings without professional assistance.

When Is a Credit Rating Assigned? Does It Ever Change?

Before offering a new municipal bond for sale to the public, issuers usually work with at least one NRSRO to obtain a credit rating for the bond. In addition to issuing ratings, NRSROs also provide what they call surveillance or monitoring services. The frequency, timing and extent of the monitoring can vary by NRSRO and the terms of their engagement with the issuer. Generally, the rating agency is applying its own methodology for assessing socio-economic trends, additional debt and other factors that may affect the issuer’s ability to pay back investors, plus interest. This entails speaking with issuers and reviewing documents from many sources, including the EMMA website. Through monitoring, the NRSRO may determine to adjust the credit rating.

Rating agencies typically don’t change a rating, up or down, overnight. Instead, rating agencies first use ratings reviews (often called “watches”) and ratings outlooks to signal that a rating change may be warranted in the near term or medium term, respectively. Ratings outlooks (such as positive, negative, stable or developing) are the rating agency’s assessment of the likely direction of a rating over the medium term. A stable outlook indicates a low likelihood of a rating change, while a negative, positive or developing outlook indicates a higher likelihood of a rating change.



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What Ratings Information Can I Find on EMMA?

There are two main categories of ratings information available to the public for free on the [EMMA website](#).

1. **The NRSROs' credit ratings, watches and outlooks.** The MSRB displays rating information on the EMMA website from Fitch Ratings, Inc., Kroll Bond Rating Agency, Inc., Moody's Investors Service, Inc. and Standard and Poor's Financial Services LLC. When the rating agencies publish new or updated rating information, EMMA updates to reflect it.
2. **Disclosure documents that include rating information.** Typically, you'll find information about credit ratings or creditworthiness in the issuer's [official statement](#) and [continuing disclosures](#) posted on EMMA. An official statement provides important information

about a brand-new municipal bond. A continuing disclosure provides important information about a bond at some point in its life after it's sold for the first time.

How Do I Find Rating Agency Information on EMMA for a Municipal Bond?

To access rating agency data for a particular bond, start on the **"Security Details" page** for a municipal bond. To find this page, use any one of EMMA's [search tools](#)—(1) [Quick Search](#), (2) [Advanced Search](#) or (3) the [Map-Based Search](#). On the Security Details page, select the "Ratings" tab to view all rating information the MSRB received from the NRSRO(s).

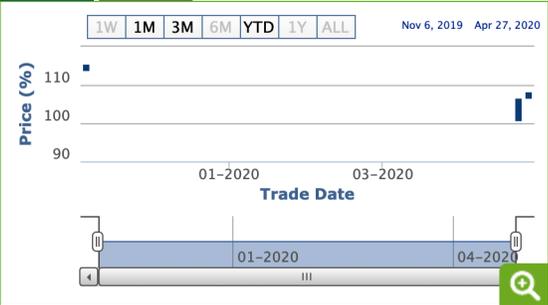
Security Details

**CUSIP: 9999999AB**
ISSUER NAME

Coupon:	5 %
Maturity Date:	07/01/2033
Dated Date:	11/13/2019
Initial Offering Price/Yield:	114.655% / 1.53%
Principal Amount at Issuance:	\$43,850,000
Time of Formal Award:	11/05/2019 08:00 PM
Time of First Execution:	11/06/2019 11:45 AM
Closing Date:	11/13/2019

Price Yield

1W 1M 3M 6M YTD 1Y ALL Nov 6, 2019 Apr 27, 2020



Price (%)

Trade Date

[Trade Activity](#) [Ratings](#) [Disclosure Documents](#) [Final Scale](#) [Compare](#)



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Are There Tips for Using the Ratings Tab?

Keep in mind the following important tips when using the Ratings tab and the information on it:

- 1 The **“effective”** date reflects the date on which a rating agency has taken a rating action, such as issuing or changing a credit rating.
- 2 Each NRSRO’s **ratings guide** explains the rating agency’s ratings information. Remember, each rating agency has its

own ratings methodologies, scales, symbols, terms and definitions, so the information that each one provides EMMA users is different.

- 3 The **“Last Updated”** date and time reflects when the NRSRO’s automated feed last provided information to the MSRB for display on the EMMA website. Use it to determine how fresh the information is.

Trade Activity **Ratings** Disclosure Documents Final Scale Compare

View current long-term ratings and underlying or unenhanced ratings for this security.

Fitch
No ratings information provided by Fitch Ratings.

KBRA
No ratings information provided by Kroll Bond Rating Agency.

Moody's [Access Moody's At-A Glance \(Issuer\)](#) | [Access Moody's At-A Glance \(Obligor\)](#)

Underlying Long-Term Debt Rating	Aa1 (effective 04/01/2020) 1	Underlying Long-Term Debt Rating Watch Status
Enhanced Long-Term Debt Rating		Enhanced Long-Term Debt Rating Watch Status
Insured Long-Term Debt Rating		Insured Long-Term Debt Rating Watch Status
Underlying Short-Term Debt Rating		Underlying Short-Term Debt Rating Watch Status
Enhanced Short-Term Debt Rating		Enhanced Short-Term Debt Rating Watch Status
Insured Short-Term Debt Rating		Insured Short-Term Debt Rating Watch Status

2 [Access definitions for the ratings provided by Moody's Investors Service, Inc](#) [Access additional information, such as prior ratings, research reports or other information offered by Moody's Investors Service, Inc](#)

3 Last Updated: 04/30/2020 @ 8:00:00 PM ET

Don't be alarmed if the Ratings tab has little or no rating information. Issuers sometimes don't seek ratings, and it's rare for bonds to have ratings from all four NRSROs. It is unlikely that an NRSRO has issued rating information (*i.e.*, credit

ratings, watch statuses and outlooks) for a municipal bond on the EMMA website that it hasn't provided the MSRB to display. If you want to be sure, ask a financial professional to check for more information.



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How Do I Find Disclosure Documents on EMMA?

On the Security Details page, the tab immediately to the right of the Ratings tab is the **“Disclosure Documents”** tab. Here you can access the bond’s official statement and continuing disclosures. Keep up with newly posted disclosures by clicking the **“Create MyEMMA® Alert”** button and signing up for email notifications of new disclosures.

For more information on accessing official statements and continuing disclosures on the EMMA website, [watch the “Diving into the Documents” video series](#).



What Are Some Key Takeaways from Credit Ratings Basics?

- **Use a toolkit, not a single tool.** You should never buy, sell or hold a municipal bond based solely on rating information. Rating information, including credit ratings, are not a substitute for financial planning, investment strategies and thorough investment research.
- **Ask professionals for help with credit research.** Certain rating agencies expressly discourage investors who are not financial professionals from using their credit ratings without professional assistance. Moody’s is one of them.
- **Use the MSRB’s free resources.** The EMMA website is a free service, and the MSRB encourages you to tell your friends and family about it. For help using EMMA, try [EMMA Help](#) or [contact the MSRB](#).



Municipal Securities Rulemaking Board

The MSRB protects investors, state and local governments and other municipal entities, and the public interest by promoting a fair and efficient municipal securities market. The MSRB fulfills this mission by regulating the municipal securities firms, banks and municipal advisors that engage in municipal securities and advisory activities. To further protect market participants, the MSRB provides market transparency through its Electronic Municipal Market Access (EMMA®) website, the official repository for information on all municipal bonds. The MSRB also serves as an objective resource on the municipal market, conducts extensive education and outreach to market stakeholders, and provides market leadership on key issues. The MSRB is a self-regulatory organization governed by a board of directors that has a majority of public members, in addition to representatives of regulated entities. The MSRB is overseen by the Securities and Exchange Commission and Congress.

This information is for educational purposes only and provides a general overview of the subject matter and does not constitute investment, tax, business, legal or other advice. See the [Municipal Securities Rulemaking Board's Website Terms of Use](#) for additional information about Fitch Ratings, Kroll Bond Rating Agency, Inc., Moody's, and Standard and Poor's and their rating information. "CUSIP" is a registered trademark of ABA.



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