



## Secondary Market Bond Insurance Capacity and Analytics on Perform FSD: BAM Answers to Frequently Asked Questions

Investortools has joined with Build America Mutual to expand the information and analytical tools available to Perform users considering secondary market insurance of existing municipal bonds.

BAM-insured bonds are rated AA with a Stable outlook by S&P Global Ratings. BAM offers its insurance to guarantee timely payment of interest and principal on municipal bonds, providing protection against default and a downgrade of the issuer’s bond rating. BAM does not guarantee market value. Purchasing secondary-market insurance can raise the rating on a municipal bond holding, enhance its liquidity, and potentially increase the value, both in the market and in third-party evaluations.

### FINDING BOND INSURANCE CAPACITY ON PERFORM

<p>Q: Where in Perform will I see information about the availability of bond insurance?</p>	<p>The Perform platform will display the BAM logo to indicate which uninsured bonds within portfolios are eligible for BAM insurance, along with indicative pricing. Perform FSD users can utilize this information to propose secondary market insurance transactions to their clients, who can use their own version of Perform to execute detailed analysis about how adding insurance may impact a portfolio’s average rating, duration, book yield, and compliance with internal parameters for average credit quality. The “Secondarily Insurable CUSIP Report”, the “Matchers Report” and the drop down “Ask Prompt” from the “Holdings Scan” for Insurable Bonds will enable FSD Users to identify bonds with the BAM logo for bonds which are Insurable and the Insurance Quote.</p>
---	---

### MUNICIPAL BOND INSURANCE OVERVIEW

<p>Q: What does BAM insurance cover?</p>	<p>BAM’s insurance is unconditional and irrevocable, and covers default for any reason, including, but not limited to:</p> <ul style="list-style-type: none"> <li>■ Economic disruption and recession</li> <li>■ Natural disasters</li> <li>■ Pension funding shortfalls</li> <li>■ Fraud and administrative errors</li> </ul>
<p>Q: How can a dealer work with a customer to execute a secondary market trade?</p>	<p>The bondholder can initiate a secondary market insurance trade by selling the uninsured CUSIP to a broker with the understanding that the Holder will buy back the insured CUSIP at that price plus the insurance premium after the broker insures the bond. The broker “free delivers” the uninsured CUSIP directly to BAM’s custodian (either BONY or US Bank) and wires BAM the insurance premium. The Custodian will then deliver back the insured bond in the form of a Custodial Receipt with a new CUSIP. The broker often charges a small commission to the Holder for this service.</p>



## MUNICIPAL BOND INSURANCE: COMMON USES AND BENEFITS

<p>Q: How do investors typically use municipal bond insurance?</p>	<p>BAM’s insurance guarantees timely payment of debt service when due, and many investors are finding it useful in managing their municipal bond portfolios. Some common use cases for insurance include:</p> <ul style="list-style-type: none"> <li>■ <b>Diversifying credit exposure</b> – Investors with large positions in a single credit may choose to insure a portion of the holding in order to diversify their exposure and comply with portfolio concentration limits.</li> <li>■ <b>Reduce ratings volatility</b> – BAM-insured bonds are backed by our durable, AA rating and Stable outlook from S&amp;P Global.</li> </ul>
<p>Q: What bonds are most frequently insured in the secondary market?</p>	<p>Bond insurance is priced as a percentage of par outstanding, and the premium for secondary-market bond insurance is paid in full at the time of the trade. Investors often prefer to insure longer-dated bonds so that they can amortize this payment over a longer period and reduce the per-annum impact on yield. Common structures for secondary insurance include:</p> <ul style="list-style-type: none"> <li>■ Final maturity longer than 10 years</li> <li>■ Priced at a discount to par</li> <li>■ Noncallable and zero-coupon bonds</li> <li>■ Taxable municipals with a make-whole call provision</li> </ul>
<p>Q: What are “matching” insured CUSIPs?</p>	<p>When an investor obtains secondary insurance on some, but not all of the bonds carrying a CUSIP, a new CUSIP is obtained for the custodial receipt. Any subsequent bonds from the original issue will then carry the same new CUSIP. These follow-on secondary trades can have advantages for the investor, including a potential reduction in the fixed cost of the transaction because no additional CUSIP fees are necessary, and the ability to observe evaluated pricing levels for the insured bonds prior to the trade, which provides greater certainty about the post-trade value of the holding.</p>
<p>Q: How does a secondary market insurance trade impact the holder’s cost basis?</p>	<p>BAM does not offer legal or tax advice and the Holder must make any ultimate determination, but typical market behavior is that the Holder adds the bond insurance premium to its amortized book price to determine its new cost basis, and does not realize taxable gains or losses.</p>