

Rating Action: Moody's assigns Aa2 to Vermont Municipal Bond Bank's 2020 Series 1; outlook stable

14 Feb 2020

New York, February 14, 2020 -- Moody's Investors Service has assigned a Aa2 rating to the Vermont Municipal Bond Bank's (Vermont Bond Bank, the bank) \$22.4 million 2020 Series 1 Bonds (Local Investment Bonds). We maintain the Aa2 rating on the bank's outstanding debt. The outlook is stable.

RATINGS RATIONALE

The Aa2 rating reflects the average credit quality of the participating borrowers that is further enhanced by the Vermont State Aid Intercept Program (Aa2 stable). The rating also incorporates the very large and diverse pool of program participants, the bank's strong legal covenants and debt structure, and an experienced management team including support from the state of Vermont (Aa1 stable).

RATING OUTLOOK

The stable outlook reflects our view that the bank continues to manage operations and improve monitoring, and the pool's large size will remain diverse. The outlook also incorporates the adequate reserves that are available to cure potential defaults or delayed participant payments, if necessary. Additionally, we believe that the number of participants who currently receive enhanced ratings based on the state's pre-default intercept program will remain stable over the medium term, thus ensuring no material change in pool credit quality.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Improved credit quality of the borrower pool
- Substantially higher unrestricted reserve levels
- Annual issuer monitoring levels at or near 100% of the pool
- Upgrade to state intercept program or state rating

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Deterioration of the diversity of credit quality of pool participants
- Material reduction in reserve levels
- Downgrade of state intercept program or state rating

LEGAL SECURITY

The bonds are a general obligation of the Vermont Municipal Bond Bank, and the full faith and credit pledge of the bank is pledged for the payment of debt service on their municipal bonds. Additionally, the State provides a moral obligation to replenish the reserve fund if there is a draw on the reserve that reduces the amount below the required debt service reserve.

USE OF PROCEEDS

The bond proceeds will be loaned to local governments for various municipal facilities and infrastructure. Eleven unique borrowers include enterprise funds, municipalities, and school districts.

PROFILE

The Vermont Bond Bank was created in 1969 and is authorized to issue bonds in order to provide loans to local governments. The bond bank has approximately \$579 million in outstanding loans and since its inception has provided over \$2.5 billion in loans for local infrastructure throughout Vermont.

METHODOLOGY

The principal methodology used in this rating was U.S. Municipal Pool Program Debt published in March 2013. An additional methodology used in this rating was State Aid Intercept Programs and Financings published in December 2017. Please see the Rating Methodologies page on www.moody.com for a copy of these methodologies.

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