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S&P 2014 Annual U.S. Public Finance Default Study and Rating Transitions.

U.S. public finance (USPF) exhibited growing credit strength in 2014, following a similar performance in 2013. Upgrades outpaced downgrades by a ratio of 3.38 to 1 for nonhousing bonds and 2.6 to 1 for housing bonds, for an overall ratio of 3.33 to 1. Positive rating trends were more evident across the various sectors as both housing and nonhousing bonds had more upgrades than downgrades in 2014 whereas the ratio of housing upgrades to downgrades was 1 to 3 in 2013. The positive trend was also more consistent in 2014 as upgrades outnumbered downgrades in every quarter for the first time since 2007. Defaults slowed as well, with eight occurring in 2014 compared with 15 the previous year.

A significant factor in the positive rating change trend was the implementation of new criteria for local governments and for unenhanced multifamily properties. More than 4,000 local government ratings fall under the local government criteria. Following a review from mid-September 2013 through Sept. 30, 2014, Standard & Poor's Ratings Services upgraded 41% of these credits based on the new criteria and downgraded 4%. The difference between the actual and anticipated (30% upgrades and 10% downgrades) rating changes is attributable to qualitative analysis and updated information. The impact of the housing criteria was much less in terms of the number of ratings, but the trend was in the same direction as the criteria contributed to 50 upgrades and 19 downgrades. Strengthening economic fundamentals also provided a lift to rating trends, particularly for local government ratings. Furthermore, local government and unenhanced multifamily housing ratings combined for two defaults in 2014, indicating that the criteria accurately capture their credit risk.

Overview

- Standard & Poor's upgraded 2,224 bond ratings while downgrading 658 in nonhousing USPF in 2014.
- There were 117 housing upgrades and 45 downgrades in 2014.
- All but two sectors in USPF — higher education and health care — had more upgrades than downgrades in 2014.
- Eight defaults occurred in USPF in 2014 compared with 15 the previous year.
- Since 1986, the average annual number of defaults in all of USPF combined is five, out of a universe that now surpasses 21,000 ratings.

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