

Bond Case Briefs

Municipal Finance Law Since 1971

US Downgrade Hits Muni Market as Fitch Cuts Billions of Debt.

Fitch Ratings downgraded billions of dollars worth of public finance credits that are linked to the rating company's landmark decision to strip US government debt of its AAA status.

Thursday's move lowers the credit ratings of the local debt by one notch to AA+, the second-highest ranking, according to Fitch. The cut affects \$21.5 billion of the federally-owned Tennessee Valley Authority's global power bonds.

It also includes \$3.5 billion of pre-refunded municipal bonds with repayments that are wholly dependent on US government and agency obligations held in escrow as well as \$1.8 billion of municipal housing bonds that are mainly secured by mortgage-backed securities issued by Ginnie Mae, Fannie Mae or Freddie Mac, according to Fitch. The outlook is stable.

The municipal-bond downgrades weren't a surprise. In May, Fitch had warned it could downgrade some public finance credits because of their dependence on sovereign credit for repayment. About \$42.5 million of debt related to the Federal Home Loan Banks of Atlanta and Des Moines is still on watch negative, according to Fitch.

On Tuesday, Fitch lowered the US government debt rating to AA+, citing its outlook that the country's finances will likely deteriorate over the next three years given tax cuts, new spending initiatives, economic shocks and repeated political gridlock.

A spokesperson for the Tennessee Valley Authority, which provides electricity for power companies serving Tennessee and surrounding states, said in an emailed statement that the authority doesn't expect any material impact from the downgrade. "This is not driven by any TVA credit event," the statement said.

Bloomberg Markets

By Nic Querolo and Amanda Albright

August 3, 2023