



MUNICIPAL SECURITIES DISCLOSURE

Much of the information below is found on the Financial Industry Regulatory Authority ("FINRA") website under the Investor Alert, "Municipal Bonds - Staying on the Safe Side of the Street in Rough Times." For more information, please refer to this alert.

Features of Muni Bonds

Municipal securities, or, "Muni bonds" are debt obligations of state or local governments. The funds may be used to support general governmental needs or special projects.

Municipal bonds are considered riskier investments than Treasuries, but municipal bond interest is exempt from being taxed by the federal government. In addition, local governments often exempt their own citizens from taxes on its bonds. However, municipal bonds often have a lower coupon rate because of the tax break.

Municipal bonds generally pay a specified amount of interest (usually semiannually) and return the principal to you on a specific maturity date.

There are two common types of municipal bonds:

General Obligation ("GO") Bonds - GO bonds are issued by states, cities or counties. They are backed by the "full faith and credit" of the government entity issuing the bonds. The creditworthiness of GO bonds is based primarily on the economic strength of the issuer's tax base.

Revenue Bonds – Revenue bonds are backed solely by fees or other revenue generated or collected by a facility, such as tolls from a bridge or road, or leasing fees. Bonds that are backed by a specific tax or assessment of a government entity, such as a tourist tax or other special tax or assessment, also are often considered to be revenue bonds. Unlike GO bonds, revenue bonds are not backed by the full faith and credit of the government entity issuing the bonds. Instead, the creditworthiness of revenue bonds depends on the financial success of the specific project they are issued to fund, on the revenues of a specific operational component of the government entity, or on the amounts raised by a specific tax or special assessment.

Historically, very few muni bonds have gone into default. But defaults can occur. Defaults tend to be higher for revenue bonds than for GO bonds—especially those that back private-use projects such as nursing homes, hospitals or toll roads.

Risks Associated with Muni Bonds

Risk of Default

Evaluating Financial Condition

Defaults, while rare, do occur. One way to evaluate an issuer's default risk is to evaluate its financial condition. When a muni bond issuer offers a new bond for sale, it usually discloses the details of the offering and information about its financial condition in the bond's "official statement" (analogous to the prospectus used for corporate securities offerings). This information is typically updated each year—and also from time-

to-time through “material events notices” concerning, for example, delinquency in principal and interest payments, other types of defaults, rating changes, events affecting the tax-exempt status of the bond, bond calls and other events. The Municipal Securities Rulemaking Board (“MSRB”) currently makes official statements, other ongoing muni bond disclosures, real-time trade pricing and up-to-date interest rate information available to the public for free through its Electronic Municipal Market Access (EMMA) Web site. This information is also available from IB.

Credit Ratings

Credit ratings can also help you evaluate a bond’s default risk. However, it is important to realize that these ratings are estimates only and should be only one of many factors in evaluating a municipal bond investment. Credit ratings can change at any time. A high credit rating is not a seal of approval and neither reflects nor guarantees stability of market value or liquidity. Conversely, a low credit rating may very well be a sign of a bond’s increased risk of default or an indicator of greater liquidity risk and price level risk. As such, a low credit rating should not be taken lightly. So-called “high yield” munis often have low credit ratings—the higher return is meant to compensate investors for the higher level of risk they incur.

Not all bonds have credit ratings. While an absence of a credit rating is not, by itself, a determinant of low credit quality, investors in non-rated bonds should be prepared to make their own independent credit analysis of the bonds.

Bond Insurance

Some muni bond issuers include a repayment protection feature - most often bond insurance - to insure their bonds at the time they are issued. A bond with insurance generally is able to come to market with a higher credit rating, making the bond more attractive to buyers, and at the same time lowering the issuing cost to the municipality. The protection can shield an investor from default risk to the extent that the protection provider promises to buy the bonds back or to take over payments of interest and principal if the issuer defaults. However, any guarantees are only as sound as the protection agent/insurance company that makes them. For this reason, when considering an insured bond, be sure to take into account the credit rating and long-term viability of the bond insurer. Following recent economic turmoil, the credit ratings of most bond insurers have been downgraded—and, in many cases, the current credit profile of the municipal bond issuer itself may now be higher than the current credit rating of the bond insurer.

Interest Rate Risk

Muni bonds are subject to interest rate risk, which is the risk that an increase in interest rates may reduce the market value of a bond you hold. Interest rate risk, also referred to as market risk, increases the longer you hold a bond. This is especially true if you purchase a bond when interest rates are at or near historically low rates.

MSRB Investor Brochure

The below information is available on the MSRB website in the MSRB Investor Brochure located at: <http://www.msrb.org/msrb1/pdfs/MSRBInvestorBrochure.pdf>

Information for Municipal Securities Investors

- Rules Protecting the Investor
- Investor Disputes with Dealers

The Municipal Securities Rulemaking Board was created by Congress in 1975 to make rules regulating the municipal securities activities of brokers, dealers and municipal securities dealers ("dealers"). The Board is composed of 15 members who are divided into three equal categories -- persons representing bank dealers, securities firms and the public. The MSRB is subject to oversight by the Securities and Exchange Commission, and its rules must be approved by the Commission. It is financed by fees and assessments paid by securities firms and banks engaged in municipal securities activities.

Rules Protecting the Investor

The main purpose of the Board's rules is to protect investors who buy or sell municipal securities. Toward that end, the Board has adopted rules that require dealers to deal fairly with investors.

When a dealer recommends a municipal security to an investor, the Board's rules specifically require that the recommendation be suitable to the investor's financial situation and investment objectives. Advertisements about municipal securities must not be false or misleading.

In addition, before selling a municipal security to an investor, the dealer must share with the investor all material information about the security necessary for the investor to make an informed investment decision. The investor should consider all relevant features of the security, including its yield, tax status and call or put features.

The dealer must buy and sell a municipal security at a fair and reasonable price, based on its best judgment of the security's fair market value. No dealer may guarantee an investor against a loss on an investment in a municipal security.

After buying or selling a municipal security, a dealer must send a written confirmation to the investor containing the identities of the parties to the transaction, a description of the security, the date of the sale, the security's price and yield, the capacity in which the dealer is acting, the existence of any call or put features and the availability of specific information about those features. The dealer also must provide the purchaser of a new issue municipal security with a copy of the official statement if one is prepared by the issuer.

The Board's rules apply to municipal securities only. They do not apply to unit investment trusts, bond funds or other, similar investment programs issued by investment companies. Municipal securities generally are defined as direct obligations issued by a state, county, city or any of their political subdivisions, such as a school district or a housing authority.

Investor Disputes with Dealers

An investor who has a dispute with a dealer should try to resolve it with the sales representative or the representative's supervisor. If the dispute cannot be resolved, the investor may file a claim with the Financial Industry Regulatory Authority's arbitration program for possible restitution of an unfair monetary loss. Information about FINRA's arbitration program may be obtained by writing to FINRA at 1735 K Street, N.W., Washington, D.C., 20006, Attn: Dispute Resolution. The investor also may file a complaint with the regulatory agency that examines the dealer for compliance with Board rules.

Complaints

An investor who believes a dealer has been unfair or that Board rules or federal securities laws have been violated may file a complaint with the

Securities and Exchange Commission

100 F Street, NE

Washington, DC 20549

Complaints also may be filed with the appropriate agency listed below.

For securities firms:**Financial Industry Regulatory Authority**

1735 K Street, NW

Washington, DC 20006

Attn: Fixed Income Securities Regulation

For state banks that are not members of the Federal Reserve Board:**Federal Deposit Insurance Corporation**

550 17th Street, NW

Washington, DC 20429

Attn: Planning & Program Development Section Division of Bank Supervision and Consumer Protection

For state banks that are members of the Federal Reserve Board:

Board of Governors of the Federal Reserve System

20th and C Streets, NW

Washington, DC 20551

Attn: Market and Liquidity Risk Section Division of Banking Supervision and Regulation

For national banks:**Office of the Comptroller of the Currency**

250 E Street, SW Washington, DC 20219

Attn: Credit and Market Risk MS 9-14

For savings associations:**Office of Thrift Supervision**

1700 G Street NW

Washington, DC 20552

Attn: Trust and Specialty Programs

These agencies examine dealers for compliance with Board rules and federal securities laws.

Anyone who wishes to communicate with the MSRB or obtain a copy of its rules may contact:

Municipal Securities Rulemaking Board

1900 Duke Street Suite 600

Alexandria, VA 22314-3412

Telephone: 703-797-6600

FAX: 703-797-6700