as late as 1944, more than 92 percent of the total par amount of all issues outstanding was rated by one or more of the agencies.

Moody's began rating municipal bonds in 1919; Standard & Poor's not until 1950. Until the great depression, Moody's rated most issues Aaa or Aa. Large numbers of defaults during the 1930's caused Moody's to reevaluate its standards and adopt a more conservative approach. It has been estimated that during the 1930's approximately 2½ percent of a total of 160,000 local governmental bodies were in default on some part of their interest or principal requirement. The aggregate loss of principal sustained by bondholders was approximately $100 million, or two-thirds of 1 percent of total public debt. Of these, 48 percent of the number of defaulting issues in the 1930's were rated Aaa in 1929 and 78 percent of the defaulting issues were rated Aa or Aaa. The art of municipal bond analysis has come a long way since the predepression days when the rule of thumb was the number of railroads passing through a town. One railroad called for a single A, two for Aa and so forth.

Today, a determination of ability to pay involves analysis of a host of economic, social, political, and historic factors tempered in large measure by the analyst's own subjective, or even intuitive assessment.

Agency ratings are, in effect, graduated listings of bond issues according to investment quality; they are long run appraisals of the intrinsic quality of bond issues and reflect the ability of the issue to withstand default and capital loss over long periods of time in the future. Moody's ratings of municipal bond issues take the form of the same alphabet symbols as, and are thought to be comparable to, those which Moody's applies to corporate bonds. These range from Aaa—judged to be the finest quality—through Aa, A, Baa, Ba, B, Caa, Ca and finally C—issues regarded as having extremely poor prospects of ever attaining any real investment standing.

Though agencies do not divulge in detail the particular factors and weights used in assigning the individual ratings, it does appear from the manual descriptions that attention is given to such matters as earnings, coverage, lien, position, capital structure, and growth and stability of earnings. The primary aim of the ratings is to rank issues in the order of their relative freedom from default and capital losses arising therefrom. Thus, issues with the highest rating are those on which default is adjudged least likely to occur; issues with the lowest ratings are those already in default or on which default is imminent.

Moody's does not rate issues of less than $600,000, nor obligations of enterprises without established earnings records, projects under construction, or issues where current financial data are lacking. More than 16,000 public bodies and 20,000 issues are presently included in Moody's Municipal and Government Manual.

The second major advisory service which rates municipal credits is Standard & Poor's Corp. S. & P. began rating municipals in 1950 and rates governmental bodies having at least $1 million of debt outstanding, provided the availability of adequate information. Standard & Poor's also categorizes bonds into letter groupings. They are AAA (prime); AA (high grade); A (upper medium grade); BBB (medium grade); BB (lower medium grade); B, CCC and CC denote speculative issues with varying degrees of risk; C, DD, and D denote defaults. The investing public has come to consider Standard &