

FITCH RATES MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST POOL PROGRAM'S \$226.7MM REVS 'AAA'

Fitch Ratings-Chicago-18 May 2012: Fitch Ratings assigns an 'AAA' rating to the following Massachusetts Water Pollution Abatement Trust Pool Program's series state revolving fund (SRF) program bonds:

--\$226.7 million series 16;
--\$125.9 million 2012 refunding bonds

A portion of the bonds will sell via negotiation during the week of May 28 while the remainder will be sold via competitive bid on May 31. Series 16 bond proceeds will fund loans for governmental entities, pay outstanding bond anticipation notes and refund certain outstanding debt.

In addition, Fitch has affirmed its ratings on the following Massachusetts Water Pollution Abatement Trust (MWPAT) SRF bonds:

--\$3.2 billion Pool Program Bonds, Series 1-15 and Pool Program refunding bonds.

The Rating Outlook is Stable.

SECURITY

The series 16 bonds are secured by borrower loan repayments, including repayments from direct loans funded with program equity funds, Commonwealth Contract Assistance Payments (CAP) and the pool program reserve funds.

Outstanding pool program bonds are secured by borrower loan repayments, CAP, debt service reserve funds, interest earnings from the reserve funds and deallocated reserves deposited into the deficiency fund. In addition, the outstanding series 15A, 15B and 2010A bonds are secured by Build America Bond (BAB) federal subsidy payments.

The outstanding refunding bonds are secured by excess loan repayments from the senior lien and deallocated reserves. In addition, the series 2004 refunding bonds have a dedicated reserve.

KEY RATING DRIVERS

SOLID CREDIT ENHANCEMENT: Collateralization primarily from pledged reserves allows the SRF program to withstand strong defaults during any four-year period of the bonds' life.

PRUDENT RESERVE INVESTMENT PRACTICES: Reserve investment practices are generally strong as assets are currently invested in U.S. Treasury and Agency securities, repurchase agreements or guaranteed investment contracts which are guaranteed or collateralized by U.S. Treasury and Agency securities in excess of 100%.

CROSS-COLLATERALIZATION STRENGTHENS PROGRAM: The clean water SRF (CWSRF) and drinking water (DWSRF) are cross-collateralized with one another, which allow shortfalls in one fund to be covered by surpluses in the other, further enhancing bondholder security.

HIGH SINGLE-BORROWER CONCENTRATION: The loan portfolio has high borrower concentration from the Massachusetts Water Resources Authority (rated 'AA+' by Fitch), which comprises 29% of outstanding loan principal. However, MWPAT has the flexibility of providing future loans to MWRA through its stand-alone program (rated 'AAA'), allowing MWPAT to manage the pool program's exposure.

RATING UNAFFECTED BY NEW CRITERIA: Fitch expects to implement new criteria as described in the press release, 'Fitch to Release New Criteria for State Revolving Funds and Leveraged Municipal Loan Pools,' dated April 18, 2012. Fitch anticipates that application of its new criteria will not negatively affect the rating on MWPAT's pooled program bonds.

Upon publication, Fitch will establish the date on which the new criteria will become effective for all new ratings related to SRFs and leveraged municipal loan pools (MLPs). In addition, within six months of the effective date of the new criteria, Fitch will conduct a review of its entire SRF and MLP-rated portfolio.

CREDIT PROFILE

MWPAT issues bonds to provide subsidized financing to municipalities throughout Massachusetts for its water pollution abatement and drinking water SRF projects. The bonds are issued pursuant to a master program resolution and separate series resolutions. MWPAT has historically used a bond series-based reserve fund model commonly seen in SRFs. The reserves are funded from federal capitalization grants.

With this issuance, MWPAT will transition to a hybrid model, where program equity will be used to fund approximately 30 direct loans, which will be pledged to bondholders. The interest portion of the direct loan repayments will subsidize borrower loans related to the series 16 issue, while the principal portion of the direct loan repayments will be transferred to the pool program reserve (to the extent that the funds are not needed to cure a deficiency in the debt service fund). For future bond issues, MWPAT may still fund a debt service reserve with program equity amounts.

Loan repayments, combined with reserve fund investment earnings and the CAPs, are used to pay SRF bond debt service. Use of the reserve earnings, the interest portion of direct loan repayments (for series 16 bonds) and contract assistance makes possible the 2% loan interest rate subsidy that is set by Commonwealth statute.

While the amount of the CAP subsidy has historically totaled around 17% of pledged revenues, the subsidy is generally set at bond debt service net of loan debt service and reserve fund earnings. The obligation of the Commonwealth (GOs rated 'AA+') under Commonwealth assistance contracts constitute a general obligation of the Commonwealth, for which its full faith and credit are pledged. The assistance contracts are pledged under the program resolution to the program trustee for the benefit of all holders of the MWPAT SRF bonds.

The program's reserves, which equal approximately \$1.2 billion or 37% of outstanding bonds, along with the principal portion of the pledged direct loans (\$115 million) provide strong levels of tolerance to loan repayment defaults. The senior and subordinate refunding bonds could continue to meet debt service requirements, assuming 91%, 58% and 26% defaults over the first, middle and last four years of the bonds life, respectively. This is consistent with the 15.94% level of default tolerance Fitch would assume in an 'AAA' level stress test given the program's size, the credit quality of the loans, and pool diversification.

As a series of bonds amortize, series reserves will be released to the program reserve, so that the original reserve level is maintained relative to outstanding bond principal. Released reserves for each series of bonds become available for deficiencies in payments of other state-wide loan pool borrowers, as well as for deficiencies on pool program refunding bonds. Any excess funds are then transferred to the deficiency fund.

Deficiency fund moneys may be used to prevent bond defaults resulting from loan repayment interruptions in the other SRF programs or by other Massachusetts SRF borrowers, including the MWRA, the South Essex Sewer District (SESD), and the City of New Bedford, each program rated 'AAA'). The MWPAT financed large loans to these borrowers historically through separately secured programs to reduce concentration risk in the state-wide pool. If not needed by either of the state-wide loan pools or the CWSRF bonds of the MWRA, SESD, or New Bedford, all released reserves are recycled and used to secure additional SRF loans.

The loan pool consists of approximately 290 borrowers. Massachusetts Water Resources Authority

(MWRA; senior and subordinate lien revenue bonds rated 'AA+' and 'AA' with a Stable Outlook, respectively) remains the largest borrower in the pool program's portfolio, making up approximately 28% of outstanding loan principal. The top 10 borrowers make up over 51% of outstanding obligations. The MWPAT has the flexibility of providing future loans to the MWRA through a stand-alone program, allowing the MWPAT to manage the pool program's exposure to the MWRA.

Pledged revenue sources exhibit strong credit quality. Fitch estimates that at least 92% of program participants exhibit investment-grade credit quality. Underlying loans are also subject to a state intercept mechanism in the event of delinquent repayments. Fitch conservatively does not consider the use of the intercept, as evidence of each borrower's interceptable aid was not provided. Loan security is also strong with approximately 68% of total loan principal secured by general obligation pledges of city and towns, with the remainder secured by local or regional water and sewer entities.

Assets are invested in U.S. Treasury and Agency securities and in investment agreements, with providers that are highly rated and/or fully collateralized by direct U.S. Treasury or Agency securities with third-party custodians. The sustained credit quality of the reserve investments is important to maintaining the current 'AAA' rating.

Contact:

Primary Analyst
Adrienne M. Booker
Senior Director
+1-312-368-5471
Fitch, Inc., 70 W. Madison Street, Chicago, IL 60602

Secondary Analyst
Major Parkhurst
Director
+1-512-215-3724

Committee Chairperson
Michael Rinaldi
Senior Director
+1-212-908-0833

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria' (June 20, 2011);
--'State Revolving Fund and Municipal Loan Pool Rating Guidelines' (Aug. 15, 2011).

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Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130
State Revolving Fund and Leveraged Municipal Loan Pool Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648902

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