

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's Assigns Aaa Rating To Massachusetts Water Pollution Abatement Trust State Revolving Fund Bonds, Series 17, Sub Ser 17A and 17B. Outlook is Stable.

Global Credit Research - 18 Apr 2013

New York, April 18, 2013 --

Moody's Rating

Issue: State Revolving Fund Bonds, Series 17, Subseries 17A; Rating: Aaa; Sale Amount: \$198,195,000; Expected Sale Date: 05-1-2013; Rating Description: Revenue: Pool

Issue: State Revolving Fund Bonds, Series 17, Subseries 17B (Federally Taxable); Rating: Aaa; Sale Amount: \$16,705,000; Expected Sale Date: 05-1-2013; Rating Description: Revenue: Pool

Opinion

Moody's Investors Service has assigned a Aaa rating to the Massachusetts Water Pollution Abatement Trust's \$214.9 million State Revolving Fund Bonds, Series 17, consisting of \$198.195 M Subseries 17A and \$16.705 M Subseries 17B. The outlook on the ratings is stable. Moody's is also affirming the Aaa ratings and stable outlooks on all outstanding Pool Program senior and subordinate lien bonds, all Massachusetts Water Resources Authority (MWRA) SRF senior and subordinate lien bonds, all New Bedford SRF senior and subordinate lien bonds and all South Essex Sewerage District (SES) SRF bonds.

SUMMARY RATING RATIONALE

The assignment of the Aaa ratings is based on the default tolerance of 22.4% for all of Massachusetts Water Pollution Abatement Trust's indentures combined, additional security from the deficiency fund, and a large, highly rated pool of borrowers.

STRENGTHS

- * The loan pool for all of the Trust's indentures could experience a significant, but highly unlikely, default of approximately 22.4% of the loan payments securing the bonds through final maturity of the bonds outstanding and all debt service payments would still be met.
- * Additional security provided by the pool program reserve fund and deficiency fund that captures de-allocated reserves and excess revenues from all series and all Trust programs. The de-allocated reserves may be used to cure shortfalls in any series and any program.
- * Large and diverse pool of underlying borrowers with sound credit characteristics. On a weighted-average basis, the portfolio's loan pool is rated or has rating characteristics of Aa3 and 42% of the loans outstanding are to borrowers with loans that compose less than 1% of the pool.
- * In the unlikely event of a loan default, the Trust has the right to intercept state aid revenues allocated to borrowers and direct the payments to the bonds.
- * Strong program management and oversight include sound underwriting standards and on-going surveillance of program borrowers; to-date, no borrower has defaulted on any leveraged loan repayment.

CHALLENGES

- *The Trust is exposed to counterparty risk, as its reserve investments are held in guaranteed investment contracts (GICs). However, funds held with counterparties rated below A1 have been haircut in the program cash flows and default tolerance.

* The Series 17 bonds have a large exposure to Massachusetts Water Resources Authority (MWRA), as MWRA provides 28% of all loan repayments to the SRF Pool Program. This is mitigated by the credit strength of MWRA which is rated Aa2 with a stable outlook (subordinate rating) and the diversity of entities that provide revenue to MWRA. In total, 61 entities provide revenue streams to MWRA with a weighted average rating of Aa2. Boston Water and Sewer provides 31% of MWRA's revenues and is rated Aa1.

Outlook

The stable outlook on the bonds reflects Moody's expectation that the strong credit quality and diversity of the pool of borrowers will remain relatively stable.

WHAT COULD CHANGE THE RATING - DOWN

A decrease in the available reserves and default tolerance levels or a material change in the credit quality of the pool or the investment providers could put downward pressure on the rating.

The principal methodology used in this rating was U.S. State Revolving Fund Debt published in March 2013. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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