
Morgan Keegan

Simply stated, *The New York Times* article written by Don Van Natta ("Firm Acted as Tutor in Selling Towns Risky Deals," April 8, 2009) is a blatant misrepresentation of what occurred in Lewisburg, Tenn. and Morgan Keegan's role as an adviser to the municipality. With this letter, Morgan Keegan intends to set the record straight and establish with certainty that the firm ably served the City of Lewisburg and continues to provide value to numerous cities and counties throughout the country.

Among the issues covered in *The New York Times* article:

State-Sponsored "Swap" Seminar: The article insinuates that the program adopted by the State of Tennessee in 1998 did not provide objective, detailed materials on derivative transactions. This is entirely untrue. The curriculum for the State approved educational program was developed by a broad committee of representatives from the public and private sector, including legislators, issuers, legal experts, underwriters and financial advisors. Course material contained an unbiased presentation of a variety of financing options, legal requirements, and the risks and benefits associated with each. Each time the school was conducted, the materials were reviewed by, commented on and approved by the State, which attended many of the courses in an oversight capacity. In particular, the initial course material developed in 2000 took over six months before receiving State approval, and the 2007 course material went through a four-month review process -- not two days as stated in the article. Morgan Keegan was one of several State approved course administrators. Seminars were also taught by independent bond counsel and one of the country's leading independent financial advisors, Public Financial Management, which is also the Financial Advisor to the State of Tennessee.

Muni Bond Oversight and Regulation: The article suggests that the municipal bond marketplace was less regulated in Tennessee than other states. This, too, is an inaccurate representation of fact. Like all states, Tennessee is regulated by the Municipal Securities Rulemaking Board, FINRA, the IRS and the state laws. Regulation is imposed on everything from the structure of the securities offerings, the issuance of securities, the sale of securities, even the ability of investment firms and their employees to make political contributions and the amounts of those contributions. In Tennessee, it's even more guarded. In 1998, the State of Tennessee decided to exercise oversight and control over derivative transactions. This proactive step, which few others have taken to protect their constituencies, requires issuers to submit applications on proposed transactions which may be approved or rejected by the state. Those applying for permission to use derivative financing must acknowledge their understanding of the risks associated with such transactions on the application.

Interest Rate Swap Effectiveness: Despite the portrayal in the article, interest rate swaps have been used effectively for many years to lower the interest costs for many issuers. The real problem lies with the underlying variable rate debt and the impact of the recent and unprecedented downgrading of all eight of the nation's AAA-rated bond insurers. In the case of Lewisburg, its interest rate swap did not go "bad." The swap has performed as expected; it was the AMBAC-insured bond that caused the difficulty. The impact of these macro problems is so widespread that Fed Chairman Bernanke and a group of 26 senators are considering the establishment of both a federal reinsurance program and liquidity facility to support variable rate bonds. Morgan Keegan has worked very successfully with many clients in effectively addressing similar challenges, and in fact, the reporter at *The New York Times* did speak to several representatives from these municipalities. The positive comments on behalf of Morgan Keegan were not included in the article.

Morgan Keegan's Derivative Business: The assertion that Morgan Keegan owes its success to this type of derivative financing is simply not true. Morgan Keegan is among the nation's top 10 underwriters of municipal bonds. The majority of bonds the firm underwrites are fixed rate, not variable rate. Over the past five years, revenues derived from derivatives averaged from 5-15% of the firm's fixed income banking unit revenues.

Morgan Keegan prides itself on its knowledge of municipal bond transactions, including derivative-based programs, and our ability to work with each individual client to develop strategies that offer near-term and long-range benefits. We have spent four decades working hard every day to earn the trust of our institutional and individual clients by providing them with the best advice and execution. It is unfortunate that *The New York Times* chose to vilify the State and Morgan Keegan by publishing such a dramatized, unbalanced article.