APPLETON *PARTNERS,* INC.

S&P Downgrade of US Credit Rating

August 2011

S&P downgraded the credit rating of the United States on Friday, dropping the AAA rating to AA+ and assigning a negative outlook on the long-term rating. The primary reasons cited for the downgrade were the inability of US lawmakers to take appropriate action to put the country on a sustainable path to fiscal health, and the growing US debt trajectory relative to their AAA peers.

The negative outlook is up to a two-year horizon. The rating could face further downward pressure if greater fiscal slippage occurs beyond what the rating agency currently anticipates.

With the S&P downgrade of the United States credit rating from AAA to AA+ and the assignment of a negative outlook, we expect there will be negative rating implications from S&P on certain municipal credits or sectors. While they have not taken rating action on specific public finance credits at this time, they have stated that credits with a direct link to the US government will be downgraded. These include pre-refunded bonds and agency backed (GNMA, FNMA, FHLB) municipal debt, primarily those in the single-family and multi-family housing sectors. Also at risk would be those entities most reliant on federal funding, including some entities in the public power sector and those backed by transportation funding.

The other two major ratings agencies, Moody's and Fitch, have confirmed the AAA rating they place on the United States, however Moody's has placed the rating on negative outlook. Appleton Partners will continue to monitor the impact of this downgrade on all financial markets.

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