

Research Update:

Vermont Bond Bank Community Revenue Bonds And Enhanced Community Revenue Bonds Assigned 'AA' Rating; Outlook Is Stable

February 25, 2026

Overview

- S&P Global Ratings assigned its 'AA' long-term rating to [Vermont Bond Bank's](#) (VBB) anticipated \$38.385 million series 2026-1 community revenue bonds (CRB) and approximately \$17.99 million series 2026-2 enhanced community revenue bonds (ECRB).
- At the same time, we affirmed our 'AA+' rating on the bank's outstanding bonds (legacy bonds), issued under its general resolution.
- The outlook is stable.
- We borrowed elements of our criteria "[Commercial Paper, VRDO, And Self-Liquidity](#)," July 3, 2007, specifically the adoption of asset discount factors through the funds liquidity model, to stress the market value of certain reserve funds available to meet debt service, if necessary.

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Rationale

Security

The legacy bonds, CRBs, and ECRBs are secured by loan repayments from all the municipalities in the pool, as well as a general operating reserve fund (GORF) that the bond bank could use any time for debt service payments. The 2026 transaction is VBB's first issuance under CRB and ECRB liens.

Only the legacy bonds and ECRBs are further enhanced from a pledged revenue bond reserve fund (DSR) that is structured to have such funds eventually used for debt service. Also, by statute, bonds are considered general obligations of the bank. Finally, there is a state-aid intercept mechanism and a moral obligation of the state to replenish the DSR to the required level should it become insufficient.

While the CRBs are not directly secured by the DSR, the bonds benefit from the DSR's interest earnings as well as the subordination of the ECRBs.

As per the general resolution's amendments, dated Dec. 1, 2025, the pledge securing the ECRBs is junior and subordinate to the pledge securing the CRBs. The pledge securing ECRBs and CRBs are both junior and subordinate to the pledge securing the legacy bonds.

VBB will use the series 2026-1 and 2026-2 bond proceeds to fund new loans to 17 borrowers for 21 projects throughout the state and refund all or a portion of its previously issued legacy bonds.

After these issuances, the bank will have approximately \$759.8 million in bonds outstanding under the general resolution.

Credit highlights

We differentiate the ratings of legacy bonds, on the one hand and the CRBs and ECRBs on the other. While the legacy bonds benefit from the DSR and all loan repayment revenues, the CRBs do not have direct access to the DSR, and the ECRBs have the most junior claim on loan repayment revenues.

Our cash flow assumptions also assume revenue is first applied to the legacy bonds under our default stress scenario before flowing to the CRBs and lastly, the ECRBs. Furthermore, given our view of the flow of funds, consistent with the senior status of the legacy lien and our discussions with the Issuer, we have assumed that the legacy bonds will draw on the DSR before the GORF and that any excess loan revenues that are needed to cover debt service will be used before the DSR and GORF.

VBB's pool bonds benefit from overcollateralization and the strong credit quality and diversity of its pool, which comprises almost 200 unique borrowers throughout the state. Each borrower represents no more than 6.4% of the pool's total loan balance. After this issuance, the five leading borrowers will account for 25% of the loan amount outstanding.

The ratings reflect our view of the following characteristics:

- A very strong enterprise risk profile, given that the program was created under state statute and has explicit statutory support and funding from the state government to support debt service, if needed;
- Overcollateralization in the form of reserves and excess loan repayments that is capable of withstanding S&P Global Ratings' loss coverage scenario at our 'AA' category stress level;
- Extremely strong operating performance with no defaults or delinquent payments; and
- Strong policies, including a thorough process of loan origination and monitoring, as well as formal credit and underwriting guidelines.

Outlook

The stable outlook reflects our expectation that the subordination and the ability of each lien to cover losses will remain consistent. It also reflects the borrowers' diverse credit profiles and expected operating performance.

Downside scenario

Within the two-year outlook horizon, we could lower the ratings or revise the outlook to negative on any or all liens if pledged borrower repayments as well as reserves and cash held both inside and outside the resolution are inconsistent with the loss coverage score (LCS). Although we do

not expect it, we could lower the rating or revise the outlook to negative if the program starts to experience material loan delinquencies or defaults.

Upside scenario

For the legacy bonds, given that we do not anticipate the enterprise risk profile will change, we do not expect to raise the rating during our outlook horizon. We could raise the rating on either or both of the CRBs and ECRBs if loss coverage increased significantly by displaying less sensitivity to changes in reserve balances or program leverage.

Credit Opinion

Enterprise Risk Profile--Very Strong

We view the program's enterprise risk profile as very strong, given a combination of the low industry risk profile for municipal pools and the program's market position, which we consider strong because of the support from the state government, along with the statutes establishing the program and the structure of program management. On June 19, 2023, the state statute that created the program was amended to include the ability to fund all financing arrangements for projects, including those subject to appropriations; however, to date, the pool consists only of general obligation and revenue bonds from governmental units within the state.

Financial Risk Profile--Extremely Strong

We view the program's financial risk profile as extremely strong, based on a combination of the LCS, historical operating performance, and our view of management policies.

In addition to the loan repayments and the DSR fund, there is \$25.8 million in the GORF that the bond bank could use any time for debt service payments, but that is outside of the pledged revenue stream. Our analysis of the funds available in the GORF to cover credit default losses have been discounted based on our view of their risk and liquidity, therefore, changes to asset allocations toward certain asset classes or duration could affect the available reserves calculations in our loss coverage analysis. The GORF is actively managed by Loomis Sayles, an investment advisor. The existence of revenues, specifically not needed to pay bond bank debt service, is of particular importance to the extremely strong financial risk profile, and if the availability of these revenues was significantly reduced or curtailed, we could lower the rating.

We have allowed for 95% recovery of defaulted revenues due to the presence of a moral obligation to replenish the DSRF. The credit quality of the underlying borrowers is also supported, in our view, by a state-aid intercept mechanism, whereby if a borrower fails to make payments, the state will cure the debt to VBB from any state or federal funds held by the state treasurer. If there is still an overdue amount, then the treasurer must continue to withhold money otherwise payable to the borrower until the deficiency has been repaid or arrangements are made to make the bank whole.

We view the financial policies and practices as ranging from strong to adequate. This assessment is based on the following factors:

- Each new transaction is reviewed by program staff based on standard guidelines, and borrowers are required to submit three years of audits and other disclosure information.

However, management maintains discretion regarding loan applications to make exceptions when mitigating factors exist.

- Staff monitors every borrower annually.
- Program staff sends payment invoices to all borrowers about 45 days before loan repayment due dates to ensure payment compliance. Loan payments are generally made 30 days before debt service.
- Management does not perform comprehensive long-term planning, given the nature of the bank's operations. Management prioritizes future loan demand, typically up to the next semiannual bond sale.
- The resolution allows for funds to be invested in several instruments that comply with state statutes.

Management reports that there have been no loan defaults or delinquent payments since the program began in 1970.

Credit Snapshot

- Program descriptions: VBB was created by an act under the Vermont General Assembly in 1970 with a five-director membership consisting of the state treasurer and four other directors appointed by the governor for two-year terms. The bank's primary purpose is to issue bonds to provide funding of loans to counties, municipalities, and other public bodies of Vermont, including public school districts that are secured by the general obligations of those municipalities or public utility revenues. VBB receives ongoing support from the state through a state intercept as well as a moral obligation.
- Flow of funds: All program revenues and borrower payments will be deposited into the revenue fund. When debt service payments are due, the necessary amount will be transferred from the revenue fund to the trustee to make debt service payments. The legacy bond debt service coverage will be paid senior to the CRBs and ECRBs. The CRB's debt service will be paid senior to the ECRBs. If the amounts in the revenue fund are not sufficient to make debt service payments because a borrower was unable to make a timely loan payment, the state can provide intercept aid to the borrower by the state treasurer to satisfy the loan payment for the legacy and ECRBs.
- Summary statistics: After this issuance, the bank will have approximately \$739.4 million of loans, \$25.8 million in the GORF and \$59.4 million in a pledged DSRF along with cash from other accounts supporting repayment of about \$759.8 million in bonds. The largest obligor is South Burlington, accounting for 6.4% of all loans outstanding. The 10 leading borrowers account for about 42% of total loans outstanding. We consider the bank's loan portfolio well diversified across the entire state with almost 200 unique borrowers that have strong credit quality due to the general obligation and utility security pledges, as well as the state intercept, as Vermont is rated 'AA+'.

Ratings List

New Issue Ratings

US\$38,385,000 Vermont Bond Bank, Vermont, Community Revenue Bonds, Series 2026 1, dated: Date of Delivery, due: December 1, 2051

Long Term Rating AA/Stable

US\$17,990,000 Vermont Bond Bank, Vermont, Enhanced Community Revenue Bonds, Series 2026 2, dated: Date of Delivery, due: December 1, 2056

Long Term Rating AA/Stable

New Rating

Water & Sewer

Vermont Bond Bank Community Revenue Bonds And Enhanced Community Revenue Bonds Assigned 'AA' Rating; Outlook Is Stable

Ratings List

Vermont Bond Bank, VT Community Revenue Bonds	AA/Stable
Vermont Bond Bank, VT Enhanced Community Revenue Bonds	AA/Stable

Ratings Affirmed

Water & Sewer

Vermont Mun Bond Bank, VT General Resolution	AA+/Stable
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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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