Research Update:

Vermont Bond Bank Community Revenue Bonds And Enhanced Community Revenue Bonds Rated 'AA'

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Overview

- S&P Global Ratings assigned its 'AA' long-term rating to **Vermont Bond Bank**'s (VBB) anticipated $34.1 million series 2026-3 community revenue bonds (CRB) and approximately $14.5 million series 2026-4 and $80.7 million series 2026-5 enhanced community revenue bonds (ECRB).
- At the same time, we affirmed our ‘AA’ long-term rating on the bank's CRB and ECRB revenue bonds outstanding.
- We also affirmed our 'AA+' rating on the bank's legacy bonds outstanding, issued under the general resolution.
- The outlook on all bonds 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.

Rationale

Security

The legacy bonds, CRBs, and ECRBs are secured by loan repayments from all the municipal borrowers 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 series 2026-3, 2026-4 and 2026-5 transactions are VBB's second and third issuances under CRB and ECRB liens.

Only the legacy bonds and ECRBs are further secured by a pledged revenue debt service reserve fund (DSRF) that is structured to eventually use such funds 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 DSRF to the required level should it become insufficient.

While the CRBs are not directly secured by the DSRF, the bonds benefit from the DSRF’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 2026-3 and 2026-4 bond proceeds to fund new loans to 13 borrowers for 15 projects throughout the state, and the series 2026-5 bond proceeds will be used to refund all or a portion of its previously issued legacy bonds.

After these issuances, the bank will have approximately $801.8 million in bonds outstanding under the general resolution.

Credit highlights

We differentiate the ratings on legacy bonds from the and the ratings on the CRBs and ECRBs. While the legacy bonds benefit from the DSRF and all loan repayment revenues, the CRBs do not have direct access to the DSRF, 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 VBB, we have assumed that the legacy bonds will draw on the DSRF before the GORF and that any excess loan revenues needed to cover debt service will be used before the DSRF 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 7.9% of the pool's total loan balance. After this issuance, the five leading borrowers will account for 27.8% of the loan amount outstanding.

The ratings reflect our view of VBB’s:

- 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 are capable of withstanding S&P Global Ratings' loss coverage scenario (LCS) 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 and strong credit profiles as well as the pool’s extremely strong operating performance.

Downside scenario

We could consider a negative rating action on any or all of the liens if our assessment of loss coverage weakened through additional leverage or a decrease in subordination. Although we view such a scenario as unlikely, we could lower the rating or revise the outlook to negative if the program experiences material additional loan delinquencies or defaults.

Upside scenario

We would consider a positive rating action on one or more of the liens if our view of loss coverage continues to improve. We believe this could occur across the program if leverage decreased while the pool participants' credit quality remained solid. We could also consider a positive rating action on certain liens if credit enhancement strengthened our view of that lien's specific loss coverage capacity, either through the size of the relevant reserves or through excess revenues via additional loans or deleveraging.

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 strong market position due to state government support, 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 DSRF, there is $26.6 million in the GORF that VBB 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 advisory firm. Revenues that are specifically not needed to pay bond bank debt service are 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.

We view the financial policies and practices as 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 monitor every borrower annually.
- Program staff send 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 loan funding 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 $790.1 million of loans, $26.6 million in the GORF and $54.5 million in a pledged DSRF along with cash from other accounts supporting repayment of about $801.8 million in bonds. After this issuance, the largest obligor is Colchester Town School District, accounting for 7.9% 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$14,480,000 Vermont Bond Bank, Vermont, Enhanced Community Revenue Bonds, 2026 Series 4 (Subordinate Lien), dated: Date of delivery, due: December 01, 2056	
Long Term Rating	AA/Stable
US$34,095,000 Vermont Bond Bank, Vermont, Community Revenue Bonds, 2026 Series 3 (Senior Lien), dated: Date of delivery, due: December 01, 2056	
Long Term Rating	AA/Stable
US$80,680,000 Vermont Bond Bank, Vermont, Enhanced Community Revenue Bonds, Series 2026 5, dated: Date of delivery, due: December 01, 2052	
Long Term Rating	AA/Stable
Ratings Affirmed	

Ratings List	
Municipal Pool	
Vermont Bond Bank, VT Community Revenue Bonds	AA/Stable
Vermont Bond Bank, VT Enhanced Community Revenue Bonds	AA/Stable
Vermont Mun Bond Bank, VT General Resolution	AA+/Stable

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.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.