

My name is Susan Buffum and I am responsible for managing MetLife's municipal bond portfolio. I am a Director in MetLife's Investment Department. I have been with MetLife for over 16 years and have 30 years of experience managing investments for insurance companies. MetLife has been investing in municipal bonds for about 15 years. Our portfolio currently totals about \$10 billion. At the end of 3Q 2010, municipals comprised a little less than 3% of our general account invested assets.

MetLife invests in municipal bonds for several reasons. One reason is that tax-exempt municipals are a good fit for our property-casualty insurance business, where we get a significant tax benefit from investing in these securities so they provide an attractive after-tax yield. This is why we first invested in municipals. A second reason is that they serve our asset liability management needs. As a major life insurance company, we have a need for long duration assets to back the long duration liabilities that we write. Municipal bonds, especially the Build America Bonds that were authorized in the 2009 American Reinvestment and Recovery Act, are a good fit for these long duration liabilities. Taxable municipals, including Build America Bonds, now comprise the majority of our municipal assets. Thirdly, municipal bonds are a good risk diversifier for MetLife. MetLife as an enterprise has traditionally invested heavily in corporate bonds and commercial real estate. Municipal bonds allow us to diversify our risk away from these other asset classes. A fourth reason is that over the past several years, especially since inception of the Build America Bond program, municipal bonds have provided attractive relative value versus other investment alternatives, allowing us to enhance income versus fixed income alternatives while also diversifying our risk. In fact, most of the growth in MetLife's municipal portfolio has taken place in the last two years.

Like many others, we are well aware of and concerned about the challenges that states and municipalities are facing. The weak economy has certainly put pressure on revenues. As a result we have seen expense cuts and revenue enhancing moves such as tax increases. The availability of stimulus funds has helped states and local communities tremendously in the past year or so but there is no guarantee additional funds will be made available going forward. A major concern for us is the low funding levels of many state and local pension plans, for which there has been a lot of publicity. Most of the pension benefits are legally binding, which makes it difficult to reduce benefits for existing employees. Recently politicians have begun to recognize and address this problem and we have seen changes in benefits for new hires and, in some states, efforts to reduce benefits for existing workers, although some lawsuits have been filed to stop these reductions. Other Post Employment Benefits (OPEB), which are mostly post retirement healthcare benefits, are also a looming issue. These benefits are easier to change than pension benefits since they are not legally guaranteed. It does require political will to reduce them. In the past that will was not evident, although we are seeing some signs of change now.

Given those concerns, let me describe MetLife's municipal bond investment strategy. We focus primarily on revenue bonds as opposed to general obligation bonds. Revenue bond issues are often more transparent as to their finances. They are generally not subject to the whims of politicians and frankly they traditionally have yielded more than

general obligation bonds since general obligation bonds have been perceived as the least risky bonds due to the unlimited taxing authority of issuers. Most revenue bonds do not face the same under funded pension plan and OPEB issues that general obligation bonds do. Revenue bonds also provide us with valuable covenants that are generally not available in publicly traded corporate bonds – like debt service reserve funds, minimum coverage ratios and additional bonds tests. Within revenue bonds, we focus on essential service revenue bonds where the revenue source is strong and reliable. These include water and sewer bonds, power bonds and many transportation bonds. We also have a significant investment in revenue bonds for higher education. We favor large issuers where financial disclosure is better and there is better market liquidity. We rarely participate in issues where the total deal size is under \$100MM unless the deal is for a frequent, well known issuer. That said we also keep our holdings diversified across several dimensions – state, sector and issuer. Geographically, our top 10 states comprise 2/3 of our portfolio. By sector, about 60% of our portfolio is in what we call essential service revenue bonds (that is water and sewer, power and transportation) and education. We own about 425 distinct credits. Our overall portfolio quality remains high with 2/3 of our portfolio rated Aa or higher and less than 1% rated less than investment grade or not rated at all by the agencies. We still consider the municipals we purchase to be relatively high quality, especially when compared to the corporate market, where only about 20% is rated Aa or higher and about half the market is rated BBB or lower. Default experience on municipal bonds remains very low and is still only a fraction of the experience of corporate bonds. We believe that municipal defaults will continue to occur primarily on deals from small issuers who are less able to handle financial pressures and on deals tied to non-essential projects with less reliable revenue streams. These are issues that we try to avoid.

Our analysis of municipal credits is comprehensive. Our staff includes three full time municipal analysts, each with over 20 years of experience. We also draw on our corporate credit analysts for assistance in certain sectors like municipal utilities and corporate-backed industrial development and pollution control bonds. We underwrite the underlying credits on all new purchases and establish an internal rating. We continually monitor the credits in the entire portfolio. Although about 25% of our current portfolio carries insurance, we have never relied on the insurance wrap. If we don't like the underlying credit, we won't buy it. Our credit review process follows a similar methodology to what we do for corporate bonds. While we subscribe to and utilize rating agency research, we do not rely on the agencies as our sole source of information. Rating agency information is generally a starting point in our analysis. We also read preliminary and official offering statements, review online roadshows, attend investor presentations and have calls with management and Street analysts. Our internal underwriting encompasses both qualitative and quantitative factors. Qualitative factors include demographics, economic factors, customer data, market share, project essentiality. On the quantitative side, we review at least 5 years of financials, 3-5 year capital plans and calculate pro forma financial ratios. We stress projected cashflows, analyze the capital structure and review covenants. We include a review of the status of pension fund and OPEB funding in our analysis when relevant. We also look at the legal statutes and will involve our investment lawyers when warranted.

Our purchase and sale procedures mirror what we do for publicly traded corporate bonds. We follow trade order general authorizations that delineate limits on amounts that can be transacted at various levels of authority. New issuers are reviewed by an internal municipal bond credit review committee. Credit exposure limits are subject to enterprise risk management oversight. While we are generally a buy and hold investor, we never hesitate to sell if we have strong credit concerns. Our portfolio is under constant internal monitoring, with formal credit reviews on individual credits at least every 18 months, more frequently for credits in riskier sectors, like healthcare.

We expect that municipal bonds will continue to be an important asset class for MetLife going forward. We will devote the resources necessary to support our exposure to this asset class.