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WSJ: S&P Calls for More Disclosure of Municipal Bank Loans.

Delay in Providing Information Could Have Negative Rating Implications

Standard & Poor's Ratings Services is ratcheting up pressure on cities, towns and counties to more quickly disclose private loan deals with banks, warning in a report Tuesday that a delay in providing the information could have "negative rating implications."

Municipalities have been increasingly turning to banks for their financing needs in recent years, either in the form of a loan or where a bank buys bonds directly from the municipality. S&P estimates that $50 billion to $60 billion of such deals are getting done annually. But it says any increase is challenging to quantify because of the lack of disclosure.

S&P says it can be difficult to come up with accurate credit ratings if municipalities don't discuss private bank deals. A bank loan can add to a municipality's debt load, which is an important factor in credit ratings. The private deals could also have terms and conditions that are significant to a municipality's fiscal health.

S&P has called for more disclosure on bank loans in the past, but says transparency is even more important now that direct bank lending to municipalities appears to be growing. S&P's comments are in line with other efforts in recent years to make it easier to find information in the $3.7 trillion municipal bond market, which has historically been relatively opaque even though it is largely the domain of mom-and-pop investors.

"Disclosure, transparency, timeliness…there's been a consistent clamoring for more of that in recent years," said Steve Murphy, senior managing director and head of U.S. public finance at S&P. But getting information on bank financing has been "going in the other direction."

The Municipal Securities Rulemaking Board, which sets rules for municipal securities dealers and municipal advisers, doesn't require municipalities to disclose their loans with banks when the deal is completed, though it encourages them to do so. Investors may not learn of a bank loan until a municipality releases its annual financial report, which can be months after the bank deal is done.

A 2013 white paper from the National Federation of Municipal Analysts and other groups suggested guidelines for municipalities if they decided to disclose their bank loans. Among them was posting information to the MSRB's Electronic Municipal Market Access website, where investors can see other financial information from municipalities as well as real-time trading data.

In its report Tuesday, S&P urged municipalities to provide it information on bank deals when the agreements are being planned and completed. Bank loans have negatively impacted a municipal issuer's rating in the past, including a Michigan hospital in 2011, which had its ratings outlook revised to negative, according to an S&P spokesman.

"We need to know because what we're sharing with the marketplace is our most current appropriate rating," Mr. Murphy said. "If it's not disclosed, we could be putting forth an assessment of credit that isn't true."

Lending directly to municipalities has become more popular for banks in part because they can make more interest on direct loans than from low-yielding U.S. government securities, said Duane McAllister, a portfolio manager at BMO Asset Management, which oversees about $4 billion in munis. The improving economy is also boosting municipal finances overall, making them more attractive for banks, Mr. McAllister said.

Mr. McAllister said he is more concerned with the lack of bank-loan disclosure from lower-rated municipal issuers. "Sometimes it takes having to physically contact the authority," he said.

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