Bond Case Briefs

Municipal Finance Law Since 1971

A Comeback for Bond Insurance.

Bond insurers — companies that provide a money back guarantee to investors on bonds sold by municipalities — were one of the biggest casualties of the 2008 financial crisis. Governments liked to insure their bonds because it typically allowed them to sell the bond with the insurer's higher credit rating. That let governments get a lower interest rate cost on the bonds, making it worth the insurance expense. But the insurers' effectiveness was essentially obliterated when their own credit ratings were downgraded amid the 2008 crisis. A little over a decade ago, half of new bonds issued in the municipal market were insured. Today, just 6 percent are.

While they're down, bond insurers are far from out.

In their monthly outlook, analysts Alan Schankel and Eric Kazatsky of Janney Montgomery Scott predict insurers are biding their time for a comeback. Some existing bond insurers have restructured since the crisis while a new one — Build America Mutual — has come on the scene.

Meanwhile, insurers have been decreasing their exposure to outstanding bonds as governments have not re-upped their insurance when refinancing old debt.

The Takeaway: Low-interest rates have driven down the need for bond insurance because even low-grade governments are getting historically low rates on their bonds. But Schankel and Kazatsky say that has also provided a window for insurers to regain their financial health after losing a lot of money in municipal bankruptcies. When rates rise, more governments will turn back to insurance.

"Bond insurance plays an important role for many municipal investors," the authors wrote. "We expect that role to expand, along with market share, if not immediately, then in coming months and years."

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 2, 2016