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Bond Rally Eases Detroit's Return to Muni Market.

- **Once-bankrupt city sells $135 million of municipal debt**
- **City was able to increase size of offering from $111 million**

Luck was on Detroit's side when it returned to the municipal bond market.

A Treasury market rally, low supply and strong demand for high-yielding securities greeted the city when it sold $135 million of debt Tuesday, the first sale of bonds backed only by the city's promise to repay since it filed a record-setting bankrupt five years ago. The conditions allowed Detroit to secure lower interest rates than initially expected, leaving it paying even less than some borrowers that haven't reneged on their debts.

Bonds were priced with yields ranging from 3.36 percent on a 2020 maturity to 4.95 on those due in 2038 — tighter than what was first offered. The city also was able to increase the size of the deal from $111 million to $135 million, an indication of strong demand.

"It's a perfect recipe to come to market," said Kathleen McNamara, senior municipal bond strategist at UBS Wealth Management. "They should be very, very happy."

Detroit filed for bankruptcy in 2013 to escape from debts it couldn't afford after the population tumbled, tax collections slid and the automobile-industry's decline left the economy reeling. The bankruptcy, like Puerto Rico's which followed, unsettled the municipal bond market and raised the specter that governments would be punished by the market when they returned to borrow again.

But the penalty wasn't that large. Last week, Chicago's junk-rated school system sold 5-year bonds for a yield of 4.16 percent, or 1.95 percentage points more than what top-rated borrowers pay. Detroit's 5-year bonds sold Tuesday for a yield of 3.91 percent, about 1.81 percentage points above the benchmark.

"From our perspective the bankruptcy penalty is pretty small to none," said Dora Lee vice president at Belle Haven Investments, "I think that people just want yield right now and they're hoping that they will get that with Detroit."

"Investors obviously have short memory when they see a 5 percent yield," McNamara said.

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