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Banks Keep Buying Hard-Hit Muni Bonds.

Banks are buying lots of municipal debt at a time when that is not a hugely popular thing to do.

The par value of municipal bonds held by banks reached a 10-year record of $430 billion, according to FDIC data compiled by BankRegData and Municipal Market Analytics. But falling bond prices have reduced the market value of those holdings to $405 billion.

Banks are also making more private loans to state and local governments, including more than $9 billion in the second quarter, the most in a decade. That brings the total amount of so-called privately placed municipal debt to a record $204 billion, according to the data.

State and local governments sometimes choose to borrow directly from banks when they need a relatively small amount and want to avoid the costs and administrative work associated with selling securities on the public market.

The banks are buying up the debt at low prices as many investors flee bonds in response to rising rates. In a market dominated by mutual funds, where prices can drop quickly when household investors freak out, this means bondholders cashing out may have another potential buyer they count on.

“Banks love state and local borrowers,” said Municipal Market Analytics partner Matt Fabian. “When regular muni investors are selling, banks may well be buying.”

The Wall Street Journal

By Heather Gillers

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