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What To Do When Your Muni Bond Rating Is Withdrawn.

Publicly traded corporations that fail to file audited financial statements as prescribed by the SEC risk their stock tanking and being delisted from the exchange. Grave consequences to be sure. Yet there is no consequence to those municipal bond issuers for the same failure to file. Until now.

Moody's rating agency has finally had enough of dealing with municipal bad citizens. We count 861 CUSIPs on which they have withdrawn their ratings. Many issuers have multiple CUSIPs owned by investors just like you. In the Muniverse, 861 CUSIPs is not huge. But it's a beginning. Sure, the issuer may have decided to dump Moody's, causing the rating agency to withdraw their rating. Still, it's an impressive number and something to my knowledge that hasn't been done on this scale before.

How do we investors assess a bond issuer's ability to continue paying the coupons when due without timely financials or a credit rating report from a rating agency? The answer is, we can't.

Perhaps Moody's ratings withdrawal is a wakeup call that municipal bond issuers must file their financials or risk the consequences.

Actions To Take

What if your bond issuer fails to file its financial statements and/or their ratings agencies withdraw their ratings. Suddenly you are flying blind. Often financials aren't filed for an entire year after close of the fiscal year on which they're reporting. A lot can change during that time. For example, on June 4, 2021, S&P Global withdrew ratings on various local government and utility debt. Here's what they said:

...the withdrawal is due to insufficient information. Specifically, the withdrawals reflect our failure to receive adequate and timely financial information necessary to maintain surveillance of the ratings in accordance with our applicable criteria and policies. Such financial information includes, for example, audited financial statements or similar financial information.

There are many money managers and municipal bond funds that cannot hold non-rated bonds. Withdrawn ratings may force them to sell. As you may have experienced, selling begets lots more selling in Muniland. Bond prices plummet.

If you self-manage your municipal bonds, use the Electronic Municipal Market Access (EMMA) website (emma.msrb.org) that publishes municipal annual reports and audited financial statements. You'll find disclosure documents, trade activity and ratings. If you use the Schwab retail trading platform, you have access to Moody's reports when you click the name of the issuer before buying or selling a bond. Both the MSRB and Schwab information are free. Perhaps your bond platform offers free rating reports too.

Using free information systems such as the MSRB makes sense for all municipal bond investors. Checking on the issuers whose bonds you own that are not following the rules by filing timely financials can save you thousands in losses should the bond tank.

As the economy slows, tax receipts will decline. Certain municipalities may not wish to disclose what is happening to them. So they just miss the filing date of their financials. If you see this happen and your bond is not insured, sell.

Forbes

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Feb 3, 2023

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