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Bloomberg: Muni Variable-Rate Index Sets Record-Low Yield as Issuance Drops.

A measure of U.S. municipalities' variable-rate borrowing costs is at its lowest level in more than two decades as issuance of such debt is down 87 percent since 2007.

The Sifma Municipal Swap Index, which tracks 7-day, variable-rate demand notes, fell to 0.03 percent on Jan. 8, Katrina Cavalli, a spokeswoman for the Securities Industry and Financial Markets Association, said in an e-mail. That's the lowest since the measure began in July 1989, data compiled by Bloomberg show. Sifma, which calculates the index, is a New York-based trading group representing banks and investors.

The yield is falling as localities avoid adjustable-rate securities, said Michael Decker, co-head of Sifma's municipal securities division. They're favoring fixed-rate debt to lock in long-term financing as interest rates remain below historical averages. Twenty-year general obligations yielded 4.68 percent on Jan. 2, compared with the five-decade average of 5.87 percent, according to a Bond Buyer Index.

"It's a supply-demand issue," Decker said. "There really is a shortage of variable-rate securities and that's driving rates down."

The Federal Reserve's policy of keeping its benchmark for overnight interest rates near zero is also pushing down the index, Decker said.

Local governments from California to New York issued \$25 billion of variable-rate securities and derivatives in 2013, Bloomberg data show. That's down from \$195 billion in 2007. The Sifma index has averaged 2.81 percent since it began in 1989.

Smaller Payments

The dropping index means smaller payments to investors. Bondholders receive 0.46 percent on Massachusetts general obligations that mature in January 2018 and adjust according to the Sifma index. That's down from 0.56 percent when the bonds were issued in December 2012.

The floating-rate index will probably rise in the next few weeks as issuance picks up across the municipal market from a January lull, said Lyle Fitterer, who helps manage \$31 billion of munis, including the Sifma-based Massachusetts general obligations, at Wells Capital Management in Menomonee Falls, Wisconsin.

The Sifma may climb to about 0.1 percent in that period, he said.

To contact the reporter on this story: Michelle Kaske in New York at mkaske@bloomberg.net

To contact the editor responsible for this story: Stephen Merelman at smerelman@bloomberg.net

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