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

A measure of U.S. municipalities' variable-rate borrowing costs is the lowest 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.

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.

Interest rates also fell on fixed-rate municipal debt this week as scheduled issuance remained below the one-year average.

Yields on benchmark 10-year munis fell to 2.8 percent today, the lowest since Nov. 13, data compiled by Bloomberg show. The interest rate has declined 0.19 percentage point this week, the steepest drop since December 2011.

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By Michelle Kaske January 10, 2014

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