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WSJ: Massachusetts Streamlines Bond Sales for Smaller Investors.

Massachusetts is making it easier for individual investors to buy new municipal bonds.

In a move being billed as the first of its kind in the \$3.7 trillion municipal-bond market, the commonwealth will begin selling bonds to mom-and-pop buyers for up to two weeks each month. Massachusetts hopes the new sales program, which it calls MassDirect Notes, will increase demand for its debt and lower its borrowing costs. The move comes amid repeated calls from federal regulators to put individual investors, who often buy municipal bonds because the interest is typically exempt from income taxes, on a more level playing field with large institutional buyers, like pension funds, insurance companies or even hedge funds. Some investors have complained that bankers allocate more bonds to larger accounts during bond sales, which can lead to more profit if the new bonds rise in price after trading begins. In a \$3.5 billion Puerto Rico bond sale this week, which saw bond prices rise when trading began, some fund managers said they received only between 10% and 50% of their orders. The Securities and Exchange Commission recently asked some banks for information about how they allocate bonds among buyers during corporate bond sales.

Rob Williams, director of fixed income at Charles Schwab & Co., said individual investors are now paying more attention to the financial health of municipalities. Investors can no longer count on bond insurers to guarantee repayment of municipal debt, given that the firms were downgraded in the aftermath of the financial crisis. Recent economic troubles in places like Puerto Rico and Detroit have also spooked some buyers.

"Retail investors want to know what they're buying," Mr. Williams said, noting that Schwab recently extended an agreement with [J.P. Morgan Chase JPM -1.08%](#) & Co. that gives its retail customers access to new bonds underwritten by the bank. "They want to have access, and they want to make sure they're getting the best deal."

Usually, municipalities might sell bonds only a few times a year, and bonds are typically only available to be bought by individual investors during a one-day-long period. But under the Massachusetts program, set to begin on Monday, the bonds will be sold on a rolling basis, meaning investors can place orders for the debt over an entire week. The weeklong sales could take place twice each month, with bonds of different maturities being sold each week.

Massachusetts said it is modeling its program after TreasuryDirect, which allows individual investors to buy U.S. Treasury securities online directly from the government. Officials also took inspiration from companies like Duke Energy Corp. and General Electric Co., which run similar programs that allow individual investors to buy corporate debt directly from the firms, also on a rolling basis.

Mom-and-pop investors looking for new Massachusetts debt still will have to go through their investment adviser. Orders will be placed through TMC Bonds, an online-trading platform, which has

been retained by Citigroup Inc., the bank underwriting the debt.

The bonds will be sold on a first-come, first-serve basis, eliminating any uncertainty over the allocation process, with same-day order confirmation, unlike a traditional municipal-bond sale, in which it might take several days. The minimum order size will be \$5,000 and the maximum order size will be \$500,000.

During the sale, the state will post prices on the bonds daily to its website and to Twitter, and will also adjust the prices based on market conditions, which it hopes will help it save money. Massachusetts' borrowing costs are already relatively low compared with the municipal market, in part because it has the second-highest rating available, double-A-plus. In the past, about 30% to 40% of its new bonds were sold to individual investors.

To kick off the program, the state has scheduled \$250 million of sales in the next five months. Treasurer Steven Grossman declined to give an estimate for how much it could ultimately sell, or save, through the program, saying officials would have a better idea over the next few months. The new sale format "is going to create a far more 21st-century customer experience than ever before," Mr. Grossman said. "I think we're really trying to create a win-win: Make it easy for customers to do business with us and give the [state] an opportunity to potentially save money."

Jay Lebed, vice president at Boston Investment Advisers, which oversees about \$100 million for individual investors, said his firm would be watching to see how the new program unfolds. He said his firm doesn't buy many new bonds, in part because clients don't always have money available when bonds are being sold and because there are good deals to be had in the secondary market.

"Historically, the bond market hasn't been particularly efficient, so things that make it more efficient and allow for more direct investing in the long run can be beneficial," Mr. Lebed said.

By

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