Bond Case Briefs

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GFOA Secures Introduction of Legislation to Expand Availability of Bank-Qualified Bonds.

Last week, a bipartisan group of House lawmakers introduced legislation (H.R. 5199) that would permanently raise the issuer limit on bank-qualified bonds from $10 million to $30 million. The legislation, which breathes new life into the effort to restore the annual issuer limit to $30 million, is the culmination of several months of work by GFOA's Federal Liaison Center with the offices of congressmen Tom Reed (R-NY), Randy Hultgren (R-IL), John Larson (D-CT) and Richard Neal (D-MA).

Bank-qualified bonds were created in 1986 to give smaller issuers more cost-effective access to credit by allowing them to bypass the traditional underwriting system and sell their tax-exempt bonds directly to local banks. In addition to the higher costs of issuance in the normal underwriting process, many small issuers have a difficult time selling their bonds because investors are not as familiar with their jurisdictions. As a result of these factors, many small issuers have been forced to pay higher interest rates on their bond issuances. Recognizing the utility of bank-qualified bonds to overcome these cost barriers, Congress temporarily expanded their use by raising the issuer limit to $30 million annually in 2009, and as a result, the market for bank-qualified bonds increased in 2009 to approximately $32 billion. However, despite the effectiveness of bank-qualified bonds and bi-partisan support on Capitol Hill, Congress did not extend these provisions beyond their December 31, 2010, sunset date, and on January 1, 2011, the annual issuer limit for bank-qualified bonds reverted to $10 million.

The GFOA urges members to reach out to their members of Congress and request that they co-sponsor HR 5199.

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