
U.S. Municipal Bond Issuance to Flatline in 2015 - SIFMA.

Dec 4 (Reuters) – New borrowing by U.S. states, cities and other parts of the public sector will nearly flatline next year, with issuance of tax-exempt debt likely rising to $275 billion from around $273.5 billion this year, according to a trade group's survey released on Thursday.

The growing practice of issuers borrowing directly from banks, instead of tapping the $3.7 trillion municipal bond market, will contribute to the stasis, the Securities Industry and Financial Markets Association (SIFMA) found in its annual survey.

Over the last few years the public sector has looked more to bank loans, which have less oversight and fewer disclosure requirements, for financing needs.

"We expect municipal issuance to remain mostly flat to up slightly in 2015, with bank lending continuing to provide borrowers with an alternative to public bond issuance," said Michael Decker, one of the heads of SIFMA's municipal securities group, in a statement. "Short- and long-term yields will likely creep up, in part as a response to changing monetary policy."

Still, the survey of banks and underwriters found direct placements of bonds to banks could drop to $35 billion in 2015 from $45 billion this year.

Total issuance, which includes taxable debt, will reach $357.5 billion in 2015, up from $348.1 billion estimated this year, SIFMA said.

Any rise will come from long-term debt. In 2015, SIFMA expects $315 billion in long-term bonds, compared to $305.3 billion in 2014.

Debt sales this year are catching up to last year's levels after plunging at the beginning of 2014. Rising interest rates dried up refinancing at the end of 2013 and beginning of 2014. By July this year, issuance was running 15.4 percent below 2013, exclusively due to a drop in refundings, Thomson Reuters data showed.

Then interest rates dropped, and as of November sales were just 3.3 percent less than last year.

On Municipal Market Data's benchmark scale, the yield on a top-rated 10-year bond on the first trading day of this year was 2.79 percent and on a highly rated 30-year was 4.20 percent. As of Wednesday, the yield on the 10-year bond was 2.08 percent and on the 30-year 3.02 percent, according to MMD, a Thomson Reuters company.

Nonetheless, SIFMA said 2015 will see the same level of refundings as this year.

WASHINGTON Thu Dec 4, 2014 11:32am EST

(Reporting By Lisa Lambert; Editing by Meredith Mazzilli)