

Bond Case Briefs

Municipal Finance Law Since 1971

U.S. Municipal Market Board Takes on Murky Bank Lending.

Jan 29 (Reuters) – The board overseeing the \$3.6 trillion U.S. municipal bond market wants to shed more light on a dark and growing area of public finance: direct lending from banks.

In a strongly worded advisory, the Municipal Securities Rulemaking Board on Thursday said many state and local governments do not disclose bank loans and the resulting murkiness threatens investors.

“Given the current regulatory ambiguities regarding bank loans, inconsistent market practices and lack of commonly accepted provisions within bank loan agreements, the MSRB believes that informing the market of the incurrence of a bank loan and its terms is beneficial to the continued fairness and efficiency of the municipal securities market,” it wrote.

In these alternative financings, issuers sell bonds directly to banks or take out loans. The advantages, the MSRB said, can include lower costs, less exposure to bank capital requirements, simpler execution and no need to obtain a rating.

By law issuers do not have to disclose loans if they are not considered municipal securities. Bondholders, taxpayers and others only learn about the loans’ terms, as well as their impact on bondholders’ rights and existing debt, when an issuer releases audited financial statements or documents for a public bond sale, the MSRB said.

For more than two years the board, a self-regulatory organization made up of bankers, issuers and advisers, has asked borrowers to post information to the public database called EMMA, for Electronic Municipal Marketplace Access.

But “bank loan executions have far exceeded bank loan disclosures in comparison,” it said, adding that about 88 loans have been disclosed since April 2012. Outstanding loans number in the hundreds.

It suggested detailed steps for fostering transparency, including determining whether loan payments have a higher priority to bond payments.

Both Standard and Poor’s Ratings Services and Moody’s Investors have raised alarms about the amorphous practice.

Last year Standard & Poor’s investigated 404 direct loans totaling \$15.8 billion, it said in a special report on Wednesday. The loans did not impair the rights of existing bondholders and their terms did not erode borrowers’ credit quality.

About 243 of the loans were repaid by taxes, appropriations or utility fees, and had an average size of \$25 million. The remainder, which had a much bigger average size of \$61 million, were in the higher education, healthcare, transportation and public power sectors.

S&P “observed an increase in the number of banks offering such products, especially smaller local

banks.”

BY LISA LAMBERT

(Reporting by Lisa Lambert; Editing by Leslie Adler)

Copyright © 2025 Bond Case Briefs | bondcasebriefs.com