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Chicago Pays a Premium at Bond Sale.

Chicago sold about $674 million in bonds at yields approaching 6%, a sign that investors are demanding a premium to purchase the city's debt following a recent downgrade by Moody's Investors Service.

The nation's third-largest city paid a top yield of 5.84% on Wednesday. That is as much as about 2 percentage points more in yield than a measure of A-rated municipal bonds, according to Municipal Market Data. Standard & Poor's Ratings Services rates the city A-minus, an investment-grade rating, while Moody's rates the city Ba1, a speculative grade.

The sale attracted $6 billion in orders, while proceeding with Mayor Rahm Emanuel's plan to address the city's debt portfolio and eliminate "a substantial amount of taxpayer risk," according to a statement from Carole Brown, Chicago's chief financial officer.

"This further shows that investors remain confident in the city's credit and a secure economic future for Chicago," she said.

Major ratings firms have taken unusually divergent stances on the nation's third-largest city. Moody's stands alone in rating Chicago's debt as junk. Meanwhile, S&P and Fitch Ratings view the city several levels into investment grade.

Chicago didn't hire Moody's to rate the recent refinancing deal, but the yield gap shows the impact of the downgrade, said Daniel Solender, head of municipal bond management at Lord Abbett & Co., who helps manage about $17 billion.

The gap reflects investor uncertainty over the outcome of the city's budget and pension funding situations, though robust demand lowered yields during the day, he said.

"Even though the deal does not have a Moody's rating, the bonds are being priced at below investment-grade level anyway," he said. "The upside is that Chicago does have market access and with interest rates at a low level, the interest rate is not too prohibitive for borrowing."

The top yield paid by Chicago for bonds maturing in 2042 was lower than some government borrowers with distressed finances. Cash-strapped Puerto Rico last year sold $3.5 billion of junk-rated debt maturing in 2035 at an 8.72% yield.

Some Chicago general obligation bonds maturing in 2040 traded at an average price of about 92.2 cents on the dollar Tuesday, up from a low of about 88.5 cents after the downgrade, according to MMD. Yields fall as prices rise.

Moody's downgraded Chicago debt to junk earlier this month, citing expected increases in unfunded pension burdens after a ruling by the Illinois Supreme Court that overturned a state law seeking similar pension cuts. Chicago's four pensions collectively have more than $20 billion in unfunded liabilities, the city says.

Moody’s, meanwhile, pegs Chicago’s pension costs at $32.1 billion. Mr. Emanuel called the Moody’s downgrade “irresponsible.”

Chicago is the lowest-rated of the top 100 U.S. cities Moody’s analyzes except for Detroit, according to the firm.

Moody’s junk rating also could have triggered up to $2.2 billion in accelerated payments and fees on some variable-rate debt, the ratings firm said. Chicago has negotiated with banks to avoid those payments and fees, allowing the city to complete its already-planned refinancing of those bonds on Wednesday, according to offering documents.

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