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Muni Yields Hit New Low: It Costs $100 to Borrow $1 Million.

The disappearing yields are an outgrowth of the near zero-interest rate policy that the Federal Reserve has had in place since late 2008, when credit markets seized up after the collapse of investment bank Lehman Brothers Holdings Inc.

That crisis also explains why few local governments are raising money in the floating-rate market, despite the record-low cost: Those bonds saddled them with soaring interest bills during the 2008 turmoil. When the derivatives that were supposed to protect against that risk backfired, governments paid billions in fees to escape from the deals. Only $9 billion of the securities have been issued this year, down from $128 billion in 2008, according to data compiled by Bloomberg.

Chicago and other municipal borrowers in the past decade made bets on the future direction of interest rates through agreements with banks to swap interest payments as part of variable-rate demand debt issues. As rates fell under the Federal Reserve's attempt to stimulate the economy after the financial crisis, many issuers ended up on the wrong side of the bets. Since then issuers have paid at least $5 billion to unwind the agreements.

Chicago's attempt to clean up its legacy of wrong-way bets on interest rates has cost the city at least $270 million since Moody's Investors Service cut its rating to junk in May, according to city documents.

"With news like that out there, these kinds of deals are not something we are going to see again anytime soon," said Andrew Kalotay, chief executive officer of Andrew Kalotay, a New York-based advisory firm to municipal and corporate borrowers. "People are scared of them."

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