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Municipal Bond Regulator Pushes SEC for Direction on Bank Loans.

The municipal-bond market's regulator is pressing the U.S. Securities and Exchange Commission to respond to the fast-growing market for bank loans, saying the agency needs to clarify whether they are covered by securities rules.

The Municipal Securities Rulemaking Board wants the SEC to encourage or require disclosure of the obligations, as well as determine whether financial advisers that arrange such loans would have to register as a broker dealers. The board drafts securities rules that are enforced by the SEC.

"It's really important that investors have a full picture of an issuers' indebtedness," Lynnette Kelly, the board's executive director, said in a conference call Monday following its quarterly meeting.

Direct lending by banks has proliferated in the $3.7 trillion market as states, local governments and non-profits find they can borrow at rates comparable to those on bonds, without the fees tied to public-debt offerings. This year alone, Standard & Poor's had evaluated 109 municipal bank loans totaling $4.22 billion by early October.

Because loans aren't classified securities, states and cities aren't immediately required to disclose them, despite the risk they can pose to bondholders. The loan terms can favor banks over other investors and add to a borrower's financial risk, credit-rating companies have said.

In a January letter the MSRB urged the SEC to consider changes to municipal-bond rules to require the disclosure of direct or off-balance sheet obligations, similar to the way corporations do.

"The availability of timely disclosure of additional debt in any form and debt-like obligations is essential to foster market transparency and to ensure a fair and efficient municipal market," the letter said.

Rebecca Olsen, deputy director of the SEC's Office of Municipal Securities, didn't immediately return a call seeking comment.

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