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Falling Rates Create Bond-Call Frenzy.

Companies and government agencies are calling bonds at the fastest pace in four years

Bond issuers are heeding the call of tumbling interest rates.

Companies and government agencies are “calling” bonds at the fastest pace in four years, taking advantage of provisions that let them redeem securities under certain circumstances and save money by reissuing at lower rates.

Redemptions hand investors their money back at a time when many portfolio managers are struggling to find attractively priced securities to purchase. Some investors now are paying up for so-called noncallable bonds that don’t give the issuer a redemption option.

The trends are particularly acute in the markets for bonds sold by government-sponsored enterprises such as the Federal Home Loan Banks, Fannie Mae and Freddie Mac, companies that provide financing to the mortgage market. Investors have had almost $248 billion in callable GSE debt redeemed this year through July, according to Performance Trust Capital Partners LLC, a fixed-income trading firm. GSE calls in the second quarter hit $125 billion, the most since 2012.

“We’ve seen lots and lots of callable bonds,” said Andrew Pace, a vice president at the firm. “It’s interesting to see how different returns can be with that call feature.”

The FHLB sold debt in both formats in July 2015, offering coupons of 2% on callable bonds and 1.875% on noncallable ones. The callable debt was redeemed in July of this year, giving investors an annual return about 2%. The noncallable debt returned 4.3% during that year, according to Performance Trust data, reflecting the price increase as investors snapped up noncallable debt.

In July of this year, the FHLB issued new callable bonds, offering a coupon of 1.32%. Hypothetically, that means it stands to save about $6.8 million in interest costs for every $1 billion in debt. That assumes one bond was issued to replace the other, which isn’t necessarily the case.

Calls are growing more popular throughout the bond market. Mr. Pace said 59% of GSE debt sold in the last quarter of 2015 has already been called. Global corporate issuers have called more than $300 billion, including roughly $90 billion in U.S. corporate bonds, according to Performance Trust.

The large amount of calls comes as the yield on the 10-year Treasury note has fallen more than half a percentage point since the end of last year. It touched the lowest on record last month.

Still, some investors are using calls as an opportunity to bulletproof their portfolios in case rates rise. Craig Brothers, who manages about $3 billion of mostly municipal bonds at Bel Air Investment Advisors in Los Angeles, said that many of his holdings that are eligible to be called have already been redeemed.

“The calls are helping us,” Mr. Brothers said. “Getting the money back is essentially allowing us to take that money and redeploy it” in investments that are less sensitive to rising interest rates.

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By BEN EISEN

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Write to Ben Eisen at ben.eisen@wsj.com