

Bond Case Briefs

Municipal Finance Law Since 1971

6 Things Investors Should Know About Municipal Bond Insurance: Schwab

Key Points

- Owning an insured municipal bond can help ensure timely interest and principal payments in the rare instance that the issuer defaults.
- The “cost” of municipal bond insurance usually comes in the form of a lower yield.
If you’re considering investing in insured munis, we believe the underlying rating—and not the insured rating—should fit your risk tolerance.

What’s the case for investing in insured municipal bonds? This isn’t a question many investors have had to ask in recent years.

The financial crisis in 2008 cut down most of the market’s insurers, so the chances of finding a newly issued insured muni have been pretty low in recent years. However, that may be changing now that the industry is showing signs of life again.

To be sure, the share of newly issued munis covered by insurance is still small—only around 6%, according to Bloomberg—but that’s up from just 3% in 2013. Before the crisis, nearly half of all newly issued munis were insured.

So although the market is still a far cry from its pre-crisis days, it is growing again. Here are six things to consider before investing:

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Schwab

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