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After Muni-Bond Boom, Analysts Expect Distress to Be on the Rise.

- **Low rates, small yield penalties have fueled risky borrowing**
- **“Credit risk is increasing in the municipal market,” says MMA**

Bankers say bad loans are made in good times, and the $3.8 trillion municipal-bond market may be no exception.

High demand from investors, a dwindling supply of new deals, and historically low yield penalties on the riskiest bonds has created an borrower’s market, Municipal Market Analytics analysts Matt Fabian and Lisa Washburn wrote in a note to clients Monday. This atmosphere has produced a rise in issuance in sectors most “prone to impairment,” they said.

“Over recent years the mix of defaults has become more diversified than it was previously,” Washburn wrote.

Before the 2008 credit crisis, nearly all defaults were concentrated in the healthcare and housing sectors. Now that trend is expanding into utility districts and tax-based issues, typically known as safe sectors, according to the firm.

Even so, the municipal market remains among the safest in the world, with payment lapses extremely rare even after the economic and financial turmoil brought by the last recession. Although MMA doesn’t forecast defaults, they expect an up-tick in the filings of so-called credit impairments — like technical defaults triggered by a drawn down of reserves — over the next few years.

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By Danielle Moran

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