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The Impact of Dodd-Frank on True Interest Cost of Municipal Bonds: Evidence From California

Abstract

The Dodd-Frank Act of 2010 amended the Securities Exchange Act of 1934 and introduced new registration requirements and regulatory standards applicable to municipal financial advisors. The reform is intended to address some of the problems observed with the conduct of some municipal advisors, including the issuance of financial advice without adequate training or qualifications, and to help municipal debt issuers to raise capital more efficiently. This article explores potential implications of the policy for municipal borrowers. After reviewing the main policy provisions and discussing theoretical outcomes, it empirically tests the null hypothesis of no policy effect on the cost of municipal borrowing in California. The results suggest a significant decrease in true interest cost after the reform. The policy effect is more pronounced on negotiated debt. Thus, the federal regulation of municipal financial intermediaries may have helped to improve the average quality of advice in the market and lower the cost of borrowing.

[Read the full text.](#) (Registration required.)

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