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Direct Purchases of Bonds By Banks: A Popular Alternative for Municipalities.

Traditionally, municipalities have sold bonds through competitive sales and negotiated sales. In a competitive sale, bids from interested buyers are opened at the advertised time and place, and the issuer awards the sale to the successful bidder by a sale resolution or an award order signed by an authorized official.

The closing of the issuance of the bonds usually occurs roughly seven to ten days thereafter.

In a negotiated sale, the issuer typically selects a bond underwriter, which markets the bonds. The issuer and the underwriter then negotiate the terms of the bond, and the closing occurs about one to two weeks later.

Municipalities have increasingly used a third method to sell bonds – "direct purchases" by banks or financial institutions, including community, regional and national banks. Bank direct purchases ("BDPs") have become a popular alternative to competitive or negotiated sales of municipal bonds. BDPs can benefit municipal bond issuers by saving them time and expenses compared to competitive or negotiated sales.

BDPs are usually quicker and less expensive for municipalities than competitive or negotiated bond sales because they impose fewer requirements on the issuer:

- No published Notice of Sale in The Bond Buyer (national newspaper of the municipal bond industry)
- No underwriter (and no underwriter's discount or fee)
- No placement agent (and no placement agent's fee)
- No Preliminary Official Statement or final Official Statement (disclosure documents)
- No bond ratings (and no rating agency fees)
- No Continuing Disclosure Undertakings for the purchased bonds
- No CUSIP number for the purchased bonds
- Sometimes no bond trustee; rather, a local official may be the Transfer Agent
- Sometimes no Bond Purchase Agreement; rather, a bank term sheet or commitment letter is more commonly used

No book-entry-only registration; rather, the registered bondholder is the bond buyer
These advantages make BDPs an attractive option for municipalities. In BDPs, the interest rate may be a fixed or variable rate, as agreed between the issuer and bank. The term of the bonds may range from under 10 years to 15 years, as agreed between the issuer and bank. The bonds may or may not be tax-exempt bonds for federal income tax purposes.

Although BDP transactions can be attractive to both municipalities and bank purchasers, they can involve many special considerations that are beyond the scope of this article.

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