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‘It’s Just Dirt’: Anything Goes in Today’s Muni Bond Market

• Yields on riskiest muni-debt drop to 4%, the lowest on record
• That is pushing investors into increasingly exotic deals

Last month, a risky, new deal hit the municipal-bond market. It came from a small borrower in Colorado that was looking to finance the construction of 1,200 luxury homes in the foothills of the Rocky Mountains.

It was an odd time for such a project. Denver’s decade-long housing boom was beginning to show signs of cooling and, moreover, rival developers had already raised record sums to turn vast tracts of land into new communities. “There’s no houses to see,” said Nicholas Foley, a municipal-bond fund manager at Segall Bryant & Hamill in Denver. “It’s just dirt.”

No matter. The buy orders poured in anyways and, in the end, about $20 million worth of bonds had been sold for yields as low as 4.75% on 30-year maturities — similar to the rates that investors once only reserved for relatively risk-free market behemoths like California or New York.

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By Amanda Albright

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