

Bond Case Briefs

Municipal Finance Law Since 1971

Pimco Veterans Look to Shake Up 'Old School' Muni Loan Market.

- **Alpha Ledger's blockchain-based platform offers loan auctions**
- **Firm aims to move into business of public muni debt in 2022**

After breaking new ground in exchange-traded funds for Pimco more than a decade ago, Manish Dutta and Tammie Arnold have set their sights on one of the more opaque corners of municipal finance.

Their company, [Alpha Ledger Technologies](#), is seeking to modernize the market for direct lending to municipalities through a platform based on blockchain, the technology used for verifying and recording transactions that's at the heart of Bitcoin.

The firm's system lets cities and localities auction their loans, allowing a wide group of investors — such as regional banks — to bid, potentially reducing borrowing costs on these relatively small, private financings. The other benefit is that the system provides an online account of the bids and the deal — a novelty for localities used to maintaining paper records.

It amounts to a shift from the "old-school" process of underwriting, where the decision to pick a bank and the terms of a loan can be private, said Dutta, Alpha Ledger's chief executive officer. Fifty banks have used the platform, including community, regional and national banks, he said.

"On our platform, it's an open, direct, transparent market," he said.

In July, the Poulsbo, Washington-based company, which was founded in 2019, made further inroads when California's Coachella Valley Unified School District borrowed through its platform. It was one of five loan transactions Alpha Ledger has completed this year, after two in 2020.

Banks held about \$197 billion of direct loans to municipalities as of the second quarter, according to research firm Municipal Market Analytics. Alpha Ledger wants to move into the public-debt arena — which accounts for the brunt of municipal borrowing — some time in 2022.

The muni market, with annual bond and note issuance of about \$400 billion, has proved to be tough to disrupt. In one example, Neighborly, a venture that tried to sell muni bonds in smaller pieces than the typical \$5,000, abandoned that effort in 2019.

Dutta, who worked on technology development at Pacific Investment Management Co., co-founded the company with Christopher Wade and brought on former colleagues like Arnold and Don Suskind, who worked on ETF products at Pimco.

'Nothing But Competition'

Traditionally with municipal loans, borrowers hire advisers who seek bids from banks. Municipalities can also approach banks directly. With direct loans, officials have found they can borrow at rates comparable to those on bonds without the fees or disclosure requirements associated with public-

debt offerings.

Alan Crain, chief financial officer of Kitsap Bank in Port Orchard, Washington, said his bank joined the platform even though he knew it was “nothing but competition” in the lending market.

“My recognition was that if we don’t work with them to do this, someone else will,” he said. “I’d rather work with them and understand how to pivot our business, rather than be left out in the cold.”

Kitsap manages a portfolio of about \$280 million of municipal debt including the loans, and has participated in four transactions on the platform. Crain said that he’s seen the bidding process deliver lower rates for borrowers as well as more flexible terms for them, and said it helps improve transparency around pricing.

“When banks compete, you win” as a borrower, he said.

ETFs to Blockchain

Arnold and Dutta met in 2008, when Arnold was tasked with starting Pimco’s actively managed bond ETF products, an effort that she said stretched existing technology around compliance, trading and disclosure.

For example, the money manager had to address issues with pricing of ETFs, which updates instantly because the funds trade on an exchange, while mutual funds can sort out net asset values overnight if needed, she said.

Arnold’s request for more help with technology led to her connection with Dutta. Both spent roughly two decades at Pimco. She says ETFs were instructive in how to make small transactions financially viable, given that they had to be available for investors at a much lower cost than mutual funds, for example.

That’s now relevant to Alpha Ledger’s strategy of focusing on municipal loans, which tend to be smaller. The average size of loans the company has worked on is about \$3 million.

“This is an exercise in small transaction size access and economics,” said Arnold, the company’s head of business strategy.

Alpha Ledger charges what it calls a technology fee, that is fixed regardless of loan size and which the company declined to share. The company is working with municipal advisers and bond counsel as it seeks new business, Dutta said.

‘Digitizing Everything’

David Ulbricht, director of advisory services for SDAO Advisory Services, which advises Oregon-based issuers, said he researched blockchain for two years after first meeting with the company in 2019. He wanted to make sure it would be a good product for his clients, which include special districts, cities, school districts and counties.

“It’s basically digitizing everything,” he said. “You realize, OK, this is kind of where things are going.”

The platform helps banks hear about transactions — and as a result, the terms of the financings under the platform are “very, very” competitive and can cut out costs like bank counsel fees,

something that ultimately benefits borrowers, Ulbricht said.

The platform also offers a debt-management tool, which appealed to Oregon's Port of Astoria, which operates an airport in Warrenton, Oregon. It obtained a \$1.3 million loan through the platform in April, and plans to put its \$14 million loan portfolio on the platform, said Melanie Howard, the port's accounting and business services manager.

The port typically monitored its loans on a spreadsheet, while the blockchain technology offered a way for both the port and the banks to have easily accessible details on the loans, she said.

"It ties a better relationship between the lender and borrower," she said.

Bloomberg Markets

By Amanda Albright

August 16, 2021, 10:00 AM MDT

— *With assistance by Martin Z Braun*

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com