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S&P Mid-Year Review: Tender Option Bond Activity Reaches New Highs As Interest Rates Rise

S&P Global Ratings is providing a recap of rated tender option bond (TOB) activity in the first half of 2022.

New Issuance Soars As Interest Rates Rise

TOB issuance surged during the first six months of 2022, largely due to rising interest rates. Some issuers took advantage of the higher rates by collapsing existing low-yield TOB trusts and creating new ones. Add-on activity also increased as issuers added more underlying bonds and issued more TOB certificates to existing trusts.

New issuance increased approximately 307% year over year to 273 new trusts rated by S&P Global Ratings as of June 2022, compared with 67 new TOBs rated as of June 2021 (see chart 1a). We rated 101 new trusts in May—a new monthly high. The top four liquidity providers for the 273 new trusts were JPMorgan Chase Bank N.A. (76 TOBs), Barclays Bank PLC (67), Bank of America N.A. (35), and Royal Bank of Canada (32).

Par issuance reached a high of approximately \$5.5 billion in June, primarily due to the dramatic rise in second-quarter issuance. Total issuance tripled to \$4.2 billion in second-quarter 2022 from \$1.3 billion in the previous quarter, versus \$1.6 billion in second-quarter 2021 and \$1.0 billion in first-quarter 2021 (see chart 1b).

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