

# Bond Case Briefs

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## How a Trick 62% Coupon Helped Sell a Wisconsin School Bond Deal.

- **Wisconsin school district deal features coupons of 4% and 62%**
- **Pair of Texas deals in 2021 carried coupons of 25% and 30%**

“Trick” coupons made another visit to the municipal bond market this week, as a Minneapolis underwriter employed a 62% coupon to win a \$9.5 million school bond issue.

Bankers have used the phrase “trick” since at least the 1970s to describe unusually high coupons that aren’t what they seem. In this case, the 62% coupon doesn’t yield 62%. It yields 3.25%.

The Denmark School District has an enrollment of 1,601, and is located 15 miles southeast of Green Bay, Wisconsin. The district took bids on \$9.5 million of general obligation bonds for a construction project on Monday morning, and stipulated that the bonds should mature in 2023, 2040, 2041 and 2042.

The winning bid was submitted by Northland Securities Group LLC and carried coupons of 62% in 2023 and 4% in 2040, 2041 and 2042, which produced a True Interest Cost of 4.229796%.

To repeat, the buyer doesn’t get a tax-exempt yield of 62%. These bonds, due on March 1, 2023, were priced at a premium - 110.1 — to yield 3.25%, or about 90 basis points over the benchmark AAA yield.

Such unnatural and jarringly-high coupons were used back in the 1970s, and have made sporadic appearances since then. Their most recent use, before Monday’s sale, seems to have been last November and December, when two underwriters used a mixture of 25% and 30% coupons in order to satisfy a customer’s demand for deep-discount late maturity bonds in Texas.

You don’t see coupons like this every day. They’re rare enough that when they do appear, I for one can’t look away, and always think, now how does this work?

I’ve seen 50% coupons used before, but 62s are a first for me. Underwriter Northland Securities didn’t respond to requests for comment. The firm is the nation’s 34th largest underwriter of long-term municipal bonds, according to Bloomberg LEAG data, having worked on 186 deals totaling \$870.7 million so far this year.

The financial adviser probably would have helped to evaluate the bids when they were opened on Monday, but Robert W. Baird & Co. of Milwaukee didn’t respond to numerous requests for comment.

I bet the school district must have been surprised by the presence of the 62% coupon and wondered what its representatives thought, but they didn’t respond to called and emailed requests for comment, either.

Maybe the bond counsel might have had an opinion on this? Senior manager of communications

Scott W. Bussen of Quarles & Brady LLP in Milwaukee answered my email, but declined to comment.

Which leaves me to use history as a guide.

Bid structures — like the one used in Texas last year — can be used to accommodate a customer's preference, so maybe a buyer wanted some or all of those 4% coupons in 2040, 2041 and 2042. The 2040 and 2041 were priced at a slight premium, the 2042 at par. All are callable at par in 2031. The "trick" coupon is then crafted, so you get 62s priced at 110.109 to yield 3.25%.

And no, the 62% won't mean that the issuer pays some astronomical sum come their March 1 maturity, because they're not paying a full year's interest, but two months and a couple of days' interest. On March 1, the Denmark School District pays \$2,239,170, and the 62s of '23 are history.

## **Bloomberg Markets**

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