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Risky Muni Debt Is Getting Riskier.

Risky municipal debt is getting riskier, according to a recent report from Moody's Investors Service. More muni borrowers reported defaults in the last quarter of 2022 than have since the second quarter of 2020, when early-pandemic shutdowns prompted a wave of repayment problems.

Increasing costs for labor and materials have strained operations and delayed construction on some of the projects these bonds finance. Some nonprofit borrowers are seeing a fall-off in donations. Nursing homes and senior care facilities, a large portion of the high-yield market, are less able to attract new residents in the wake of the Covid pandemic. All those factors will lead more borrowers to fall behind on payments in 2023, Moody's projects.

Most municipal debt is backed by taxes. But the borrowers behind high-yield and unrated muni bonds tend to be charitable organizations or one-off projects that are authorized to borrow at tax-exempt rates because they are seen to have some public good.

"The unrated/high-yield municipal bond sector has moved into a new phase," the report said.

Even with the uptick, muni default rates remain extremely low. For bonds rated by Moody's, the likelihood of default over a five-year period is 0.08%, much lower than corporate debt.

The Wall Street Journal

By Heather Gillers

Feb 2, 2023

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