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Love Me Tender [Bonds] – An Overview: Squire Patton Boggs

The famous song, *Love Me Tender*, by Elvis Presley, includes lyrics such as “We’ll never part” and about being together “ ’Til the end of time.” In contrast to Elvis’ wish, the issuer of tax-exempt bonds that makes a tender offer is hoping the exact opposite happens to the relationship between the bondholder and tax-exempt bond. In other words, the issuer hopes that economics drive a wedge between the two.

A tender offer is an offer by an issuer of bonds made to its bondholders to repurchase its outstanding bonds at a specified price on a specific date. There are several common reasons why an issuer may want to make a tender offer to its bondholders. First, the outstanding bonds may be paying interest at a rate that is higher than the current market rate, but the outstanding bonds are not yet callable (and taxable advance refundings no longer produce savings). Second, the issuer’s outstanding bonds may be trading on the open market for less than face value. Thus, the issuer can offer to repurchase its bonds by paying above fair market value, but below the face amount, possibly saving itself some money (depending upon the time-value-of-money factors). Third, an issuer may have cash on hand and would like to pay down some of its liabilities, but its bonds may not be currently callable (and taxable advance refundings no longer produce savings). An issuer may offer cash or new bonds in exchange for the outstanding bonds being tendered. In the alternative, the issuer may offer to adjust the terms of the outstanding bonds.

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The Public Finance Tax Blog

Squire Patton Boggs

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