Bond Case Briefs

Municipal Finance Law Since 1971

Muni Regulator Flags Risks of Buying Build America Bonds,

- **Refinancings can saddle investors with losses as bonds called**
- **MSRB says a number of the bond issues trading above par value**

The municipal-bond market's regulator published a note highlighting the risks of buying Build America Bonds that are trading at more than 100 cents on the dollar, which expose investors to potential losses as governments increasingly buy them back under refinancings.
The securities were sold in 2009 and 2010 through a federal program that was aimed at helping to pull the economy out of its slump by increasing state and local government spending on infrastructure. The federal government subsidizes some of the interest bills on the bonds instead of making the interest tax-exempt, as is the case with traditional municipal securities.

But those subsidies were cut over a decade ago, and governments have been refinancing them by exercising their right to buy the bonds back from investors. That call price can be below where the bonds have been trading.

In guidance published Friday, the Municipal Securities Rulemaking Board said it has seen "a number of BABs trading in the secondary market at a significant premium to par," and said investors should be aware of the risk of buying them. If called, it could "result in a loss, particularly for investors who purchase the BABs at a premium."

The group also said that the likelihood of an individual security being called will depend on a range of factors like the rate environment, the government's cash position and the specifics of the call provisions.

Bank of America Corp. said Friday that Build America Bond refinancings have helped to boost the pace of overall debt sales, which picked up this year as markets recovered from the impacts of the Federal Reserve's rate hikes.

Bloomberg Markets

By Nic Querolo and Amanda Albright

April 26, 2024 at 7:06 AM PDT

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com