
Local Bank Direct Bond Bids

Change adds purpose to life. The right kind of change can also drive down an issuer's bond interest costs. Many of the recent technological changes in the bond market have resulted in a wider range of bids from underwriters, but at the cost of bids from local banks.

Many local banks understand a bond issuer and often have a financial relationship with the issuer that would allow them to be the lowest and best bidder on a certain type of bond issue. However, many bond issues are too long or too large or have other structures that do not attract local bank bids where the entire issue must be purchased.

In many bond competitive sales, an underwriter will check with an issuer's local banks to determine a level of bank interest in certain maturities of a bond issue. The underwriter then submits a bid on the bonds, sells certain maturities to the local banks, and sells the remaining maturities to other investors who can purchase maturities usually not desirable to local banks. The underwriter's commission, as well as any bond credit enhancement costs, is usually applied to all the bonds.

Speer Financial, Inc. has created a structure for certain bond issues that encourages local banks to submit direct bids on certain of the bonds without having to use an underwriter. This structure splits the bond issue into two series (short and long), with the shorter series retaining the maturities and features that are desirable to the local banks. Sometimes the underwriters are the lowest bidders on this separate shorter series; sometimes the local banks are the lowest bidders because they typically bid without underwriter commissions or credit enhancement costs.

In almost all cases where such splitting of series is appropriate, the increased bidding competition more than offsets any increased legal and bond registrar costs associated with the additional series. However, issuers are well served to have a financial advisor recommend whether such splitting is appropriate to a particular issue. Splitting may not work because of issue size, odd structures, credit concerns, etc.

Speer Financial, Inc. would be pleased to discuss this structure and other financing structures for any prospective bond issue.

Circular 230

New IRS regulations are forthcoming due to the misdeeds of the few that will penalize the many. The IRS has issued a ruling and a subsequent notice that emphasizes that legal opinions must exercise some discernment and not base a tax opinion on unreasonable factual or legal assumptions, nor on unreasonable reliance on representations, statements, findings or other arguments, after performing an adequate amount of due diligence. While the specific impact on municipal issuers is in flux, it will evolve and crystallize over time. Watch for Circular 230 announcements and pronouncements in the months ahead.