ENCYCLOPEDIA OF MUNICIPAL BONDS pdf

1: Encyclopedia of Municipal Bonds - Investment / Trading - Finance

The world of municipal bonds is a vast market with enormousdiversity. And while it's filled with some excellent opportunities,some people fail to take advantage of all it has to offer due tounfamiliarity with this arena or other factors.

Etymology[edit] In English , the word " bond " relates to the etymology of "bind". In the sense "instrument binding one to pay a sum to another", use of the word "bond" dates from at least the s. The most common process for issuing bonds is through underwriting. When a bond issue is underwritten, one or more securities firms or banks, forming a syndicate , buy the entire issue of bonds from the issuer and re-sell them to investors. The security firm takes the risk of being unable to sell on the issue to end investors. Primary issuance is arranged by bookrunners who arrange the bond issue, have direct contact with investors and act as advisers to the bond issuer in terms of timing and price of the bond issue. The bookrunner is listed first among all underwriters participating in the issuance in the tombstone ads commonly used to announce bonds to the public. In contrast, government bonds are usually issued in an auction. In some cases, both members of the public and banks may bid for bonds. In other cases, only market makers may bid for bonds. The overall rate of return on the bond depends on both the terms of the bond and the price paid. In the case of an underwritten bond, the underwriters will charge a fee for underwriting. An alternative process for bond issuance, which is commonly used for smaller issues and avoids this cost, is the private placement bond. Bonds sold directly to buyers may not be tradeable in the bond market. This was called a tap issue or bond tap. Treasury Bond Nominal, principal, par, or face amount is the amount on which the issuer pays interest, and which, most commonly, has to be repaid at the end of the term. Some structured bonds can have a redemption amount which is different from the face amount and can be linked to the performance of particular assets. Maturity[edit] The issuer has to repay the nominal amount on the maturity date. As long as all due payments have been made, the issuer has no further obligations to the bond holders after the maturity date. The length of time until the maturity date is often referred to as the term or tenure or maturity of a bond. The maturity can be any length of time, although debt securities with a term of less than one year are generally designated money market instruments rather than bonds. Most bonds have a term of up to 30 years. Some bonds have been issued with terms of 50 years or more, and historically there have been some issues with no maturity date irredeemable. In the market for United States Treasury securities, there are three categories of bond maturities: Coupon[edit] The coupon is the interest rate that the issuer pays to the holder. Usually this rate is fixed throughout the life of the bond. The name "coupon" arose because in the past, paper bond certificates were issued which had coupons attached to them, one for each interest payment. On the due dates the bondholder would hand in the coupon to a bank in exchange for the interest payment. Interest can be paid at different frequencies: Yield[edit] The yield is the rate of return received from investing in the bond. It usually refers either to The current yield , or running yield, which is simply the annual interest payment divided by the current market price of the bond often the clean price. The yield to maturity , or redemption yield, which is a more useful measure of the return of the bond. This takes into account the current market price, and the amount and timing of all remaining coupon payments and of the repayment due on maturity. It is equivalent to the internal rate of return of a bond. Credit quality[edit] The quality of the issue refers to the probability that the bondholders will receive the amounts promised at the due dates. This will depend on a wide range of factors. High-yield bonds are bonds that are rated below investment grade by the credit rating agencies. As these bonds are riskier than investment grade bonds, investors expect to earn a higher yield. These bonds are also called junk bonds. Market price[edit] The market price of a tradable bond will be influenced, amongst other factors, by the amounts, currency and timing of the interest payments and capital repayment due, the quality of the bond, and the available redemption yield of other comparable bonds which can be traded in the markets. The price can be quoted as clean or dirty. The net proceeds that the issuer receives are thus the issue price, less issuance fees. The market price of the bond will vary over its life: Others[edit] Indentures and Covenants â€” An indenture is a formal debt agreement that establishes the terms of a bond issue, while covenants are the clauses of such an agreement. Covenants specify the rights of bondholders and the duties of issuers, such as actions that the issuer is obligated to perform or is prohibited from performing. The terms may be changed only with great difficulty while the bonds are outstanding, with amendments to the governing document generally requiring approval by a majority or super-majority vote of the bondholders. Occasionally a bond may contain an embedded option ; that is, it grants option-like features to the holder or the issuer: Callability â€" Some bonds give the issuer the right to repay the bond before the maturity date on the call dates; see call option. These bonds are referred to as callable bonds. Most callable bonds allow the issuer to repay the bond at par. With some bonds, the issuer has to pay a premium, the so-called call premium. This is mainly the case for high-yield bonds. These have very strict covenants, restricting the issuer in its operations. To be free from these covenants, the issuer can repay the bonds early, but only at a high cost. Putability â€" Some bonds give the holder the right to force the issuer to repay the bond before the maturity date on the put dates; see put option. These are referred to as retractable or putable bonds. Call dates and put datesâ€"the dates on which callable and putable bonds can be redeemed early. There are four main categories: A Bermudan callable has several call dates, usually coinciding with coupon dates. A European callable has only one call date. This is a special case of a Bermudan callable. An American callable can be called at any time until the maturity date. Sinking fund provision of the corporate bond indenture requires a certain portion of the issue to be retired periodically. The entire bond issue can be liquidated by the maturity date; if not, the remainder is called balloon maturity. Issuers may either pay to trustees, which in turn call randomly selected bonds in the issue, or, alternatively, purchase bonds in open market, then return them to trustees. Bonds are often identified by its international securities identification number, or ISIN , which is a 12 digit alphanumeric code that uniquely identifies debt securities. The following descriptions are not mutually exclusive, and more than one of them may apply to a particular bond: Fixed rate bonds have a coupon that remains constant throughout the life of the bond. A variation are stepped-coupon bonds, whose coupon increases during the life of the bond. Floating rate notes FRNs, floaters have a variable coupon that is linked to a reference rate of interest, such as Libor or Euribor. The coupon rate is recalculated periodically, typically every one or three months. Zero-coupon bonds zeros pay no regular interest. They are issued at a substantial discount to par value , so that the interest is effectively rolled up to maturity and usually taxed as such. The bondholder receives the full principal amount on the redemption date. An example of zero coupon bonds is Series E savings bonds issued by the U. Zero-coupon bonds may be created from fixed rate bonds by a financial institution separating "stripping off" the coupons from the principal. In other words, the separated coupons and the final principal payment of the bond may be traded separately. High-yield bonds junk bonds are bonds that are rated below investment grade by the credit rating agencies. These are known as hybrid securities , because they combine equity and debt features. Exchangeable bonds allows for exchange to shares of a corporation other than the issuer. Inflation-indexed bonds linkers US or Index-linked bond UK , in which the principal amount and the interest payments are indexed to inflation. The interest rate is normally lower than for fixed rate bonds with a comparable maturity this position briefly reversed itself for short-term UK bonds in December However, as the principal amount grows, the payments increase with inflation. The United Kingdom was the first sovereign issuer to issue inflation linked gilts in the s. Asset-backed securities are bonds whose interest and principal payments are backed by underlying cash flows from other assets. Subordinated bonds are those that have a lower priority than other bonds of the issuer in case of liquidation. In case of bankruptcy, there is a hierarchy of creditors. First the liquidator is paid, then government taxes, etc. The first bond holders in line to be paid are those holding what is called senior bonds. After they have been paid, the subordinated bond holders are paid. As a result, the risk is higher. Therefore, subordinated bonds usually have a lower credit rating than senior bonds. The main examples of subordinated bonds can be found in bonds issued by banks, and asset-backed securities. The latter are often issued in tranches. The senior tranches get paid back first, the subordinated tranches later. Covered bonds are backed by cash flows from mortgages or public sector assets. Contrary to asset-backed securities the assets for such bonds remain on the issuers balance sheet. They have no maturity date. Some of these were issued back in and still trade today, although the amounts are now insignificant.

2: Encyclopedia of Municipal Bonds : Joe Mysak :

An accessible reference that explores every aspect of the municipal bond market. Until now, there has been no accessible encyclopedia, dictionary, nor guide to the world of municipal bonds.

Encyclopedia of Business and Finance, 2nd ed. Such debts appear on balance sheets of the issuing entities as long-term liabilities. Bonds provide a source of funds for the issuer and a payment to the buyer in the form of interest. Both bonds and stocks are referred to as securities, yet the two are different types of investments. Nevertheless, since there is trading in the secondary market for some types of bonds, it is possible to buy and sell such bonds at any time. Bonds are issued by entities seeking funds for a variety of reasons. Corporations issue bonds often for expansion purposes, when they have determined that extension of their long-term debt obligations is a better strategy than to expand their ownership base through the issuance of additional stock. Corporations are frequently motivated to choose bonds over expansion of stock owners for two basic reasons: The federal government issues bonds, along with short-term notes, for the expenditures required to operate the federal government and to pay off debt that is maturing. Municipalities and states issue bonds for capital expenditures that are perceived necessary to maintain the infrastructure of the entity. Such bonds provide funds to build local roads, stadiums, schools, and other public buildings. Investors can choose from a wide variety of bonds. For each of these categories, there are variations. Additionally, there are bond funds related to government bonds, corporate bonds, and foreign government bonds. It is possible to buy bonds that are convertible into stock. The bond market is indeed complex and varied. For purposes of the discussion here, the focus will be on basic bond types: There will follow a discussion of bonds as an investment for an individual. CORPORATE BONDS In a corporation, the board of directors is responsible for making the decisions related to a bond issue including determining how much money is to be raised, what type of bond will be sold, what the maturity date will be, and what the interest rate will be. Corporations with sound credit standing are able to issue bonds without pledging assets. Such bonds are called debenture bonds, or unsecured bonds. Companies with low credit standing often issue secured bonds, for which specified assets have been pledged as collateral. Issuance Process Corporations generally do not sell directly to the public; rather, they sell their entire issues to an underwriter, often an investment bank, which acts as "middleman" for the corporation and the bondholders. Sometimes more than one underwriter participates in the sell of an issue, especially if the value of the issue is high. The issuing company also engages a trustee, generally a bank or trust company, to monitor the sale to ensure that all the details of the bond indenture are honored by the underwriters. The contract for a purchase of bonds is called a bond indenture, which provides a description of the bond issue as well as the rights of both the buyer and seller. The buyer, for example, may have the right to convert a bond into stock. Sellers often state options, which modify the basic agreement. For example, a common option is the right to retire a bond before its maturity date. Such bonds are called callable bonds. Before the possibility of paperless transactions, bond certificates were issued, but now transactions tend to be book entries only. Bonds have a predetermined rate of interest called the stated or contract rate, which is established by the board of directors. The actual interest rate, however, determined at auction, is referred to as the market rate. The market rate may equal the stated rate, or it may be higher or lower. The bond that sells at the stated rate is considered to have sold at par value. If the market rate is higher, the bond is sold at discount, which means that the buyer will pay less than the face value of the bond, therefore earning interest at a rate higher than the stated rate. If the market rate is lower, the bond is sold at a premium, which means that the buyer is paying more than the face value of the bond, and earning less than the stated rate. Although there may be a difference between stated and market rates, the actual interest paid is based on the stated rate and the face value of the bond. Interest is usually paid semiannually. Bonds are registered in the name of the person who purchased them. The registered owner receives the interest on the interest payment date. Since electronic processing began, the book entry means that the bonder holds a virtual bond. The Nature of the Bond Market The bond market is dominated by institutional investors, such as insurance companies, mutual funds, and pension funds, but bonds can be purchased by individual investors as well. Bonds are traded both in the primary market, which is the initial sale of the bonds, and in the secondary market, which is the sale of bonds subsequent to the initial sale by the issuer or underwriter. While the stated rate is the same throughout the life of the bond, the effective rate varies with the buying and selling of corporate bonds in the secondary market. An investor who wishes to buy or sell corporate bonds must contact a broker or dealer who might carry that particular bond in inventory. A dealer who does not have that bond would contact another dealer who did. Many major newspapers report information about bonds, both corporate and U. Rating of Corporate Bonds There are three organizations that rate corporate bonds: Each has a ranking system. C is reserved for bonds no longer paying interest. Treasury issues a number of debt obligations in addition to bonds. Securities with maturity dates of less than a year are called Treasury bills or T-bills ; those with maturities from one to ten years are called notes; those with maturities exceeding ten years are generally called bonds. There are I bonds and EE bonds, however, that may be redeemed at any time after a twelve-month-minimum holding period. Collectively, the issues of the U. Treasury are referred to as Treasuries. The bonds available are varied. A description of a limited number of what is available follows: Treasury sells thirty-year bonds twice a year. These bonds pay interest every six months until maturity. The bondholder receives face value at maturity. Price and yield are determined at auction. Both noncompetitive and competitive bids are accepted. Choosing a noncompetitive bid means that the buyer accepts the interest rate determined at auction and the buyer is guaranteed to receive the bond in the full amount requested. Such a bid may be made through TreasuryDirect http: Department of the Treasury. A competitive bid requires that the buyer use a bank, broker, or dealer. With a competitive bid there is uncertainty of about whether the buyer will be accepted or, if accepted, will get the number of bonds requested. These bonds are available only in electronic entries in accounts. They are available in small denominations. They can be purchased at local banks and other financial institutions, as well as through TreasuryDirect, and sometimes through payroll deductions. I bonds are a low-risk, liquid savings product. They are available through TreasuryDirect or payroll deduction, as well as at most local banks and other financial institutions. These bonds earn interest from the first day of their issue month. They are an accrual-type security, which means they increase in value monthly and the interest is paid when they are cashed. They can earn interest for up to thirty years. EE bonds are popular, low-risk savings products with interest rates based on a fixed rate of return. EE bonds are available at the TreasuryDirect Web site. Paper EE bonds are also available. Buyers are issued bond certificates. Municipal bonds are either general obligation or revenue bonds. The principal of general obligation bonds also known as "GOs" is paid from tax payments from citizens and from user fees for services provided by the political unit. The costs of building schools and sewers, for example, are paid for through general obligation bonds. A revenue bond is one that is issued by an enterprise for a public purpose that is expected to generate revenues, such as the building of airports, utility company infrastructure, toll roads, universities, and hospitals. Municipal bonds are ranked by financial information rating services. Bonds are considered to be a less-risky type of investment. Bonds of the U. Among the considerations for an investment are the following: Risk Involved There are several risks associated with bonds, even though there is a general belief that they are safer than, for example, investments in stocks and real estate. Among the risks are these: As market interest rates rise, the price of bonds falls and vice versa. All bondsâ€”corporate, Treasury, and municipalâ€”are subject to market risk. This risk relates to the actual creditworthiness of the issuer of the bonds. With Treasury bonds, there is virtually no credit risk since most investors see them as having the full faith of the U. Because of this perceived absence of default, investors typically use the rate offered on Treasuries as the benchmark against which other investments are evaluated. Such bonds may be retired when interest rates are declining. The bondholder is paid par value and usually a small "call premium" as well and any accrued interest since the last interest payment date. At such a time, the investor may want to replace the earlier bonds, but finds that the interest earned will be less than was the case earlier. Furthermore, if the investor had originally purchased the bonds at a premium, it is likely that the original purchase price would not be realized when the bond is called.

3: MOORLACH UPDATE â€” Encyclopedia of Municipal Bonds â€“ John Moorlach's Postings

An accessible reference that explores every aspect of themunicipal bond market. Until now, there has been no accessible encyclopedia,dictionary, nor guide to the world of municipal www.enganchecubano.comhensive and objective, this groundbreaking volume covers thehistory and mechanics of the municipal market in clear andunderstandable terms.

John Moorlach Joe Mysak, a municipal bond columnist whom I first met in the summer of , has written a book titled Encyclopedia of Municipal Bonds. If anyone has the portfolio to write a book with such a title, it is Joe Mysak. It is published by Bloomberg Press, an Imprint of Wiley. And it is hot off the press, copyright , and being promoted as we speak in Bloomberg Brief â€" Municipal Market, a daily electronic newsletter. Joe Mysak joined The Bond Buyer in as a copy editor and learned about municipal bonds from the ground up, eventually rising to editor and publisher of the newspaper. In , he founded a series of municipal market-related biweekly newsletters for the Interest Rate Publishing Corporation. In , Mysak joined Bloomberg News as a columnist. He is also the author of the book Handbook for Muni-Bond Issuers. I find him to also be an entertaining speaker. Most of the definitions cover a third- to a half-page. The attention given to the OC occupies more than eight pages. Orange County was the first modern example of municipal bankruptcy by investment practice. The real problem with the Orange County portfolio was not the various derivatives it held, although many of these were illiquid enough by the end, but the borrowing it had done to improve returns. In a phrase that was used again and again in , Orange County borrowed short, bet long, and bet wrong. The reverse repurchase agreements, the derivative securities, the massive use of leverage â€" all these had been written about. Moorlach ran against Citron for treasurer on this basis, that Citron was mismanaging public funds, in June and lost. This was considered a spectacular blowup, until Orange County. In the end, it took Orange County more than 18 months to emerge from bankruptcy, a great deal of its recovery predicated upon making someone else, in this case Wall Street, pay. Treasurer Citron was later prosecuted by the county. He was fined and served a year in a work-release program. Assistant Treasurer Raabe was convicted of five felony counts, which were later overturned. He ran in June , in , and in , all without opposition. The county itself was chastised by the SEC for selling securities without disclosing the actual condition of the pool and the risks it ran to investors. The county eliminated the use of derivatives and reverse repurchase agreements in its investment policy, and now posts all its positions and trades on the Internet. So, yes, I have signed the front of the check. And, yes, I know about putting in long hours. And, absolutely, I preach proper fiscal stewardship and appreciate the fiduciary responsibilities that came along in my succeeding roles. The firm gained notoriety after the OC bankruptcy as then-partner John Moorlach rose in stature for having predicted the collapse of the county investment pool. Moorlach has since been appointed county treasurer, replacing Robert Citron, Moorlach now holds the status of retired partner with an option to rejoin the firm as an active partner when his term ends. But the letter writer, Tom Mullen, introduced me in his opening sentences, provided below. The running joke back then was if the LA Times took a position on an Orange County ballot measure, the opposite was sure to happen. So, why bother writing a letter? Your analysis of Measure V was woefully shortsighted and politically indefensible. Twice burned, shame on me. Carona received ,, Auditor-Controller David E. Sundstrom received ,, and Superintendent of Schools William M. Receiving the most votes meant that I had to buy lunch. The Measure V vote was a tight one. It prevailed with , votes, representing 52 percent of the vote. The conclusion of the piece: County Treasurer John Moorlach, a Republican activist, campaigned ardently against the change, arguing that general law historically had served the county well and that the measure could lead to unnecessary difficulties. Here it is in full: When asked the meaning of tax reform, former Louisiana Sen. A case in point: The question is who pays. Hence, officials are looking behind metaphorical trees to find easy marks. They seem to have found some. Beginning in April, a state law goes into effect that allows counties and cities to impose a 20 percent tax on fines and penalties collected for certain criminal offenses. So the board is considering a plan to impose this 20 percent tax on drivers cited for moving violations. This would further turn police officers into revenue-collectors, and give them additional incentive to pull over more speeders. And, yes, this is a tax increase even if not everyone will have to pay it. Last month, Supervisor John Moorlach suggested that, instead of taxing motorists, the money should be found by taxing illegal immigrants charged with a crime. That caused a backlash. Moorlach is opposed to the new tax-hike proposal, as is Supervisor Bill Campbell, who told us that he wants to fund these costs out of the existing budget. The best solution is to cut costs and find the money in the general fund. Government should live within its means rather than spend its energy finding new people to tax. At least two of the four Orange County supervisors will vote to again delay swearing in a new board member today after a judge Monday requested more time to hold a trial on a contested recount. Last week, supervisors voted to wait until today to swear in the winner of the Feb. Brenner stopped short of ordering supervisors to postpone swearing in a winner but did ask the board to hold off until he rules. A trial is expected to last up to three days. Supervisors Bill Campbell and John Moorlach said they would vote for another delay. If [the losing side] wants to take it to an appeals court, fine. Trung Nguyen claims the recount that certified Janet Nguyen as winner by seven votes was done improperly. If the vote of the four-member board ends , the issue fails. In lieu of a weekly newsletter, you will receive occasional media updates, some with commentary to explain the situation, whenever I appear in the media unless it is a duplication of a previous story. I have two thoughts for you to consider: This message should appear at the bottom of every e-mail you receive. If these e-mails should stop arriving in your mail box, it will be because your address has changed and you did not provide a new one. If you do not wish to receive these e-mails, then please e-mail back and request to unsubscribe.

4: Bond ETF List: Complete List from www.enganchecubano.com

Never having invested in municipal bonds, I had only a passing acquaintance with their structure and history. And, I confess, when I requested a review copy of Joe Mysak's Encyclopedia of.

History[edit] Early days s [edit] Historically, municipal debt predates corporate debt by several centuriesâ€"the early Renaissance Italian city-states borrowed money from major banking families. Borrowing by American cities dates to the nineteenth century, and records of U. Officially the first recorded municipal bond was a general obligation bond issued by the City of New York for a canal in During the s, many U. In the ensuing decades, rapid urban development demonstrated a correspondingly explosive growth in municipal debt. The debt was used to finance both urban improvements and a growing system of free public education. Post Civil War[edit] Years after the Civil War, significant local debt was issued to build railroads. Construction costs in for one of the largest transcontinental railroads, the Northern Pacific , closed down access to new capital. Smaller firms followed suit as well as the stock market. The panic and years of depression that followed put an abrupt but temporary halt to the rapid growth of municipal debt. Several states wrote these restrictions into their constitutions. Railroad bonds and their legality were widely challenged, and this gave rise to the market-wide demand that an opinion of qualified bond counsel accompany each new issue. Modern times[edit] When the U. The Great Depression of the s halted growth, although defaults were not as severe as in the s. Today, in addition to the 50 states and their local governments including cities, counties, villages and school districts , the District of Columbia and U. Another important category of municipal bond issuers which includes authorities and special districts has also grown in number and variety in recent years. The debt issues of these two authorities are exempt from federal, state and local governments taxes. Municipal securities consist of both short-term issues often called notes, which typically mature in one year or less and long-term issues commonly known as bonds, which mature in more than one year. Short-term notes are used by an issuer to raise money for a variety of reasons: Bonds are usually sold to finance capital projects over the longer term. The two basic types of municipal bonds are: In many cases, general obligation bonds are voter-approved. Principal and interest are secured by revenues derived from tolls, charges or rents from the facility built with the proceeds of the bond issue. Public projects financed by revenue bonds include toll roads, bridges, airports, water and sewage treatment facilities, hospitals and subsidized housing. Many of these bonds are issued by special authorities created for that particular purpose. Build America Bonds Build America Bonds are a taxable municipal bond created under the American Recovery and Reinvestment Act of that carry special tax credits and federal subsidies for either the bond holder or the bond issuer. Many issuers have taken advantage of the Build America Bond provision to secure financing at a lower cost than issuing traditional tax-exempt bonds. The Build America Bond provision, which expired on January 1, , was open to governmental agencies issuing bonds to fund capital expenditures. The financed infrastructure needs vary greatly but can include schools, streets and highways, bridges, hospitals, public housing, sewer, water systems, power utilities, and various public projects. Traditionally, municipal bonds are issued and sold to bond holders through a complex network of financial and legal professionals. In all bond issuances, the issuer serves as the focal point and the head of the financing team, and oversees the transformation of an idea for a project into an issuance. However, in some cases, the bond measure for a public project must first be approved by voters. If a bond measure is proposed in a local election, a Tax Rate Statement may be provided to voters, detailing best estimates of the tax rate required to levy and fund the bond. In cases where no election is held, depending on applicable local law, voters may be entitled to petition the approval to referendum i. The issuer of a municipal bond receives a cash purchase price at the time of issuance in exchange for a promise to repay the purchasing investors, or their transferees, the bond holder over time. Repayment periods can be as short as a few months although this is very rare to 20, 30, or 40 years, or even longer. The issuer typically uses proceeds from a bond sale to pay for capital projects or for other purposes it cannot or does not desire to pay for immediately with funds on hand. Tax regulations governing municipal bonds generally require all money raised by a bond sale to be spent on capital projects within three to five years of issuance. Because of the special status of most municipal bonds granted under Section of the Internal Revenue Code, which provides that the interest on such bonds is exempt from gross income, investors usually accept lower interest payments than on other types of borrowing assuming comparable risk. This makes the issuance of bonds an attractive source of financing to many municipal entities, as the borrowing rate available to them in the municipal, or public finance, market is frequently lower than what is available through other borrowing channels. Municipal advisor[edit] Under the Dodd-Frank Wall Street Reform and Consumer Protection Act , municipal advisors gained an increasingly important role in overseeing financial and legal circumstances surrounding the issuance of bonds. Legally, the advisor is obligated to represent the interests of the issuer and serve as a source of financial advice. This entails offering advice on structuring, selling, and promoting bonds, as well as serving as the central liaison between other members of the financial team, especially the underwriters and credit rating agency. Although municipal financial advisory services have existed for many years, municipal advisors have played a key role in the bond issuance process since the Securities and Exchange Commission enacted the Municipal Advisor rule in , which prohibits certain communications between issuers and broker-dealers unless one of four exceptions is met, one being that the issuer has retained an Independent Registered Municipal Advisor "IRMA". The counsel works to verify the legal details of the issuance and ensure that the issuing agency is complying with all applicable laws and regulations. As the formal legal advisor for the deal team, the bond counsel will typically draft core documentation relating to bonds, including loan agreements, indentures, and other critical documents. Along these lines, the bond counsel is also tasked with reviewing and advising on any legal issues that might arise, and interpreting how tax laws affect the issuance. For instance, the bond counsel will decide if an issuance is exempt from state or federal taxes. The underwriter is a broker-dealer that publicly administers the issuance and distributes the bonds. As such, they serve as the bridge between the buy and sell side of the bond issuance process. Underwriters connect issuers with potential bond buyers, and determine the price at which to offer the bonds. In doing so, most underwriters will assume full risk and responsibility for the distribution and sale of the bonds issued by the issuing agency. As such, underwriters play a central role in deciding the return and span of maturities, typically collect fees in exchange for their services. If the price is wrong, the underwriter is left holding the bonds. In many cases there will be a co-manager who works with the underwriter to help provide the capital to buy the issuance. In large issuances, the underwriter s will often put together a syndicate or selling group. In most cases, underwriters will communicate and sell their maturities through multiple brokers. The broker seeks to distribute their bonds from the underwriter at a small percentage profit. Given the current legacy systems of the bond market, the distribution and sale of bonds is an exceptionally manual process requiring tremendous labor overhead and paperwork. As such, most municipal bond brokers only sell to high net worth individuals and organizations seeking to buy large quantities of bonds. Many of the people with direct ties to the impacted communities are therefore unable to contribute to their local governments, given little to no access to the profitable bond market. In exchange for an upfront investment of capital, the bond holder receives payments over time composed of interest on the invested principal, and a return of the invested principal itself see bond. Repayment schedules differ with the type of bond issued. Municipal bonds typically pay interest semi-annually. Shorter term bonds generally pay interest only until maturity; longer term bonds generally are amortized through annual principal payments. Longer and shorter term bonds are often combined together in a single issue that requires the issuer to make approximately level annual payments of interest and principal. Certain bonds, known as zero coupon or capital appreciation bonds, accrue interest until maturity at which time both interest and principal become due. Modern bond platforms[edit] Over the last decade many traditional and new market participants have begun to apply current technology solutions to the municipal market remedying many of the latent problems associated with many aspects of the municipal bond market. The emergence of products like small denomination municipal bonds, for example, is a result of new bond financing platforms. The general idea with modern platforms is to leverage technology to make the market more responsive to investors, more financially transparent and ultimately easier for issuers and buyers. Many believe that, in doing so, more people will compete to buy muni bonds and thus the cost of issuing debt will be lower for issuers. Interest paid by the issuer to bond holders is often exempt from gross income for federal income tax purposes, as well as state or local taxes depending on the state in which the issuer is located, subject to certain restrictions. Bonds issued for certain purposes are subject to the alternative minimum tax as an item of tax preference. Interest earnings on bonds that fund projects that are constructed for the public good are generally exempt from federal income taxes, while interest earnings on bonds issued to fund projects partly or wholly benefiting only private parties, sometimes referred to as private activity bonds or PABs, may be subject to federal income tax. However, qualified private activity bonds, whether issued by a governmental unit or private entity, are exempt from federal taxes because the bonds are financing services or facilities that, while meeting the private activity tests, are needed by a government. Purchasers of municipal bonds should be aware that not all municipal bonds are tax-exempt, and not all tax-exempt bonds are exempt from all federal and state taxes. The laws governing the taxability of municipal bond income are complex. At the federal level they are contained in the IRS Code Sections , , and rules promulgated thereunder. Additionally, special rules apply to certain types of investors e. For example, there is no IRS Code exemption for capital or other gains received from the sale of a municipal bonds and special rules apply for secondary market discount and original issue discount on municipal bonds. Each state will have its own laws governing what bonds, if any, are exempt from state taxes. For publicly offered bonds and most private placements, at the time of issuance a legal opinion will be provided indicating that the interest bonds are tax-exempt; these opinions do not customarily address collateral tax treatment. Offering documents, such as an official statement or placement memorandum, will contain further information regarding tax treatment of interest on the bonds. Investors should be aware that there are also post-issuance compliance requirements that must be met to ensure that the bonds remain tax-exempt. The IRS has a specific section of their website, www. CDs, savings accounts, money market accounts, and others. Over the last five years, the average interest rate return on municipal bonds has hovered around 4. Unlike stocks and other non-dated investments, municipal bonds have fixed rates and are far less liquid. As a general rule, municipal bonds with longer time to maturity have higher coupon rates. Liquidity[edit] Historically, municipal bonds have been one of the least liquid assets on the market. While stocks can be bought and sold within seconds on exchange platforms , given the current absence of widespread secondary market platforms for the exchange of stocks, municipal bonds are much harder to maneuver. These minimum investment amounts previously barred many individuals from investing in bonds. Security[edit] The historical default rate for municipal bonds is lower than that of corporate bonds. The Municipal Bond Fairness Act HR , [18] introduced September 9, , included a table giving bond default rates up to for municipal versus corporate bonds by rating and rating agency. Risk and insurance[edit] Main article: Credit risk The risk "security" of a municipal bond is a measure of how likely the issuer is to make all payments, on time and in full, as promised in the agreement between the issuer and bond holder the "bond documents". Different types of bonds are secured by various types of repayment sources, based on the promises made in the bond documents: General obligation bonds promise to repay based on the full faith and credit of the issuer; these bonds are typically considered the most secure type of municipal bond, and therefore carry the lowest interest rate. Revenue bonds promise repayment from a specified stream of future income, such as income generated by a water utility from payments by customers.

5: Municipal bond - Wikipedia

Joe Mysak is one of the true experts in the municipal bond markets, journalist or not. He has covered municipal bonds at Bloomberg since , and has covered municipals since I have read.

6: Municipal Bonds | American Legal Encyclopedia

Encyclopedia of Municipal Bonds offers an essential reference guide for investors, professionals, regulators, insurers, and anyone else involved in the municipal bond market. The EPUB format of this title may not be compatible for use on all handheld devices.

7: Bond (finance) - Wikipedia

Among them are: corporate bonds, federal government bonds, municipal bonds, asset-backed bonds, mortgage-based bonds, and foreign government bonds. For each of these categories, there are variations. Additionally, there are bond funds related to government bonds, corporate bonds, and foreign government bonds.

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