



Brandeis University
INTERNATIONAL BUSINESS SCHOOL

& THE BOND BUYER

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Build America Bonds: An Empirical Analysis of Characteristics and issuer Benefits

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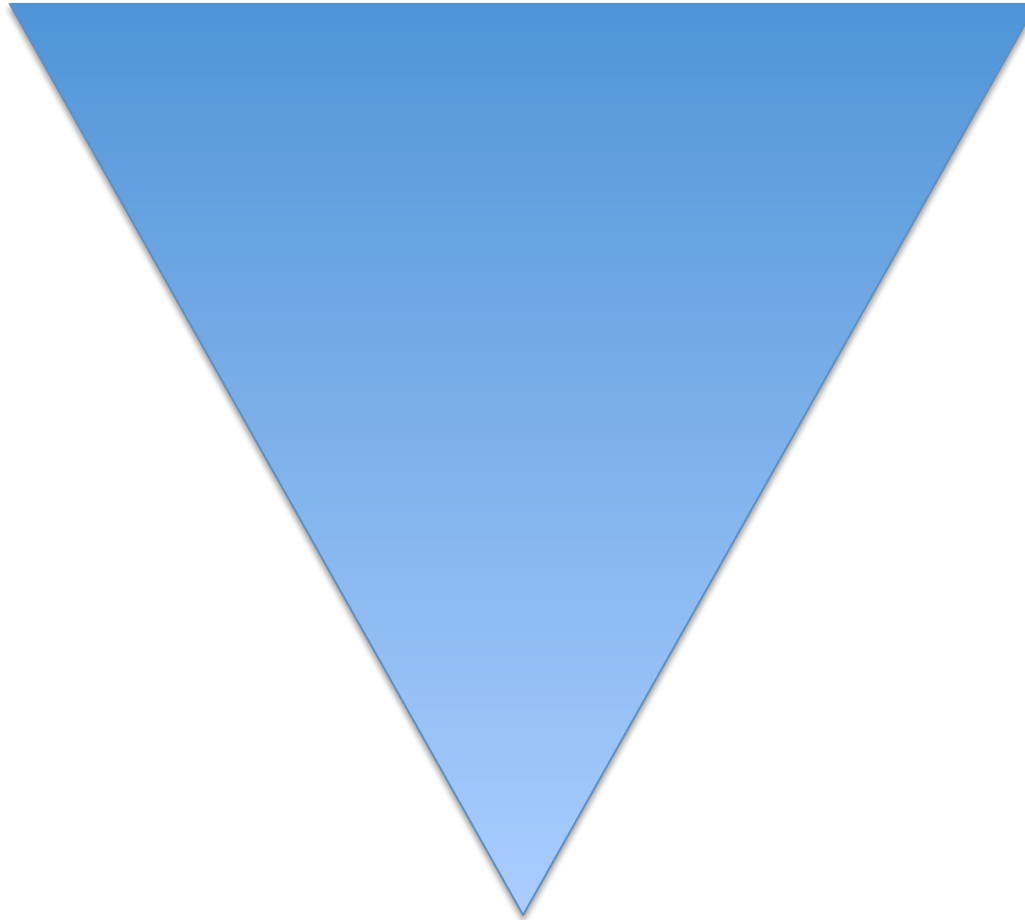
Saber Partners, LLC

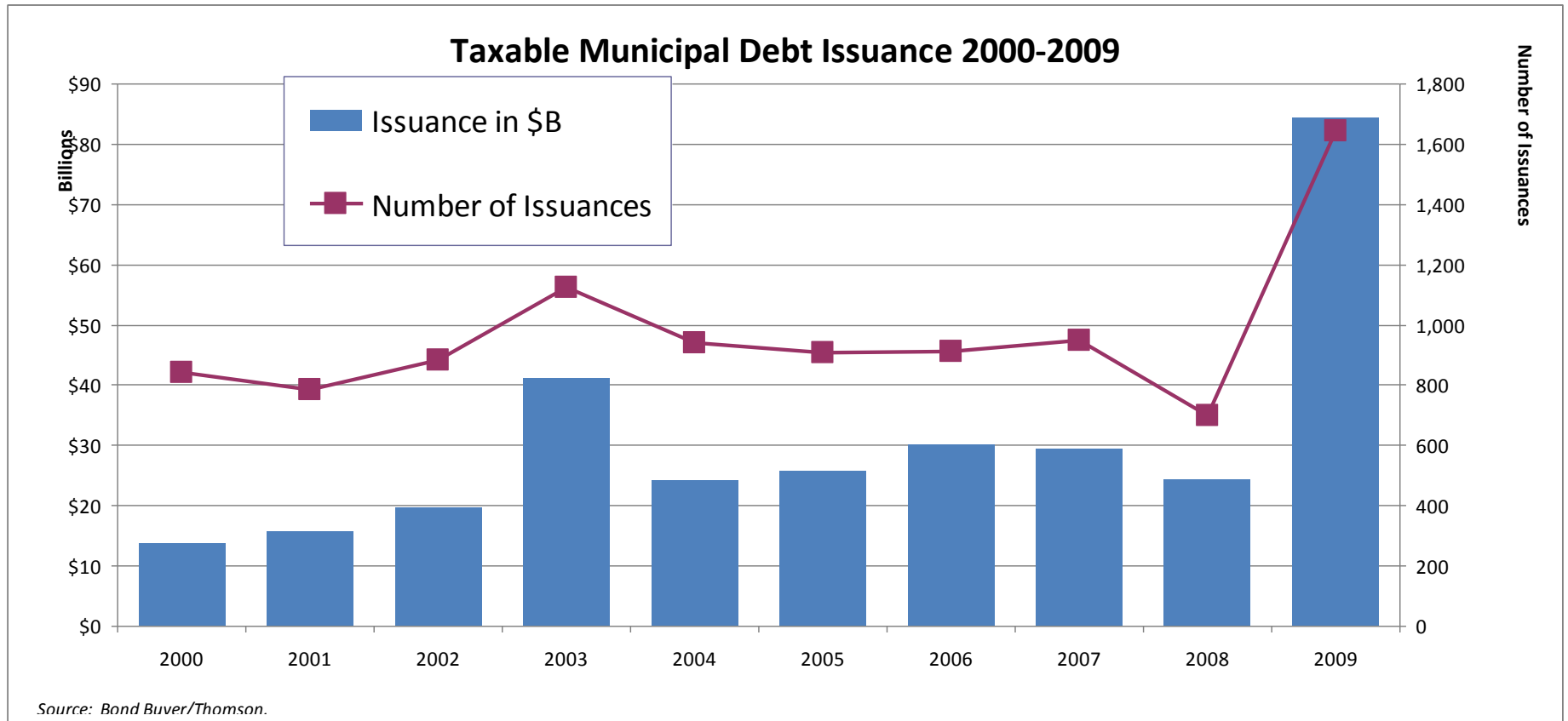
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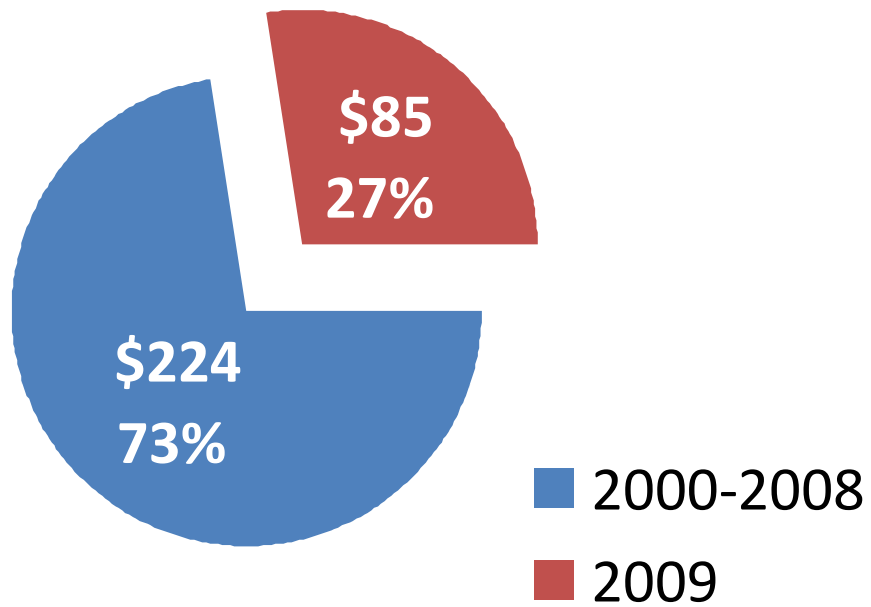
Presentation Outline







Taxable Municipal Debt Issuance (\$B)



Source: Bond Buyer/Thomson



Issuers entered market largely on long end of credit curve

- Little new issue competition
- 2009 few, if any, Corporates or GSEs issued long-term
- Very difficult market

30-year US Treasury January 2009-present





Muni vs. Corporate “Conventions”

- Term Structures
- Mix-match in Comparable Analysis
 - Issuers examined only tax-exempt alternative (this study)
 - Investors looking at other taxable products/investments
 - BOTH important for **Relative Value** analysis and **Pricing Efficiency**

Few Agreed-Upon Pricing Benchmarks For BABs In Corporate Market

- Solely to other BABs?
- To similarly-rated corporates?

Credit Spread Components with Corporate Investors

- Disclosure/surveillance premium?
- Liquidity premium/market maker?
- Call Premiums?



Study focused on “when issued” nominal yields not relative value or after-market trading

Nominal yields important yet not directly comparable among bonds with different option features

Options have cost but also benefit – calculate OAS/OAY

- Option Adjusted Spread/Option Adjusted Yield
- Options add financial flexibility in capital structure
 - Capture or forgo improving markets
 - Affect long-term cost of infrastructure investment



What happened with BABs?

- Traditional long-term muni embedded with 10-year par call
- For BABs, underwriters added “make whole” call to appease muni issuers
- “Make whole” call does not allow for economic call and refunding of bond



FURTHER STUDY/IMPROVEMENTS

1. Incorporate structural differences (especially option cost/benefit) and other items that affect total cost
2. Evaluate after-market trading to determine efficient/effective initial pricing
3. Evaluate components of credit spread for “Relative Value” in TAXABLE market and “Pricing Efficiency”
4. Look at “investor distribution channel” within bank that affected cost
 - A. Muni desk versus corporate desk
 - B. After-market liquidity