

## CFD ISSUANCE UPDATE

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In the last edition of Eye on Finance we reported that the issuance of Community Facility District (“CFD”) bonds has greatly reduced in 2009 from prior years. Since then reduced issuance has continued. The table on page 3 provides information on CFD bonds issued this calendar year through September 1.

For CFDs issued in 2009, interest rates for bonds with a 30 year maturity have ranged from 7.875% to 11.625%. This compares to interest rates in the low 5% range at the peak of the real estate bubble. Generally, interest rates for CFDs have decreased as 2009 has progressed. This is especially so in the last month with the lack of supply of CFD bonds, driving prices up and interest rates down. Value to lien ratios for bonds sold this year have generally been higher than those historically seen. This year value to lien ratios have ranged from a low of 7 to 1 to a high of 44 to 1. The average value to lien ratio on a 2009 transaction has been approximately 15 to 1. More critical than value to lien ratio however, to a buyer’s decision have been bond structures providing for additional reserves and higher debt service coverage ratios than historically seen. Additionally, a few of the CFDs issued this year have been rated, there’s been one variable rate CFD, and several have been refundings.

It appears CFD issuance for 2009 will remain low. Total issues sold for the year could number as few as fifteen to twenty. During the month of August the lack of available CFD bonds, in both the primary market and secondary markets, has caused pricing changes significantly lowering market interest rates. Non-rated CFD 30 year bond yields are 75-100 basis points lower on September 1 than approximately one month prior. A summary of CFDs sold in 2009 would include the following general trends and characteristics:

1. Investors desire and may only purchase CFD bonds that have a bond size based upon special tax revenues from developed property. Market access and/or significant interest rate reductions have been provided to CFD transactions with special tax revenues from developed property, preferably property that has sold and transferred to an individual owner.
2. Investors have strong geographic and demographic preferences and will likely accept a lower yield for preferred areas.
3. There has been occasional investor reluctance to buy any California based bonds due to concerns about the State budget and diminishing State ratings. This has caused some intermittent spikes in interest rates for CFD and other financing types.
4. Most of the CFD transactions issued have provided additional reserves and/or higher debt service coverage ratios than historically seen.
5. Features of call protection have been important to buyers, with multiple transactions structured with 10 year call protection. Variations decreasing the length of call protection have impacted interest rates paid.
6. Current property tax delinquencies and the recent history of property tax delinquencies have been a focus of disclosure and credit analysis. Additionally, delinquency management and adherence to foreclosure covenants have been a focus.
7. CFD issuers have generally proceeded slowly and deliberately. Issuers of new money CFD bonds in 2009 have been selective. Market momentum over the last few weeks seems to be pointing toward increased CFD issuance in 2010 compared to 2009.

For additional information on CFDs issued during the calendar year 2009, call Tom Johnsen at (949) 660-7311. ◆

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