

# Past, Present, and Future of Bank Loans



***Past, Present, & Future: The development of Bank Loans in the Municipal Market***

**1) Past- 2008 The Great Recession**

**2) Present- Direct Purchase Development**

**3) Future- Regulatory and Trends**

**4) Questions**

Past: 2008 Great Recession

**“The current financial crisis has exposed the vulnerabilities of the VRDN markets, raising questions about the desirability of its continuation as a significant vehicle for municipal finance”**

*Ben Bernanke March 31, 2009*

## Past: 2008 Great Recession

Municipal Borrowers historically used Variable Rate Demand Notes and Letter of Credit (LOC) Structures

Borrowers transitioned to “Direct Placement Debt” after the 2008 financial crisis

Direct Placement on Bank’s balance sheet in order to reduce Market and Bank risk

Regulatory burden: (i) Dodd Frank (ii) Basel III

Banks develop sweep of products to provide entire banking relationship

Past: Basel iii Ratios

Leverage Ratio

=

Tier 1 Capital

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Exposure Measure

Why Does  
This  
Matter???

Liquidity Coverage Ratio

=

High Quality Liquid  
Assets

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Stressed Net Cash  
Outflows

## Past: Types of Direct Placement Products

**1**

Drawn Down Facility

**2**

Fixed Rate Facility

**3**

Forward Start “Derivative” Facility

## *Past:*

- **Why is this an attractive alternative to traditional bond financing?**
  - ❖ Lower issuance cost
  - ❖ Banks do not require credit ratings
  - ❖ Streamlined process
  - ❖ Ability to lock in rates in advance of closing

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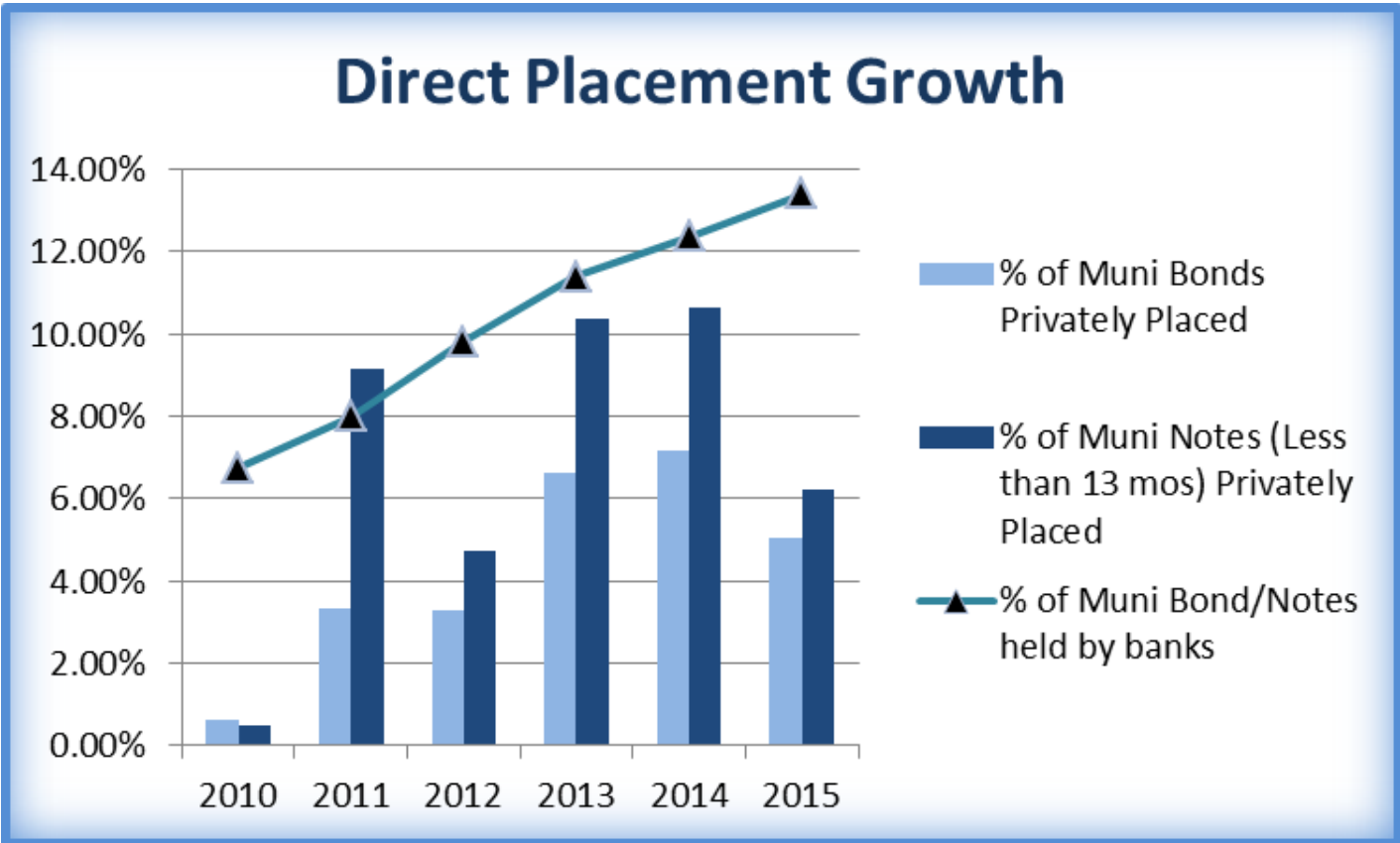
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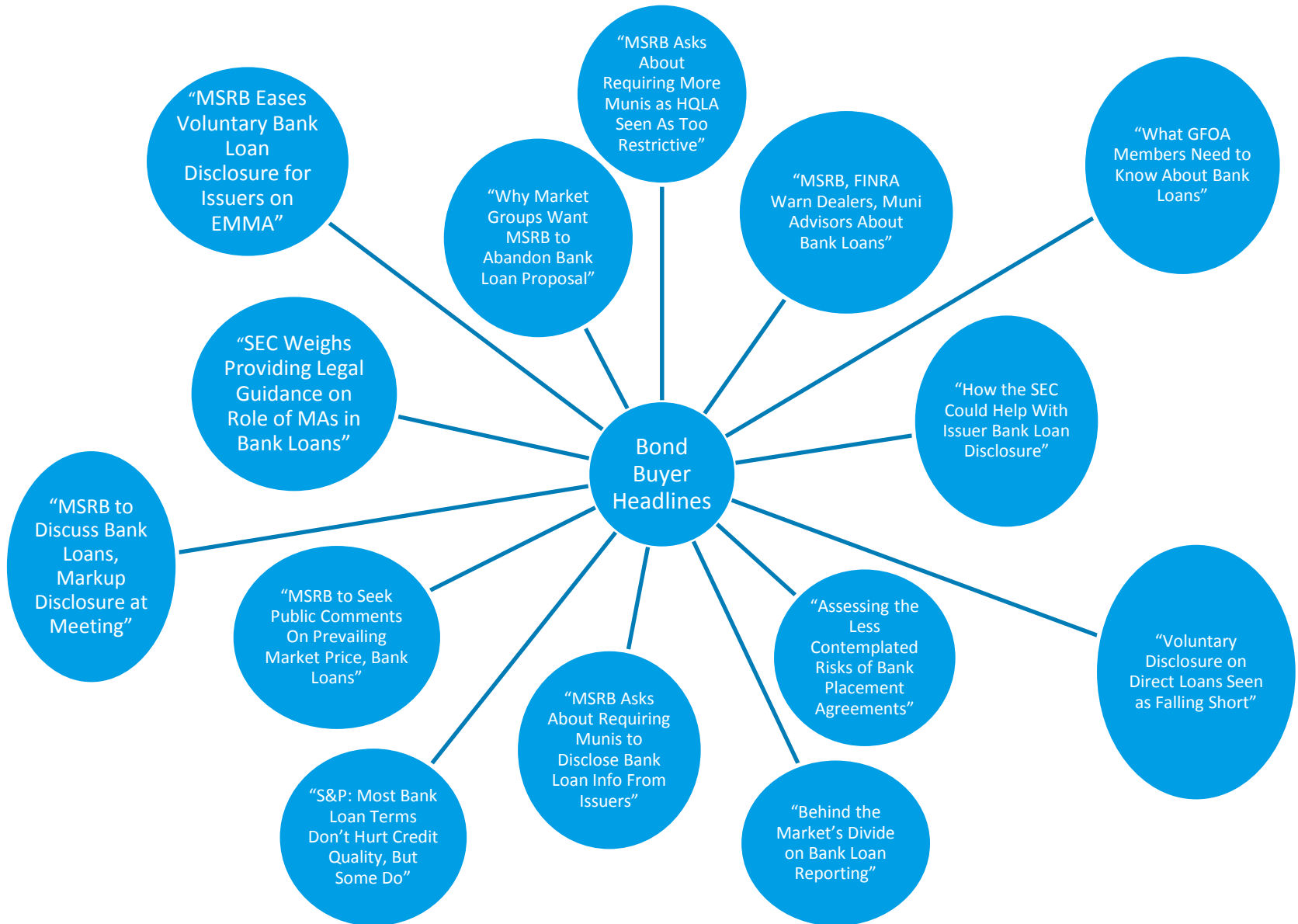


Present: Bank Municipal Development



Source: The Bond Buyer, Primary Market Statistics (July 6, 2016) and Federal Reserve Fund Flows, Table L.212 (July 6,2016)

## Present: The development of Bank Loans in the Municipal Market



# *Present:*

- **MSRB: The Municipal Securities Rulemaking Board**
  - ❖ Created in 1975
  - ❖ Goal is to promote fairness, transparency and efficiency of the municipal securities market
- **Disclosure**
  - ❖ Voluntary Disclosure via EMMA “Electronic Municipal Market Access”
  - ❖ Municipal disclosure requirements does not apply to Banks “SEC Rule 15c2-12”
  - ❖ The undisclosed terms within a bank agreement may put bond holders on a subordinate position

# Present:

- **Loan vs Security**

- ❖ What is a “Security”- FASB Topic 320 defines a security as: A share, participation, or other interest in property or in an enterprise of the issuer or an obligation that: (a) either is represented by an instrument issued in **bearer or registered form** or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer, (b) is of a type commonly dealt in on **securities exchanges or markets** or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment, and (c) **either is one of a class or series** or by its terms is **divisible into a class or series** of shares, participations, interests, or obligations.

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*Future:*



“A Lack of Transparency Results in Distrust  
and a Deep Sense of Insecurity”

*Future:*



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