

Why highly rated issuers would consider private placements

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Private placements and direct bank loans aren't just for unrated bond issues, credits with low or non-investment grade ratings, or distressed issuers, panelists said Tuesday at The Bond Buyer's National Muni Bond Summit in Nashville, Tennessee.

A private placement allows issuers to directly communicate with investors and eliminate the cost of capital associated with underwriters in negotiated bond issues, said Craig Walker, senior vice president with Atlanta-based IFS Securities.



A private placement provides an issuer the chance to talk about finances and the specific project being financed, said Jerome Cox, a director at Sustainable Capital Advisors.

"It's really a capital raising event that we feel in the current municipal structure can be relevant...to those issuers that are rated and have high credit quality," he said. "We can reduce your issuance costs as compared to a public offering."

A private placement gives an issuer the ability to "quickly hit the market," which can be advantageous for large and frequent issuers, Walker said.

In terms of timing, a private placement doesn't necessarily need to be rated nor is an official statement required, which allows issuers to access the market fairly quickly.

"We think this is an area where you can save costs," he said.

Angela Avery, vice president of public finance at IFS, said her firm strives to set itself apart working with stressed and challenging issuers, and often their deals are private placements.

Regardless of whether there is a rating, a private placement gives an issuer the opportunity to "tell your story," discuss specifics about a project, and do site visits, said Jerome Cox, a director with Sustainable Capital Advisors, financial advisor to the Virgin Islands Water and Power Authority.

VIWAPA privately placed paper when it was downgraded to CCC, he said, adding that using that method of raising capital allowed the authority to tell the story of how it was recovering from a hurricane.

It also gave the authority the ability to make disclosures and engage investors directly, and obtain capital in a difficult time, Cox said.

For lower-rated and for highly rated issuers, a private placement provides a chance to talk about finances and the specific project being financed, he said. "People want to look you in the eye."

Brandon Comer, founder and managing partner of Comer Capital, said there's also an opportunity to expand the buyer's universe in direct bank placements. However, there are some additional costs.

Jean Wilson, a co-managing shareholder at Greenberg Traurig, said private placements present some challenges and efficiencies.

As a security exempt from disclosure requirements of the Securities and Exchange Commission, Wilson said investors in private placements still want continuing information about subsequent events that affect the issuer and the credit.

"Part of what we do as counsel is help provide them information about the credit," he said, adding that work is being done to create a system for notifying investors in exempt securities.

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