Call/Early Redemption Risk for Direct-Payment Municipal Bonds

Direct-payment municipal bonds could be called in the event that mandated federal budget cuts triggered under sequestration causes a withdrawal of, or reduction in, the federal interest payment subsidies for these bonds. These direct-payment bonds include:

- Build America Bonds
- Qualified Zone Academy Bonds
- Qualified School Construction Bonds
- Qualified Energy Conservation Bonds

Some direct-payment municipal bonds have extraordinary optional redemption provisions that would allow the issuer to call the bonds in the event the direct payment interest subsidies on the bonds are reduced or withdrawn. While some of those bonds provide for a "make-whole" call in such circumstances, which may not be economic for the issuer to exercise, others permit the bonds to be called at par or upon payment of a stated redemption premium. In those instances, the extraordinary redemption price may be economic for the issuer to exercise and the redemption price may be less than the price paid to purchase the direct-payment bonds and/or recent trade prices. If you intend to purchase a direct-payment municipal bond at a premium, be aware of the risk of principal loss in the event the security is called.

Official statements for direct-payment municipal bonds contain detailed information concerning whether and under what terms the bonds can be redeemed prior to maturity. Official statements may be found on the MSRB's Electronic Municipal Market Access website, emma.msrb.org, by entering the CUSIP number for the bond.