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Are Build America Bonds in your future?

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Build America Bonds were introduced in April 2009 to create jobs and to help municipalities offset borrowing costs with a 35 percent direct subsidy from the U.S. Treasury. BABs have had a strong reception from both issuers and investors, with 1,066 separate BABs issues financing more than $90 billion in new municipal building projects.

President Obama has proposed making the BABs program permanent with a 28 percent subsidy rate at least through 2014. The administration has stated that an expanded BABs program would provide greater certainty in municipal financing and enhance retail ownership of these securities.

From an investment point of view, BABs can fit well inside both taxable and tax-deferred accounts. With a wide range of maturities from a diversified base of issuers in 48 states, BABs are typically competitive in yield with similar quality corporate bonds. This table is an example of recent BAB issuance with yield comparisons to corporate bonds and tax free bonds in similar maturities.

It should be noted that the market for BABs can vary depending on many factors, including available supply and credit quality. For example, recently issued BABs from Mooresville North Carolina (rated A3/AA-) currently trade at yields approximately 50 basis points lower than the Nashville Convention Center BABs. Washington County Oregon Water & Sewer BABs (rated AA3/AA) trade at yields approximately 100 basis points less than the comparable Nashville issues.

Taxable munis and investment grade corporate bonds are generally correlated to US Treasuries, but have additional risk considerations. Sites such as incapital.com and investinginbonds.com offer further risk disclosure for all three types of securities.

The success of the BABs program has created a viable alternative for fixed income portfolios. For most financial advisers, BABs are likely to become an asset class worth considering for taxable bond allocations.

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