



Municipal Debt Essentials

Day 2: Accessing the Market

Session 6: Market Efficiency: Improving an Agency's Effectiveness

Chris Mier

Wednesday, February 2, 2011

Oakland Marriott Hotel

Loop Capital Markets

- **Founded in 1997 with 8 employees**

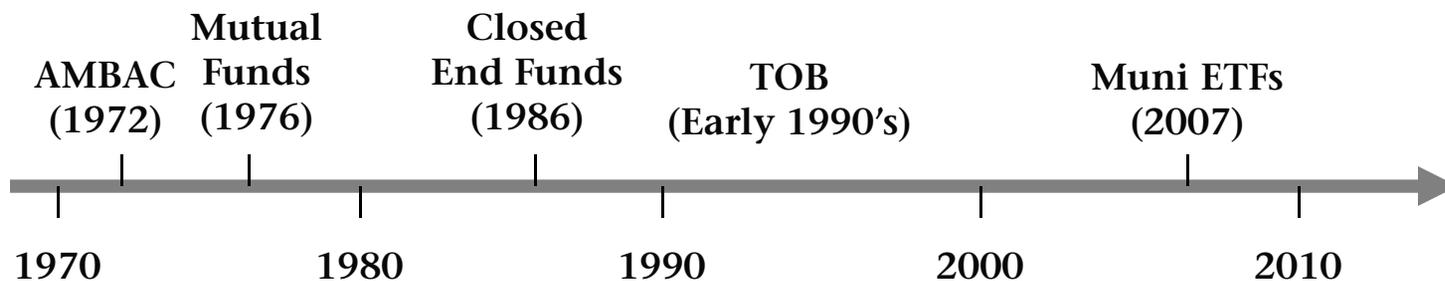
- **A national firm, operating in numerous debt and equity markets, headquartered in Chicago**

- **With about 135 employees in 18 locations, one of the fastest growing institutional brokerage firms in the nation**

- **Chris Mier, Managing Director, Analytical Services Division**
 - Chartered Financial Analyst
 - Masters in Management, Northwestern University
 - Masters of Arts, University of Illinois at Chicago
 - Series 7, 24, 53, 63
 - 32 years of experience in the muni market
 - Member of GFOA Economic Development Committee

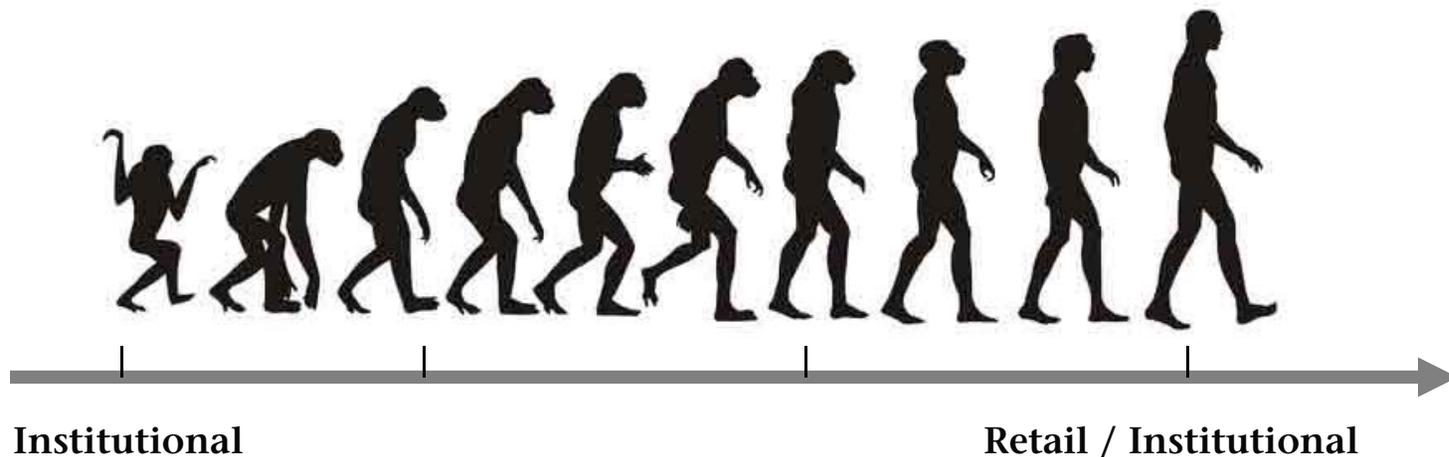
History of the Market

- **Tax Laws, Product Innovations and Technology Change Muniland**
 - American Recovery and Reinvestment Act of 2009 (ARRA)
 - Tax Reform Act of 1986 (TRA)
 - Computers (First PC created in 1975)
 - Bond Insurance
 - AMBAC (1972)
 - Penetration
 - 2005: 57.1% (peak)
 - 2010: 6.2%
 - Currently Insuring: Assured Guaranty
 - New Retail Products—UITs, Mutual Funds, Closed End Funds, Exchange Traded Funds
 - New Institutional Products—TOBs and Hedge Funds



History of the Market

- **The evolution of the buyer**
 - 1978 Banks, Insurance Companies, UITs, Trust Departments—very little retail!
 - 2000 TOBs, Insurance Companies, Investment Managers, Mutual Funds
 - 2011 Insurance Companies, Investment Managers
- **The muni market demand side changes over time (sometimes slowly, sometimes dramatically)**



History of the Market

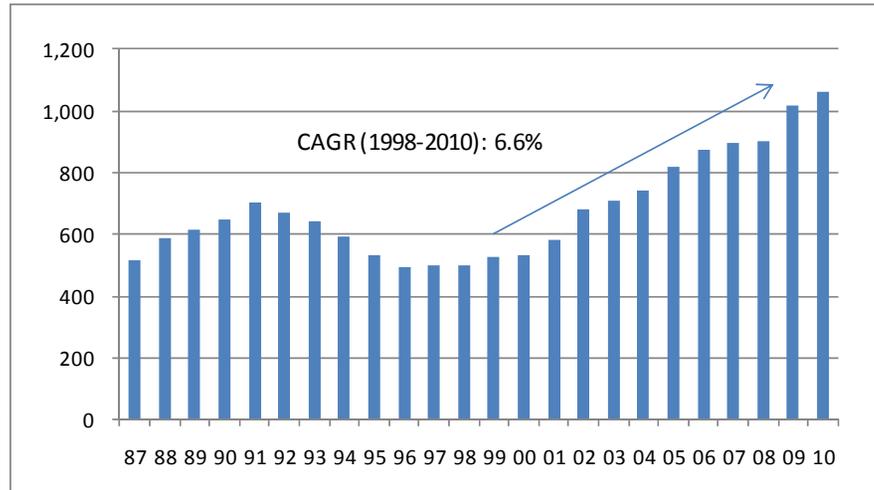
- **Do-it-yourself investing boosts direct retail demand**
 - The “Workhorse” of munis (Lebenthal – first all retail firm)
 - Wirehouses
 - e-Market internet

- **Retail can buy direct off of a screen**

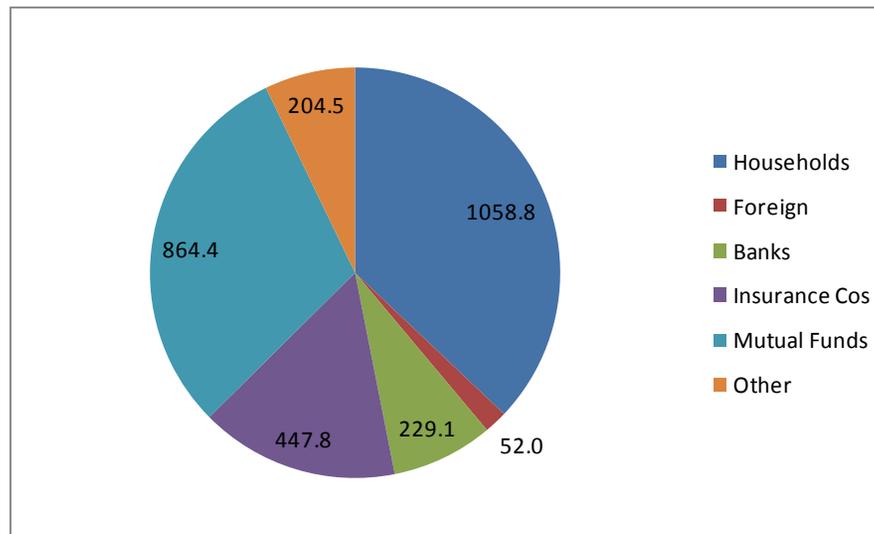


Bond Ownership by Type

Retail Holdings of Muni Debt



Holder of Muni Debt Q3 2010 (\$ Billion)



Source: Federal Reserve, Flow of Funds Data

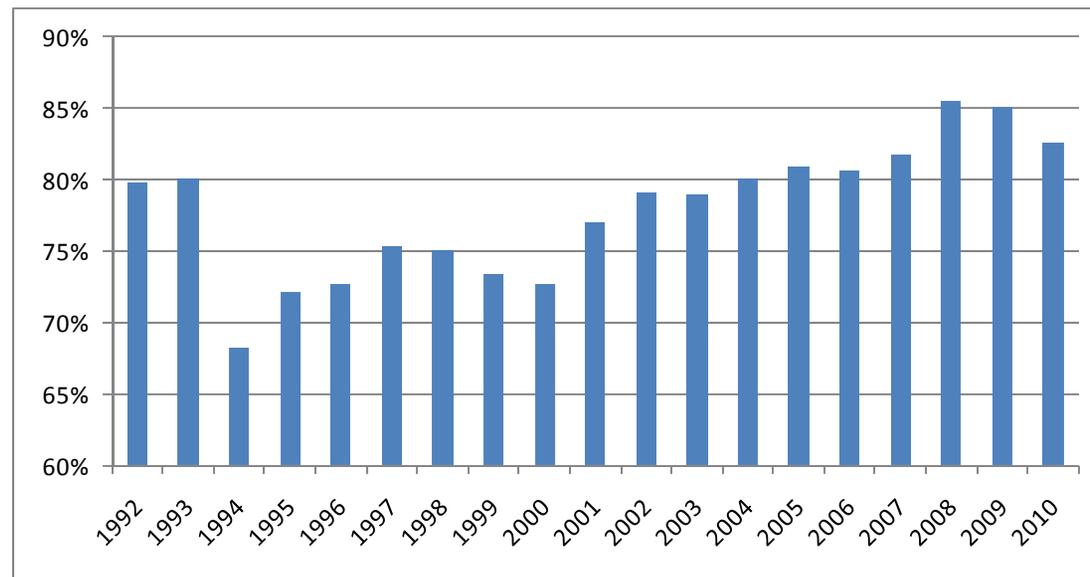
How has the industry changed to harness retail buying power?

- Declining costs of computer technology and securities processing has made smaller retail purchases cost effective for issuers and underwriters
- Retail “anchors” larger municipal issues, reducing bargaining power of institutions
- Retail is less price sensitive and more stable — although it is not guaranteed to be there in all markets at all times
- Loop and other firms have entered into strategic partnerships with firms that have retail distribution but no investment banking

Negotiated vs. Competitive

- Negotiated transactions are well-suited to building a retail book
- Competitive sales are not well-suited because salespeople won't secure interest until they are sure the firm has won the bid

Negotiated Deals as % of Total New Issue Volume



Selecting the underwriting team—strategies for building a strong team

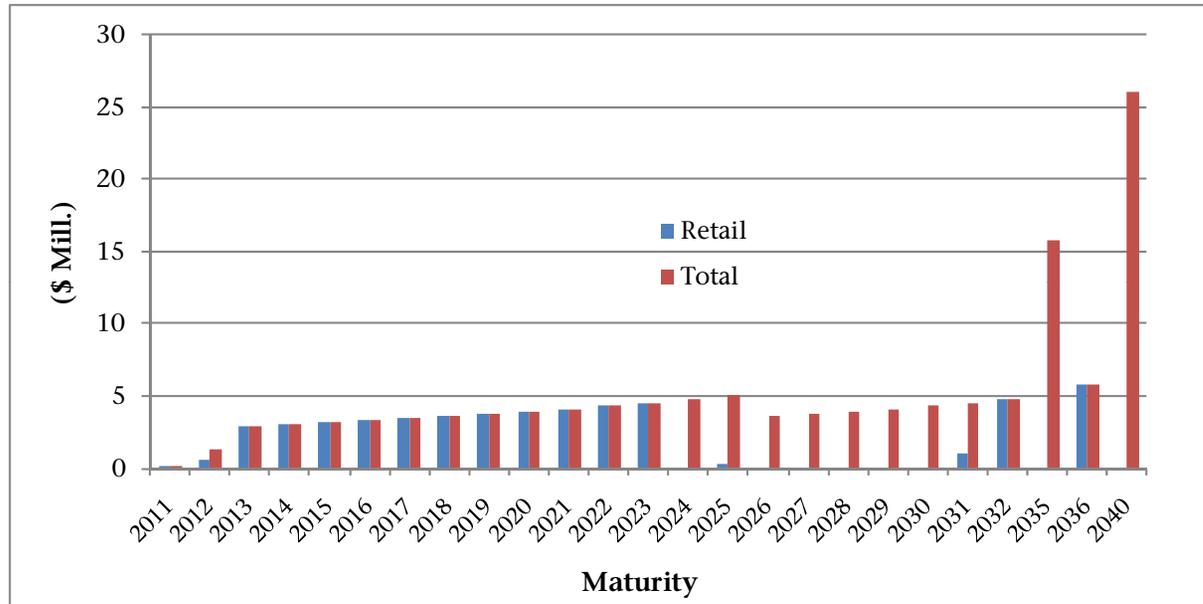
- **Underwriters — what can they do and how do they fit together for maximum result?**
- **First goal : Use combinations of key underwriter attributes to build the team**
 - Capitalization
 - Service
 - Retail distribution — in-state
 - Retail distribution — national
 - Institutional distribution

- **Second Goal: Set up designation policies that promote strong effort from all team members (Topic of another presentation)**



Case study — Actual Issue — Large Issuer

Retail Participation (41% of Par)



Retail absorbs

Dead zone

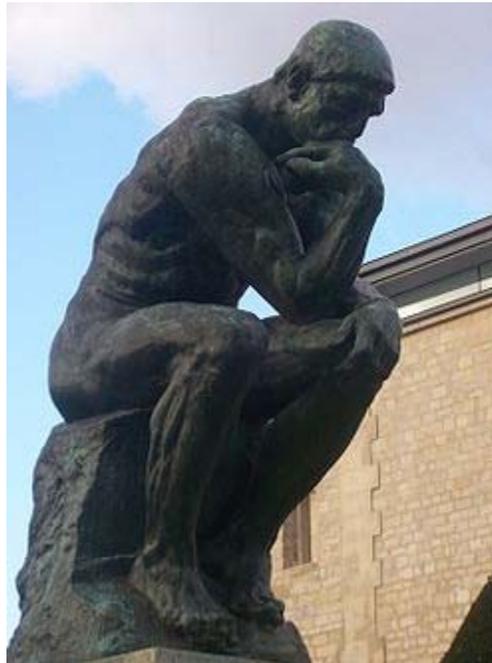
Retail participation of term bonds when customer target is long-term yield

Features of muni bond issue underwriting where retail participation is a goal

- One or two-day order periods for retail alone
- Bona fide retail orders are allotted in full
- Retail bonds may be structured as par bonds with bond insurance (if there is any)
- Institutional maturities are sized based upon what's left of the retail order period and using the preferred institutional coupons (usually premium bonds)

How aggressive should issuers be in pursuing retail?

- It depends on how active retail is. Your underwriting team can help you strategize with respect to this point.



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