

Research

Middle Market Bond Dealer Report



The Bond Market Association¹ is pleased to report the results of its quarterly *Middle Market Bond Dealer Report*. Based on publicly available information, the report synthesizes, analyzes and presents aggregate information and trends related to bond issuance in which one or more regional securities firm—non-primary dealers—is the lead underwriter or “book runner” on the deal. The report’s coverage focuses on long-term transactions—those in which the stated original maturity at issuance is greater than thirteen months—and covers the range of fixed-income market sectors in which regional firms are active including municipal bonds, corporate bonds, federal agency securities and asset- and mortgage-backed securities.

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Regional Firm-Led Underwriting Volume in 2Q Slows as Interest Rates Rise

Underwriting volume led by regional firms slowed in the first half of the year due to moderately higher interest rates arising from sustained economic growth. Aggregate underwriting activity across all markets—municipal, corporate, agency and structured finance—decreased 18.0 percent in the first two quarters of 2004, to \$176.9 billion, down from the \$215.8 billion during the same period last year. On a linked-quarter basis, regional underwriting totaled \$78.7 billion in the second quarter, down 19.9 percent from the \$215.8 billion in the first quarter.

Regional underwriting activity in the second half of the year will depend largely on the market environment, the direction of the economy and interest rates. Despite financial market volatility in the first half, regional firms continue to be well positioned to compete as the new interest rate environment takes shape. Over the past week, bond yields declined based on softness of recent economic reports driven partly by the spike in oil prices. Yet, rates are still expected to gradually move back up during the second half based on economic strength. Yet, the Fed has reiterated over the last several months that it intends to take a “measured approach” to monetary policy and adjust its strategy based on inflation and economic growth prospects.

Regional Municipal Underwriting Slightly Lower in the First Half of 2004

Municipal lead-managed underwriting by regional firms totaled \$56.2 billion in the first half of the year, a small decrease from the \$59.6 billion posted during the same period of 2003 (M-3)². With 2,583 issues, regional firms were the lead underwriter of \$27.3 billion in the second quarter of 2004 compared to \$28.9 billion and 2,509 issues in the first quarter. The average deal size increased from \$10.0 million in the first half of 2003, to \$11.0 million in the same period of 2004. General obligation underwriting managed by regional firms decreased to \$26.9 billion in the first half of the year compared to \$29.3 billion in the same period last year, and revenue bond issuance decreased slightly from \$30.3 billion to \$29.3 billion in the first half of 2004 (M-5). Municipal underwritings of negotiated sales led by regional firms were unchanged at \$45.3 billion in the first two quarters of the year; competitive sales decreased 27.1 percent to \$10.0 billion, while regional firm led private placement deals increased 17.4 percent to \$864.5 million (M-8). Education continued to be the leading use of proceeds sector for regional firm-led deals, accounting for 41.3 percent followed by general purpose and utilities at 27.1 and 9.2 percent, respectively (M-4).

Based on geographic issuer distribution, the Midwest ranked first with 28.6 percent of regional underwriting volume and the Southwest was second with 22.3 percent. The top three states were California, Texas and Illinois, together accounting for over a quarter of regional underwritings (M-1).

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¹ The Bond Market Association, with offices in New York, Washington, D.C. and London, represents securities firms and banks that underwrite, trade and sell debt securities and other financial products globally.

² The designations of a letter followed by a number such as “M-1” refer to the graph or table in the report.

The top 20 underwriters accounted for over 65 percent of total regional underwriting volume. RBC Dain Rauscher led municipal underwriting volume among regionals in the first half of the year with \$7.9 billion, followed by Morgan Keegan with \$3.0 billion and George K. Baum with \$2.8 billion. RBC Dain Rauscher led the way among regionals in negotiated underwritings followed by George K. Baum and Morgan Keegan. Competitive underwriting was led by ABN AMRO, followed by Roosevelt & Cross and Wachovia Securities (M-9).

Municipal issues lead-managed by regional firms continued to demonstrate strong credit quality during the first half of the year. About 62 percent by issue volume had the highest Moody's rating, Aaa (Table M-7), compared to only 16 percent having investment ratings lower than Aaa. Sixty-one percent of issuance was credit enhanced, with 88.8 percent of credit enhancement in the form of bond insurance.

Regional Corporate Bond Underwriting Increases in the First Half of the Year

Underwriting volume led by regional firms totaled \$8.8 billion in the first half of the year, up 16.7 percent from the \$7.6 billion underwritten in the same period of 2003. Most of the growth is attributable to the first quarter – the result of tightening spreads, a more benign rate environment before a string of robust employment reports beginning in April and expectations of higher rates later in the year. As rates rose in the second quarter, issues lead-managed by regional corporations decreased substantially, totaling \$2.5 billion compared to the \$6.3 billion in the first quarter. The lower second quarter issuance volume may be attributed not only to the higher rates but also unexpectedly strong profits and internal cash flows, which reduced the demand for external funding. Average deal size increased 19.5 percent, to \$108.9 million in the first half of the year compared to the same period one year ago. However, average deal size decreased substantially in the second quarter, to \$63.4 million when compared to the average of \$153.2 million during the first quarter of the year (C-1).

Based on Standard & Poor's credit ratings of regional firm-led corporate deals in the first half of 2004, nearly three-quarters of the deals in terms of dollar volume were investment grade, that is, "BBB" or above. About 15 percent of the deals were classified as high-yield, with for most of the high-yield dollar volume rated "B" (C-4).

U.S.-headquartered issuers accounted for approximately 93 percent of regional corporate underwriting dollar volume during the first half of the year. North Carolina, New York and Ohio based issuer corporations led state issuance, accounting for nearly 60 percent of total regional-led underwritten debt. With respect to industry, commercial bank issuers led with about 44 percent by dollar volume followed by manufacturing and non-bank credit institutions at 12 and 8 percent, respectively.

Agency Underwriting Slips in the First Half; Securitization Remains Very Strong

Federal agency issues lead-managed by regional firms were affected by higher interest rates during most of the second quarter, as the housing market and volumes of conforming residential home mortgage originations began to slow from the record levels of a year ago. Regional underwriting totaled \$36.4 billion in the second quarter of the year, down from the \$57.5 billion during the first quarter. Through the second quarter of 2004, regional-led underwritings were down 31.1 percent for the year, from the \$136.3 billion volume of the same period one year ago (A-1). Interest rates have declined through the first part of the third quarter, and underwriting levels may pick up as issuers take advantage of lower rates and the volume of portfolio purchases pick up.

By contrast, regional underwritings of securitized debt picked up substantially in the second quarter as the interest-rate-environment continues to buoy consumer borrowing. Historically low mortgage rates especially through the first quarter fueled the housing and home-equity loan markets in the first half of the year, in turn providing a boost to the securitization markets. Underwriting volumes totaled \$18.0 billion in the first half of the year, up 46.4 percent from the \$12.3 billion underwritten during the same period of 2003. On a linked-quarter basis, securitized lead-managed issuance more than doubled during the second quarter, to \$12.4 billion, from the \$5.6 billion volume in the first quarter.

<p>The Middle Market Report is based on new issue data provided by Thomson Financial, a part of Thomson Corporation (www.thomson.com) and a leading provider of information and technology solutions to the financial industry.</p>

M-1

2004:Q2 YTD Long-Term Municipal Issuance By Geographic Region

	\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*
Southeast	9,240.6	732	16.5%	Southwest	12,523.2	1,041	22.3%	Mid West	16,102.9	2,037	28.6%
Florida	1,946.2	112	21.1%	Texas	5,093.1	386	40.7%	Illinois	3,528.2	354	21.9%
North Carolina	1,159.6	70	12.5%	Colorado	2,214.8	116	17.7%	Ohio	3,195.6	157	19.8%
Georgia	1,053.8	39	11.4%	Arizona	1,880.9	88	15.0%	Michigan	1,713.4	187	10.6%
Louisiana	896.7	105	9.7%	New Mexico	932.0	38	7.4%	Indiana	1,660.2	131	10.3%
Virginia	880.1	36	9.5%	Kansas	692.9	115	5.5%	Minnesota	1,619.6	326	10.1%
Alabama	791.8	73	8.6%	Oklahoma	631.9	180	5.0%	Wisconsin	1,453.8	271	9.0%
Tennessee	771.4	51	8.3%	Utah	621.5	49	5.0%	Missouri	1,355.1	190	8.4%
Kentucky	722.8	131	7.8%	Arkansas	456.1	69	3.6%	Iowa	677.6	196	4.2%
South Carolina	649.9	51	7.0%					Nebraska	660.8	150	4.1%
Mississippi	290.1	48	3.1%					South Dakota	128.2	29	0.8%
West Virginia	78.2	16	0.8%					North Dakota	110.4	46	0.7%

	\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*
Far West	9,505.0	487	16.9%	Northeast	8,802.3	795	15.7%
California	6,334.6	299	66.6%	Pennsylvania	2,410.7	224	27.4%
Oregon	1,162.6	41	12.2%	New York	1,685.7	220	19.2%
Washington	1,159.0	76	12.2%	New Jersey	1,304.9	123	14.8%
Nevada	322.7	21	3.4%	Connecticut	1,086.4	50	12.3%
Alaska	184.8	5	1.9%	Maryland	917.4	37	10.4%
Montana	147.7	25	1.6%	Massachusetts	622.1	88	7.1%
Hawaii	69.3	3	0.7%	Delaware	194.6	8	2.2%
Idaho	66.2	13	0.7%	New Hampshire	152.5	11	1.7%
Wyoming	58.1	4	0.6%	Puerto Rico	146.9	1	1.7%
				Rhode Island	101.1	15	1.1%
				Maine	81.3	12	0.9%
				Vermont	60.5	4	0.7%
				D. of Columbia	38.2	2	0.4%

Total: \$56,173.8 Million

Total Number of Issues: 5,092

* Regional percentages represent the portion of total U.S. regional dealers accounted for by that region. State percentages represent portion of total issuance in the region.

Source: Thomson Financial

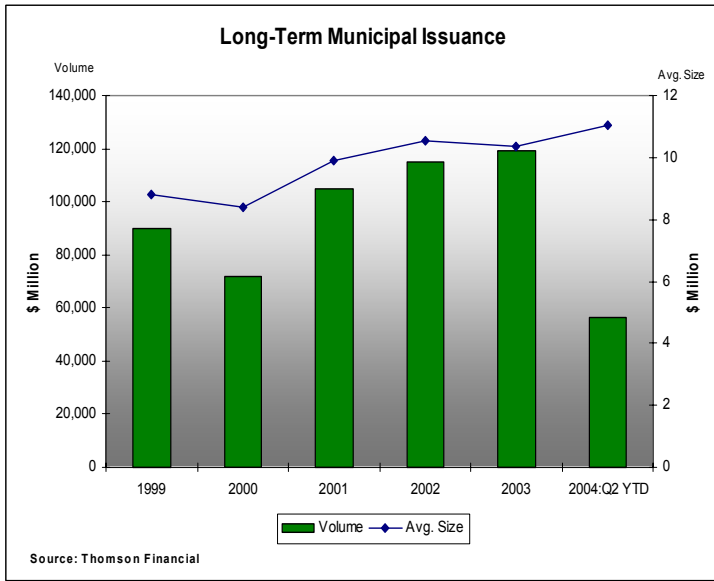
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2004:Q2 YTD Long-Term Municipal Top 25 Issuers

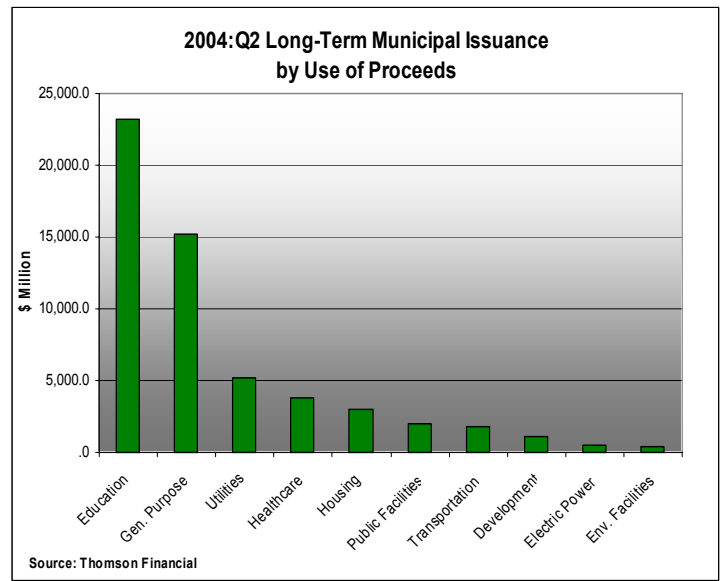
	\$ Mil	# Issues		\$ Mil	# Issues
1 Illinois	1,029.2	2	16 California	287.3	2
2 California St Public Works Board	779.7	3	17 Denver Urban Renewal Authority	275.0	2
3 Oregon School Boards Association	468.9	2	18 University of Cincinnati	259.4	3
4 New Mexico Mortgage Fin Auth	430.4	8	19 Ohio	258.5	6
5 Washington Student Loan Fin Corp	428.7	2	20 Indiana Bond Bank	256.1	7
6 Colorado Dept of Transportation	414.9	1	21 Phoenix-Arizona	250.9	2
7 Denver City and Co SD #1	353.3	2	22 Detroit City-Michigan	240.6	1
8 Maryland Hlth & Hghr Ed Facs Au	340.1	6	23 Omaha City-Nebraska	237.5	1
9 Chicago School Finance Auth	328.9	3	24 Univ of Alabama Board of Trust	216.0	1
10 University of Connecticut	314.8	1	25 Clear Creek ISD	200.4	1
11 Los Angeles Community Redev Agcy	300.0	3			
12 Connecticut	300.0	8			
13 Dallas ISD	300.0	1	Total Top 25	8,851.2	71
14 Arizona Wtr Infrastruc Fin Auth	293.1	1	Industry Total	56,173.8	5,092
15 Gwinnett Co Development Auth	287.5	2			

Source: Thomson Financial

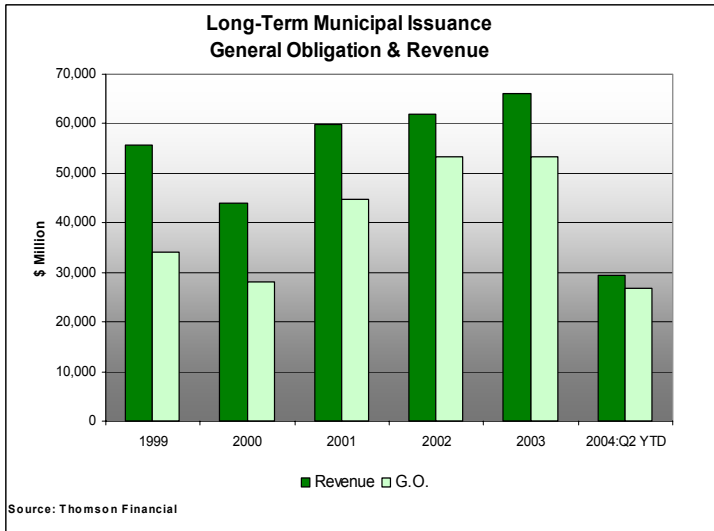
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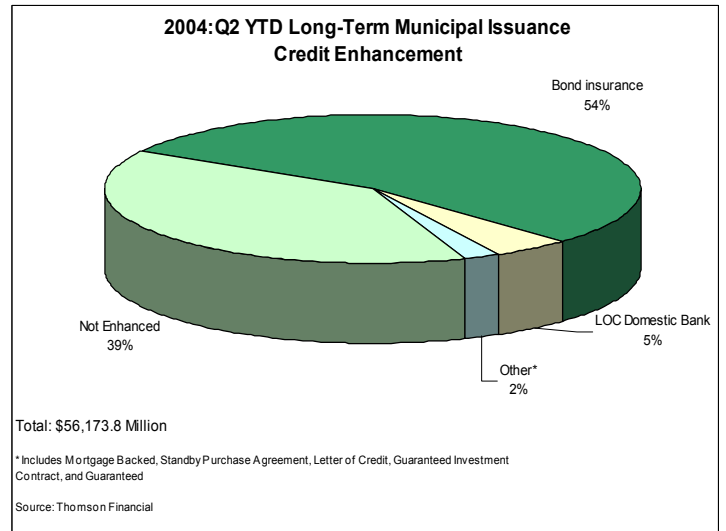
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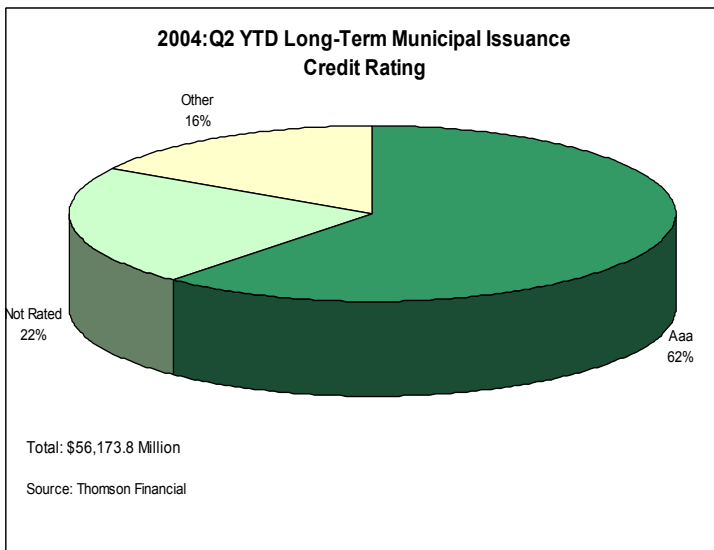
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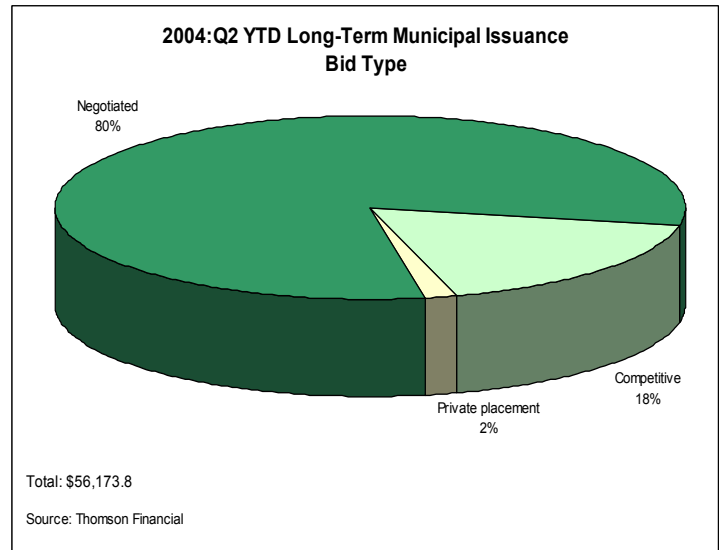
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M-7



M-8



M-9 Overall League Table – 2004:Q2 YTD

Book Runner Full to Book Runner (Equal if Joint)	Par Amount (US\$ mil)	Rank	Number of Issues
RBC Dain Rauscher	7,927.7	1	366
Morgan Keegan & Co Inc	2,957.0	2	215
George K Baum & Company Inc	2,800.8	3	160
Piper Jaffray & Co	2,654.9	4	243
Stone & Youngberg	2,189.8	5	106
A G Edwards & Sons Inc	2,162.2	6	130
Wachovia Securities Inc	2,104.0	7	135
Seattle-Northwest Securities Corp	1,534.8	8	68
First Albany Capital Inc	1,420.7	9	31
Legg Mason Wood Walker Inc	1,325.1	10	90
William Blair & Company	1,196.7	11	38
First Southwest Company	1,171.1	12	92
ABN AMRO Incorporated	1,156.9	13	72
Seasongood & Mayer	1,060.6	14	42
Roosevelt & Cross Inc	1,006.8	15	170
Siebert Brandford Shank & Co	1,006.2	16	16
City Securities Corporation	994.1	17	64
E J De La Rosa & Co Inc	793.5	18	14
Robert W Baird & Co	782.0	19	148
Southwest Securities	744.0	20	65
Top 20 Book Runners	36,988.9	-	-
Industry Total	56,173.8	-	5,092

Negotiated Issues League Table – 2004:Q2 YTD

Book Runner Full to Book Runner (Equal if Joint)	Par Amount (US\$ mil)	Rank	Number of Issues
RBC Dain Rauscher	7,039.2	1	308
George K Baum & Company Inc	2,756.3	2	155
Morgan Keegan & Co Inc	2,166.0	3	106
Piper Jaffray & Co	1,973.5	4	175
A G Edwards & Sons Inc	1,885.1	5	89
Stone & Youngberg	1,856.3	6	85
Seattle-Northwest Securities Corp	1,525.3	7	67
Wachovia Securities Inc	1,337.5	8	55
William Blair & Company	1,187.1	9	36
First Albany Capital Inc	1,085.4	10	21
Seasongood & Mayer	1,059.1	11	41
First Southwest Company	1,039.7	12	60
Siebert Brandford Shank & Co	961.1	13	14
Legg Mason Wood Walker Inc	958.6	14	43
City Securities Corporation	950.3	15	53
E J De La Rosa & Co Inc	793.5	16	14
Robert W Baird & Co	707.8	17	122
Kirkpatrick Pettis	688.5	18	83
Fifth Third/The Ohio Company	671.4	19	64
Merchant Capital LLC	609.3	20	28
Top 20 Book Runners	31,251.0	-	-
Industry Total	45,347.6	-	3,296

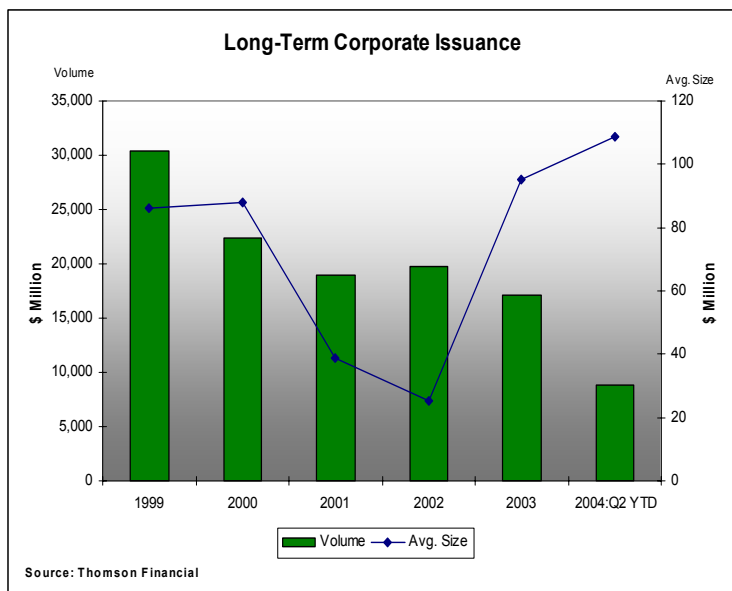
Competitive Issues League Table – 2004:Q2 YTD

Book Runner Full to Book Runner (Equal if Joint)	Par Amount (US\$ mil)	Rank	Number of Issues
ABN AMRO Incorporated	923.8	1	50
Roosevelt & Cross Inc	817.5	2	143
Wachovia Securities Inc	766.5	3	80
Morgan Keegan & Co Inc	713.0	4	102
Piper Jaffray & Co	667.2	5	65
RBC Dain Rauscher	578.8	6	52
Legg Mason Wood Walker Inc	366.4	7	47
BB&T Capital Markets	355.0	8	13
First Albany Capital Inc	335.4	9	10
Stone & Youngberg	302.1	10	17
A G Edwards & Sons Inc	273.3	11	40
Griffin Kubik Stephens & Thompson	270.1	12	49
Harris Trust & Savings Bank	224.2	13	48
Commerce Capital Markets	197.4	14	28
Mellon Financial Markets Inc	174.9	15	20
Wells Fargo Bank	172.0	16	55
Oppenheim (Division of BOSC Inc)	142.4	17	34
Fidelity Capital Markets	132.1	18	13
First Southwest Company	129.7	19	31
Southwest Securities	126.8	20	14
Top 20 Book Runners	7,668.6	-	-
Industry Total	9,961.7	-	1,670

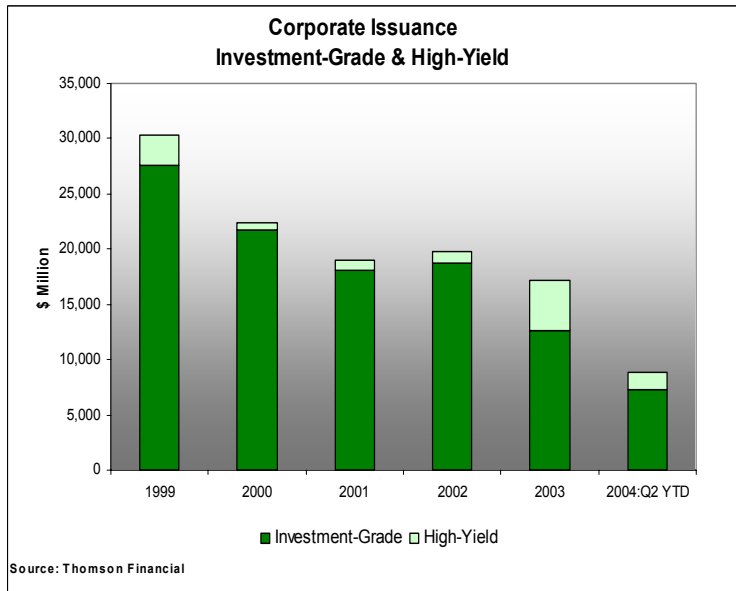
* Reported total number of issues may exceed actual number of issues due to the designation of more than one lead underwriter.

Source: Thomson Financial

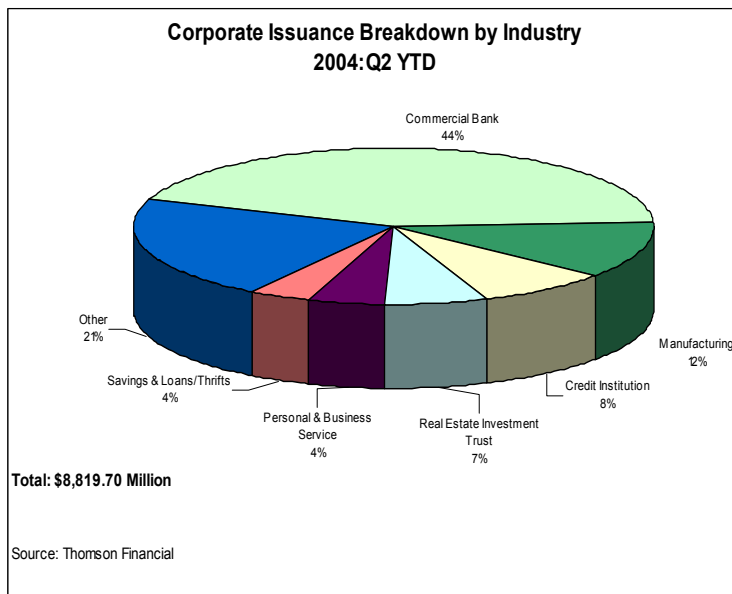
C-1



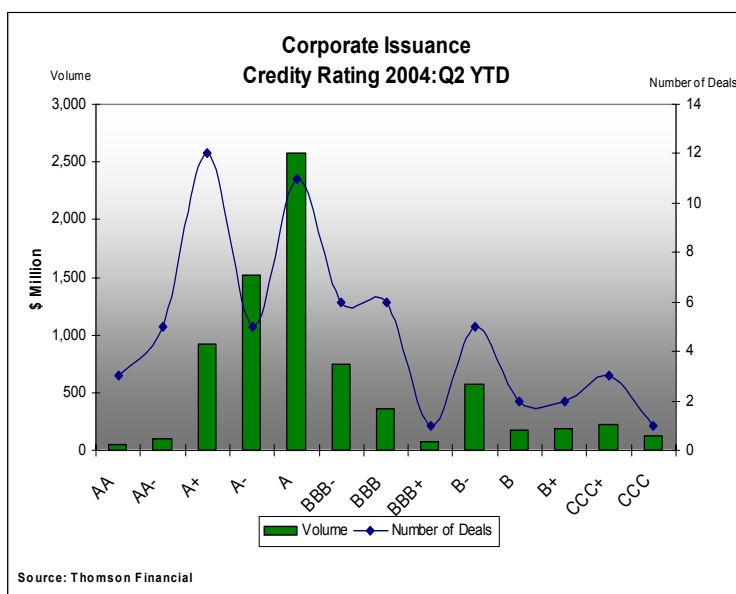
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C-3



C-4



C-5 Corporate Issues League Table 2004:Q2 YTD

Book Runner Full to Book Runner (Equal if Joint)	Amount (US\$ mil)	Number of Issues*	Rank
Wachovia Corp	5,422.8	38	1
Jefferies & Co Inc	983.0	12	2
KeyCorp/McDonald Investments	605.0	4	3
Mitsubishi Tokyo Fin'l Group	401.1	6	4
Keefe Bruyette & Woods Inc	275.0	4	5
Williams Capital Group LP	150.0	2	6*
Sandler Capital Markets	150.0	1	6*
Prudential Securities Inc	135.0	1	8
Guggenheim Group LLC	130.0	1	9
Bank of New York	110.0	4	10
RBC Capital Markets	100.0	3	11
BMO Nesbitt Burns Inc	98.0	3	12

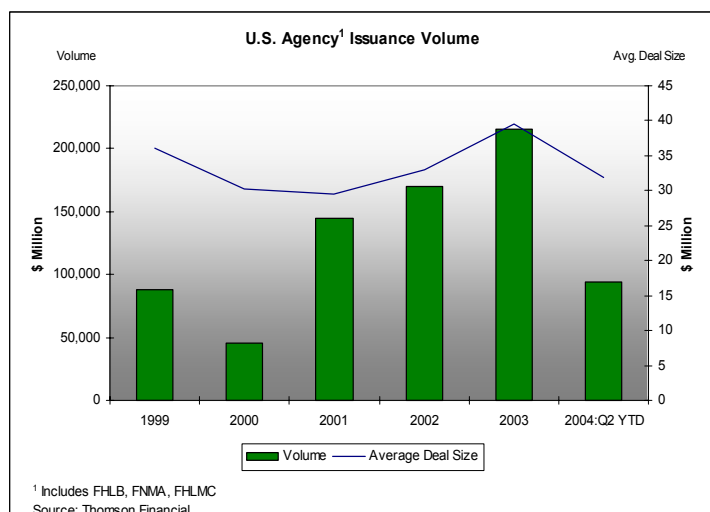
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SunTrust Banks	90.0	1	13
National City Corp, Cleveland	63.0	2	14
Imperial Credit Industries Inc	50.0	1	15
Edward D. Jones & Co L.P.	25.0	1	16
Edward D Jones & Co	16.6	2	17
Piper Jaffray Cos	15.0	1	18
Charles Schwab Corp	.3	2	19
Raymond James Financial Inc	.0	1	20
Industry Total	8,819.7	81	-

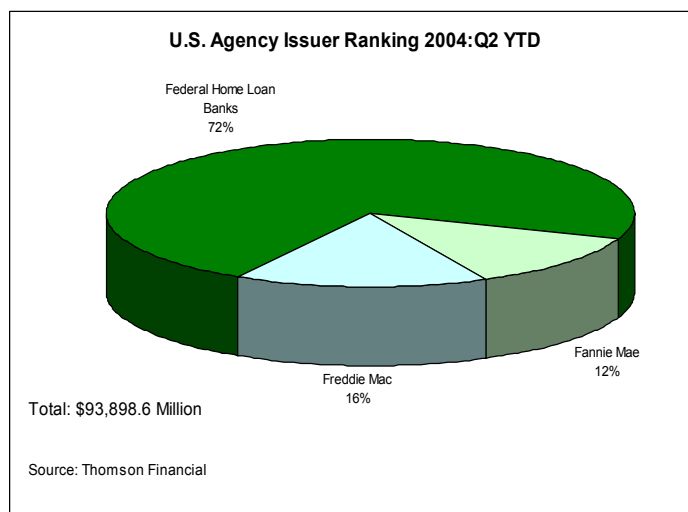
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Source: Thomson Financial

Regional Report – U.S. Agency

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A-2



A-3

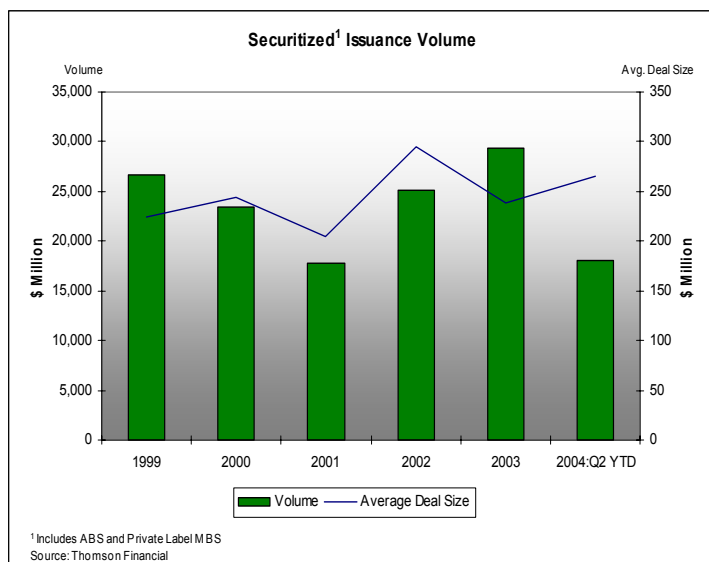
U.S. Agency Issues League Table – 2004:Q2 YTD

Book Runner Full to Book Runner (Equal if Joint)	Amount (US\$ mil)	Number of Issues *	Rank
First Tennessee Bank	24,566.5	672	1
Morgan Keegan Inc	13,395.9	713	2
National Bank of Commerce-Memp	8,471.5	261	3
Wachovia Corp	7,922.0	407	4
Piper Jaffray Cos	6,578.7	270	5
Vinings-Sparks IBG, L.P.	5,338.8	263	6
RBC Dain Rauscher	5,103.8	201	7
Wells Fargo Bank NA	3,843.4	184	8
Advest Group Inc	2,355.2	142	9
Raymond James Financial Inc	2,180.0	27	10
Amherst Securities	1,750.0	77	11
Sovereign Bank	1,600.0	77	12
Legg Mason Wood Walker	1,565.0	48	13
KeyCorp/McDonald Investments	1,158.0	53	14
InCapital LLC	967.5	69	15
Griffin, Kubik, Stephens, Thmn	844.2	46	16
BB&T Corp	619.2	20	17
Bonds Direct	530.0	35	18
Stephens Inc	490.0	37	19
Robert W Baird & Co Inc	455.8	29	20
Top 20 Book Runners	89,735.5	-	-
Industry Total	93,898.6	2,947	-

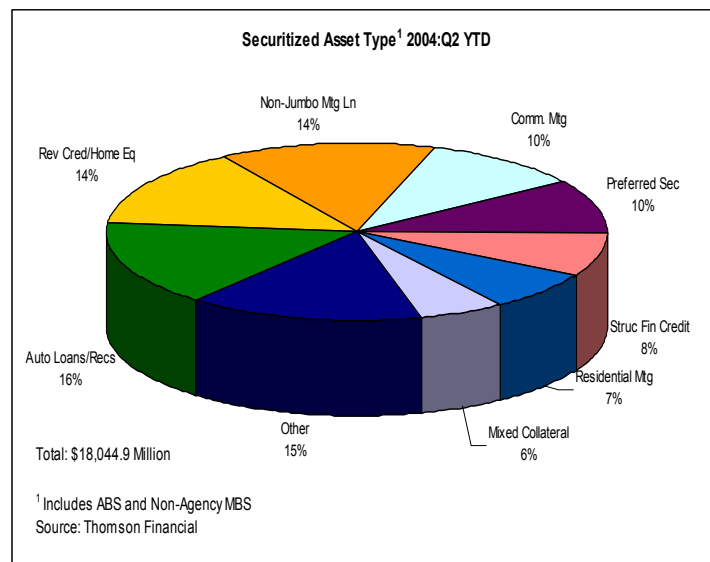
* Reported total number of issues may exceed actual number of issues due to the designation of more than one lead underwriter.

Source: Thomson Financial

S-1



S-2



S-3

Securitized Issues League Table – 2004:Q2 YTD

Book Runner Full to Book Runner (Equal if Joint)	Amount (US\$ mil)	Number of Issues	Rank
Wachovia Corp	9,166.5	26	1
Washington Mutual Inc	3,061.9	8	2
First Tennessee Bank	2,316.5	9	3
WestLB AG	1,000.0	1	4
RBC Dain Rauscher	632.6	2	5
Keefe Bruyette & Woods Inc	489.4	3	6
DA Davidson & Co Inc	333.3	2	7
Standard Chartered PLC	300.0	1	8
SunTrust Banks	241.0	2	9
Residential Asset Securities	200.3	6	10
Mayer Corporate Valuations	144.4	1	11
State Street Securities	74.8	2	12
Edward D Jones & Co	32.0	1	13
General Motors Corp	28.4	8	14
American Securities	14.0	1	15
Amherst Securities	9.8	1	16

Industry Total

18,044.9

* Reported total number of issues may exceed actual number of issues due to the designation of more than one lead underwriter.

Source: Thomson Financial

Y-1

