

Middle Market Report

The quarterly Middle Market Report analyzes and presents aggregate information and trends related to bond and equity underwriting in which one (or more) middle market security firm - non-primary dealer - is the lead underwriter or "book runner" on the deal based on publicly available information. The report's bond 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, including municipal bonds, corporate bonds, federal agency securities and asset-backed and private-label mortgage-backed securities, underwritten by middle market securities firms. In addition, the report analyzes and presents middle market firm-led equity issuance and mergers and acquisition advisory activity.

Middle Market Firm-Led Underwriting Rises Through the First Half of Year; Credit Market Conditions, Stalled Liquidity Reduce Second Half Issuance Outlook

Aggregate middle market firm-managed underwriting in the municipal, federal agency, corporate, structured finance and equity market sectors surged to \$249.2 billion in the first half of 2007, 27.0 percent above the \$196.2 billion recorded during the first half of 2006. The year-over-year increase was led by securitization activity with first half volume more than 80 percent higher than in the same year-earlier period; agency debt with volume up nearly 50 percent; and municipal bond issuance, which increased nearly 25 percent. Middle market dealer-led equity underwriting share expressed as a percentage of total first half U.S. equity underwriting volume decreased to 42.9 percent from 54.3 percent during the same period a year ago.

Middle market firm-led underwriting growth was supported by favorable market conditions during the first half of the year. Beginning late in the second quarter and continuing into the third quarter liquidity conditions dissipated and the market repriced credit risk. Middle-market firms have been subject to the credit market-wide effect of subprime contagion that has caused credit spread widening and reduced liquidity. Despite the weakening credit market conditions, as distinct from the subprime mortgage downturn, corporate credit fundamentals appeared to remain strong on sustained profitability and historically low default rates. Default rates, however, are anticipated to rise at a steady pace over the next year. The near-term credit market outlook suggests higher credit costs and constrained credit availability for corporate expansion and acquisition. While economic growth has been sustained through the early part of the third quarter, the weakened credit market conditions are affecting the growth outlook and increasing the probability of easier monetary policy over the balance of the year.

Equity issuance also continued its robust pace through the first half of the year, the result of strong earnings growth and shareholder-friendly financing strategies. Equity market price appreciation continued into the third quarter, with the Dow Jones Index surpassing 14,000 for the first time.

September 2007

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Middle Market Firm-Led Municipal Underwriting Volume Rises in the First Half on Higher Refunding Volume

Middle market firm-led municipal issuance volume increased to \$72.4 billion in the first half of 2007, 23.8 percent more than in the first half of 2006. Issuance increased to \$38.2 billion in the second quarter, 11.7 percent higher than the \$34.2 billion issued in the first quarter and 12.7 percent higher than the second quarter a year ago. The substantial year-over-year quarterly issuance growth was largely attributable to higher refunding volumes as local and state governments took advantage of a stable low-rate environment. While the investor "flight to safety" has lowered benchmark Treasury yields, municipal bonds have not kept pace evidenced by the municipal-to-Treasury yield ratio reaching 0.89 percent during August, the highest level recorded since December 2005. The recent municipal rally combined with the historically low benchmark yields may present additional refunding opportunities during the second half of the year. Municipal bond financing may also be seen as an additional source of funding for affordable mortgages targeted to the credit-impaired homeowner population.

Both competitive and negotiated municipal underwriting volumes were higher in the first half of the year compared with the same period last year. Middle market firm-led negotiated issuance increased 24.8 percent to \$60.9 billion in the first half of 2007, up from \$48.8 billion in 2006. Year-over-year, competitive issuance volume also increased in the first half of 2007, reaching \$10.2 billion, up 14.7 percent from \$8.9 billion in 2006 in the same year-earlier period.

The Midwest ranked first among geographic regions, accounting for 25.6 percent of total middle market firm-led underwriting volume, with the Southwest ranking second and the Southeast third. The top issuing states were Texas and California, accounting for a combined 21.4 percent of middle market firm-led underwriting through the first half.

In general, municipal credit performance has remained solid despite the recent repricing of credit in other market sectors. Municipal bond credit ratings have benefited from strong state and local tax revenue growth, the result of rising corporate profits, personal income growth, and elevated property tax assessment trends. Lower housing prices will eventually slow property tax revenue growth. More than 50 percent of middle market-firm led issuance volume had the highest Moody's rating, Aaa, with 14.6 percent by volume rated Aa or below, and 26.1 percent unrated. Credit enhancement provided support for 57.2 percent of total issuance by dollar volume. Education continues to be the largest use-of-proceeds sector, accounting for 41.2 percent of middle market firm-led municipal volume in the first half of the year.

Corporate Bond Underwriting Slows with Credit Risk Repricing

Middle market firm-led corporate underwriting slowed considerably in the second quarter with the onset of weaker credit market conditions after setting a quarterly record in the first quarter of the year. Issuance volume declined 60.7 percent to \$8.3 billion in the second quarter, down from \$21.1 billion in the first quarter and 48.5 percent from the same year-earlier period. Due to robust issuance at the beginning of the year, first half volume totaled \$29.4 billion, down only 14.5 percent from the \$34.4 billion during the same period a year ago. Middle market firm-led corporate bond issuance accounted for 4.5 percent of total U.S. corporate issuance in the first six months of the year, compared to 6.5 percent in the first six months in 2006.

U.S.-based corporations accounted for 76.4 percent of middle market-led corporate issuance in the first half of the year. Among states, North Carolina-based corporations continued to rank first by a wide margin with 49.8 percent of issuance volume during the first half, followed by New York-based corporations, with a 11.5 percent market share. The financial services industry, including commercial banks, credit institutions, and mortgage securities, remained the dominant middle market-led issuance sector in 2006, accounting for 85.5 percent of total issuance.

Securitized Underwriting Increases in First Half but Declines from the First Quarter; Agency Issuance Increases

Middle market firm-led underwriting of securitized debt increased to \$69.6 billion in the first half of 2007, up 81.3 percent from the \$38.4 billion recorded during the same period a year ago. Issuance volume declined marginally in the second quarter, down to \$34.2 billion from \$35.4 billion in the first quarter, suggesting that middle market led-securitized issuance volumes were beginning to be affected by mortgage and housing market weakness. Middle market firm-led residential mortgage-backed securities (RMBS) issuance totaled \$29.2 billion in the first half of the year, accounting for more than 40 percent of all middle market-led securitized issuance. Tighter underwriting standards, reduced housing prices and higher non-conforming mortgage interest rates will reduce private label mortgage-backed securities issuance volumes over the second half of the year.

Commercial mortgage-backed securities (CMBS) issuance was the second largest securitized issuing sector, totaling \$17.3 billion in the first half of the year, a 293.2 percent increase over the \$4.4 billion issued a year earlier.

Federal agency issuance managed by middle market firms rose to \$20.9 billion in the first half of the year, a nearly 50 percent increase over the same period a year ago. Issuance increased 34.8 percent to 12.0 billion in the second quarter from \$8.9 billion in the first quarter. Year-over-year growth in agency issuance volume can be attributed to the housing government sponsored entities' (or GSEs) near completion of capital management and portfolio restructuring initiatives and conforming mortgage origination growth.

Equity Underwriting and M&A Volume Higher in Q2; Conditions Still Favorable for Growth Later in 2007

Equity underwriting led by middle market firms totaled \$56.9 billion during the first half of 2007, up 12.0 percent from \$50.8 billion during the same period a year ago. On a linked-quarter basis, second quarter volume increased 78.9 percent from the first quarter and represented a 22.8 percent share of total middle market (debt and equity) underwriting volume compared to 25.9 percent a year ago. Middle market firm-advised announced M&A deals accounted for \$413.5 billion, or 38.0 percent, of total U.S. M&A dollar volume in the first half, more than a 75 percent increase from the \$236.3 billion in the first half of 2006 when the middle-market share was 33.3 percent. The reduced availability of debt financing will constrain leveraged buy-out deal-making, which has driven much of the acquisition growth in recent years. Strategic corporate M&A financed by either cash or stock, however, should continue to be supported by the positive profit, cash flow and rising stock price trends of recent years.

MIDDLE MARKET REPORT – Municipal

M-1

2007:Q2 LONG-TERM MUNICIPAL ISSUANCE BY GEOGRAPHIC REGION

	% of				% of				% of		
	\$ Bil	# Issues	Tot. Vol.*		\$ Bil	# Issues	Tot. Vol.*		\$ Bil	# Issues	Tot. Vol.*
Southeast	14,856.8	688	20.5%	Southwest	16,935.7	1,065	23.4%	Mid West	18,569.7	1,887	25.6%
Florida	3,289.6	114	22.1%	Texas	8,581.3	392	50.7%	Illinois	4,288.9	335	23.1%
Georgia	2,350.6	74	15.8%	Colorado	2,232.4	122	13.2%	Ohio	2,955.6	173	15.9%
Alabama	1,818.5	86	12.2%	Arizona	2,163.5	81	12.8%	Indiana	2,186.6	117	11.8%
Louisiana	1,772.5	84	11.9%	Kansas	1,087.4	109	6.4%	Missouri	2,028.0	203	10.9%
Virginia	1,384.4	44	9.3%	Arkansas	871.1	81	5.1%	Michigan	1,771.6	172	9.5%
Tennessee	1,365.2	56	9.2%	Oklahoma	781.3	204	4.6%	Minnesota	1,651.0	251	8.9%
North Carolina	980.6	42	6.6%	New Mexico	705.7	33	4.2%	Wisconsin	1,430.0	264	7.7%
Kentucky	686.1	90	4.6%	Utah	513.0	43	3.0%	Iowa	994.3	188	5.4%
Mississippi	531.7	54	3.6%					Nebraska	930.1	136	5.0%
South Carolina	525.1	35	3.5%					South Dakota	236.0	20	1.3%
West Virginia	152.5	9	1.0%					North Dakota	97.6	28	0.5%

	% of				% of		
	\$ Bil	# Issues	Tot. Vol.*		\$ Bil	# Issues	Tot. Vol.*
Far West	10,462.5	512	14.4%	Northeast	11,600.5	696	16.0%
California	6,916.9	307	66.1%	New York	4,130.0	241	35.6%
Washington	1,198.8	67	11.5%	Pennsylvania	3,578.8	208	30.9%
Oregon	971.1	56	9.3%	New Jersey	952.5	60	8.2%
Alaska	362.9	7	3.5%	Connecticut	788.5	43	6.8%
Nevada	350.2	20	3.3%	Massachusetts	709.5	77	6.1%
Montana	329.1	33	3.1%	Maryland	611.4	20	5.3%
Idaho	182.9	15	1.7%	Delaware	293.8	6	2.5%
Hawaii	122.4	1	1.2%	Maine	241.2	11	2.1%
Wyoming	28.2	6	0.3%	D. of Columbia	144.4	5	1.2%
				New Hampshire	79.8	9	0.7%
				Vermont	39.6	7	0.3%
				Rhode Island	31.0	9	0.3%

Total: \$72,425.2 Million

Total Number of Issues 4,848

* Middle market percentages represent the portion of total U.S. middle market dealers accounted for by that region. State percentages represent the portion of total issuance in the region.

Source: Thomson Financial

¹ As of June 30, 2007

M-2

2007:Q2 LONG-TERM MUNICIPAL TOP 25 ISSUERS

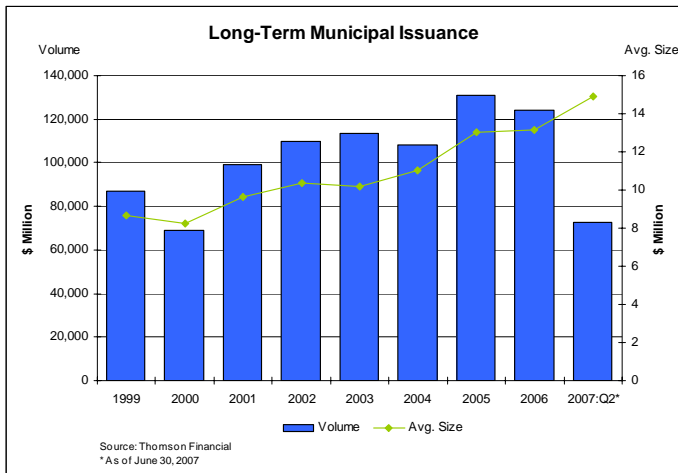
	\$ Mil	# Issues		\$ Mil	# Issues
1 NYC Municipal Water Finance Auth	983.0	2	15 Birmingham W/trwks & Swr Board	326.3	1
2 Chicago City-Illinois	686.6	11	16 Connecticut Hlth & Ed Facs Auth	308.5	12
3 Houston City-Texas	515.8	2	17 CollegeInvest	306.0	2
4 California Statewide Comm Dev Au	502.0	23	18 Missouri Housing Dev Commission	301.0	9
5 Aurora City-Illinois	487.5	7	19 Ohio	300.7	3
6 Illinois Finance Authority	444.7	27	20* Ohio Housing Finance Agency	300.0	3
7 Illinois	437.0	2	20* De Kalb Co SD	300.0	1
8 New Mexico Mortgage Fin Auth	428.1	8	22 Harris Co (Houston) ISD	279.9	1
9 Gwinnett Co (Gwinnett) SD	425.0	1	23 Lee Memorial Health System	270.9	1
10 South Texas Higher Educ Auth	394.8	2	24 Cypress-Fairbanks ISD	268.6	1
11 Louisiana Public Facilities Auth	388.2	4	25 NYS Dorm Authority	265.4	8
12 NYC Transitional Finance Auth	367.0	1			
13 Philadelphia City-Pennsylvania	345.0	1	Total Top 25	3,227.3	42
14 Washington State Hsg Fin Comm	341.9	6	Industry Total	72,425.2	4,848

* Tied

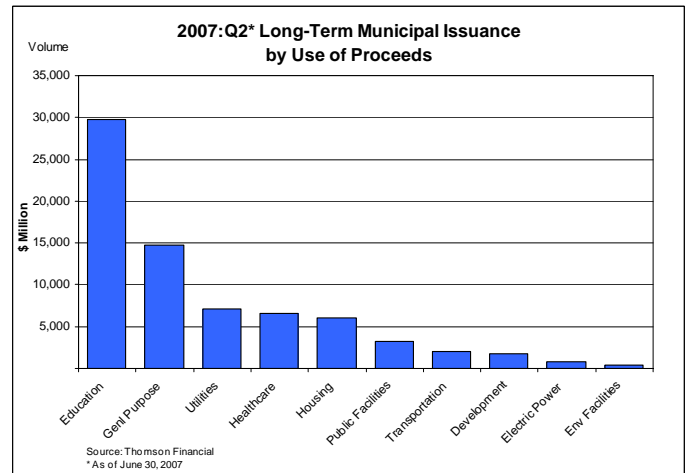
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MIDDLE MARKET REPORT – Municipal

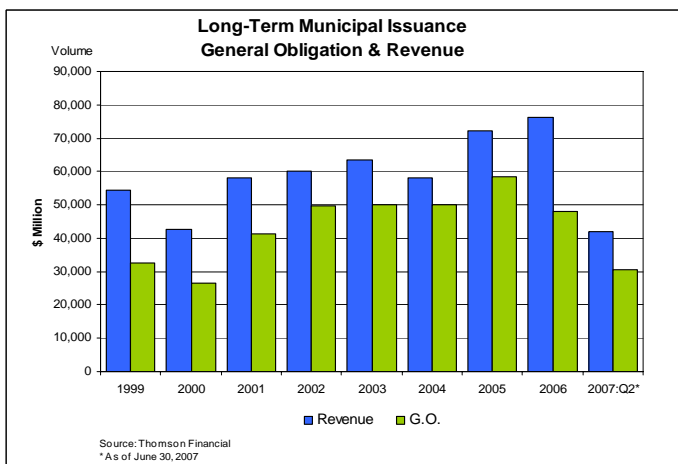
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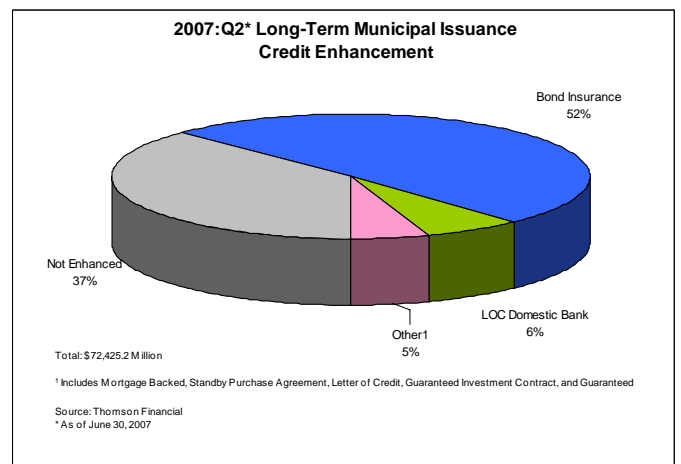
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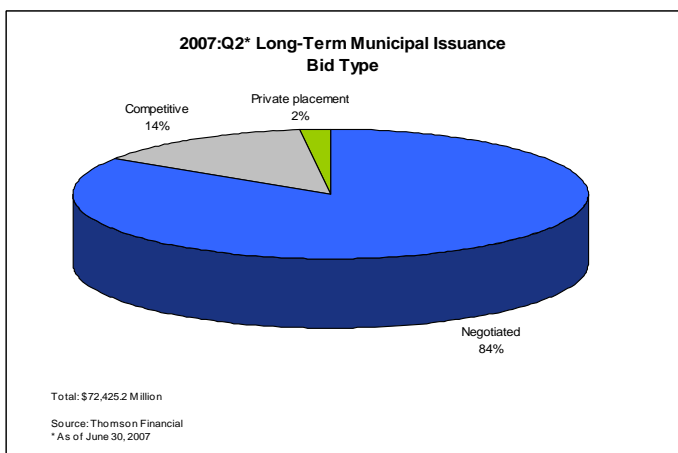
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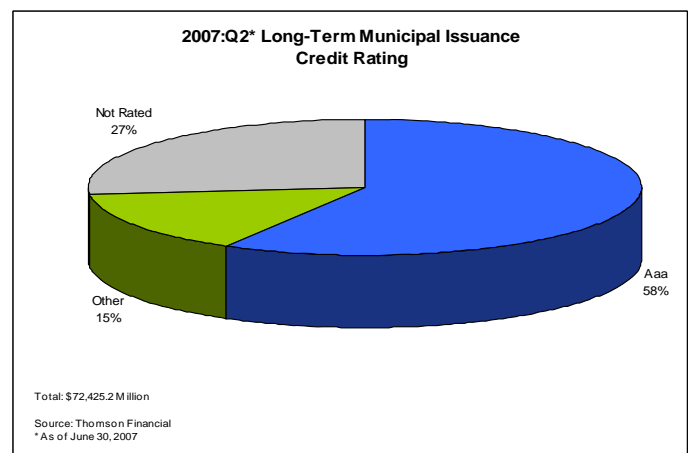
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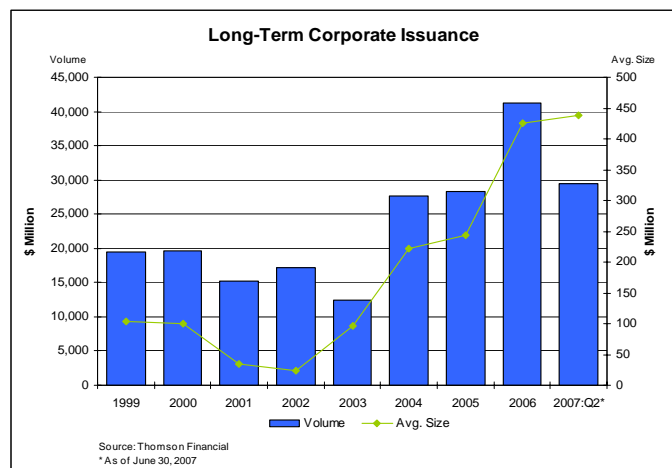


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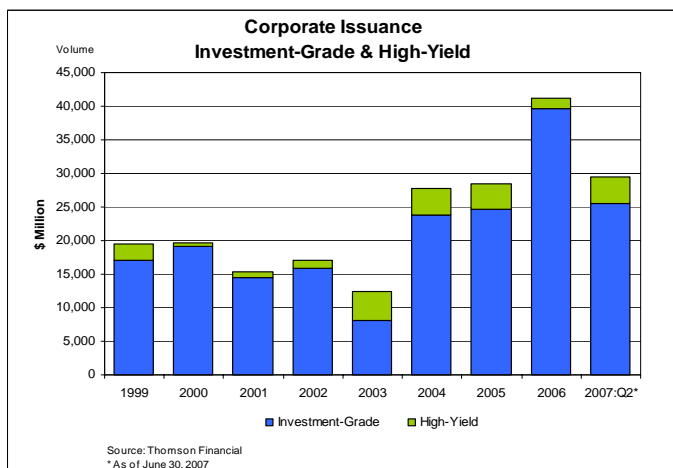


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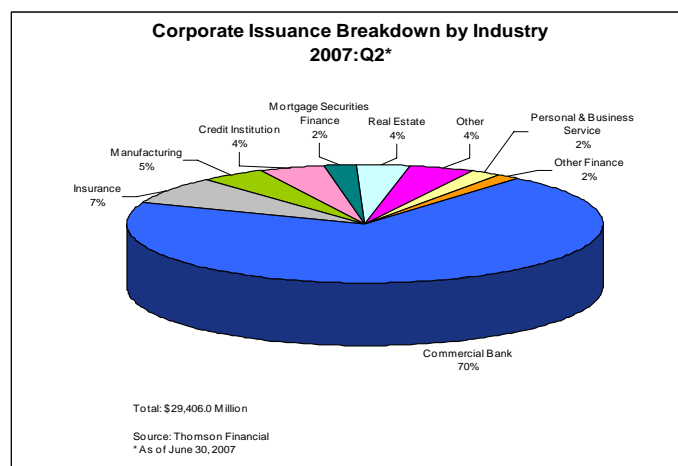
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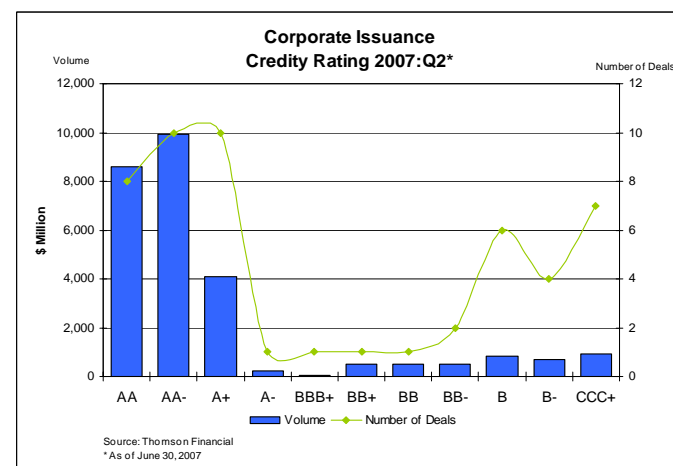
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C-3



C-4



Issuance by State 2007:Q2

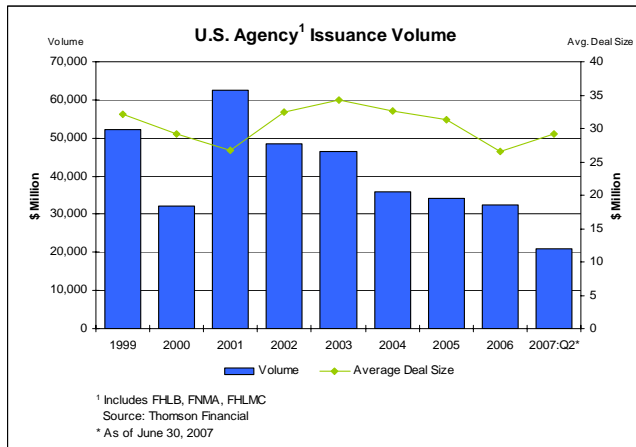
C-5

State	\$ Mil	# Issues
1 North Carolina	14,642.4	9
2 Foreign	6,948.0	22
3 New York	3,383.5	11
4 Georgia	1,130.0	2
5 Texas	805.0	4
6 Delaware	355.0	2
7 Missouri	350.0	1
8 Virginia	345.2	2
9 Alabama	250.0	2
10 Massachusetts	231.1	2
11 California	229.4	3
12 Nevada	203.4	2
13 Washington	175.0	1
14 Illinois	123.5	1

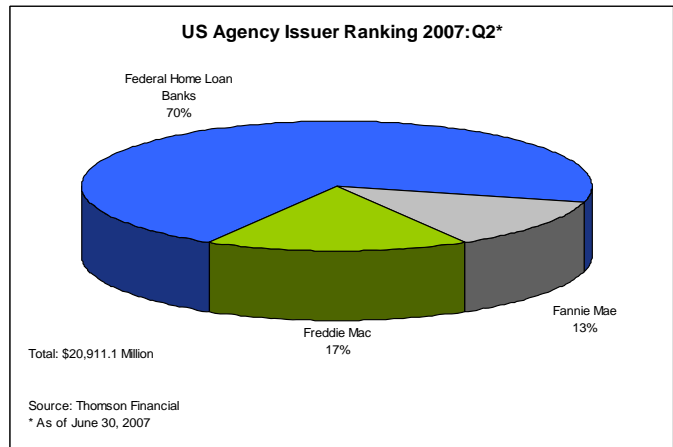
State	\$ Mil	# Issues
15 D. of Columbia	115.0	1
16 Pennsylvania	99.5	1
17 New Hampshire	20.0	1
Total Top 25	29,406.0	67
Industry Total	29,406.0	67

MIDDLE MARKET REPORT – U.S. Agency

A-1

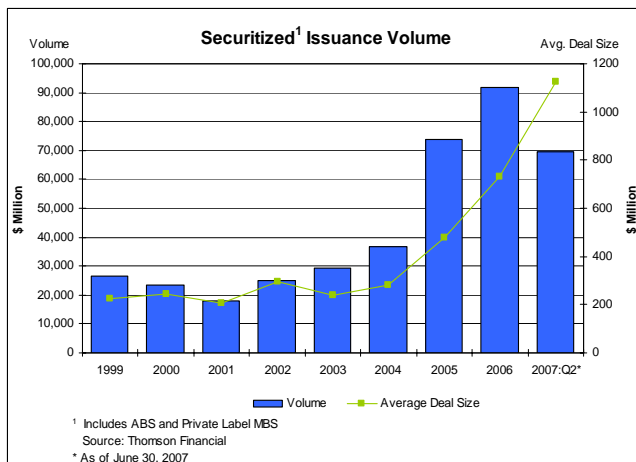


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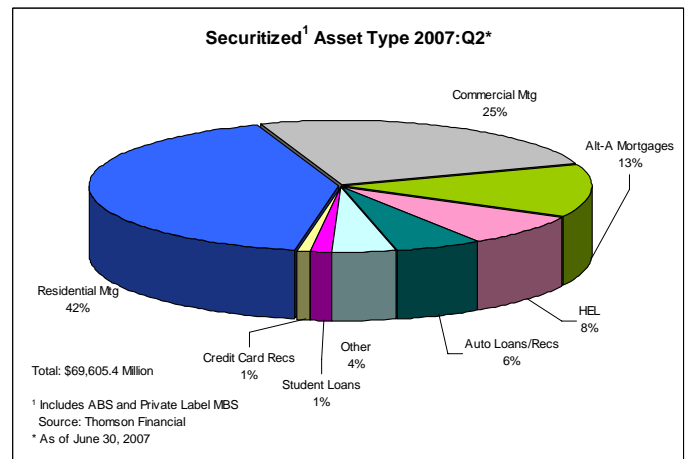


MIDDLE MARKET REPORT – Securitization

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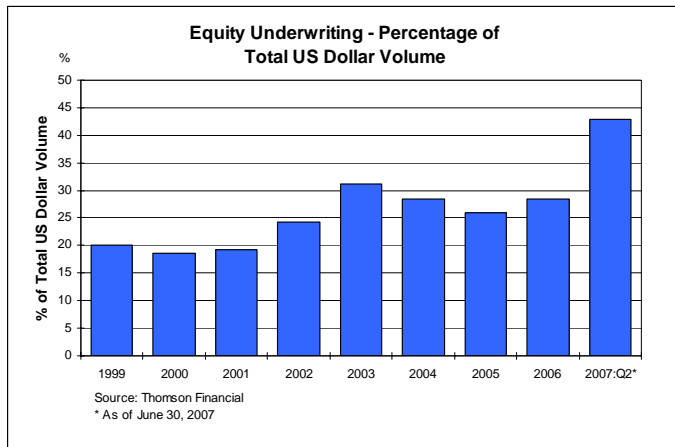


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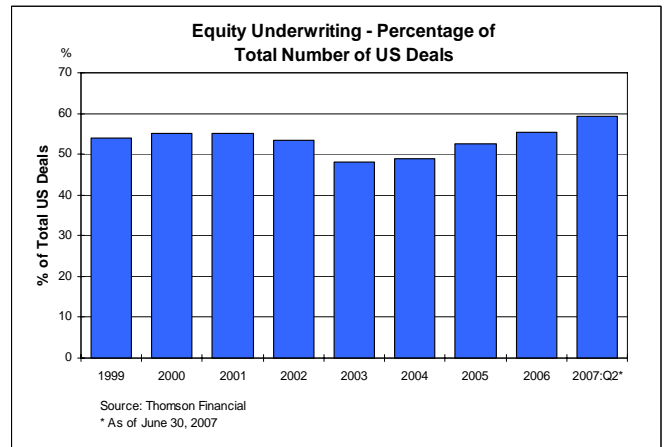


MIDDLE MARKET REPORT - Equity

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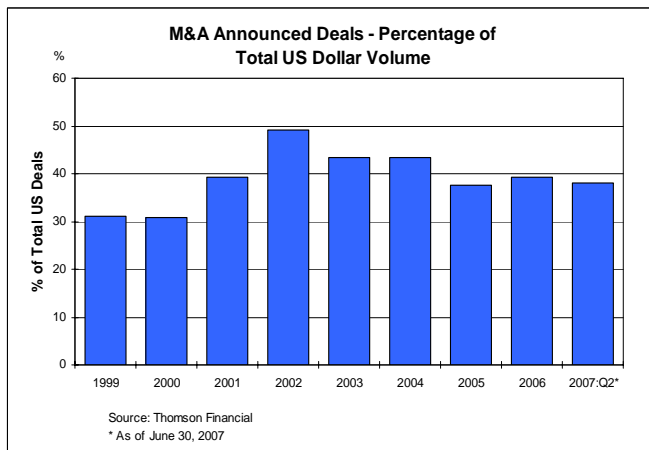


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MIDDLE MARKET REPORT - Mergers and Acquisitions

MA-1



MA-2

