

# Research

## *Middle Market Bond Dealer Report*



The Bond Market Association<sup>1</sup> 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 private-label mortgage-backed securities.

June 2005

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### **Regional Underwriting Activity Increases in Most Markets; Aggregate Volume Lower on Sharp Decline in Federal Agency Issuance**

Regional firm-managed municipal, corporate, federal agency and structured finance issuance volume totaled \$76.8 billion in the first quarter of 2005, down 26.2 percent from the \$104.0 billion underwritten during the same period a year ago. The year-over-year decline resulted from a 51.3 percent decline in Federal agency issuance volume. Excluding federal agencies, regional firm-led issuance would have increased by 11 percent compared to the same period last year. While all fixed-income markets are directly affected by interest rate movements, the federal agency market is especially sensitive as agency demand for financing is directly related to mortgage origination activity. According to the Mortgage Bankers Association, mortgage originations declined approximately eight percent compared to the fourth quarter of 2004. Second quarter agency issuance may be boosted by the decline in mortgage rates since the end of the first quarter. In addition, new housing GSE strategies to build capital ratios and control portfolio growth affected agency issuance volumes.

Regional underwriting activity accounted for approximately six percent of total bond issuance in the U.S.—including the municipal, corporate, agency, ABS and private-label MBS markets—down from about seven percent during the same period one year ago. Looking ahead, inflation, GDP growth, credit spreads and especially benchmark interest rates, which have fallen since the end of the quarter, will affect future issuance volume.

### **First Quarter Regional Municipal Underwriting Increases to Highest Level Since Second Quarter of 2003**

Regional firms were the lead underwriters for 2,332 issues in the first quarter, with issuance totaling \$32.6 billion, up 10 percent from the \$29.6 billion underwritten during the same period a year ago and nine percent higher than the fourth quarter of 2004. Regional firm-managed underwriting accounted for 33 percent of total long-term municipal issuance in the first quarter, about the same percentage as the same period last year. The average deal size increased from \$11.5 billion in the first quarter of 2004 to \$14.0 billion in the first quarter for 2005.

Regional firm-managed general obligation issuance increased by 4.3 percent to \$16.8 billion in the first quarter of 2005, compared to \$16.1 billion in the same period of 2004, and revenue bond issuance increased by 17.0 percent, from \$13.5 billion to \$15.8 billion.

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<sup>1</sup> 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.

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Regional firm-managed negotiated sale underwritings increased nearly 18 percent totaling \$27.9 billion in the first quarter of the year, while competitive sales decreased 11 percent to \$4.6 billion. The education sector continued to dominate use of proceeds in regional firm-led deals, accounting for 47 percent of total volume in the first quarter of the year, followed by general purpose and utilities at 24 percent and 11 percent, respectively.

With respect to geographic issuer distribution, the Midwest continues to lead, accounting for nearly 28 percent of regional underwriting volume, with the Northeast and Southwest each accounting for 23 percent of volume. The top two issuing states were Texas and California, with \$3.6 billion and \$2.7 billion, respectively. The two states together accounted for nearly 20 percent of regional underwriting.

In the first quarter of 2005, about 75 percent by issue volume had the highest Moody's rating, Aaa, with 15 percent having ratings lower than Aaa, and 10 percent unrated. Credit enhancement provided support for 67 percent of the issuance with over 90 percent of the credit enhancement provided by bond insurance.

### **Regional Firm-Managed Corporate Bond Underwriting Higher than Last Year**

Regional-led corporate bond underwritings totaled \$7.8 billion, up from the \$6.8 billion underwritten in the same period one year ago. Volume was nearly 40 percent lower than the quarterly record of \$12.7 billion set last quarter. Average deal size went from \$243.3 million in the fourth quarter of last year to \$209.6 million in the first quarter of the year.

According to S&P, based on dollar volume, nearly 80 percent of new regional firm-managed corporate issues were investment grade, i.e. "BBB," or above. About 11 percent of the deals were high yield, and the remaining deals were not rated by the rating agency.

U.S.-headquartered issuers accounted for approximately 96 percent of regional corporate underwriting dollar volume during the first quarter, with the remaining 4 percent going to non-U.S. issuers. North Carolina, Ohio and Texas based corporations led the way, accounting for 62 percent of total regional-led underwritten debt. Commercial bank issuers accounted for about 61 percent by dollar volume, followed by retail and construction with 12 and 5 percent, respectively.

### **Agency Underwriting Lower than Last Year; Securitized Issuance Gains**

Regional firms play a significant role in the federal agency market. Regional firm-managed federal agency issuance volume declined 51.3 percent from the first quarter a year ago, but maintained the level of last quarter, totaling \$30.1 billion. The first quarter interest rate environment contributed to stable mortgage origination activity, as the level of refinancings recovered from the declines of the last few quarters. As noted, new housing GSE capital and portfolio management strategies affected issuance volume.

Regional firm-led securitized products increased 9 percent in the first quarter of 2005, to \$6.3 billion, compared to the \$5.8 billion underwritten one year ago. Historically low interest rates provided affordable funding alternatives and credit fundamentals remained strong for issuers, while supply was well absorbed by investors. The average deal size increased in the first quarter of the year, to \$417.8 million, from the \$221.6 million average during the first quarter of 2004.

<p>The Middle Market Report is based on new issue data provided by Thomson Financial, a part of Thomson Corporation (<a href="http://www.thomson.com">www.thomson.com</a>) and a leading provider of information and technology solutions to the financial industry.</p>
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## 2005:Q1 Long-Term Municipal Issuance By Geographic Region

	\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*
<b>Southeast</b>	<b>5,281.1</b>	<b>281</b>	<b>16.2%</b>	<b>Southwest</b>	<b>6,700.0</b>	<b>482</b>	<b>20.6%</b>	<b>Mid West</b>	<b>9,131.7</b>	<b>925</b>	<b>28.0%</b>
Tennessee	1,018.6	30	19.3%	Texas	3,644.4	220	54.4%	Michigan	1,661.4	111	18.2%
Alabama	760.9	36	14.4%	Colorado	636.2	39	9.5%	Illinois	1,568.4	148	17.2%
Florida	697.0	39	13.2%	Arizona	520.7	34	7.8%	Ohio	1,405.6	79	15.4%
Virginia	656.8	22	12.4%	New Mexico	499.3	24	7.5%	Indiana	1,327.5	73	14.5%
North Carolina	636.3	19	12.0%	Kansas	456.8	48	6.8%	Wisconsin	1,004.7	155	11.0%
Louisiana	440.7	50	8.3%	Oklahoma	316.8	63	4.7%	Missouri	866.1	76	9.5%
Georgia	369.0	21	7.0%	Arkansas	316.2	29	4.7%	Minnesota	714.1	121	7.8%
Mississippi	259.1	23	4.9%	Utah	309.6	25	4.6%	Iowa	197.5	67	2.2%
South Carolina	221.8	9	4.2%					North Dakota	172.6	21	1.9%
Kentucky	171.8	28	3.3%					Nebraska	150.5	60	1.6%
West Virginia	49.1	4	0.9%					South Dakota	63.3	14	0.7%

	\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*
<b>Far West</b>	<b>4,655.6</b>	<b>232</b>	<b>14.3%</b>	<b>Northeast</b>	<b>6,824.5</b>	<b>412</b>	<b>20.9%</b>
California	2,735.1	132	58.7%	Connecticut	350.6	23	5.1%
Washington	517.5	32	11.1%	D. of Columbia	30.0	1	0.4%
Oregon	321.7	30	6.9%	Delaware	249.4	4	3.7%
Alaska	266.6	4	5.7%	Maine	17.3	3	0.3%
Idaho	218.9	11	4.7%	Maryland	138.4	9	2.0%
Montana	218.3	12	4.7%	Massachusetts	459.6	48	6.7%
Hawaii	183.9	1	4.0%	New Hampshire	57.1	7	0.8%
Nevada	142.1	5	3.1%	New Jersey	1,382.4	59	20.3%
Wyoming	51.5	5	1.1%	New York	1,641.3	105	24.1%
				Pennsylvania	2,488.3	150	36.5%
				Rhode Island	10.1	3	0.1%

Total: \$32,592.2 Million

Total Number of Issues: 2,332

\* 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

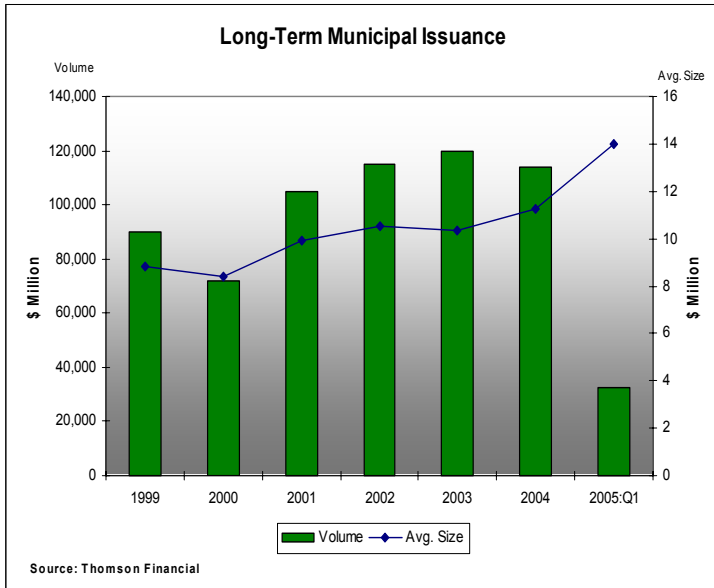
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## 2005:Q1 Long-Term Municipal Top 25 Issuers

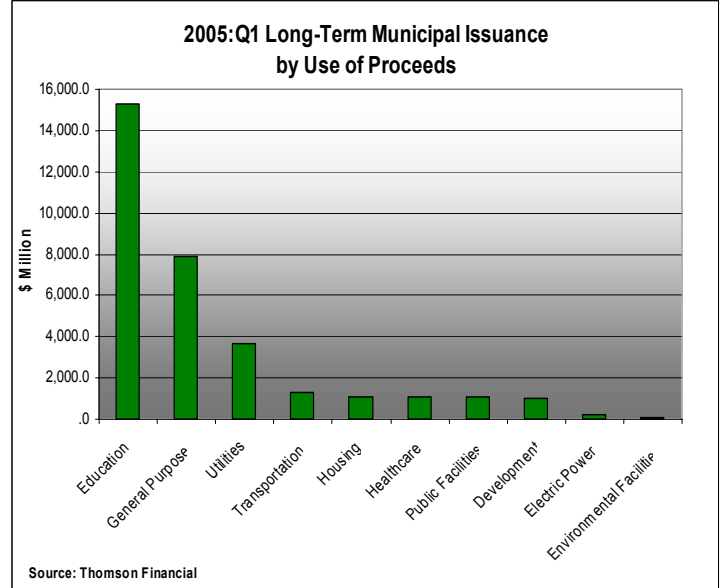
	\$ Mil	# Issues		\$ Mil	# Issues
1 NYC Municipal Water Finance Auth	582.9	1	16 Hawaii	183.9	1
2 New Jersey Trans Trust Fund Au	524.8	1	17 Kansas City Industrial Dev Auth	180.0	1
3 NYS Dorm Authority	429.2	7	17 Loanstar Assets Partners L.P.	180.0	1
4 Detroit City-Michigan	426.6	2	18 Memphis City-Tennessee	166.9	1
5 Shelby Co-Tennessee	407.2	1	19 Philadelphia Redev Authority	150.9	3
6 Jefferson Co-Alabama	400.0	1	20 Gtr Richmond Convention Ctr Auth	148.7	1
7 Illinois Student Assist Commision	350.0	1	21 Alaska Housing Finance Corp	143.2	1
8 Casino Reinvestment Dev Auth	291.6	2	22 Pennsylvania Hghr Ed Facs Auth	142.1	6
9 California St Public Works Board	270.3	1	23 Fontana Public Financing Auth	135.0	1
10 New Mexico Mortgage Fin Auth	259.4	2	24 Tennessee	128.4	1
11 Mecklenburg Co-North Carolina	245.7	3			
12 Illinois Finance Authority	193.6	7			
13 Long Beach Bond Finance Authority	192.4	2	<b>Total Top 25</b>	<b>6,508.0</b>	<b>51</b>
14 San Antonio City-Texas	187.8	2	<b>Industry Total</b>	<b>32,592.2</b>	<b>2,332</b>
15 Arkansas Student Loan Authority	187.4	1			

Source: Thomson Financial

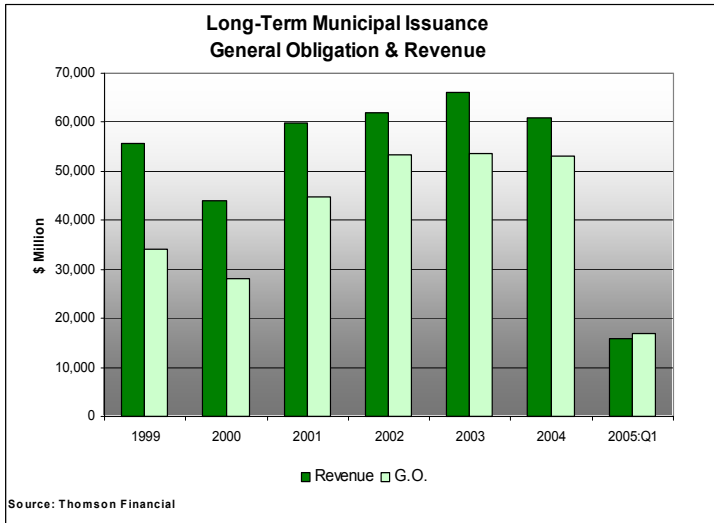
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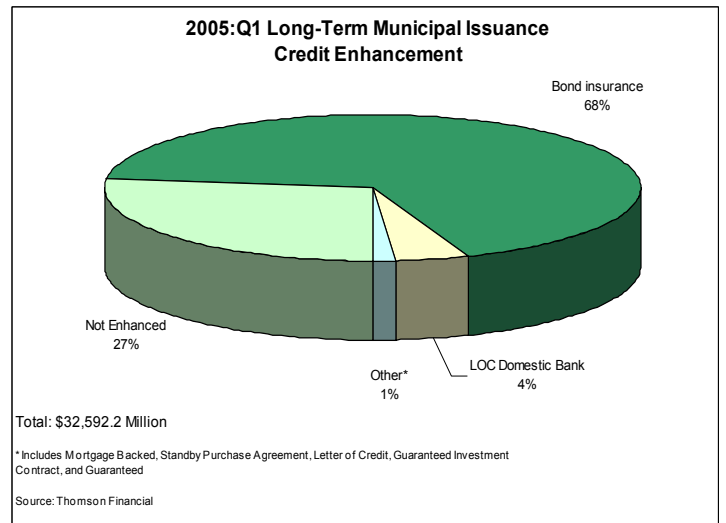
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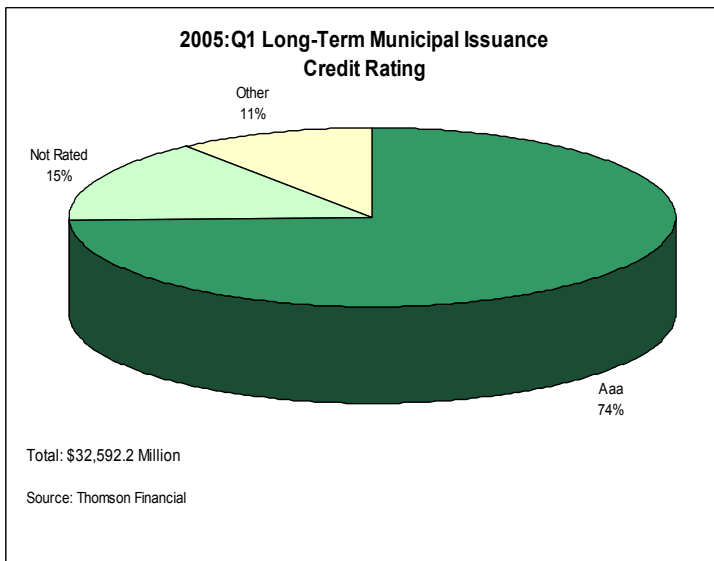
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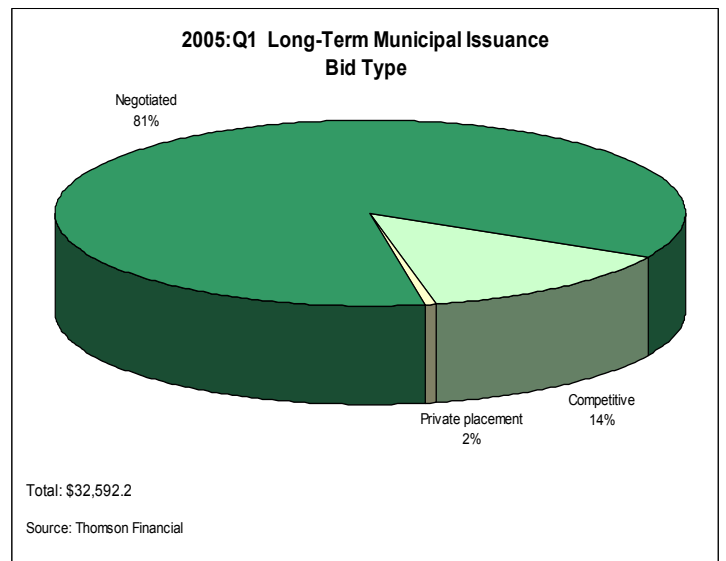
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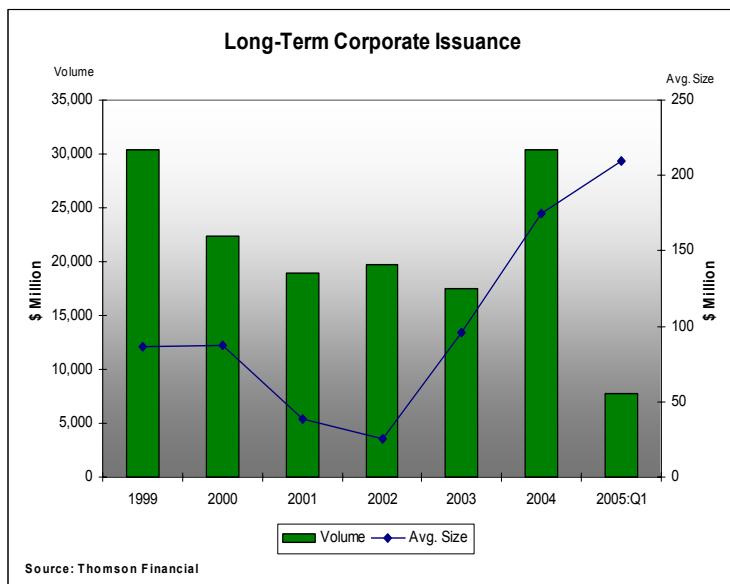
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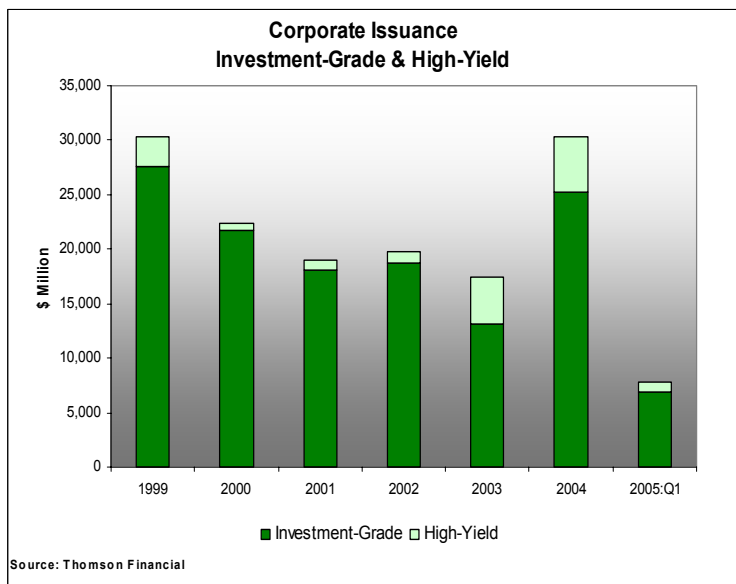
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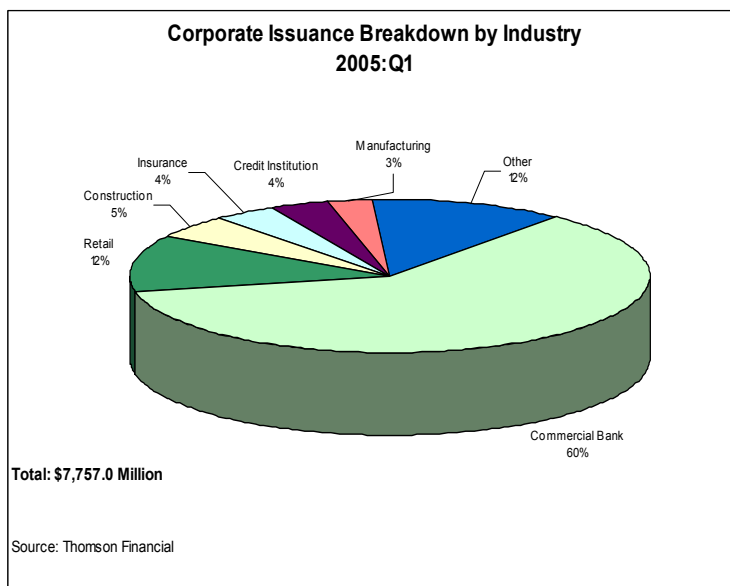
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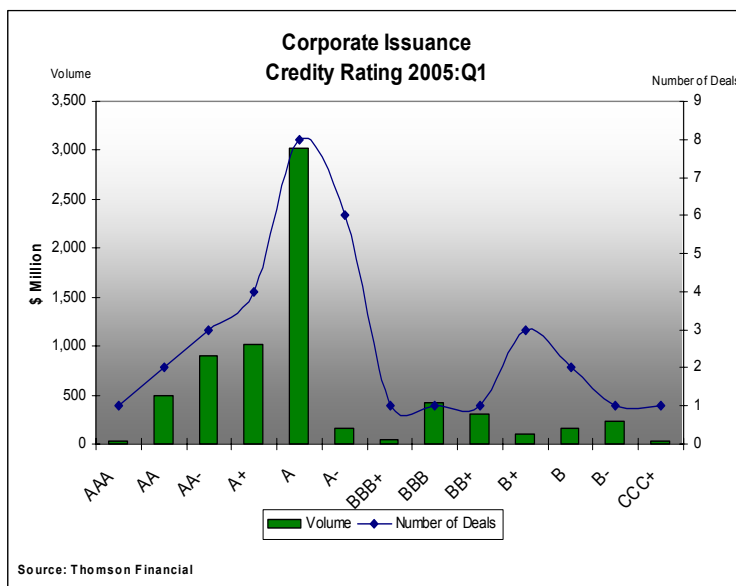
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C-4



C-5 Top 25 States 2005:Q1

State	\$ Mil	# Issues
1 North Carolina	2,425.0	2
2 Ohio	1,350.0	7
3 Texas	1,050.0	2
4 Minnesota	700.0	1
5 Foreign	290.0	2
6 Indiana	270.0	2
7 Iowa	250.0	1
8 Pennsylvania	200.0	1
9 Georgia	150.0	1
10 Virginia	143.0	2
11 Florida	130.0	1
12 Louisiana	105.0	1
13 Delaware	100.0	1
14 California	100.0	2
15 Maryland	100.0	2

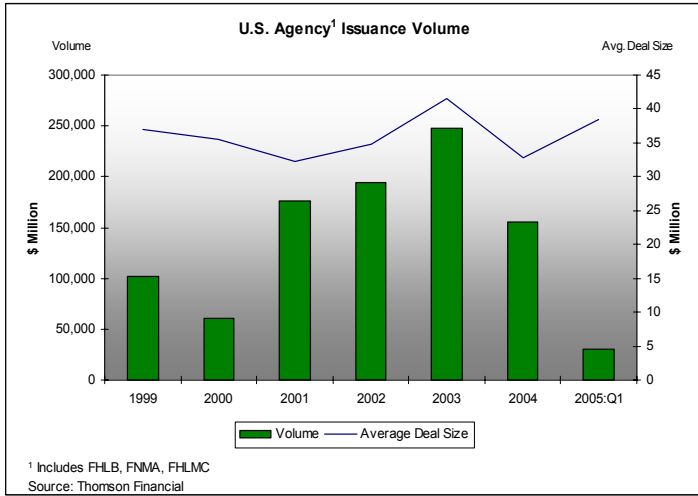
State	\$ Mil	# Issues
16 Alabama	80.0	2
17 Washington	80.0	2
18 New Jersey	79.0	2
18 South Carolina	75.0	1
18 Colorado	50.0	1
21 New York	30.0	1

Industry Total 7,757.0 37

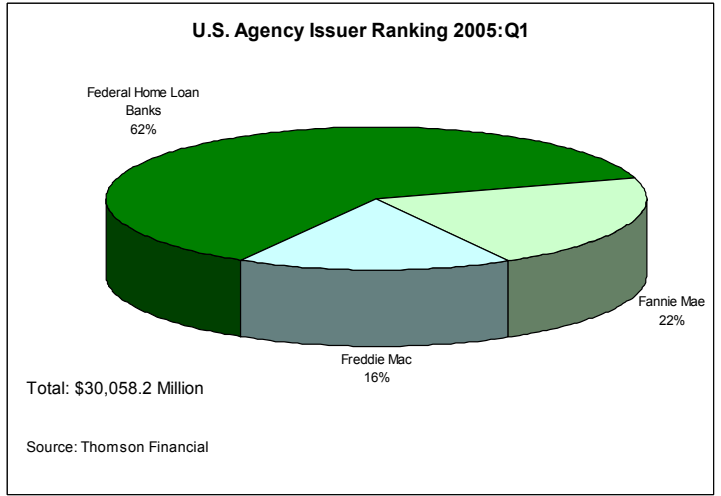
Source: Thomson Financial

## Regional Report – U.S. Agency

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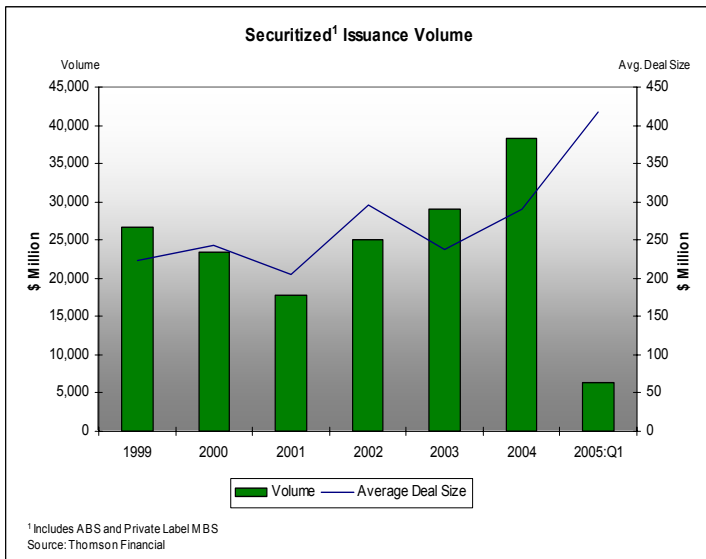


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## Regional Report –Securitized Markets

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