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Muni Investors Fret Over First Republic.

First Republic Bank's tumbling share price has left muni bond holders worried about the bank's large stockpile of state and local government debt.

The bank was downgraded to "junk" by S&P Global Ratings Wednesday and was the worst performer in the S&P 500, according to FactSet. Its stock is down 74.99% month-to-date.

First Republic has been hit after the failures of Silicon Valley Bank on Friday and Signature Bank on Sunday. Cryptobank Silvergate Capital also said earlier this month it would shut down.

First Republic said Sunday it shored up its finances with funding from the Federal Reserve and JPMorgan Chase & Co. Executives at the bank said in a statement that day that First Republic's "capital and liquidity positions are very strong."

San Francisco-based First Republic, which is the 14th largest bank by assets according to the Federal Reserve, had $19.4 billion in municipal bonds on its books as of Dec. 31, according to its most recent filing. In contrast, Cincinnati-based U.S. Bancorp, the 5th biggest bank, has a little over $10 billion.

So far this week, muni debt has gotten a boost as investors have fled to ultra-safe investments. If First Republic sells its munis, a larger-than-usual amount of debt could get dumped into the $4 trillion market, dragging down prices.

But, historically, when banks have unloaded munis under pressure, they've generally been able to do so in an orderly way, said Daniel Solender, partner and director at the investment company Lord Abbett.

Should First Republic need to sell, Mr. Solender said, "it doesn't seem like there's a need to rush any sales."

About $580 billion of outstanding muni debt is held by banks, according to the Federal Reserve. Regional banks own close to $140 billion, according to Barclays PLC. Demand chronically outstrips supply in the muni market, one reason it generally remains calm in the face of turmoil – outside of a really major firesale.

"Silvergate sold $4 billion," said Mikhail Foux, head of municipal strategy at Barclays. "I don't think anybody noticed and nobody even knew."

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By Heather Gillers

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