Bond Case Briefs

Municipal Finance Law Since 1971

Rising Costs, Declining Revenues Forcing Smaller Firms to Exit Municipal Finance Business, MUFG's Head of Public Finance Says.

NEW YORK, Aug. 1, 2017 /PRNewswire/ — Increased costs as an “unintended consequence” of regulatory reform are leading many small U.S. broker-dealers and financial advisors to abandon the municipal finance business, according to Kevin Dunphy, Managing Director and Head of Public Finance at Mitsubishi UFJ Financial Group, Inc. (MUFG).

Dramatically declining fees paid to underwriters and lower municipal bond issuance are other key reasons that small broker-dealers and financial advisors will continue to exit public finance, Mr. Dunphy added.

Mr. Dunphy made his remarks on July 18 in New York during the inaugural session of MUFG Explores, an issues-oriented series in which MUFG subject matter experts meet with journalists to discuss current newsworthy topics and trends.

“One of the biggest impacts of regulatory reform that I see – really as an unintended consequence – is the demise of the small municipal finance firm,” Mr. Dunphy said.

“These firms suffer disproportionally because the increasing regulatory costs consume a greater share of their revenue, significantly reducing profitability.

“Further, when you combine the increasing regulatory costs with declining underwriting spreads and lower issuance, firms’ margins are under severe pressure. The expectation for lower issuance will increase competition for the remaining deals and make matters even worse for these small firms.”

As the smaller firms struggle to effectively compete with their larger, deeper-pocketed rivals, a number of U.S. municipalities are in danger of losing their most knowledgeable and reliable financial experts, Mr. Dunphy noted. Many of these firms have particular expertise in local markets, leaving some municipalities without access to the bankers that best understand their history and the intricacies of their needs.

“New compliance requirements decrease the amount of time bankers and advisors can spend with their clients,” he said. “Ultimately, it will be the municipalities that bear the cost of regulations in the form of increased costs or rates, and the lack of supply.”

Mr. Dunphy has more than three decades of experience as a municipal banker, including 18 years at Bank of New York as the founder and Head of its Public Finance and the Government Banking Divisions. He joined MUFG in 2010.

How will we pay for infrastructure needs?

At the roundtable, Mr. Dunphy also discussed the need for infrastructure spending. “While it is refreshing to hear the new administration talk about infrastructure investment plans," he said, "I am still waiting to understand how we will pay for it."

Mr. Dunphy noted that legislators' promises to upgrade the nation's bridges, roads and tunnels have been largely more talk than action. "Over the years, Washington has kicked the can down the road and, as a result, America's infrastructure is in dire need of repair, replacement, and new projects," Mr. Dunphy said.

MUFG, one of the world's largest financial institutions, is one of the biggest lenders in the public finance sector. Providing credit and complete banking services to governments, public authorities, and not-for-profits, MUFG has extended more than $11 billion of credit to public clients.