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Local Muni Dealers Die Off as Wall Street Lands Most Deals.

- **Number of muni underwriters has dropped by more than a third**
- **Declining fees, new regulations seen spurring drop since 2010**

The small-town bond dealer is a dying breed.

Spurred by declining fees, mergers and regulations ushered in after the financial crisis, the number of banks underwriting U.S. state and local government debt has shrunk by more than a third in a little less than a decade, according to data compiled by Bloomberg. This year, there were 101 firms that handled at least one municipal-bond deal, down from 152 in 2010.

The steep drop illustrates how increasing competition is reshaping the $3.8 trillion municipal-securities market, presenting a challenge to regional firms as the business becomes increasingly consolidated in the hands of Wall Street's biggest banks. Such local underwriters were heavily affected by changes inaugurated by the Dodd-Frank law, which curbed the ability of banks to pitch debt deals to their clients, as well as the steadily eroding fees — or spreads — that states and cities pay to issue new bonds.

The firms that have dropped out in the last decade include Sterne Agee Group, Stone & Youngberg and Cain Brothers, all of which were acquired by rivals. Another, William Blair, shut down its municipal bond business in 2017.

"You have lower spreads, lower volume of issuance, more profitable business elsewhere and new regulations of municipal advisers that have kept broker dealers from knocking on the door of issuers," said Bart Hildreth, a public finance professor at Georgia State University and former member of the Municipal Securities Rulemaking Board. "All of that is making this business more concentrated. The smaller regional firms are being bought up, so that's leading to the consolidation of the industry, which is lowering the number of broker dealers."

The underwriting business is dominated by the 10 biggest banks, which handle about three quarters of new bond offerings, the data shows. And the top 20 manage nearly 90% of the total, leaving only a small share for the lower-tier firms. Since January, there are 27 managers that have handled five or fewer deals, and nine that have underwritten just one.

At the same time, the average fee has dropped to $4.95 for every $1,000 of bonds sold, down from $6.26 in 2010.

The shift in the municipal bond business mirrors one in the broader financial industry, which has steered more work to big mutual funds and banks with the broadest reach.

"The firms that thrive have the best primary issuance platform and distribution capabilities — you kind of have to have the full gamut in my opinion to really have a thriving platform," said Devin Ryan, an equity analyst that covers banks at JMP Securities. He expects the trend of consolidation in the municipal market to continue as "economies of scale and economies of diversification" win out over smaller, regionally-based businesses.

Those pressures are already driving some consolidation. Stifel Financial Corp. in August agreed to buy George K. Baum & Co., a regional underwriter, after previously buying First Empire Securities, a firm based in Hauppauge, New York. In 2012, Raymond James bought Morgan Keegan to bolster its business in the Southeast.

Of the 20 firms that were in the market last year but haven't underwritten a deal so far this year, 10 managed only a single issue in 2018. The handful of firms that managed more than five deals last year but have since done zero, include Neighborly Securities, a startup that has since shifted its focus to Internet broadband.

In the public finance market "there is an ecosystem of many smaller regional players that, in my opinion, there will be far fewer of them over the next decade than there are today," said Ryan, JMP's equity analyst. "It can still be quite a good business. But it is a business that is absolutely consolidated, and I would expect that you will probably continue to see that especially on the smaller end of the market."

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