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JPMorgan's Texas Muni Work Becomes Latest Culture War Fallout.

- **Legal risk of Texas law prevents work with government: bank**
- **New GOP legislation targets companies for gun policies**

The largest U.S. bank says it's being shut out of underwriting municipal-bond deals in Texas after the state enacted a law banning government work with banks that limit business with the firearms industry.

Due to the legislation, JPMorgan Chase & Co. won't bid on business with public entities in Texas, a key market where the bank underwrote $3.6 billion of municipal debt sales in 2020. Texas-based borrowers sold more than $58 billion of bonds in 2020, the most of any state after California, according to data compiled by Bloomberg. As part of bond offerings, borrowers often hire banks ahead of time and pay them a fee for underwriting the sales.

It's one of the first signs of fallout from the Texas GOP's effort to punish Wall Street banks for restrictive gun policies, with politicians in the gun-friendly state seeing it as a way of retaliating against them for weighing in on America's fraught culture wars.

The law prohibits governmental entities from working with a business that "discriminates" against firearm and ammunition businesses or organizations, according to Republican Governor Greg Abbott, who has touted the legislation.

"While our business practices should permit us to certify, the legal risk associated with this ambiguous law prevents us from bidding on most business right now with Texas public entities," Patricia Wexler, a spokesperson for the bank, said in an emailed statement.

The law was enacted as part of a flurry of GOP legislation, such as a law that restricts abortion rights and another that punished cities that defund their police departments. As part of Senate Bill 19, companies have to provide a written verification that they comply with the law, which applies to a contract that has a value of at least $100,000.

JPMorgan was ranked as the seventh-biggest underwriter of deals out of the state, which is one of the biggest markets for the muni-bond business thanks to its fast-growing population.

JPM Replaced

This legislation could be detrimental to municipal issuers in Texas, depending on ultimately how many banks are "captured" by the new law, said Martin Luby, a professor of public affairs at the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin. "There is a concern that the state and local governments wont have access to as many investors if the big banks aren't participating in these transactions."

Earlier this year, JPMorgan CEO Jamie Dimon told a Congressional committee that his bank won't

finance gun companies that make military-style weapons for consumers.

Still, the effect of the law is not entirely clear in Texas. Another bank that was targeted by the legislation, Citigroup Inc., said in June that it didn't think it was affected by the law. In 2018, Citi said it would prohibit retailers that are customers of the bank from offering bump stocks or selling guns to people who haven't passed a background check or are younger than 21. The bank was ranked as the biggest underwriter of Texas muni sales in 2020, when it was credited with underwriting $6.3 billion of long-term sales.

Mass Shootings

Bank of America also announced in 2018 it would stop making new loans to companies that make military-style rifles for civilian use. Its policy came after dozens of employees lost family members or suffered other trauma related to mass shootings in the past few years.

Bank of America was credited with underwriting $3.8 billion of municipal debt sales in Texas in 2020, making it the fifth-biggest underwriter there. A spokesperson for Citi didn't provide an immediate comment on Thursday. Representatives for Bank of America and UBS did not respond to a request for comment.

It's not the first time that municipalities or states have sought to punish Wall Street by cutting them off from new business. In 2018, Louisiana officials barred Bank of America and Citi from a bond sale, citing their restrictive gun policies.

And states like California in 2016 suspended Wells Fargo & Co. from bond work over the bank's bogus accounts scandal.

Hospital Deal

The law is already crimping new business for JPMorgan.

This week, JPMorgan was replaced by UBS Group AG as the underwriter of a bond issue for Texas's Decatur Hospital Authority, a local agency, according to a bond filing Thursday. The authority is an arm of a 7,000-person Texas city that operates Wise Health System. Decatur is the seat of Wise County and is about 65 miles (105 kilometers) northwest of Dallas. In July, the agency had disclosed that it was planning to have JPMorgan serve as senior managing underwriter on a financing that could include the sale of up to $150 million of bonds.

The authority cited "uncertainty related to the implementation of new legislation passed by the State of Texas," though it didn't specify which law.

Todd Scroggins, chief financial officer for Wise Health, didn't respond to a request for comment, nor did a hospital spokesperson.

Bloomberg Markets

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September 30, 2021, 1:33 PM PDT Updated on September 30, 2021, 4:26 PM PDT

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