Bond Giants’ Retreat From Texas Opens Door for Smaller Rivals.

- **BofA, Citi, JPMorgan out of bond market since law kicked in**
- **Marks a shakeup in $58 billion corner of muni market**

In Texas, plenty of banks are already filling the void left by Wall Street’s giants.

Gone, at least for now, are Bank of America Corp., Citigroup Inc. and JPMorgan Chase & Co., the three biggest municipal-bond underwriters, which have seen business grind to a halt since a state law took effect cracking down on companies that restrict work with the gun and fossil fuel industries.

In their place are the likes of UBS AG, Wells Fargo & Co. and smaller players like Hilltop Securities, which are quietly filling the breach in the Lone Star State, where governments and public agencies sold about $58 billion of bonds last year.

UBS, which has been aggressively rebuilding its U.S. municipal bond business, replaced JPMorgan as the underwriter on a hospital debt deal. Wells Fargo, Morgan Stanley and Jefferies Financial Group have all been managing new Texas bond offerings. So has RBC Capital Markets, a unit of the Royal Bank of Canada that has certified that governments can hire it without running afoul of the gun law, according to a person familiar with the matter.

The moves provide an early look at how little-noticed laws that took effect in September are promising to shake up the public finance business in Texas, whose population surged more than any other state’s over the past decade and is home to three of the nation’s 10 biggest cities. That rapid growth made it the second-largest source of municipal bonds in 2020 as governments borrowed to build new roads, schools and other infrastructure. The approximately $58 billion of debt Texas issuers sold last year is about three times the amount of bonds sold by governments in Florida, according to data compiled by Bloomberg.

The potential lost business doesn’t pose much of a risk to Bank of America, Citigroup or JPMorgan. The entire Texas bond market produces only a few hundred million dollars in fees each year, a pittance compared with the nearly $300 billion in annual revenue raked in by those three. Yet it could provide an opening for rivals eager to chip away at their leading position in the municipal-securities business. The three handled more than 100 Texas municipal-bond issues in 2020, totaling $13.7 billion, according to data compiled by Bloomberg. They account for roughly one-third of such deals nationally.

“Where it does help us going forward is having the larger, more sophisticated issuers in the state take a renewed look at FHN Financial and the merits of what we bring,” said Ajay Thomas, the head of public finance for the underwriter. “This gives them an opportunity to take a fresh look at us.”

The Republican-backed laws have far reach. One bars state and local government agencies and school districts from entering into contracts with banks unless they certify that they haven’t enacted policies that discriminate against the gun industry or its trade groups like the National Rifle Association. Another applies similar rules for banks that have targeted fossil fuels.

The wording of the laws has cast uncertainty over some big banks' ability to work for governments in the state, though that could be only temporary as lawyers decide how to interpret them.

JPMorgan said it can't currently bid on most business with public entities in the state. Earlier this year, Chief Executive Officer Jamie Dimon told a Congressional committee that his bank won't finance gun companies that make military-style weapons for consumers. But Citigroup — which has targeted retailers that sell bump stocks like those used in mass shootings and has temporarily stopped bidding for Texas work — has said that it expects to be able to comply with the law.

A Bank of America spokesperson declined to comment.

The legal clouds may have temporarily dampened bond issuance in Texas. In September, the volume of new sales there tumbled about 38% from a year earlier, more than twice as much as the drop nationwide.

Yet the pipeline of upcoming deals shows that many banks are unaffected. Jefferies is serving as lead manager on a $365.8 million sale by the Texas Water Development Board, a major issuer, and the bank is working on a $652 million offering for the Central Texas Regional Mobility Authority. A dozen banks, including Wells Fargo, are included in an upcoming debt sale by the Dallas Fort Worth International Airport, according to a regulatory filing.

Spokespeople for Jefferies, UBS and Wells Fargo declined to comment.

Government officials say they are still working through the impact of the laws, which some have said could potentially cause them to pay higher interest rates if they pushed major banks out of the state. Texas Representative Vikki Goodwin, a Democrat, proposed exempting municipal sales from the law for that reason.

"The state has had a history of passing legislation without really fully understanding the consequences," she said in an interview.

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