

Bond Case Briefs

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Texas Showdown Shows Limits of Seeking Gun Control through Banks.

We now have the first measurable results of the campaign to use major banks' market power to curb the US gun trade. When faced with a legal counter-attack from the Republican-controlled state of Texas, the anti-gun movement appears to have been unsuccessful.

Back in early 2018, public outrage following a series of mass shooting incidents in the US, including one at a Parkland high school, led to activist demands for the financial industry to cut off support for the gun trade.

At the time, the National Rifle Association, the largest US gun lobbying group, was facing accusations of financial mismanagement that ultimately led to an investigation by New York State authorities and a bankruptcy proceeding. Anti-gun activists had reason to believe it was a good moment to strike.

At first, the activists made progress. By March 2018, Citigroup had announced that it would require retailers who were clients of the bank not to sell firearms to customers under the age of 21, and to cease the sale of devices "that increase the firing rate of semi-automatic firearms". Shortly after, Bank of America said it would halt lending to manufacturers of "military-style" weapons.

JPMorgan Chase was a bit slower to react to the mass-shooting revulsion, but this year chief executive Jamie Dimon told Congress that the bank would also no longer finance the makers of military-style weapons. Goldman Sachs made a similar commitment. Others, such as Morgan Stanley, made more equivocal pledges to step back from the gun trade.

There were, however, banks who have held back on restricting support for the firearms and ammunition trade. Among the largest are Wells Fargo and Barclays' US bank.

As I have noted in the past, the consumer end of the gun making industry in America is a highly fragmented, low-tech metal bending trade. On past form it is more likely to be a source of bankruptcy attorneys' fees than profit growth for its lenders.

But more than a third of Americans say they own guns. When gun owners are asked why they own a firearm, they most frequently cite personal safety or defence. Less than half say they bought a gun for hunting.

Gun buying does track political identification. According to a Pew Research public opinion survey, 44 per cent of Republicans and Republican-leaning independent voters say they own a gun, in contrast to only 20 per cent of Democrats or Democrat-leaning independents.

Politicians paid attention. Democrats in Republican-leaning states, such as Joe Manchin in West Virginia, and populist Republicans such as Marjorie Taylor Greene of Georgia have made campaign videos showing them shooting guns at copies of locally unpopular legislation or exploding targets.

Texas Republicans, whose control of the state government has become shakier in recent years, have fastened on the anti-mass shooting movement as a useful foil.

In June, the Texas legislature passed into law Senate Bill 19, which prohibits state contracts with companies that “discriminate against the firearms or ammunition industries”. This included the major banks’ limitations on doing business with the gun trade, and “state contracts” included the underwriting of municipal bonds.

Texas is the third-largest municipal bond issuer (after California) in the US, with over \$408bn in total outstanding public debt. This was a major test for the anti-gun campaigns.

Yet Bill 19’s language is ambiguous and an underwriter might find hairsplitting ways to get around its stated purpose. Nevertheless, JPMorgan, Bank of America, Citigroup, Goldman and others pulled back from underwriting Texas muni bonds after the law went into effect on September 1.

What happened when Texas re-entered the bond market after the return from the summer holidays? Hardly anything. By the third week of October, the state had issued \$730m of new bonds, which were underwritten by lower-tier banks and dealers.

While October was a difficult month generally for the municipal market, according to CreditSights, an independent analytics firm, the yield on the state’s AAA bonds hovered around 1.41 per cent, just 0.17 percentage points higher than the benchmark ICE BAML Municipal Bond Index.

As one municipal dealer says: “The smaller dealers got excited for a hot second, but that was it. The state government made a move that seemed congruent with its population’s sentiments.”

The thin results of the anti-gun campaign in the banking industry show the limits of creative fixes for divisive issues marked by deep social fears and political tribalism.

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