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JPMorgan Eyes Return to Texas Munis After Escaping GOP's ESG Ire.

- **Cloud lifts after firm not included on energy-boycotter list**
- **First step would be to file a standing letter with Texas AG**

JPMorgan Chase & Co., which has mostly been absent from the business of underwriting Texas municipal bonds for the past year, plans to revive its work with the state and its local governments soon.

The firm, the No. 2 underwriter in the \$4 trillion market for US municipal debt, joined a small group of major banks in stepping back from Texas after two new GOP-backed laws there took effect there on Sept. 1, 2021. The measures target Wall Street for what local officials said were restrictive policies related to the firearms and energy industries.

Wednesday, however, brought a key development that opens the door for JPMorgan to ramp up its muni business in Texas, one of the three most lucrative US public-finance markets. In a nutshell: Texas Comptroller Glenn Hegar, wrapping up a months-long inquiry mandated by the new law, didn't include the bank among the 10 finance firms he deems boycott the oil and gas industry.

It stands to be a big win for the New York-based bank, which was the largest muni underwriter on the list of more than 150 firms that were caught up in Hegar's probe.

With that cloud lifted, JPMorgan intends to begin bidding on public contracts again, including municipal underwriting, according to a person familiar with the matter. To begin underwriting muni deals in Texas, the bank first has to file a letter verifying its compliance with the firearms and energy laws with the Texas attorney general's office, the person said. The exact timing of that filing is to be determined.

The bank would likely resume underwriting for Texas and its localities by bidding on what's known as competitive bond deals, where banks buy the debt via an auction, according to the person.

No Cuts

JPMorgan didn't cut any public-finance jobs in Texas after the laws went into effect, and bankers kept sending financing pitches to municipalities there to maintain relationships with clients, the person said.

The bank's return is also potentially a boon for Texas municipalities, which haven't been able to work with some of the biggest banks — with the broadest network of investor contacts — on their bond deals.

The absence of large banks from the Texas underwriting market because of the two new laws has resulted in "large adverse effects for borrowers," according to a study by a University of Pennsylvania professor and an economist at the Federal Reserve.

Bank of America Corp., the No. 1 US muni underwriter, and Goldman Sachs Group Inc., ranked sixth, haven't handled any deals by Texas or its cities since September 2021.

The Texas gun law says its governments can't work with companies unless they verify that they don't "discriminate" against firearms entities. JPMorgan doesn't finance companies that make military-style weapons for civilians.

Citigroup Inc. also suspended muni-bond work after the law took effect in 2021, but it was able to revive its underwriting work in November. The bank continues to underwrite bond deals and is the seventh-biggest underwriter of Texas muni deals this year, after ranking first in 2020, data compiled by Bloomberg show.

JPMorgan Takes First Step to Revive Texas Muni-Bond Business

JPMorgan has long argued that it can comply with the firearms law. In September 2021, JPMorgan said its business practices should permit it to certify compliance with the firearms law. But it said the legal risk from the "ambiguous" law prevented it from bidding on most business with Texas public entities.

In May, Foley & Lardner LLP, a law firm representing JPMorgan, sent a letter to officials with the Texas attorney general's office stating it believes the bank can verify compliance with the laws, marking a key step for the bank to return.

"JPMC's risk-based framework does not discriminate against or prevent JPMC from doing business with any firearm entity or firearm trade association 'based solely on its status as a firearm entity or firearm trade association' without a traditional business purpose," the letter said.

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