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[Bank Holdings of Muni Debt Fall to Nine-Year Low on Tax Changes.](#)

- **Institutions held $498.5 billion of muni securities as of June**
- **Banks pull back as taxable state and local issuance declines**

US banks' investment in state and local debt is at the lowest level in nearly nine years, as sales of taxable municipal securities have dropped and lending institutions continue to reap the benefits of a lower corporate tax rate.
Banks held a combined $498.5 billion of municipal debt, as of June 30, the least amount of exposure for the banks since September 2015, and down 21% from a record high of $631.3 billion held at the end of 2021, according to data from the Federal Reserve.

Banks have traditionally served as a reliable and sizable buyer of state and city debt, alongside individual investors, mutual funds and insurance companies. Though the firms pulled back from tax-exempt securities after former President Donald Trump cut the corporate tax rate to 21% from 35% in 2018, banks returned to the product in 2020 and 2021 to take advantage of a boost in issuance of taxable municipals.

That volume has died down since the Fed hiked rates in 2022. States and local governments have sold $23.3 billion of taxable bonds so far this year, about a third of the $74.4 billion sold during the same period in 2021, according to data compiled by Bloomberg.

"That's been a challenge for the banks, not enough taxable supply," said Matt Fabian, a partner at research firm Municipal Markets Analytics.

Banks generally like municipal debt for their longer maturities and lower risk compared to other investments. But with a 21% corporate tax rate, the banks don't need to rely as much on tax-exempt securities. Some are also scarred by losses endured in 2022, when the broader municipal market declined 8.5%, Fabian said.

"They took large losses on munis, so they fear them now," Fabian said about the banks.

A bank pullback could affect prices on municipal securities if the tax-exempt market needs to rely more on individual buyers who may shy away from lower yields, according to Fabian.

"We have more exposure to changes in retail behavior," Fabian said. "If the Fed cuts rates and interest rates fall and then retail becomes less interested in buying lower yielding bonds, it's going to be a drag on muni performance because you don't have corporations or others to help chase muni-bond prices higher."

Bloomberg Markets

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