

Middle Market Report

The Securities Industry and Financial Markets Association¹ is pleased to report the results of its quarterly Middle Market Report. The report analyzes and presents aggregate information and trends related to bond and equity underwriting in which one or more middle market securities firms – non-primary dealers – are the lead underwriter or “book runner” on the deal based on publicly available information. The report’s bond coverage focuses on long-term transactions – those in which the stated original maturity at issuance is greater than thirteen months – and covers the range of fixed-income market sectors, including municipal bonds, corporate bonds, federal agency securities and asset-backed and private-label mortgage-backed securities. In addition, the report analyzes and presents middle market firm mergers and acquisition (M&A) advisory activity.

Middle Market Firm-Led Underwriting Fell in Q1 on Mortgage Market Dislocation; Share of Equity and M&A Higher on Lower Volume

Middle market firm-managed bond issuance in the municipal, corporate, federal agency, and structured finance market sectors fell to \$78.5 billion in the first quarter of 2008, 36.9 percent below the \$124.3 billion during the first quarter a year ago. Including equity underwriting, total middle-market led issuance was \$88.7 billion for the quarter, off 38.7 percent from the \$144.8 billion in the first quarter a year ago. The year-over-year decrease is attributable and consistent with the weakened and volatile conditions in the credit markets since the middle of 2007 subprime meltdown which has affected all financial asset classes. The middle market firms’ share of credit market underwriting decreased to 10.5 percent in the first quarter, compared to 13.5 percent during the same period a year ago. However, middle market firms’ share of equity underwriting and mergers and acquisition (M&A) advisory assignments increased, even though overall dollar volumes declined.

Middle market firm-led first quarter underwriting, especially in the fixed income sectors, was affected by heightened investor risk aversion, credit risk repricing, diminished liquidity, slower economic growth, weaker corporate profits, the continued housing downturn and, especially, dislocations in the secondary or securitized mortgage markets. There was some recovery in investor risk appetite outside of the mortgage sector during the second quarter, although concerns about the housing government sponsored entities (GSEs) over the last few weeks have been an additional recent source of market-wide stress and uncertainty.

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¹ The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA’s mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public’s trust and confidence in the markets and the industry. SIFMA works to represent its members’ interests locally and globally. It has offices in New York, Washington D.C., London and its associated firm, the Asia Securities Industry and Financial Market Association, is based in Hong Kong.

Based on the SIFMA Economic Outlook survey of chief U.S. economists of member firms taken in June², the consensus view is for continued below-trend economic growth over the balance of the year with some improvement expected for next year. Absent a further significant credit market relapse, the Fed was expected hold rates steady over the near term. The Fed's next move is expected to be 25 basis points increase in rates aimed at stemming inflation and inflationary expectation pressures. According to that survey, there has been a "somewhat improved tone" in the markets primarily as a result of reduced systemic risk in response to the Federal Reserve's aggressive provision of liquidity through the developments of new and expanded facilities over the first half of the year.

Relative to the leveraged consumer, corporate balance sheets have remained relatively solid. Default rates, however, are forecast to steadily rise from historically low levels as a result of the slower economy and profits, which appear to be priced in by the corporate bond markets. Equity market indices have declined from the multiyear highs last year and crossed into "bear market" territory recently. In general, the environment will continue to be challenging for middle market firms and their issuer clients over the balance of the year.

Middle Market Municipal Underwriting Volume Rises in the First Quarter

Despite the generally difficult credit market conditions in the first quarter, middle market firm-led municipal issuance volume, including private placements, increased to \$37.2 billion in the first quarter of 2008, 8.8 percent above that in the first quarter a year ago. The year-over-year issuance growth is largely attributable to pent up issuer demand following municipal market turbulence late in 2007 and the early part of the first quarter of 2008. Issuers delayed coming to market until later in the quarter when market conditions showed signs of moderating. Refinancing of auction rate securities also contributed to this growth.

Both competitive and negotiated municipal underwriting volumes were higher in the first quarter than in the same period a year ago. Middle market firm-led negotiated issuance increased 3.4 percent to \$30.1 billion, up from \$29.1 billion in the first quarter 2007. Year-over-year, competitive sales volume also increased, reaching \$7.1 billion, up 54.3 percent from \$4.6 billion in the first quarter of 2007.³

The Northeast ranked first among geographic regions and accounted for 23.4 percent of middle market firm-led municipal underwriting volume, with the Midwest ranking second and the Far West third. The top issuing states were California and Texas, accounting for a combined 32 percent of middle market firm-led municipal underwriting through the first quarter.

In general, the municipal market has been characterized by low default rates and strong credit ratings supported by credit enhancement. While municipal bond credit ratings remain strong, municipalities are, however, currently subject to slower state and local tax revenue growth as a result of a softer labor market, corporate profits and property tax assessment trends as housing prices have fallen. Sixty-two (62 percent) of first quarter middle market firm-led rated municipal issuance volume had the highest Moody's rating, Aaa. An additional 21 percent of middle-market firm-led issuance was unrated. Including both rated and unrated issuance, 39 percent of middle market firm-led issuance carried the Aaa rating. Considering the uncertainty over monoline bond insurers, new issues carrying bond insurance declined to 33 percent of total

² See (www.sifma.org/research/pdf/economic-outlook0608.pdf).

³ The difference between total middle-market bond led underwriting and the sum of negotiated and competitive municipal bond underwriting is attributable to municipal bond private placements.

issuance by dollar volume compared to 55 percent a year ago. Education continues to be the largest use-of-proceeds sector, accounting for 32.3 percent of middle market firm-led municipal volume in the first quarter.

Financial Institution Issuance Accounts for Most of Corporate Bond Underwriting

Middle market firm-led corporate underwriting totaled \$20.1 billion in the first quarter, 4.7 percent lower than the \$21.1 billion in the first quarter a year ago. Middle market firm-led corporate issuance accounted for 9.3 percent of total U.S. corporate issuance in the first three months of the year, up from 6.9 percent in the first three months in 2007. As overall corporate bond issuance had a strong second quarter, it would be expected that middle-market led issuance also picked up in the second quarter.

First quarter middle-market firm-led corporate bond issuance was driven by financial institutions. Commercial banks accounted for 82 percent of middle market-led issuance in the first quarter, while the broader financial services sector, including mortgage companies and thrifts, accounted for 98 percent of issuance. Virtually all (98.5 percent) middle-market led issuance was investment grade and US-based corporations accounted for 76 percent of middle market-led corporate issuance in the first quarter. Among the states, North Carolina-based corporations continued to rank first by a wide margin with 73 percent of issuance dollar volume during the first quarter.

Securitized Underwriting Falls Dramatically on Mortgage Market Dislocation; Agency Issuance Also Lower

Middle market firm-led underwriting of securitized debt declined 92 percent to \$4 billion in the first quarter of 2008, down from \$47.9 billion from the same period a year ago. The sharp reduction is attributable to the weakness in the nonagency mortgage-backed securities market as residential mortgage-backed securities (RMBS) issuance accounted for nearly 77 percent, or \$3.1 billion, of all middle market-led securitized issuance. Tightened underwriting standards following the protracted mortgage credit quality weaknesses, rising delinquency and foreclosure levels and diminished investor demand are likely to continue to affect nonagency mortgage-backed securitization volume. Credit card receivables were the second largest securitized issuing sector and totaled \$0.5 billion in the first quarter.

Federal agency issuance managed by middle market firms declined to \$17.2 billion in the first quarter of the year, nearly 23 percent below that in the same year-earlier period. The Federal Home Loan Banks (FHLB) accounted for 59 percent of the issuance. Year-over-year reduction in agency issuance volume can be attributed to the weakened housing market and reduced mortgage origination volumes. Agency issuance for the balance of the year is likely to be led by capital replenishment especially at Fannie Mae and Freddie Mac and demand for FHLB funding by depository institution FHLB members.

Equity Underwriting and M&A Volume Lower in Q1; Middle Market Firm Share Rises

Although middle market firm-led equity underwriting declined 51 percent to \$10 billion in the first quarter of 2008 compared to first quarter 2007, the middle market share of total equity underwriting rose to 55 percent from 45 percent a year ago. First quarter equity underwriting volume represented 11.3 percent of total debt and equity underwriting volume. Middle market firm-advised announced M&A deals totaled \$104 billion in the first quarter, well below the \$161.2 billion at the same time a year ago. As with equity underwriting, however, the middle market share of total announced M&A advising rose, accounting for 51.9 percent of the total in the first quarter 2008 compared to 36.2 percent a year ago. Middle market M&A volumes were affected by the broader trends driving deal flow, including lower equity values and diminished credit availability. Corporate acquisition deal volumes for the balance of this year will be determined by access to credit, equity market values, opportunities to acquire assets at a discount in the current environment, and strategic mergers.

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MIDDLE MARKET REPORT - Municipal

M-1

2008:Q1 LONG-TERM MUNICIPAL ISSUANCE BY GEOGRAPHIC REGION

	\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*
Southeast	5,510.5	287	14.7%	Southwest	7,138.2	419	19.0%	Mid West	8,129.2	780	21.6%
Florida	1,266.8	31	23.0%	Texas	4,002.0	159	56.1%	Illinois	2,041.0	150	25.1%
Tennessee	803.7	22	14.6%	Arizona	805.6	34	11.3%	Michigan	1,240.9	86	15.3%
Virginia	760.4	22	13.8%	Colorado	782.9	33	11.0%	Indiana	1,074.2	40	13.2%
North Carolina	664.5	23	12.1%	Kansas	494.7	53	6.9%	Ohio	827.6	63	10.2%
Georgia	499.6	27	9.1%	New Mexico	379.5	12	5.3%	Minnesota	825.2	95	10.2%
Alabama	367.8	29	6.7%	Oklahoma	261.3	77	3.7%	Wisconsin	796.3	112	9.8%
Kentucky	324.8	68	5.9%	Utah	253.1	18	3.5%	Nebraska	489.8	73	6.0%
Louisiana	302.6	28	5.5%	Arkansas	159.1	33	2.2%	Missouri	410.8	54	5.1%
Mississippi	292.9	22	5.3%					Iowa	257.7	85	3.2%
South Carolina	160.6	11	2.9%					South Dakota	96.9	9	1.2%
West Virginia	66.8	4	1.2%					North Dakota	68.8	13	0.8%

	\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*
Far West	8,006.9	21	21.3%	Northeast	8,794.4	344	23.4%
California	6,777.3	18.0	84.6%	New York	3,602.3	114	41.0%
Washington	810.4	2.2	10.1%	Pennsylvania	2,316.9	107	26.3%
Alaska	103.0	.3	1.3%	Massachusetts	1,122.0	37	12.8%
Nevada	87.6	.2	1.1%	New Jersey	458.1	43	5.2%
Idaho	80.2	.2	1.0%	Maryland	391.9	8	4.5%
Oregon	77.7	.2	1.0%	D. of Columbia	381.7	5	4.3%
Montana	63.0	.2	0.8%	Connecticut	227.8	11	2.6%
Wyoming	7.7	.0	0.1%	New Hampshire	160.6	6	1.8%
Hawaii	0.0	0.0%	0.0%	Rhode Island	52.6	2	0.6%
				Vermont	37.1	7	0.4%
				Maine	25.8	3	0.3%
				Delaware	17.6	1	0.2%

Total: \$34,168.1 Million

Total Number of Issues 2,143

* Middle market percentages represent the portion of total U.S. middle market dealers accounted for by that region. State percentages represent the portion of total issuance in the region.

Source: Thomson Financial

M-2

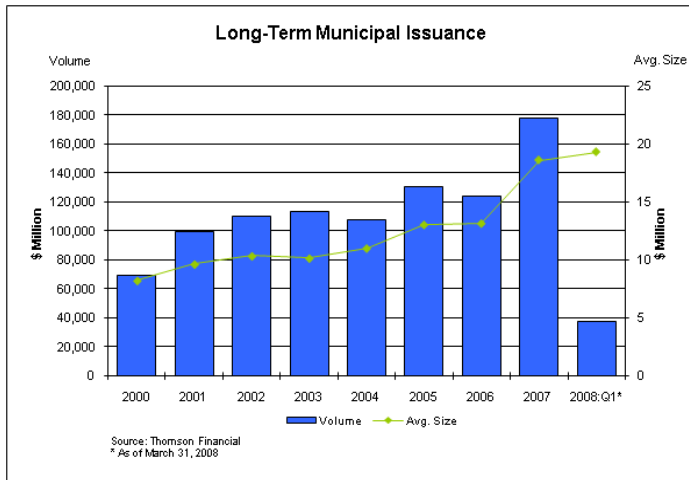
2008:Q1 LONG-TERM MUNICIPAL TOP ISSUERS

	\$ Mil	# Issues		\$ Mil	# Issues
1 Pima Co Industrial Dev Auth	323.1	5	7 NYS Thruway Authority	247	1
2 Maryland Hlth & Hghr Ed Facs Au	304.5	3	8 King Co Public Hospital Dt #1	218.2	1
3 Harris Co Flood Control Dt	293.4	2	9 University of Akron	205.1	2
4 Massachusetts Hlth & Ed Facs Au	263.7	3	10 Wisconsin Health and Ed Fac Auth	189.8	6
5 New Mexico Mortgage Fin Auth	261.5	4	11 Indiana State Univ Bd of Trustees	182.8	1
6 Regents of the Univ of California	248.9	2			
			Total Top 11	2,738.0	30
			Industry Total	37,179.0	1,923

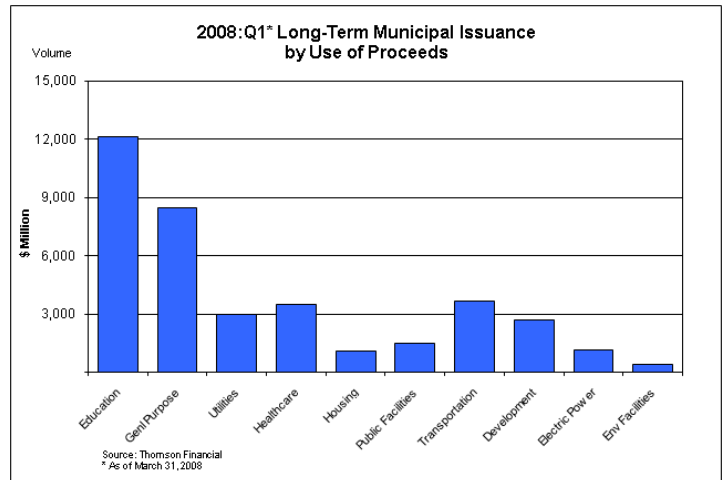
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MIDDLE MARKET REPORT - Municipal

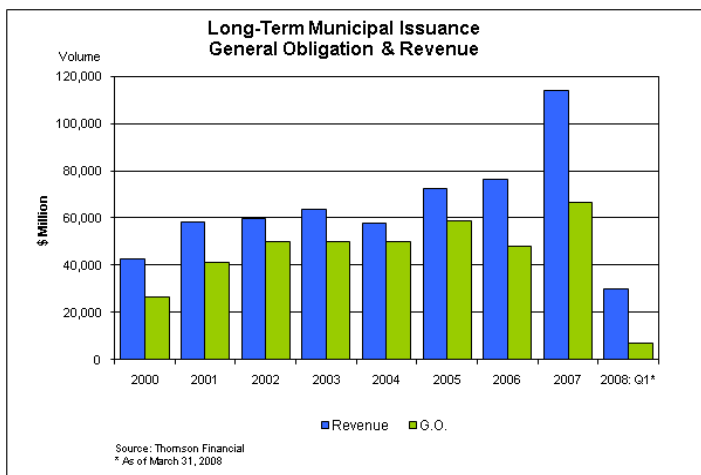
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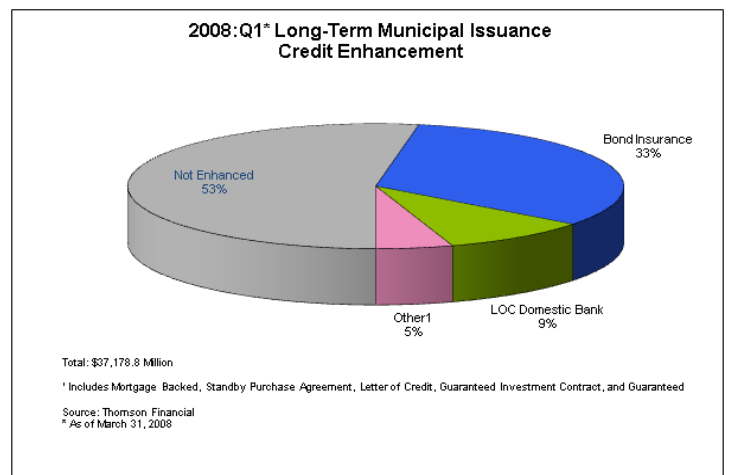
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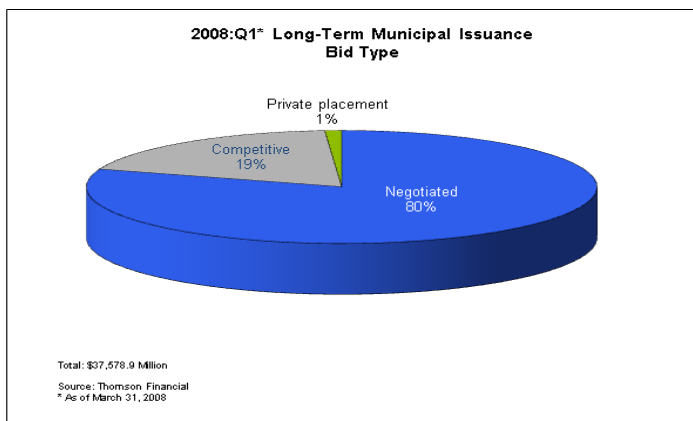
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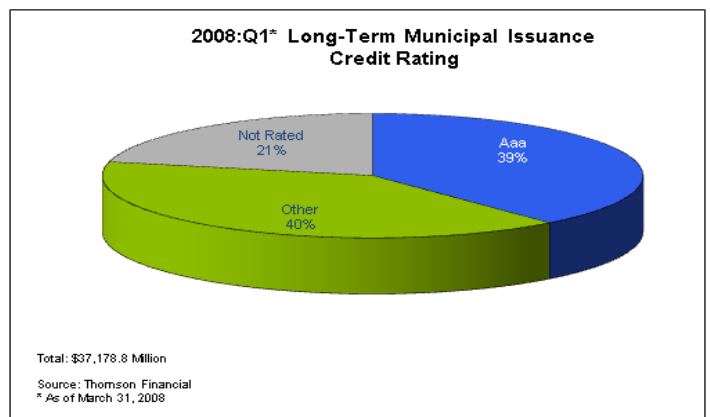
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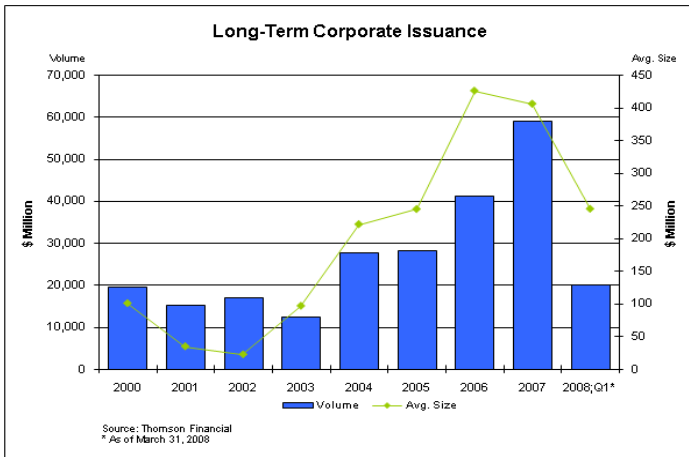


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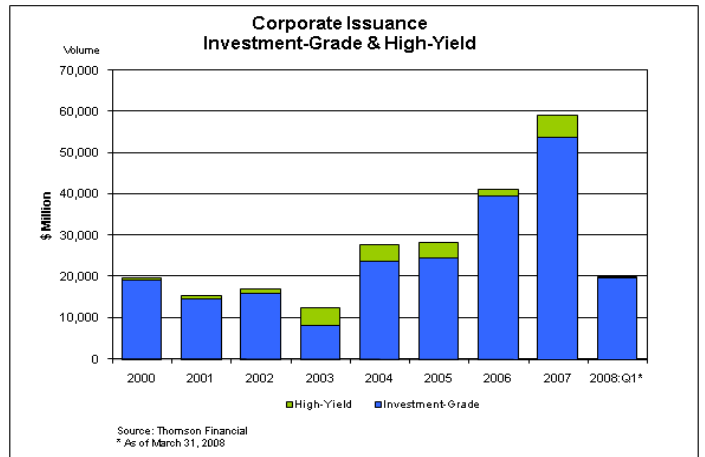


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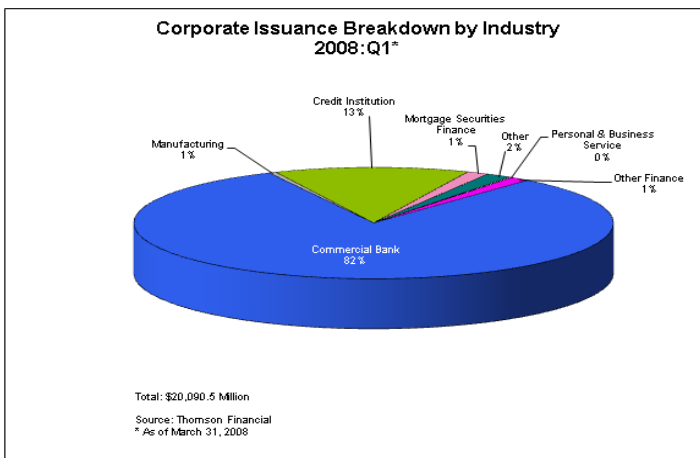
C-1



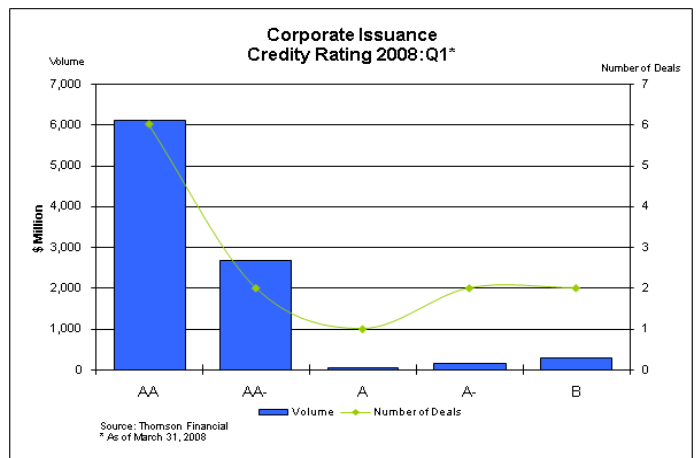
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C-3



C-4



Issuance by State 2008:Q1

C-5

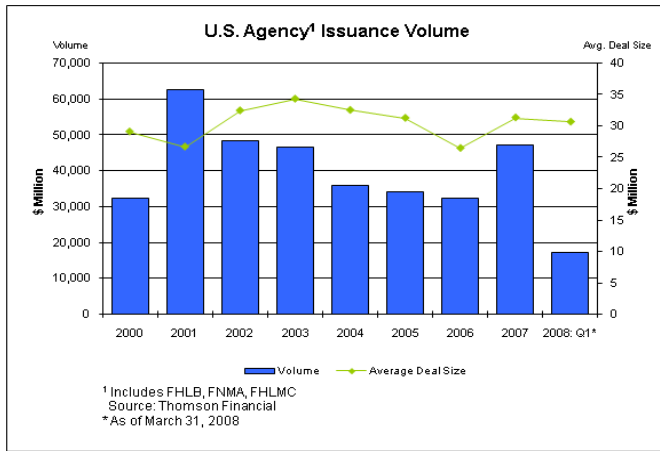
State	\$ Mil	# Issues
1 North Carolina	14,574.3	7
2 Foreign	4,776.9	68
3 California	247.1	2
4 Delaware	200.2	1
5 Ohio	147.1	2
6 Indiana	125.0	1
7 Pennsylvania	20.0	1

State	\$ Mil	# Issues
Total Top 7	20,090.6	67
Industry Total	20,090.5	82

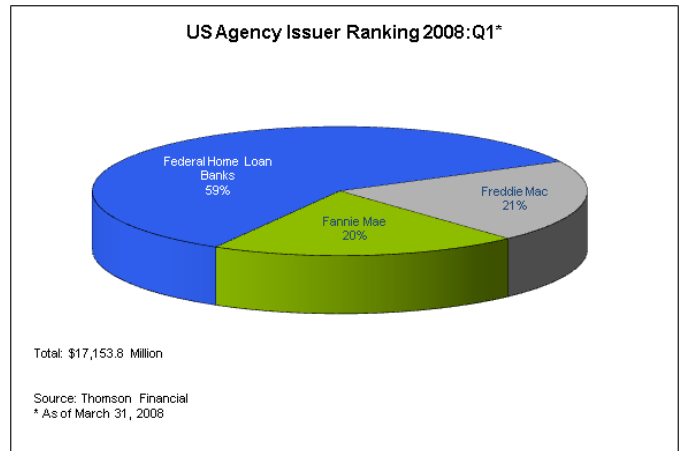
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MIDDLE MARKET REPORT - U.S. Agency

A-1

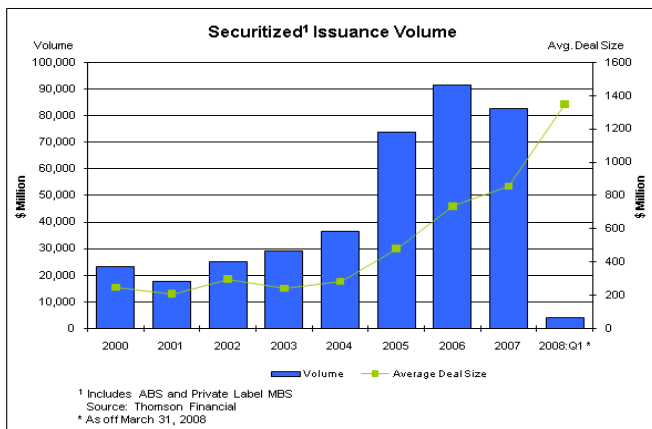


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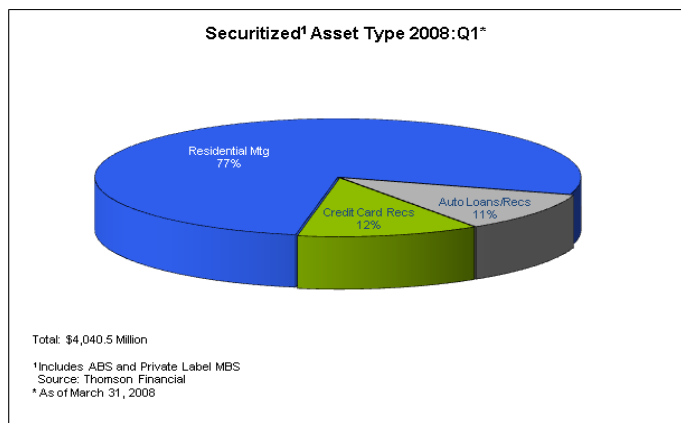


MIDDLE MARKET REPORT - Securitization

S-1

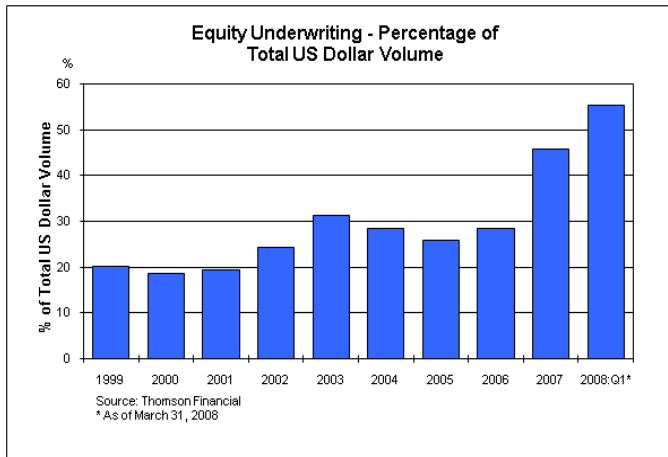


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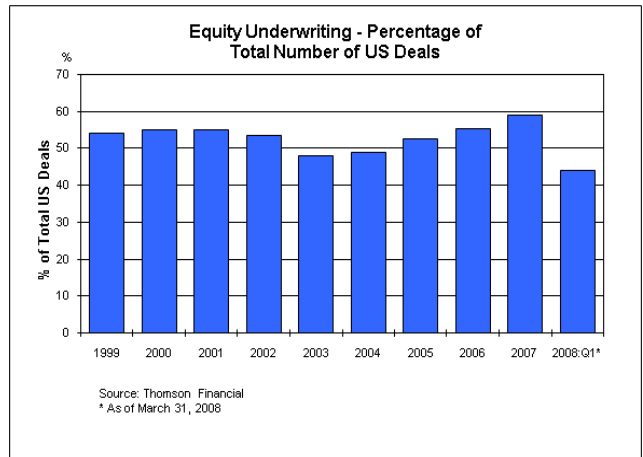


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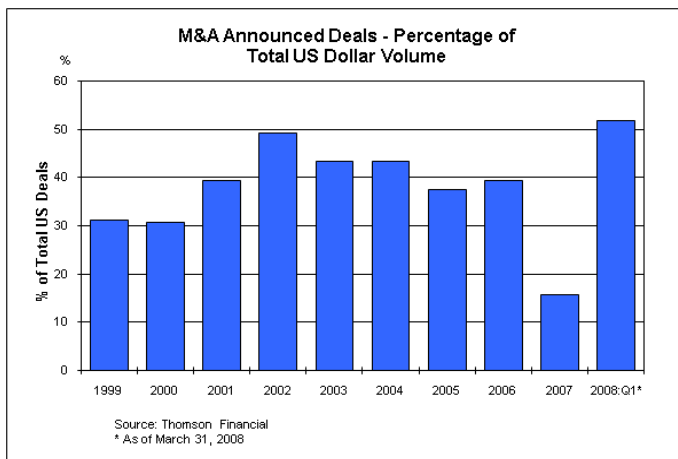
E-1



E-2



E-3



E-4

