

# Research

## *Middle Market Bond Dealer Report*



The Bond Market Association<sup>1</sup> is pleased to report the results of its quarterly *Middle Market Bond Dealer Report*. Based on publicly available information, the report synthesizes, analyzes and presents aggregate information and trends related to bond issuance in which one or more regional securities firms—non-primary dealers—is the lead underwriter or “book runner” on the deal. The report’s 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 in which regional firms are active including municipal bonds, corporate bonds, federal agency securities and asset-backed and private-label mortgage-backed securities.

May 2006

### Research Department

**Michael Decker**  
Senior Vice President  
Research & Policy Analysis

**Steven Davidson, CFA**  
Vice President  
Director Research

**Marcelo Vieira**  
Director,  
Market Statistics

**Tiffany Coln**  
Research Analyst

**Bryan Gross**  
Research Analyst

### **Regional Firm-Led Underwriting Surges in First Quarter Led by Securitized and Corporate Issuance Sectors; Agency Volume Down Sharply in Q1**

Regional firm-managed issuance, including the municipal, corporate, federal agency, and structured finance market segments, increased to \$104.9 billion in the first quarter, a 25.8 percent increase from \$83.4 billion during the same period a year ago. The year-over-year increase was led by higher securitized finance volumes, which grew more than threefold from a year ago. In the first quarter, the regional dealer-underwriting share rose to nearly 10 percent of the U.S. total in those sectors, compared to approximately 7.2 percent during the first quarter in 2005. Excluding agency underwriting, regional issuance volume would have increased by nearly 72 percent.

The market environment for the balance of the year will offer a number of challenges. Benchmark yields have risen since the end of the quarter based on strong economic data. The Bond Market Association’s most recent quarterly interest rate survey, though, did project a peaking of benchmark yields over the next few quarters. There are some signs that the Fed is coming close to a completion, or at least a pause, in the tightening cycle before the end of the year. The FOMC decisions will be driven by data and its commitment to keep inflation and inflationary expectations under control. Credit spreads have been cyclically tight during the current benign credit environment. Although credit conditions continue to be favorable, there is an expectation of some incremental softening with the major rating agencies forecasting modest but steady rises in corporate default rates over the next 18 months, double-digit profit growth expected to moderate later in the year and a potential for some balance sheet re-leveraging. There are also signals of a cooling housing market from the record setting pace of the last few years. Taken together, the economic growth, credit quality and interest rate outlook translate into generally favorable market conditions for regional firms.

Washington Office:  
1399 New York Ave., NW  
Washington, DC 20005  
202.434.8400  
Fax 202.737.4744

New York Office:  
360 Madison Avenue  
New York, NY 10017  
646.637.9200  
Fax 646.637.9126

London Office:  
St. Michael’s House  
1 George Yard  
London EC3V 9DH  
44.20.77 43 93 00  
Fax 44.20.77 43 93 01

### **Regional Municipal Underwriting Volume Lower After Record Volume in 2005**

After reaching record volumes in 2005, regional municipal issuance pace slowed in the first quarter totaling \$25.5 billion, down 22.2 percent from the volume of the first quarter a year ago and down 18.7 percent from the fourth quarter of 2005. Regional firm-managed underwriting accounted for more than 36.3 percent of total municipal volume during the first quarter of the year, slightly higher than the 33.5 percent share of total municipal volume a year ago. The decline in municipal issuance volume was a result of rising municipal bond yields, and the fact that a number of issuers had already taken advantage of lower rates to refund existing debt last year. The average deal size increased to \$13.3 million in the first quarter, up from \$13.1 million in the fourth quarter but down from \$13.7 million at the same time a year ago.

<sup>1</sup> The Bond Market Association, with offices in New York, Washington, D.C. and London, represents securities firms, banks, and asset managers that underwrite, trade, sell and invest in debt securities and other financial products globally.

---

Revenue bond underwriting managed by regional firms declined to \$14.3 billion in the first quarter, 16.9 percent less than a year ago and 30.2 percent lower than the fourth quarter. The general obligation bond underwriting volume was \$11.3 billion in the first quarter, 28.5 percent lower than the first quarter a year ago but marginally higher than the fourth quarter.

Both competitive and negotiated municipal underwritings slipped in the first quarter. Regional firm-led negotiated issuance decreased 26.3 percent from the first quarter in 2005 to \$20.7 billion, and 17.5 percent on a linked-quarter basis. Competitive sales declined to \$3.6 billion in the first quarter, a 23.4 percent decline from a year ago and a 37.9 percent decline from the fourth quarter. Private placements accounted for more than five percent of regional firm-led municipal bond sales, nearly an eight-fold increase from a year ago.

The Southwest ranked first among geographic regions and accounted for a quarter of regional firm-led underwriting volume, with the Midwest ranking second and the Northeast a close third. The top issuing states were California and Texas, accounting for 18.7 percent of regional firm-led underwriting in the first quarter.

Through the first three months of 2006, nearly two-thirds of issuance volume had the highest Moody's rating, Aaa, with 14.6 percent by volume rated Aa or below, and 22.6 percent unrated. Credit enhancement provided support for 67.6 percent of total issuance by dollar volume. Education continues to be the largest use of proceeds sector, accounting for more than 45 percent of regional firm-led municipal volume in 2005.

### **Corporate Bond Underwriting Doubles in First Quarter; Regional Firms Increase Share of Total Issuance**

Regional firm-led corporate underwriting volume totaled \$17.0 billion, in the first quarter, more than double the \$7.8 billion issued in the fourth quarter, and nearly double the dollar volume issued a year ago. The first quarter volume was the highest quarterly volume in the last three years. Regional-led corporate issuance increased to 8.2 percent of total U.S. issuance in the first quarter, from 4.7 percent in the first quarter a year ago.

Corporate issuance growth benefited from favorable market conditions characterized by double digit profit growth, tight credit spreads and benchmark yields remaining historically low. Significant M&A activity, increasing level of business capital spending and "shareholder friendly strategies," including higher cash dividends and share buybacks, boosted the need for debt financing. The average deal size increased substantially in the first quarter, to \$459.2 million, up from \$209.6 million a year ago. More than 70 percent of all corporate issues were investment grade, based on S&P ratings. Less than 10 percent of the deals were below investment grade rating.

U.S. based corporations accounted for nearly 80 percent of regional-led corporate issuance in the first quarter. Among states, North Carolina based corporations ranked first with more than 54 percent of issuance volume in the first three months of 2006. Corporations based in Ohio were the second largest issuers with 6.3 percent market share. From an industry sector perspective, the financial services industry dominated regional led issuance in the first quarter, accounting for more than 88 percent, undoubtedly the result of continuing industry consolidation. Commercial banks led the way with \$10.9 billion issued, followed by investment banks and credit institutions.

### **Strong First Quarter for Securitized Underwriting; Agency Issuance Declines**

Regional firm underwriting of securitized debt increased to \$46.8 billion in the first quarter, a fourfold increase from \$10.5 billion issued in the first quarter a year ago, and 77.3 percent higher than the \$26.4 billion issued in the fourth quarter. Despite rising interest rates and signs of housing sector moderation, regional firm-led private label residential mortgage-backed securities (MBS) issuance continued to rise. The first quarter volume was the highest level in the last two years. MBS led the securitized issuance with \$14.6 billion in the first quarter. The incentive in a rising rate, flat yield curve environment to refinance ARMs into fixed-rate mortgages probably contributed to the strong first quarter MBS volume.

Federal agency issues managed by regional firms declined in the first quarter by more than 50 percent from a year ago, to \$15.5 billion, but only a 3.7 percent decline from the fourth quarter. The year-over-year decline reflected lower conforming mortgage origination volume and implementation of agency capital management strategies.

**The Middle Market Report is based on new issue data provided by Thomson Financial, a part of Thomson Corporation ([www.thomson.com](http://www.thomson.com)) and a leading provider of information and technology solutions to the financial industry.**

**Regional Report - Municipal**

M-1

**2006:Q1 Long-Term Municipal Issuance  
By Geographic Region**

	\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*
<b>Southeast</b>	<b>4,598.6</b>	<b>258</b>	<b>18.0%</b>	<b>Southwest</b>	<b>6,394.5</b>	<b>433</b>	<b>25.0%</b>	<b>Mid West</b>	<b>5,920.7</b>	<b>765</b>	<b>23.2%</b>
Florida	1,676.9	50	36.5%	Texas	2,877.8	169	45.0%	Ohio	1,070.9	92	18.1%
Alabama	572.4	46	12.4%	Colorado	1,255.5	46	19.6%	Indiana	966.7	53	16.3%
North Carolina	505.7	17	11.0%	Arizona	684.0	32	10.7%	Michigan	827.0	85	14.0%
Tennessee	315.9	21	6.9%	Kansas	602.1	56	9.4%	Missouri	712.0	67	12.0%
Louisiana	298.6	27	6.5%	Oklahoma	359.9	67	5.6%	Illinois	668.9	132	11.3%
Virginia	278.6	9	5.9%	Arkansas	339.0	42	5.3%	Wisconsin	598.3	110	10.1%
Georgia	270.1	24	4.5%	New Mexico	171.8	12	2.7%	Minnesota	563.2	98	9.5%
Mississippi	206.3	18	4.5%	Utah	104.4	9	1.6%	Iowa	246.4	54	4.2%
South Carolina	206.0	14	4.5%					Nebraska	158.8	55	2.7%
Kentucky	142.6	25	3.1%					North Dakota	73.4	12	1.2%
West Virginia	125.5	7	2.7%					South Dakota	35.1	7	0.6%

	\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*
<b>Far West</b>	<b>2,992.9</b>	<b>163</b>	<b>11.7%</b>	<b>Northeast</b>	<b>5,634.9</b>	<b>298</b>	<b>22.1%</b>
California	2,317.5	111	77.4%	Pennsylvania	1,574.7	123	27.9%
Washington	218.1	17	7.3%	Delaware	1,232.5	5	21.9%
Nevada	182.7	10	6.1%	New York	986.7	68	17.5%
Oregon	152.2	12	5.1%	Maryland	612.2	10	10.9%
Idaho	92.4	6	3.1%	New Jersey	538.1	50	9.5%
Montana	28.6	6	1.0%	Connecticut	394.2	14	7.0%
Wyoming	1.4	1	0.0%	Massachusetts	160.8	17	2.9%
Hawaii			0.0%	Maine	74.0	5	1.3%
				New Hampshire	43.0	4	0.8%
				Rhode Island	18.7	2	0.3%

**Total: \$25,541.6 Million**

**Total Number of Issues 1,917**

\* Regional percentages represent the portion of total U.S. regional dealers accounted for by that region. State percentages represent portion of total issuance in the region.

Source: Thomson Financial

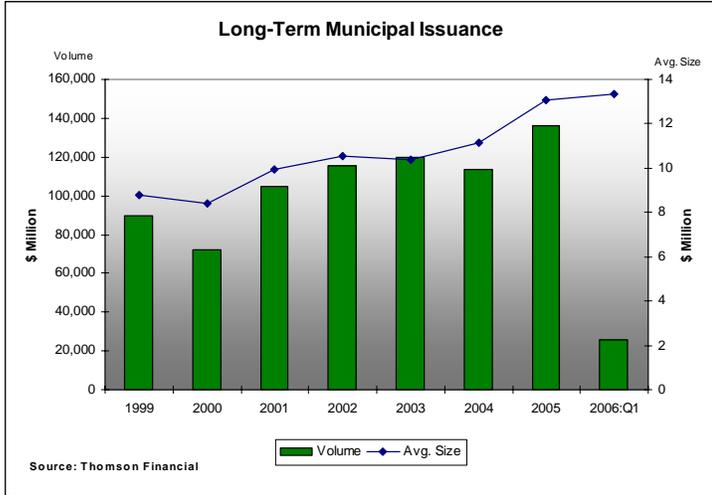
M-2

**2006:Q1 Long-Term Municipal Top 25 Issuers**

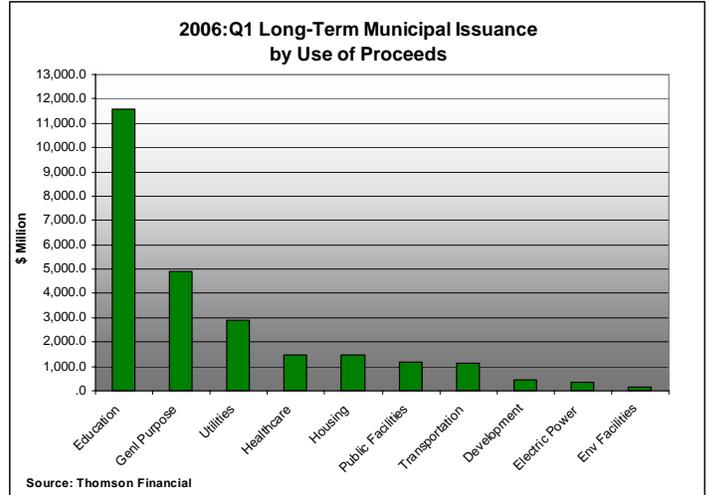
	\$ Mil	# Issues		\$ Mil	# Issues
1 RBC Capital Markets	3,516.6	135	16 Ziegler Capital Markets Group	410.7	13
2 A G Edwards & Sons Inc	1,908.6	80	17 D A Davidson & Co	407.6	53
3 Morgan Keegan & Co Inc	1,477.4	98	17 Estrada Hinojosa & Company Inc	366.4	8
4 Piper Jaffray & Co	1,402.9	92	19 Roosevelt & Cross Inc	285.9	43
5 Wachovia Securities	1,356.4	57	20 Raymond James & Associates Inc	279.7	13
6 Siebert Brandford Shank & Co	1,138.1	6	21 Seasingood & Mayer	268.7	20
7 Stone & Youngberg	901.0	43	22 Seattle-Northwest Securities Corp	246.9	16
8 George K Baum & Company Inc	869.6	40	23 Stephens Inc	241.6	19
9 First Southwest Company	706.2	42	24 Southwest Securiites	220.8	22
10 Stifel Nicolaus & Company Inc	655.6	58	25 First Albany Capital Inc	216.9	9
11 Fifth Third Securities Inc	646.8	42			
12 City Securities Corporation	604.3	22			
13 Prager Sealy & Co LLC	554.2	17	<b>Total Top 25</b>	<b>19,610.1</b>	<b>1,035</b>
14 LaSalle Financial Services Inc	486.9	31	<b>Industry Total</b>	<b>25,541.6</b>	<b>1,917</b>
15 Robert W Baird & Co	440.3	56			

Source: Thomson Financial

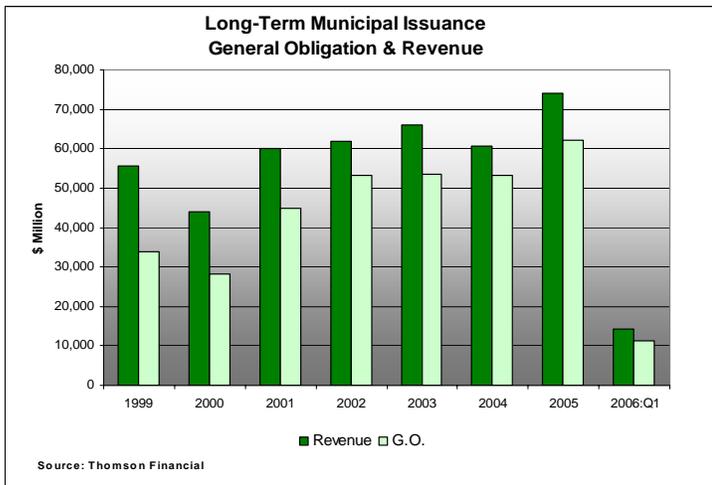
M-3



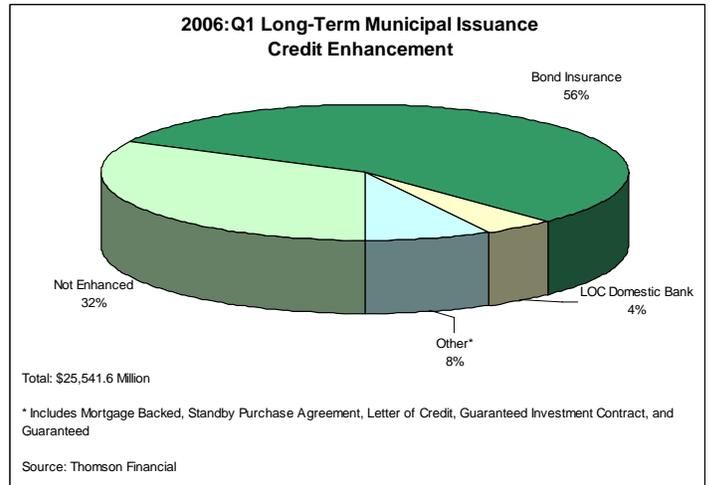
M-4



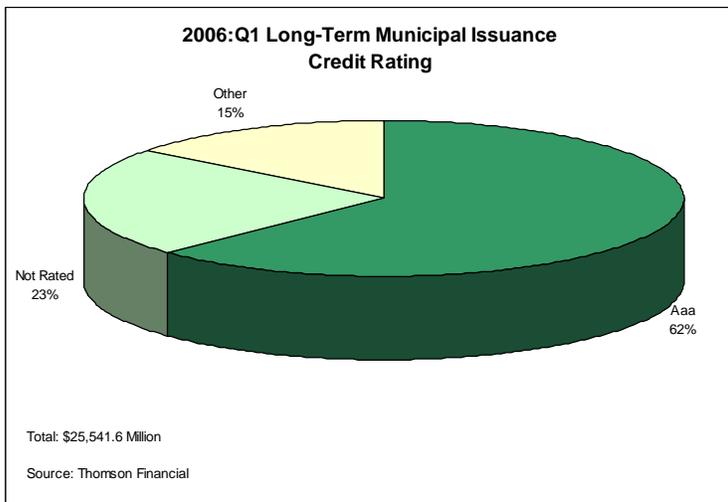
M-5



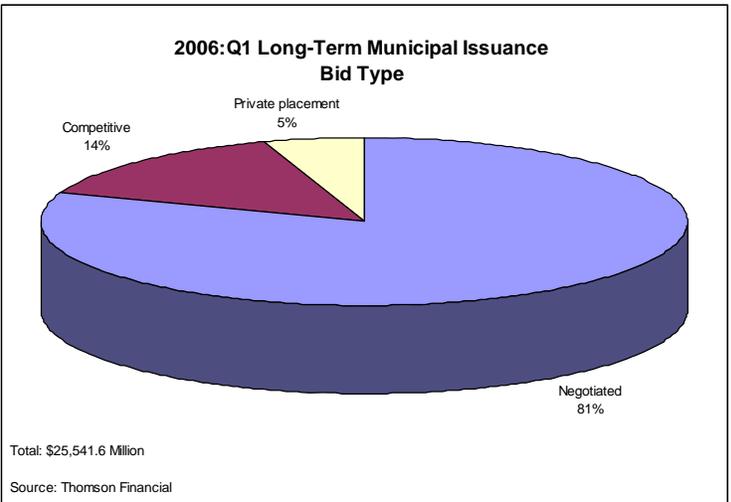
M-6



M-7

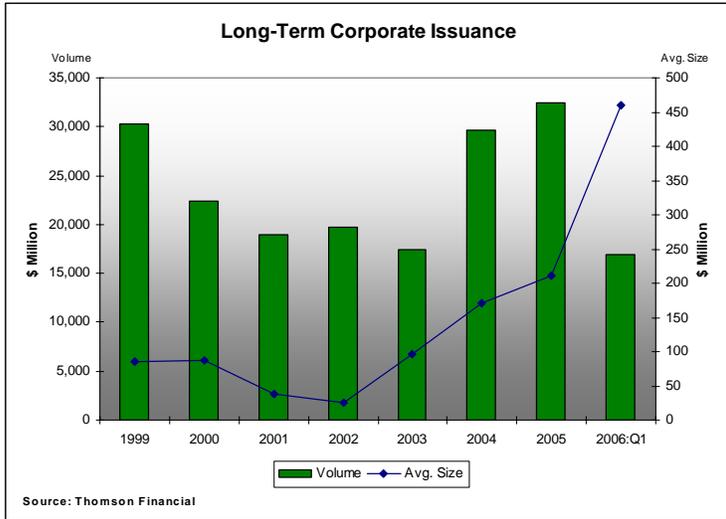


M-8

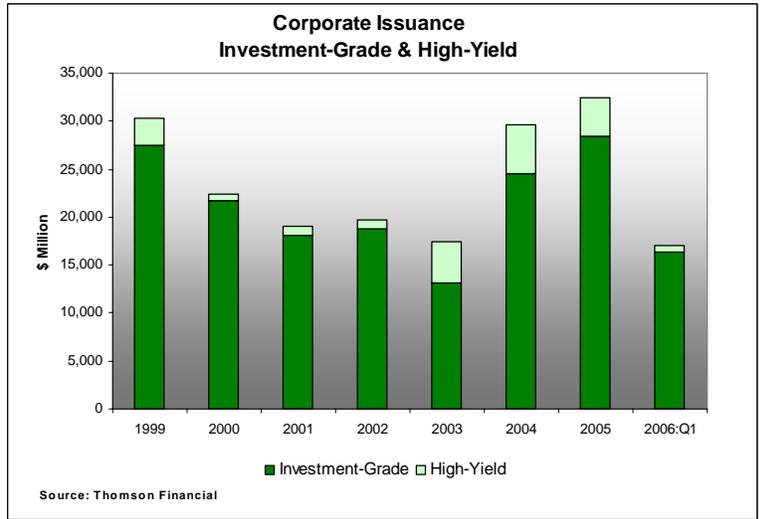


## Regional Report - Corporate

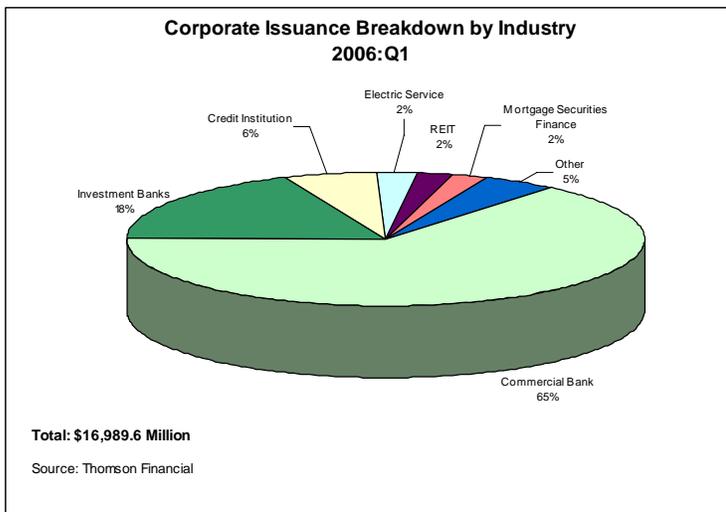
**C-1**



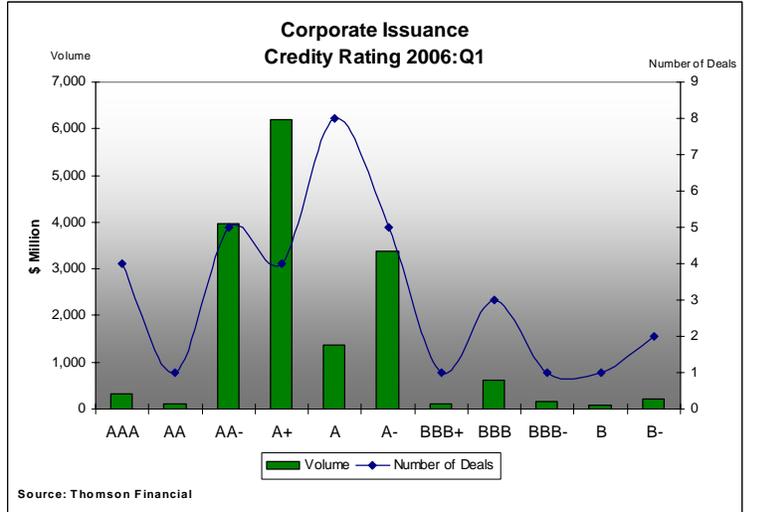
**C-2**



**C-3**



**C-4**



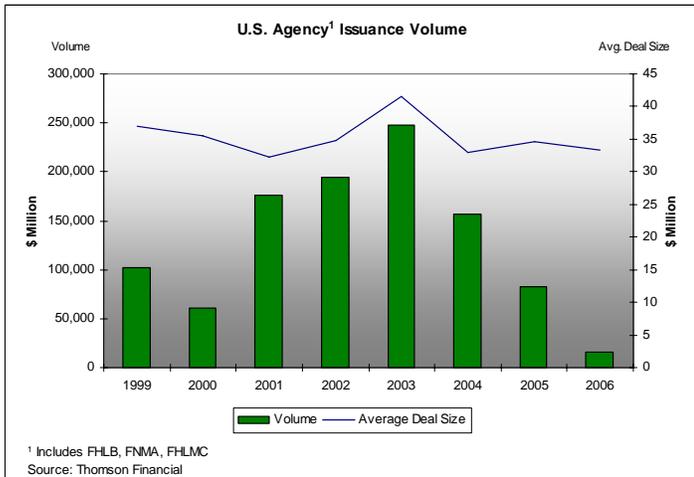
**C-5 Issuance by State 2006:Q1**

State	\$ Mil	# Issues	State	\$ Mil	# Issues
1 North Carolina	9,200.0	6	10 California	100.0	1
2 Foreign	3,440.6	7	10 Illinois	100.0	1
3 Ohio	1,065.0	4	10 Michigan	100.0	1
4 Tennessee	820.0	4	10 New York	100.0	2
5 New Jersey	725.0	2	10 Louisiana	100.0	1
6 Wisconsin	410.0	2	15 Minnesota	48.0	1
7 Massachusetts	400.0	1	16 D. of Columbia	6.0	1
8 Georgia	250.0	2			
9 Washington	125.0	1			
			<b>Total Top 25</b>	<b>16,989.6</b>	<b>37</b>
			<b>Industry Total</b>	<b>16,989.6</b>	<b>37</b>

Source: Thomson Financial

## Regional Report – U.S. Agency

**A-1**

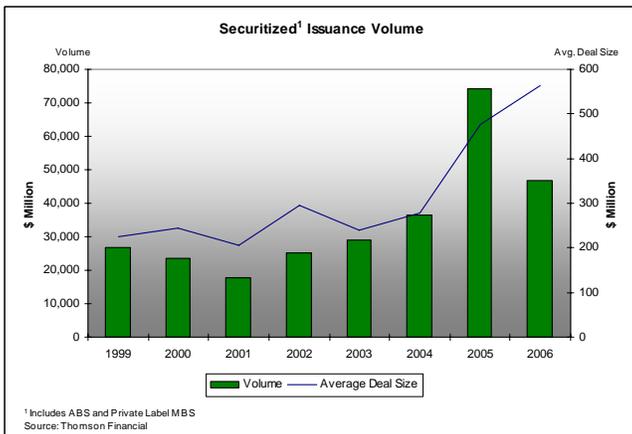


**A-2**



## Regional Report –Securitized Markets

**S-1**



**S-2**

