



Municipal Debt Essentials
Day 2: Accessing the Market
Session 6: Market Efficiency: Improving an Agency's Effectiveness

Chris Mier

Wednesday, February 2, 2011
Oakland Marriott Hotel

Loop Capital Markets

- **Founded in 1997 with 8 employees**

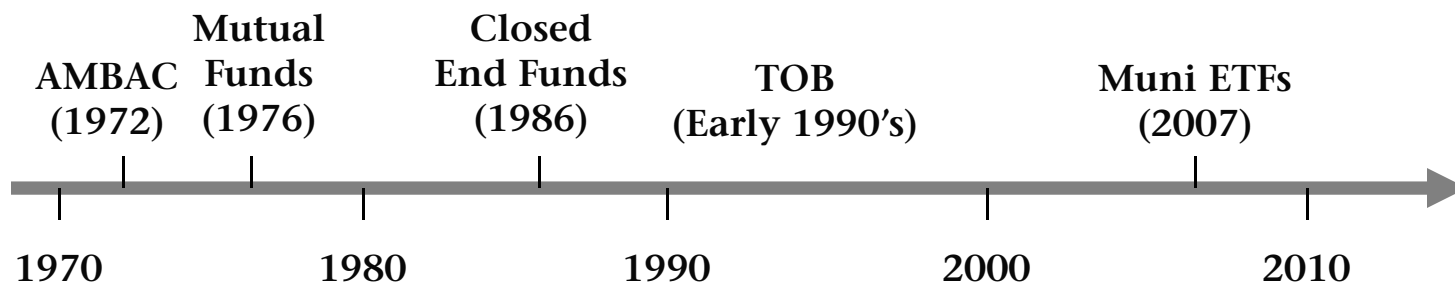
- **A national firm, operating in numerous debt and equity markets, headquartered in Chicago**

- **With about 135 employees in 18 locations, one of the fastest growing institutional brokerage firms in the nation**

- **Chris Mier, Managing Director, Analytical Services Division**
 - Chartered Financial Analyst
 - Masters in Management, Northwestern University
 - Masters of Arts, University of Illinois at Chicago
 - Series 7, 24, 53, 63
 - 32 years of experience in the muni market
 - Member of GFOA Economic Development Committee

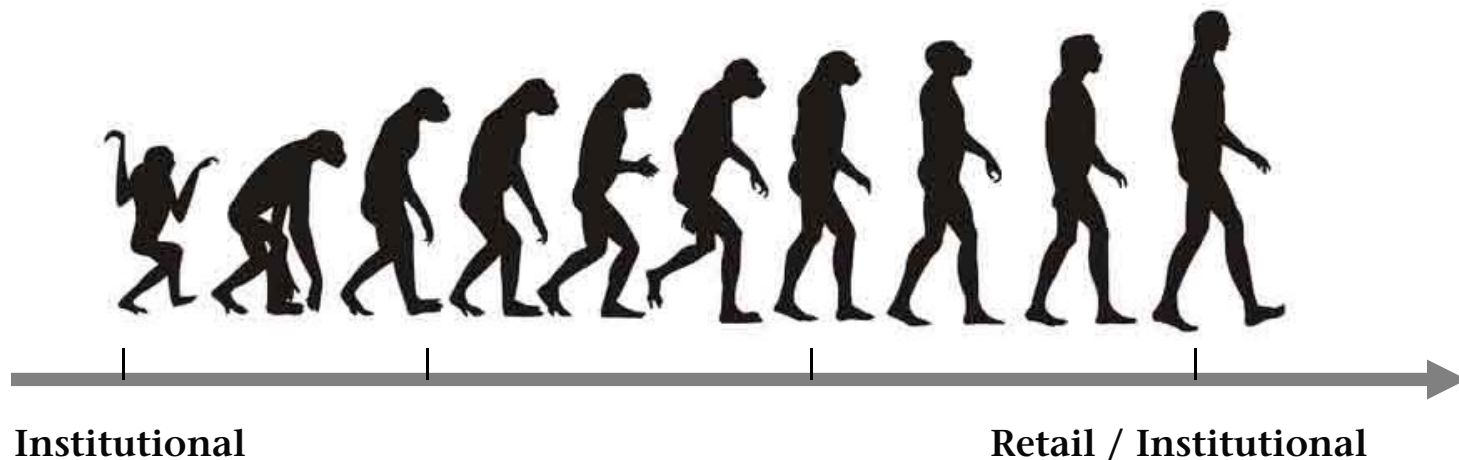
History of the Market

- **Tax Laws, Product Innovations and Technology Change Muniland**
 - American Recovery and Reinvestment Act of 2009 (ARRA)
 - Tax Reform Act of 1986 (TRA)
 - Computers (First PC created in 1975)
 - Bond Insurance
 - AMBAC (1972)
 - Penetration
 - 2005: 57.1% (peak)
 - 2010: 6.2%
 - Currently Insuring: Assured Guaranty
 - New Retail Products—UITs, Mutual Funds, Closed End Funds, Exchange Traded Funds
 - New Institutional Products—TOBs and Hedge Funds



History of the Market

- **The evolution of the buyer**
 - 1978 Banks, Insurance Companies, UITs, Trust Departments—very little retail!
 - 2000 TOBs, Insurance Companies, Investment Managers, Mutual Funds
 - 2011 Insurance Companies, Investment Managers
- **The muni market demand side changes over time (sometimes slowly, sometimes dramatically)**



History of the Market

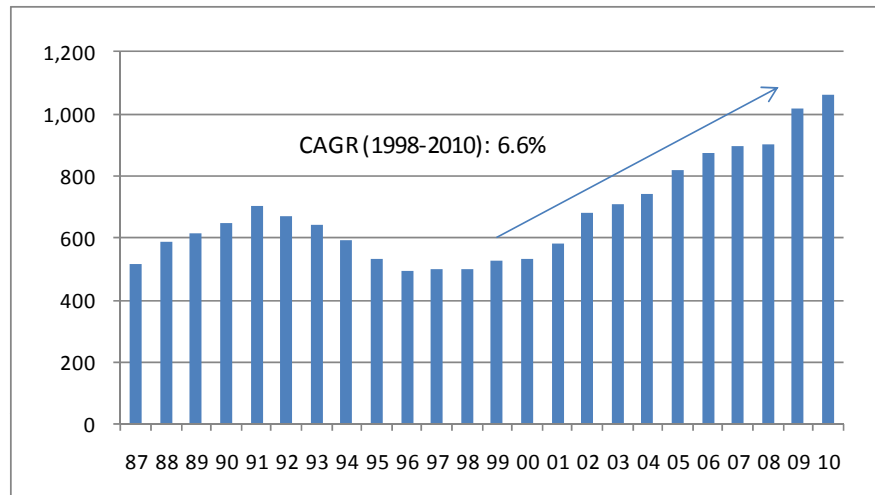
- **Do-it-yourself investing boosts direct retail demand**
 - The “Workhorse” of munis (Lebenthal – first all retail firm)
 - Wirehouses
 - e-Market internet

- **Retail can buy direct off of a screen**

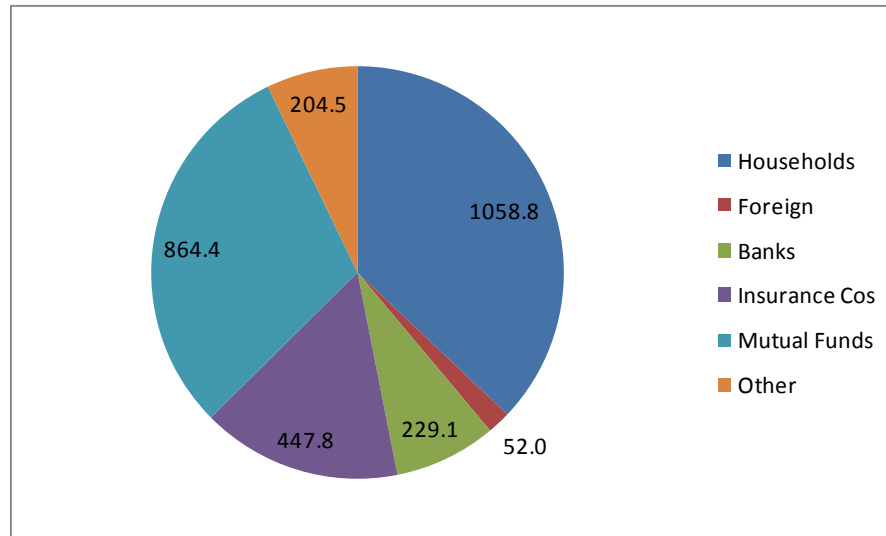


Bond Ownership by Type

Retail Holdings of Muni Debt



Holders of Muni Debt Q3 2010 (\$ Billion)



Source: Federal Reserve, Flow of Funds Data

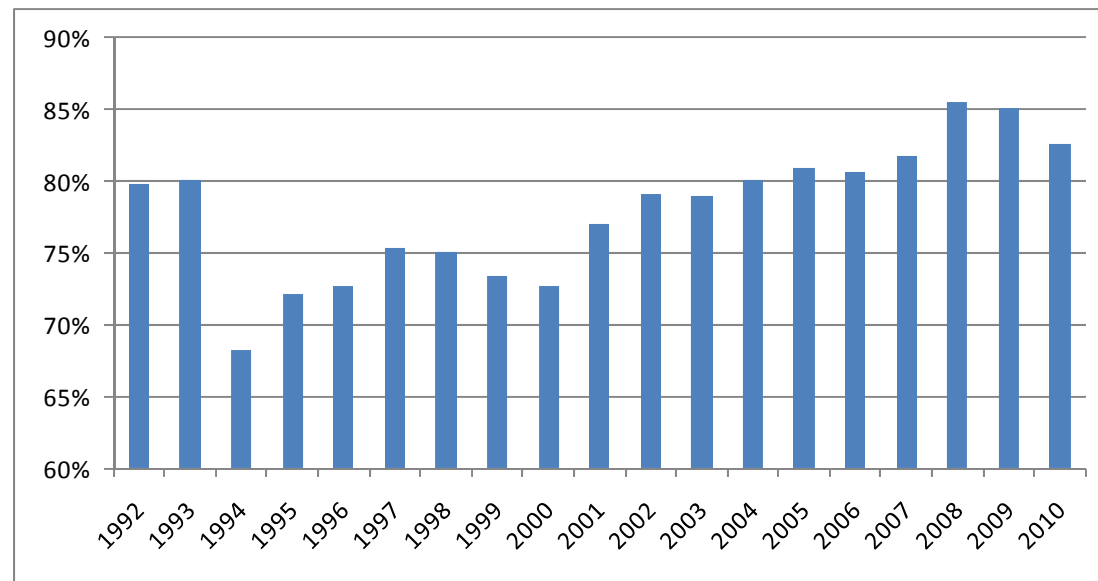
How has the industry changed to harness retail buying power?

- Declining costs of computer technology and securities processing has made smaller retail purchases cost effective for issuers and underwriters
- Retail “anchors” larger municipal issues, reducing bargaining power of institutions
- Retail is less price sensitive and more stable — although it is not guaranteed to be there in all markets at all times
- Loop and other firms have entered into strategic partnerships with firms that have retail distribution but no investment banking

Negotiated vs. Competitive

- Negotiated transactions are well-suited to building a retail book
- Competitive sales are not well-suited because salespeople won't secure interest until they are sure the firm has won the bid

Negotiated Deals as % of Total New Issue Volume



Selecting the underwriting team—strategies for building a strong team

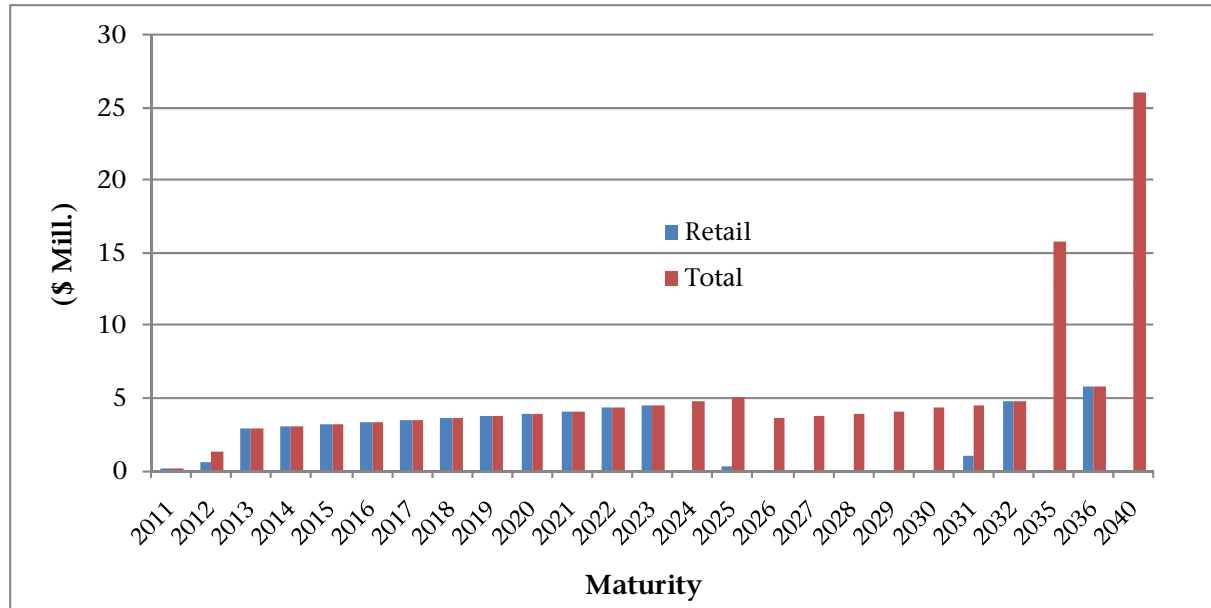
- **Underwriters — what can they do and how do they fit together for maximum result?**
- **First goal : Use combinations of key underwriter attributes to build the team**
 - Capitalization
 - Service
 - Retail distribution — in-state
 - Retail distribution — national
 - Institutional distribution

- **Second Goal: Set up designation policies that promote strong effort from all team members (Topic of another presentation)**



Case study — Actual Issue — Large Issuer

Retail Participation (41% of Par)



Retail absorbs

Dead zone

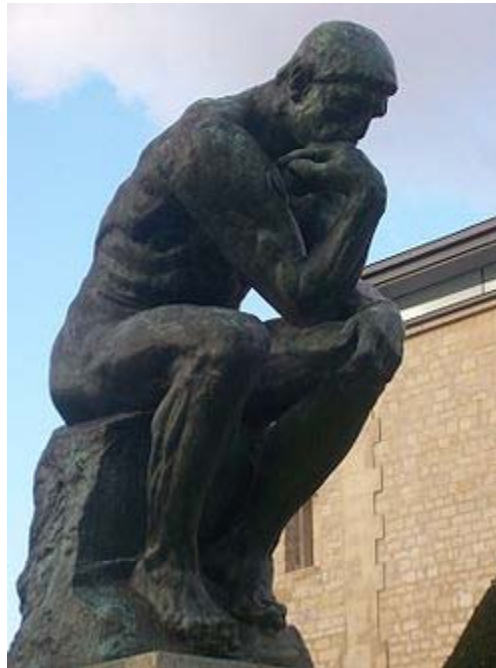
Retail participation of term bonds when customer target is long-term yield

Features of muni bond issue underwriting where retail participation is a goal

- One or two-day order periods for retail alone
- Bona fide retail orders are allotted in full
- Retail bonds may be structured as par bonds with bond insurance (if there is any)
- Institutional maturities are sized based upon what's left of the retail order period and using the preferred institutional coupons (usually premium bonds)

How aggressive should issuers be in pursuing retail?

- It depends on how active retail is. Your underwriting team can help you strategize with respect to this point.



Loop Capital Markets' Disclaimer

Loop Capital Markets LLC, an investment bank, prepared this document for informational purposes only. Loop Capital Markets LLC does not provide research services, therefore this product is not a research report and it should not be construed as such. All materials, including proposed terms and conditions, are indicative and for discussion purposes only. Finalized terms and conditions are subject to further discussion and negotiation and will be evidenced by a formal agreement. Opinions expressed are our present opinions only and are subject to change without further notice. The information contained herein is confidential. By accepting this information, the recipient agrees that it will, and it will cause its directors, partners, officers, employees and representatives to use the information only to evaluate its potential interest in the strategies described herein and for no other purpose and will not divulge any such information to any other party. Any reproduction of this information, in whole or in part, is prohibited. Except in so far as required to do so to comply with applicable law or regulation, express or implied, no warranty whatsoever, including but not limited to, warranties as to quality, accuracy, performance, timelines, continued availability or completeness of any information contained herein is made. Opinions expressed herein are current opinions only as of the date indicated. Any historical price(s) or value(s) are also only as of the date indicated and as applicable from any source that may be noted. We are under no obligation to update opinions or other information. The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy. Loop Capital Markets LLC does not provide accounting, tax or legal advice; however, you should be aware that any proposed indicative transaction could have accounting, tax, legal or other implications that should be discussed with your advisors and or counsel. The materials should not be relied upon for the maintenance of your books and records or for any tax, accounting, legal or other purposes. In addition, we mutually agree that, subject to applicable law, you may disclose any and all aspects of any potential transaction or structure described herein that are necessary to support any U.S. federal income tax benefits, without Loop Capital Markets LLC imposing any limitation of any kind and its affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in and buy or sell, the securities, derivatives (including options) or other financial products thereof, of entities mentioned herein. In addition, Loop Capital Markets LLC and/or affiliates may have served as manager or co-manager of a public offering of securities by any such entity. Further information may be available regarding this material and may be obtained upon request.

Loop Capital Markets LLC shall have no liability, contingent or otherwise, to the user or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance or completeness of the data or formulae provided herein or for any other aspect of the performance of these materials. In no event will Loop Capital Markets LLC be liable for any special, indirect, incidental or consequential damages which may be incurred or experienced on account of the user using the data provided herein or these materials, even if Loop Capital Markets LLC has been advised or the possibility of such damages. Loop Capital Markets LLC will have no responsibility to inform the user of any difficulties experienced by third parties with respect to the use of the materials or to take any action in connection therewith.

The fact that Loop Capital Markets LLC has made the materials or any other materials available to you constitutes neither a recommendation that you enter into or maintain a particular transaction or position nor a representation that any transaction is suitable or appropriate for you. Transactions involving derivative or other products may involve significant risk and you should not enter into any transaction unless you fully understand all such risks and have independently determined that such transaction is appropriate for you. Loop Capital Markets LLC is acting in the capacity of an arm's-length contractual counterparty to the user in connection with any transaction Loop Capital Markets LLC may enter into with the user and not as a financial advisor or a fiduciary.

This document is confidential, and no part of it may be reproduced, distributed or transmitted without the prior written permission of Loop Capital Markets LLC.