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Rush to the bond market fuels Stifel, Edward Jones

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A year-end financing push by dozens of school districts, municipalities and other government agencies is creating a boom in the public finance departments of area investment firms.

Local financiers seeing a banner December include Stifel, Nicolaus & Co., Edward Jones and Stern Brothers & Co., all of which have more than doubled — and in Stifel's case, quadrupled — their December public bond closings compared with December 2009. The rush comes as local governments push to take advantage of federal stimulus programs that expire Dec. 31.

A key program set to expire is one for Build America Bonds. The taxable bonds include a 35 percent credit on the interest, making them more attractive to both the taxing authorities selling the bonds that receive the credit and investors buying the bonds who receive a higher interest rate. Build America Bonds were created two years ago as part of the federal stimulus package.

The investment firms are selling so many of those and other government bonds that the programs, designed to bring down the cost of borrowing for local governments, are actually seeing interest rates go up, said Peter Czajkowski, managing partner of Stifel's public finance business.

"We've seen interest rates rise by as much as a percent over the last couple of months," he said.

Stifel underwrote 17 public finance deals between Dec. 1 and 21. Nine of those were Build America Bonds. The department had four public financing underwritings in December 2009, and



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Stern Brothers' public finance transactions more than doubled in December

only one was with Build America Bonds.

So far in the fourth quarter of 2010, stimulus act bonds have accounted for \$955 million of Stifel's underwriting, surpassing traditional bonds, which made up \$825 million.

"It's like the Cash for Clunkers program, when all the people buying cars flooded the market," said Pepe Finn, chairman and CEO of Stern Brothers in Clayton. "All of a sudden there was huge demand, and it distorted the market."

Stern Brothers, which typically handles smaller public financings in the range of \$5 million to \$25 million, expected to underwrite 25 transactions in December, which is more than twice the volume the company handles in a typical month.

Public finance operations typically

have wrapped up their year-end work by mid-December, said Rich Ryffel, a managing director in the Edward Jones public finance department. "If you could issue your bonds and save yourself 25 to 30 basis points (a quarter to three-tenths of a percent) over borrowing in January, you're going to borrow now," he said.

The dollar volume of Edward Jones' public finance business more than tripled this December to \$103 million, compared with \$31.3 million in December 2009.



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Edward Jones' public finance business tripled to \$103 million

Build America Bonds and other stimulus bond programs have helped push the municipal bond market to \$424.8 billion this year, surpassing the previous record of \$424.2 billion set in 2007, according to Thomson Reuters, which tracks the data. Build America Bonds have accounted for \$116.3 billion of the sales.

Eric Cowan, director in public finance for Bank of America Merrill Lynch in St. Louis, said the rush was over by Christmas. Bank of America underwrote more than \$300 million worth of Build America Bonds in Missouri, the largest total in the state, according to Thomson Reuters.

Those going to market in December in Missouri included:

- The University of Missouri, which sold \$252.3 million in Build America Bonds through Bank of America Merrill Lynch;

- St. Louis Public Schools, which issued \$56.6 million in qualified construction bonds and \$25 million in Build America Bonds through Stifel;

- Southeast Missouri State University, which sold \$4.76 million in traditional bonds and \$54.5 million in Build America Bonds through Edward Jones, and

- The Kirkwood School District, which sold \$33.6 million in Build America Bonds through Bank of America and Edward Jones.

Investment companies declined to disclose their revenue from the offerings, though the offering documents in general spell out the total fees. For example, on the University of Missouri's \$252.3 million in bonds, the offering document shows a total underwriter discount of \$1.55 million, with Bank of America and Morgan Stanley sharing \$870,560. The rest of the funds are split among others that worked on the offering, including the law firms that reviewed the deal, Thompson Coburn in St. Louis and Gilmore & Bell in Kansas City.