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Breaking the Bond: The Effect of Banker Turnover on Municipal Bonds

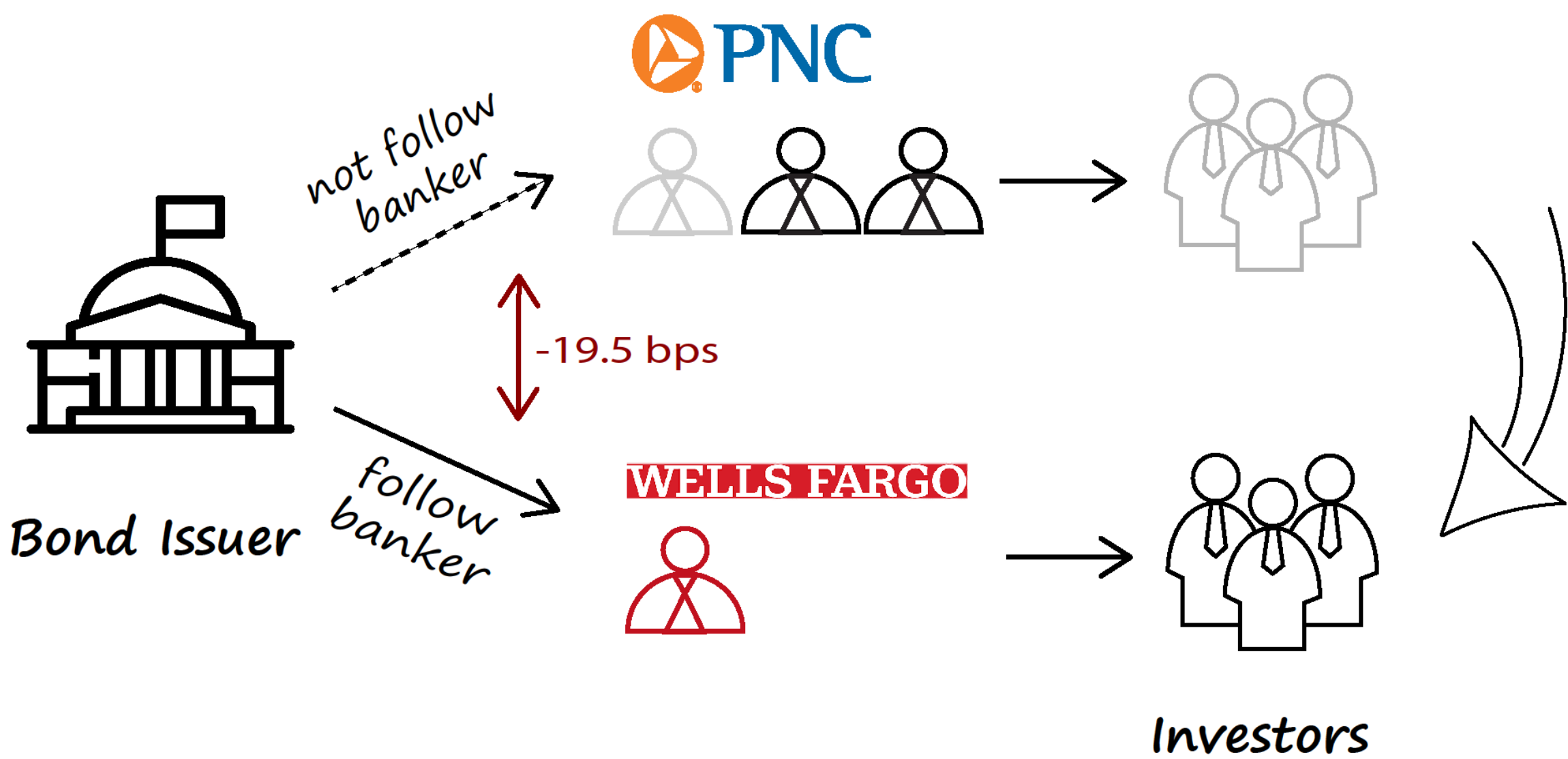
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Do bankers add value in bond underwriting?

Banker value is portable and not fully embedded by the bank:

- Bankers produce information
- Investor networks travel with the banker

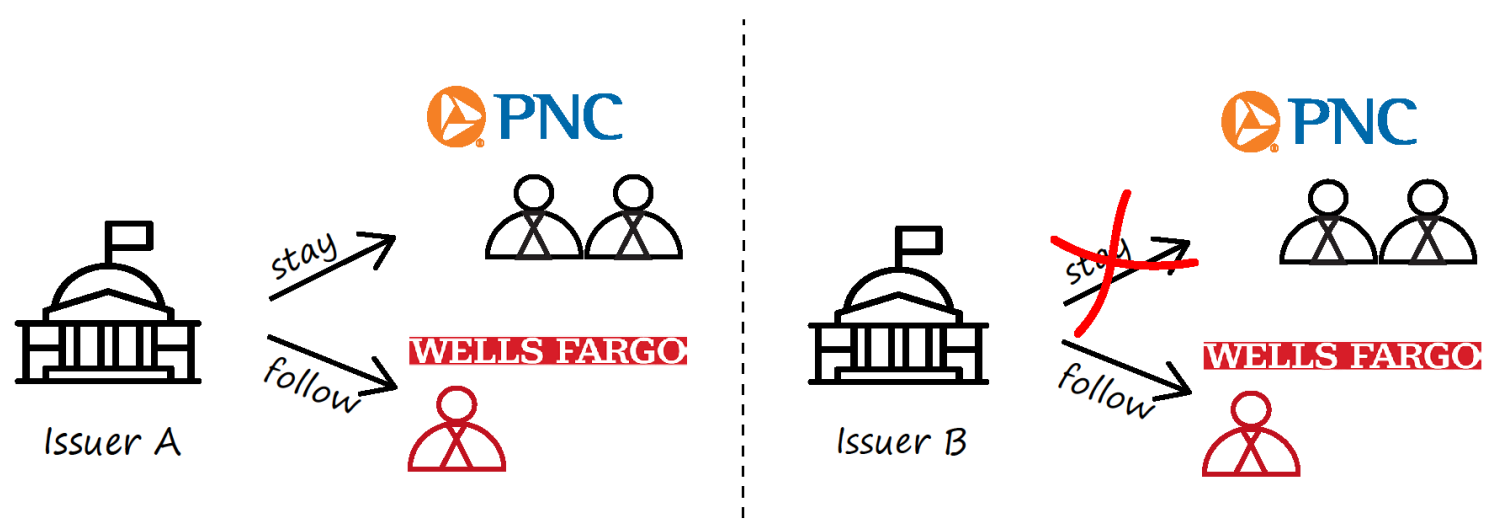
Main result: Decision to keep relationship with the banker relative to non-keeping leads to 19.5 basis points lower spreads, primarily because the banker's investor relationships travel with the banker across banks.



Empirical Approach

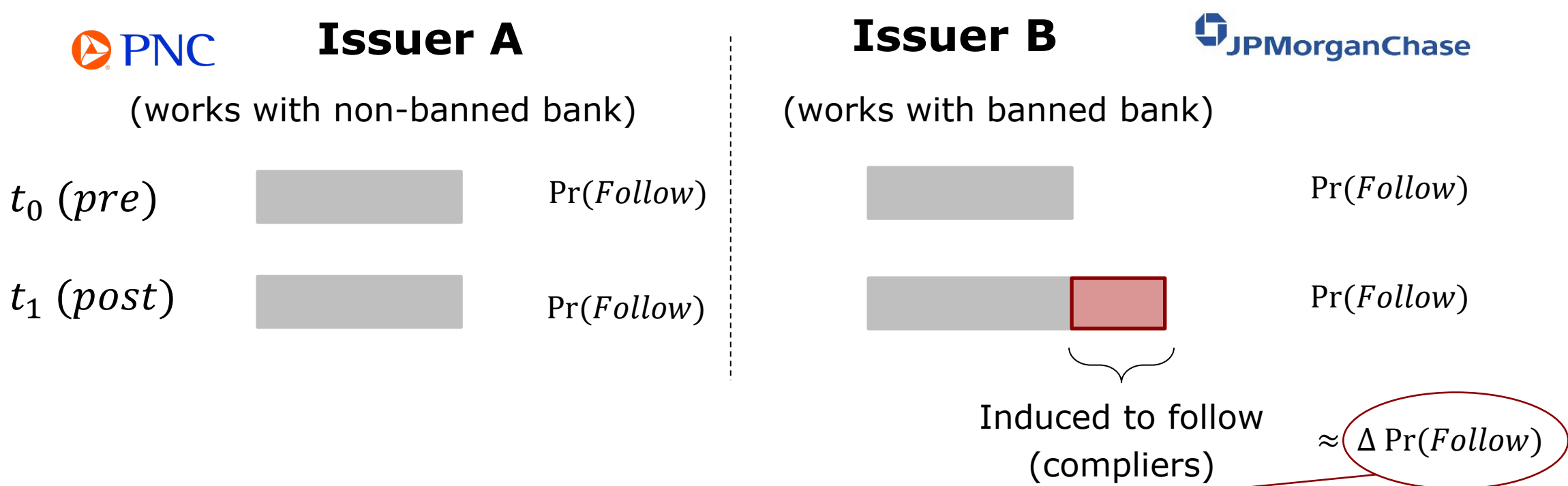
→ **Hand collected data** on banker mobility from **The Bond Buyer** and **Revelio**)

→ Ideal Experiment:



→ **Instrumental Variables** analysis: Texas Underwriter Ban

September 2021: Texas issued two laws that restrict government contracts with financial intermediaries that boycott business with fossil fuels and firearms industry.



1st stage:

$$\widehat{Follow\ Banker}_{ibt} = \alpha_1 * 1\{Exposure\ to\ the\ ban_{ibt}\} + FE$$

2nd stage:

$$Spread_{ibt} = \beta_1 * \widehat{Follow\ Banker}_{ibt} + FE$$

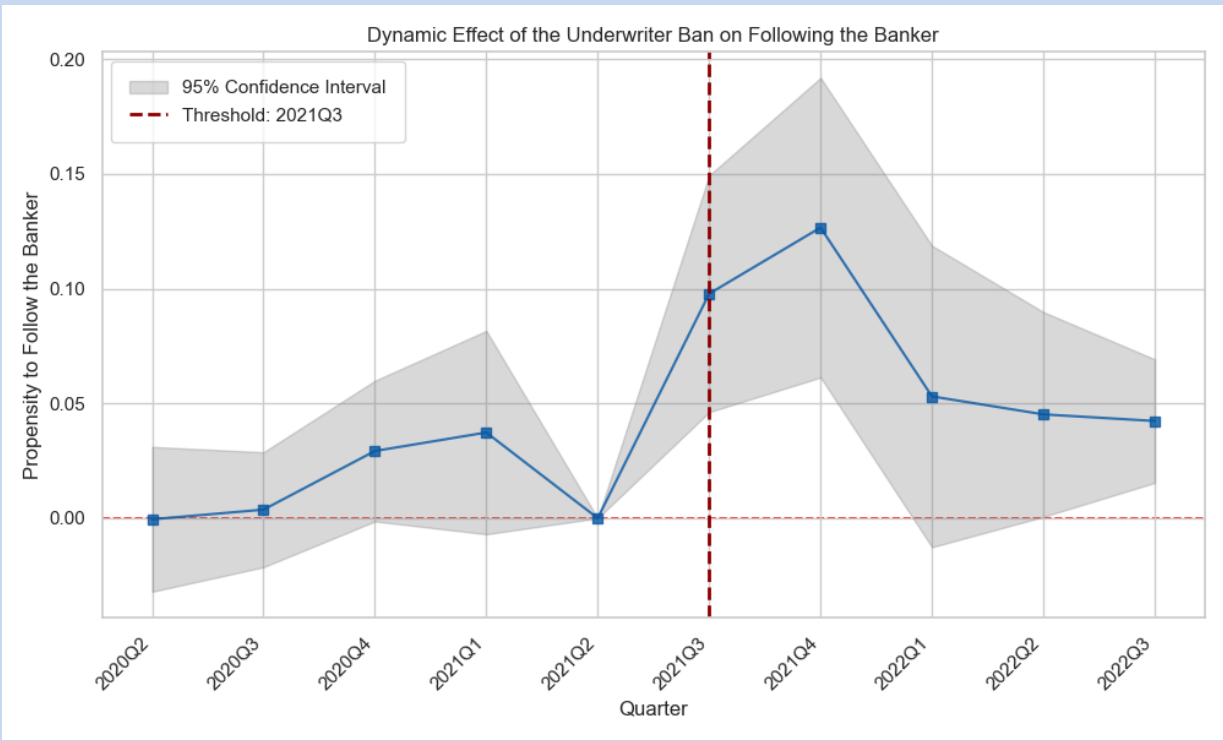
i – issuer; b – bank; t – time

Local Average Treatment Effect:

Effect of following relative to not following for the **complier** group whose follow status is shifted by the post-ban exposure.

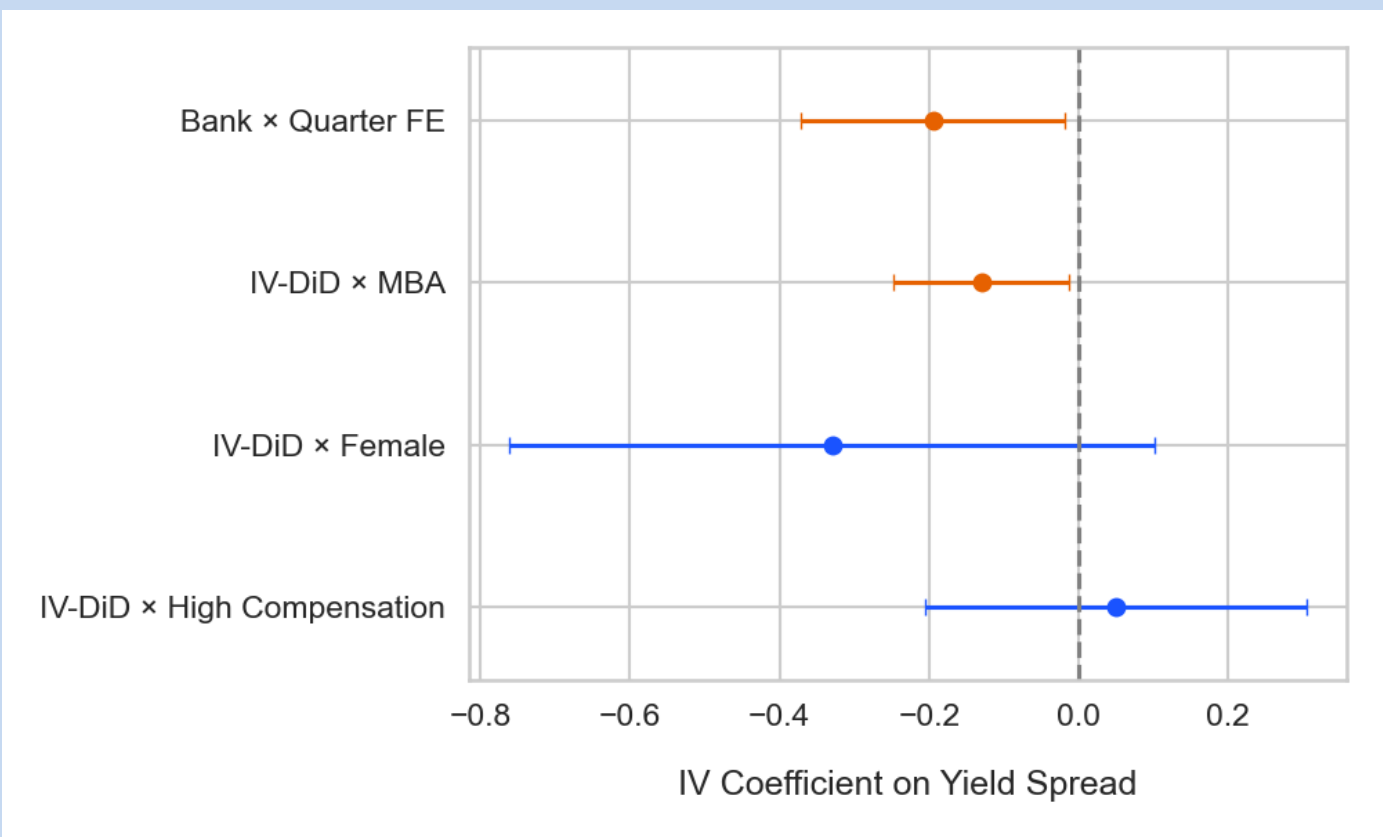
Results

→ Propensity to follow a relationship banker increases by 74% relative to sample mean.



→ **Banker's value is distinct from the bank:**

- Decision to follow the banker relative to not-follow options yields a 19.5 bps reduction in spreads ~ \$0.4M per issuer.
- Additional effect for bankers with MBA degrees.



→ **Investor** networks **travel** with the banker:

- Hiring banks see an inflow of ~\$8 Bil.

| | Triple Difference Regression | |
|---|------------------------------|----------|
| | Capital Allocated (\$ thous) | |
| $Post \times Affected\ Investor$ | -63.88 | 22.91 |
| $Post \times Bank\ Hired\ Banker$ | 304.72** | 304.48** |
| $Post \times Affected\ Investor \times Bank\ Hired\ Banker$ | 1,054.35*** | 798.06** |
| R-sq | 0.08 | 0.23 |
| N | 168,116 | 168,116 |
| Bank, Investor, Quarter FE | Yes | |
| Bank x Investor, Quarter FE | | Yes |

Conclusion

1. Bankers' human capital is portable in municipal bond underwriting (IV estimate: –19.5 bps on spread)
2. Bankers port some information about non-rated borrowers.
3. Investor networks travel with the banker.

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