Business

# Up Against Wall Street Bond Giants, Minority Firms Want More

The push for racial justice has created the opportunity they need.

By Molly Smith and Danielle Moran
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The big names were familiar: JPMorgan Chase & Co., Goldman Sachs Group Inc., Morgan Stanley. Then there was Blaylock Van. The tiny investment house managed to land a role on the $10 billion bond sale in August by Alphabet Inc. by bringing something else to the table: diversity.

For decades, minority-owned underwriters such as Blaylock have struggled to gain more than a small fraction of the deals in their traditional arena, the $3.9 trillion U.S. municipal bond market. Now, amid the national conversation over racism and inequality, these small firms are hoping companies will hire them more often to underwrite corporate bonds in a market that's almost twice as big.

The prospects are daunting. Even though many states and cities have committed to allocating business to minority underwriters, these firms still handle just 5% of all muni sales. Their share of corporate bond deals is even less: 2% to 3%.

The reason is these firms have neither the staff nor the capital to go head to head with larger, richer investment banks. That hasn't stopped them from angling for more business.

"Are things changing? Yes. Is it slow? Yes, it is," said Eric Van Standifer, founder and chief executive officer of Blaylock, adding that there's been significant progress in the past few months. "They're still giving us crumbs, just giving us more crumbs."

Eric Van Standifer *Source: Blaylock Van LLC*

Van Standifer's firm was one of 15 diverse underwriters that were paid a record $4 million in total fees by Alphabet. That amounted to an average of $260,000 for distributing about $40 million each. But that pales compared with what JPMorgan, Goldman Sachs and Morgan Stanley hauled in: $7.25 million each for selling about $1.1 billion of bonds.

Although minority-owned underwriters are benefiting from renewed attention on social-justice issues after George Floyd's killing, they say institutional barriers keep them from gaining a bigger share of the corporate debt market.

> "They have to open it up for all minority-owned firms."

No obstacle is more formidable than the enormous lending arms of the big banks, which can provide cheap loans to companies with the expectation of winning more-profitable investment banking business in return. That automatically puts firms without commercial banking arms at a disadvantage, ensuring that heavy-hitters like JPMorgan and Bank of America Corp. maintain a lock on the corporate debt market.



"For some issuers, if you don't lend to us, you can't be in our deal," said Christopher Williams, chairman of Siebert Williams Shank & Co.

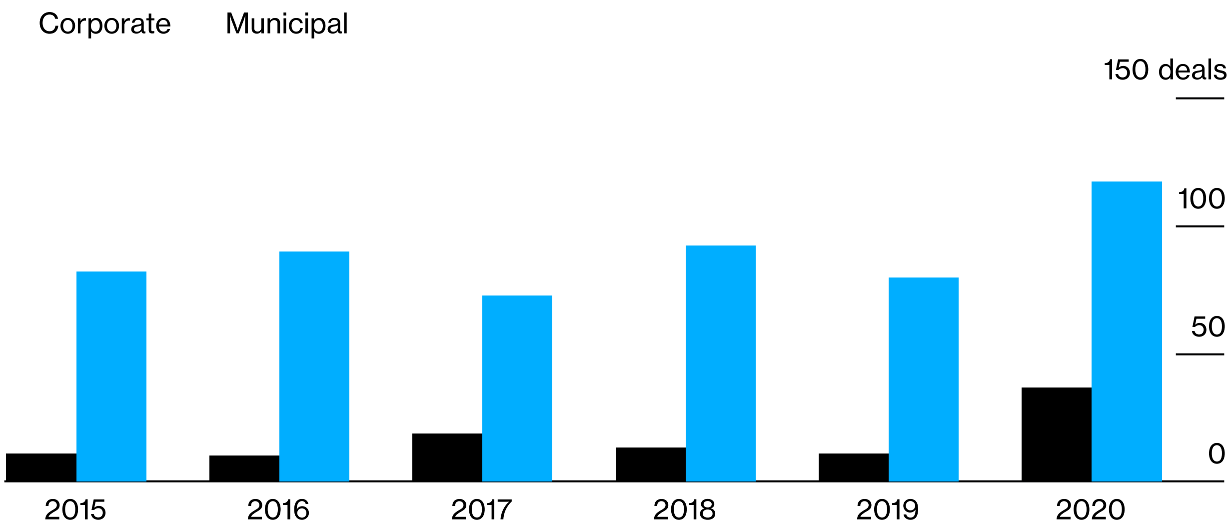
The diverse firms say they've shown they can handle big deals. They point to a $1.2 billion bond sale by insurer Allstate Corp., the biggest corporate deal ever managed only by diverse firms, and Chicago-based Loop Capital Markets's lead role in Ohio's $780 million general obligation debt offering. Meanwhile, Verizon Communications Inc. chose Loop to lead an asset-backed-securities transaction in November, the first such transaction led by an African-American-owned bank.

"We need to do our part to step up toward more racial equity on Wall Street," Scott Krohn, Verizon's treasurer, said after the company enlisted diverse banks on a $1 billion green bond sale in September.

Although more companies are hiring diverse underwriters in their deals, municipal bond issuers tend to give more business to minority-run firms. State and local governments hired such banks as bookrunners – the managers in charge of orders who collect the most fees – on 117 transactions this year, versus just 37 in the corporate market. Still, diverse firms participated in nearly double the number of corporate deals this year compared with any of the past five years, according to data compiled by Bloomberg.

**Leading the Charge**

Diverse firms act as bookrunners on many more municipal bond sales




Source: Bloomberg
Note: Based on data through Dec. 1. Municipal data represents negotiated sales.

"It's been trending to more allocations and more meaningful roles on transactions," said Chance Mims, founder and chief executive officer of Academy Securities, a veteran-owned bank.

Veteran-Owned Banks Take Bigger Chunk of High-Grade Debt Sales

Diverse firms also have gotten a boost from the torrid pace of corporate debt issuance. U.S. investment-grade companies have sold more than $1.7 trillion of bonds this year, the most ever, Bloomberg data show. Municipalities also have capitalized on this year's record-low borrowing costs. Banks usually team up on the deals and take a cut based on how much they're responsible for selling; the bigger the share, the larger the fees.

These firms have been helped by municipal debt issuers such as New York, Chicago and others that have policies to include minority-owned underwriters in their bond sales. That has lifted Loop, Ramirez & Co. and Siebert Williams Shank into the top 20 underwriters of negotiated municipal bond sales. In the U.S. investment-grade corporate market, Loop is the only diverse firm in the top 40.

Perhaps one reason diverse underwriters have had an easier time cracking the municipal market is because local government itself is more diverse. About 30% of public administration executive office and legislative workers are Black, Asian or Hispanic, according to 2019 Bureau of Labor Statistics data. By comparison, Black professionals held just 3.3% of all corporate executive or senior leadership roles, or those within two reporting levels of the CEO, while Hispanic professionals held just 4.5%, according to U.S. Equal Employment Opportunity Commission data from 2018, the most recent available.

“Corporations have an unfettered duty to maximize shareholder wealth, whereas public officials have a lot of metrics for what success looks like,” said Gary Hall, Siebert Williams Shank’s head of municipal finance.

Gary Hall *Source: Siebert Williams Shank & Co.*

Many diverse underwriters have roots in the civil-rights movement and the expansion of voting rights for African-Americans, resulting in more diverse political leadership. Maynard Jackson, who became Atlanta’s first Black mayor in 1974, went on to found a municipal bond underwriting firm after leaving office. Henry Cisneros, who was elected mayor of San Antonio, Texas, in 1981 – the first Latino to lead a major U.S. city – later became an equity partner in an investment banking firm that merged into what is now Siebert Williams Shank.

Even so, diverse banks were hired as bookrunners in just 5% of state and local government negotiated debt sales by volume this year, according to Bloomberg data. In the corporate market, their share is only half as big, although it is on the rise. Diverse firms have helped manage orders on corporate bond sales that average almost $1.3 billion, a 32% jump from last year.

"Our goal is to run corporate deals just like we run muni deals," said Jim Reynolds, Loop's founder and chief executive officer. "But in the corporate space they have to open it up for all minority-owned firms."

Sidney Dillard *Photographer: Victor Powell via Loop Capital Markets LLC*

While there have been gains in the corporate market during the past five years, the real jump has been this year against the backdrop of renewed calls for racial equity. That momentum may not last unless corporate America makes a concerted effort to press for inclusivity when tapping the capital markets, said Sidney Dillard, Loop's head of corporate investment banking.

"The overall goal that we want to create is that this just becomes a way that you do business," she said, "not just the way that you do business because George Floyd was murdered."

*– With assistance by Dan Covello, Andrea D Niper, Rebecca Sgrignuoli, Rick Bialos, Vincent Tevere, Jeff Green, and Shruti Singh*

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## In this article

JPM
**JPMORGAN CHASE**
120.41 USD ▼ -0.26 -0.22%

GS
**GOLDMAN SACHS GP**
244.08 USD ▲ +0.31 +0.13%

GOOGL
**ALPHABET INC-A**
1,762.14 USD ▲ +4.95 +0.28%

MS
**MORGAN STANLEY**

64.33 USD ▲ +0.10 +0.15%

VZ
**VERIZON COMMUNIC**
60.03 USD ▲ +0.12 +0.19%