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

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Federal Reserve Bank of Chicago Conference on Municipal Bond Markets
September 29, 2026

This paper: How much of a banking relationship's value comes from the banker relative to the bank (in municipal underwritng)?

Classic question, excellent identification

- **Setting:** Texas banned several banks from participating in public finance at the end of 2021, forcing some issuers to change banking relationship, some **follow previous banker**
- **Novel data:** Scrapes of banker moves from The Bond Buyer and additional context from LinkedIn
- **Approach:** IV diff-in-diff comparing borrowers who lose access to a relationship bank and banker and have exogenously higher chance of following banker
- **Main outcomes:** Spread at issuance
- **Findings:** borrowers following their banker using this instrument exhibit large spread declines, and banker explains a lot of variation

What I really like about the paper:

1. Ivan and I wrote a paper about this Texas muni underwriter shock. Constant question: *Why don't the bankers just move to remaining banks?*
2. Muni banking relationships are interesting but understudied in rigorous contexts. This context is well identified, but can inform larger discussions of relationships

Where I see some space for deeper dives:

1. Embedding contribution in the extant literature
2. ATE, LATE, and interpretation with selection
3. What is the nature of the banker-specific information?

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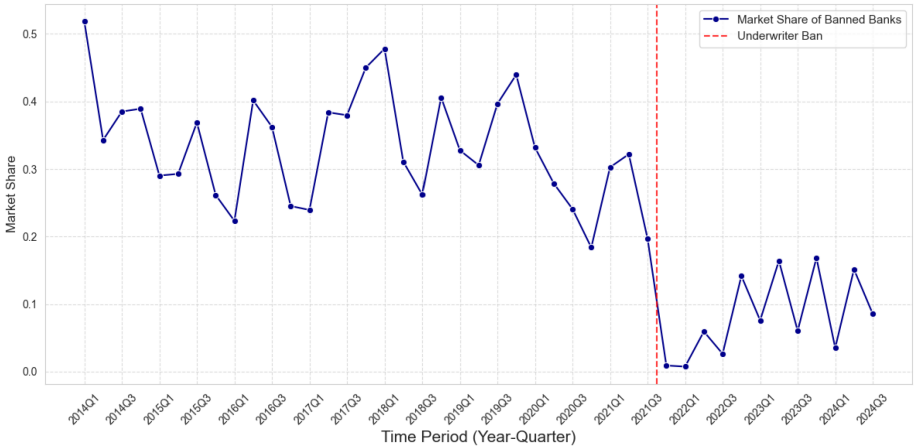
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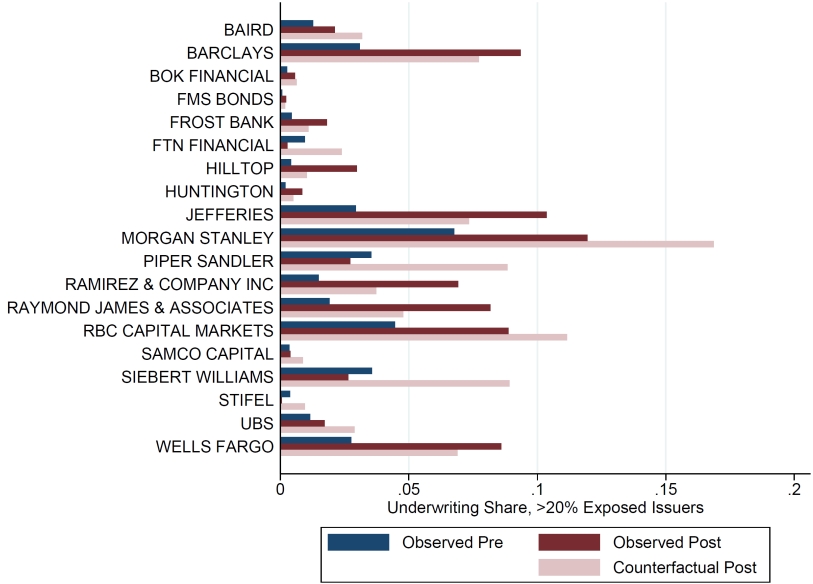
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The Texas Anti-ESG Laws Context #1

- Banned underwriters exit the market:



The Texas Anti-ESG Laws Context #2



Relationships in Muni Underwriting Relative to Other Assets

Muni underwriting relationships are sticky in ways very similar to other contexts. Some recent examples:

1. **Municipal and equity underwriting relationships have close first-repeat retention rates.** *Krigman, Shaw, and Womack (2001 JFE) find that 70% firms issuing an SEO within three years of their IPO retained their IPO lead underwriter. Comparing each muni issuer's first observed negotiated issuance with its next negotiated issuance within three years, 73.2% kept the same underwriter.

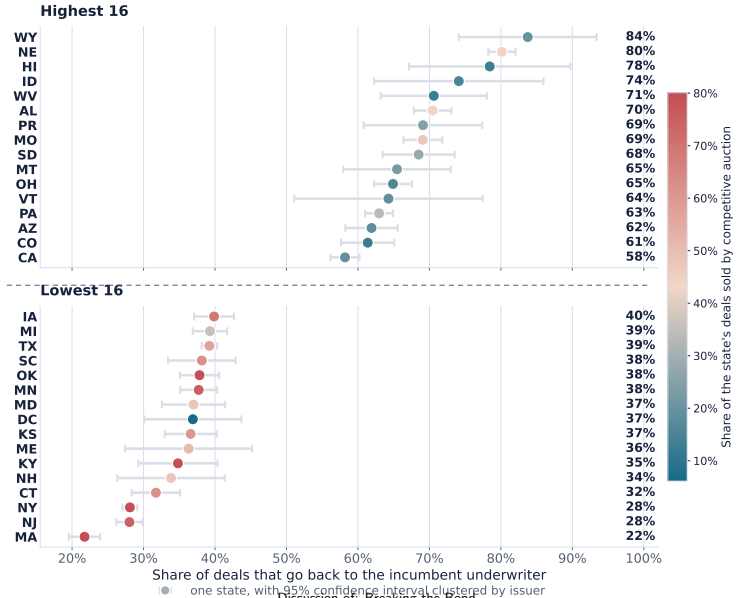
2. **Municipal and corporate bond underwriting relationships persist similarly.** *Dick-Nielsen, Nielsen, and von Rüden (2021 JCF) find that 60% of bonds issued by seasoned corporate borrowers use an existing underwriter relationship. In 74.7% of negotiated municipal deals, the underwriter had also handled an earlier and not yet matured bond from the same issuer.

3. **The flows of municipal bond and corporate loan deals from new underwriters are similar.** *Dempsey and Faria-e-Castro (2025 JFE) find that loans newly issued by banks the firm had not used in the previous year account for 2–3.5% of all outstanding corporate loans. For municipal bonds, issues newly assigned to underwriters unused in the previous year account for 1.33% of outstanding negotiated issues and 1.41% of outstanding negotiated par.

The Shape of Muni Underwriting (Bank) Relationships



Variation in Muni Underwriting (Bank) Relationships



Muni underwriting and the Texas shock is a rich context:

- Many borrowers with different starting conditions
- Many banks and bankers make different decisions that this paper observes!!
- Massive shock to the presence of relationship lenders for a subset of borrowers
- Simple substitution patterns suggest a lot happening under the hood

And still, the context has lots of elements that appear generally relatable and interesting!!

#1 Embedding contribution in the extant literature

The stated contribution:

- Abstract: "informational capital and investor relationships are portable with bankers **rather than fully embedded in institutions**, and suggest a non-neutral effect on issuers when bankers move."
- Page 6 last line before lit: "relationship and information assets are at least partly portable with the banker **rather than being fully embedded in the bank**"

I would argue we have extremely strong priors that firms are mostly made of people and *individual people can matter* for financial outcomes

- *Scott (2006 JSBM), "Loan Officer Turnover and Credit Availability for Small Firms"
- *Uchida, Udell, and Yamori (2012 JFE), "Loan officers and relationship lending to SMEs"
- Drexler and Schoar (2014 MS), "Do Relationships Matter? Evidence from Loan Officer Turnover"
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The questions I want to read about are (1) how much and (2) why do individual bankers matter?

From Antoinette Schoar's first editor letter on our paper:

> In my mind the real strength of your set up is that the shock to underwriters you identified is quite different from what is commonly used in the literature. In most other cases people tend to use negative shocks to an underwriter that forces the underwriter or shrink and then look at the impact on borrowers or the market. In those cases, we usually have the endogenous matching issues, bad shocks to lenders often correlates with other things happening to borrowers or the self-selection of borrower quality to underwriter quality. In this case, the shock is pushing out big healthy banks and is quite orthogonal to the economics of underwriter. It is also a shock where market participants would know that the underwriters (had to) leave the market for reasons not related with unobserved quality of the borrowers or economic fundamentals. This makes it an attractive experiment and you need to put more emphasis on this angle.

I would focus on complementing rather than trying to separate and say municipal bond underwriting is different in some way from these other markets

#2 ATE, LATE, and interpretation with selection

The estimation equation in the paper is

$$Spread_{i,b,t} = \beta_f \times FollowBanker_{i,b,t} + \delta_i + \sigma_{bt} + \gamma_t + \rho HHI_t + u_{i,b,t},$$

for municipality i issuing through bank b at time t. From the text, "[t]he variable $FollowBanker_{i,b,t}$ is a binary indicator equal to 1 if issuer i establishes a new banking relationship with the bank b that hired its prior relationship banker by quarter t."

Instrument is regressing $FollowBanker_{i,b,t}$ on the diff-in-diff term

Empirical issues that jump out:

- The decision to follow is endogenous even after using the instrument (followers always have $\lambda_B^{banker} > k_B - k_C$) and most issuers do not follow
- The diff-in-diff term potentially has other direct impacts on spreads
- **$FollowBanker_{i,b,t}$ omits several distinct outcomes, at least stay and no banker move

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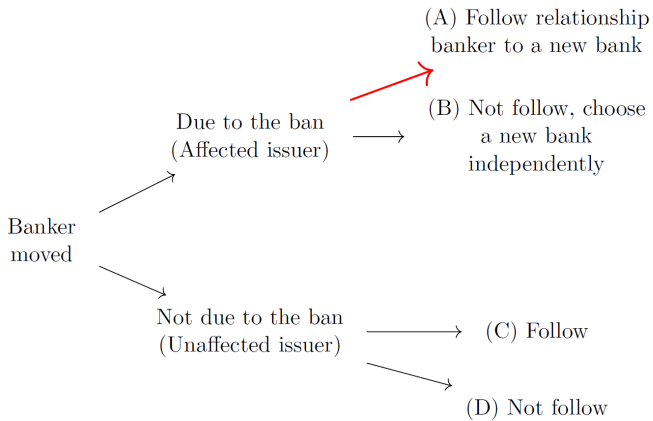
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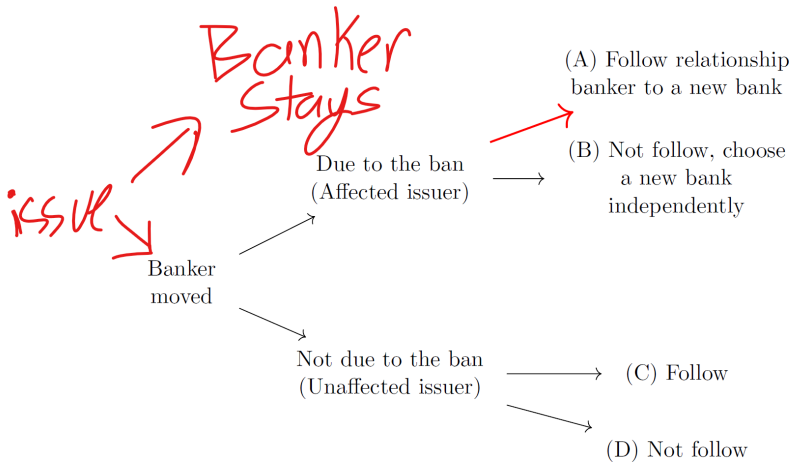
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A first step toward solutions: There are at least two endogenous pieces, (1) banker moved and (2) follow, so you may want two instruments

1. exposure to banned underwriters (continuous?)
2. exposure to banned underwriters where the bankers moved

Further, the LATE impact here is worth thinking about. Who are the marginal compliers and do they have the same effect as everyone else?

Finally, HHI $\neq$ competition although maybe it's close over short horizons. Can you directly show HHI rules out competitive effects of the instrument?

#3 What is the nature of the banker-specific information?

A potential silver bullet: evidence of the specific friction that the banker is able to solve to lower costs so much (match mechanism to magnitude)

In the paper so far:

1. A subsample with bonds lacking credit rating (this is a small sample within treatment)
2. Larger marginal effect with more educated banker (MBA interaction)
3. Extra allocations to banker investor connections (eMAXX)

But I think even more granular will be more convincing to the reader:

1. A survey may be overkill,
2. **There is information in analysis of the instrument compliers and their FOCs (Table 4 can go much further than arguing "broadly similar" page 27)
3. Public statements by any of the following issuers about the decision
4. Public statements by any of the banks that hired the displaced bankers

Final Thoughts

- Great line of inquiry into an important question with a big data lift and novel identification
- Cool evidence that bankers themselves, and not just their affiliated banks, hold a lot of the value of a relationship
- Would like more clarity on: (1) placement in the literature, (2) structure and variation in the instrument, and (3) specifics behind the banker value added
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