

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

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Motivation: Bonds and Underwriters



My News



Companies tap US bond market for nearly \$70 billion, starting September on a busy note

By Matt Tracy

September 5, 2025 2:17 PM EDT · Updated September 5, 2025

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→ Underwriters (i.e., banks) mediate access:

- Banks earn over **\$40 billion** in bond-underwriting fees each year.
- Certify borrowers
(Puri, 1996; Fang, 2005)
- Place bonds with investors
(Green, 2007; Butler, 2008)

Research Question

Do **bankers** add value beyond the effect of the **bank** in bond underwriting?

Why is it important?

Labor mobility implications:

- Bank employees change jobs every 5 years (BIS, 2024).
- We need to understand to what extent human capital is portable.

Should Bankers Matter in Municipal Bond Market?

Municipal bond market:

- In the U.S. in 2024, the new muni issuance is **\$508 billion**.
- Essential for **schools, highways, sewer systems, and stadiums**.

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- *Lending*: Knowledge of specific groups
- *M&A*: Valuation expertise

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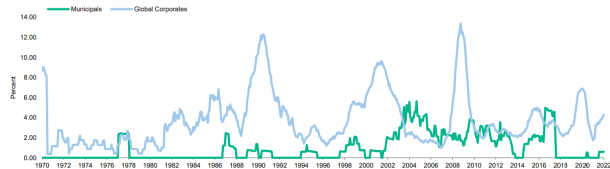
- *Lending*: Knowledge of specific groups
- *M&A*: Valuation expertise

Municipal bond underwriting is different:

- Audits and disclosure → less information asymmetry
- Historically low default rates

Municipal speculative-grade default rates have approximated speculative-grade corporate default rates since 2010, but are starting to diverge

Trailing twelve-month speculative-grade default rates



Source: Moody's Investors Service

Main Results

A. Banker's value is distinct from the bank:

- When the banker moves to a different bank, decision to follow the banker relative to not-follow yields a **19 bps reduction** in spreads $\approx$ \$0.4M per issuer.

B. Bankers add value through two channels:

- **Certifying** opaque borrowers
- Providing access to **investor networks**

Banker value is portable and not fully substitutable by the bank

Challenges: Human Capital in Bond Underwriting

1. **Banker-level deal assignments are private**
2. **Decision to keep relationships with banker is endogenous**

This Paper

1. Banker-level deal assignments are private

→ **Novel data on banker movements:**

- From *The Bond Buyer*: public announcements of senior banker transitions
- Small *public finance departments* at banks

2. Decision to keep relationships is endogenous

→ **Use of plausibly exogenous policy shock:**

- Texas Underwriter Ban (2021) → incentivizes to keep relationship with banker

Unique Setting: Municipal Bond Market

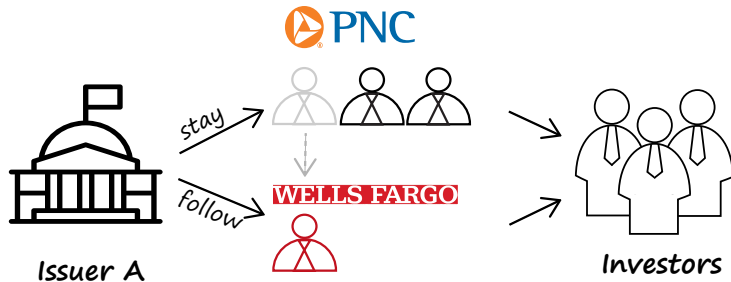


Example of bond prospectus

Specific features:

- 99% of deals are underwritten by a single underwriter.
- > 60% of municipalities work with a single bank over a period of 3 years.

When Banker Moves



→ How much of the banker's client-specific value travels with the banker after the move?

Data

Novel Data: Tracking Bankers

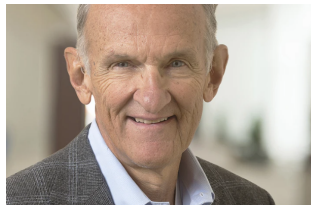
- Data from **The Bond Buyer**
 - Focus on senior banker career moves
 - Match using **LinkedIn** and **Revelio Labs**.
 - Link bankers with municipalities by their specialization.



THE BOND BUYER

CAREER MOVES

People on the move in public finance



Lee White — Veteran public finance investment banker has joined **D.A. Davidson & Co.** as a **managing director.** He has participated in deals for **student housing and higher education.**

Endogenous Choice



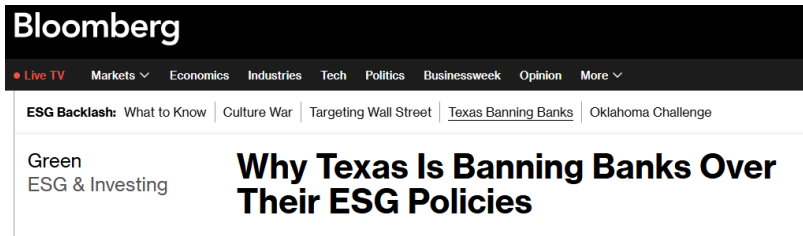
Endogenous choice:

- (i) the banker may leave a poorly performing bank;
- (ii) low- (high-) quality borrower is willing to follow;
- (iii) borrower-banker mutual decision

Methodology

Shock to Banks: Texas Underwriter Ban

- Use quasi-exogenous shock from September 2021 that shifts propensity to follow.



- Banned underwriters: **Citi, JP Morgan, BofA, Goldman Sachs, and Fidelity.**

Market share of banned banks

Ban and Exogenous Variation in Decision to Follow



Issuer A

(works with non-banned bank)

t_0 (pre)  $\Pr(\text{Follow})$

t_1 (post)  $\Pr(\text{Follow})$

Issuer B



(works with banned bank)

 $\Pr(\text{Follow})$

  $\Pr(\text{Follow})$


Induced to follow
(compliers) $\approx \Delta \Pr(\text{Follow})$

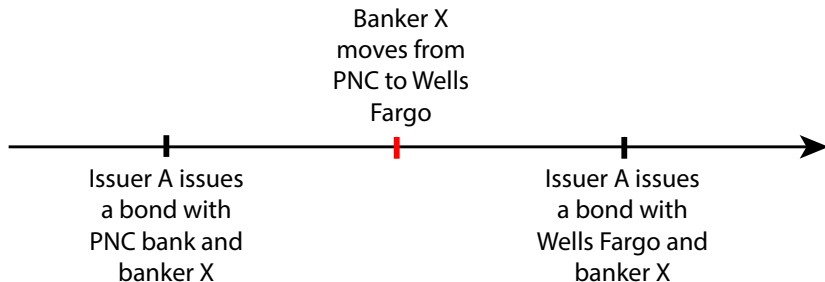
→ **Instrumental variable (IV) approach**

► Pre-trends

Timeline

Sample: Municipal bonds issued in Texas between 2019 and 2024

Borrower follows the banker:



Approach: IV combined with DiD

Focus: Marginal decision to follow relative to not-follow options

Not-follow options

Intent-to-Treat (instrument Z): $Post\ Ban_t \times Affected\ Issuer_i$

Treatment (D): $Follow\ Banker_{i,b,t}$

Approach: IV combined with DiD

Focus: Marginal decision to follow relative to not-follow options

Not-follow options

Intent-to-Treat (instrument Z): $Post Ban_t \times Affected Issuer_i$

Treatment (D): $Follow Banker_{i,b,t}$

1st

stage: $Follow Banker_{ibt} = \pi (PostBan_t \times Affected Issuer_i) + X'_{it}\phi + \rho HHI_t + FE + u_{ibt},$

2nd

stage: $Spread_{ibt} = \beta \widehat{Follow Banker_{it}} + X'_{it}\phi + \rho HHI_t + FE + \epsilon_{ibt}.$

- Fixed effects: time, issuer, bank $\times$ quarter
- Controls: market concentration (HHI), bond volume

Results

First Stage: DiD

Bond-level data: $Follow_{i,b,t} = \pi(Post\ Ban_t \times Affected\ Issuer_i) + \gamma_t + \delta_i + \sigma_{b \times q} + u_{i,b,t}$

	Propensity to Follow
<i>Post Ban</i> × <i>Affected Issuer</i>	0.14*** (0.03)
Controls	Y
Issuer, County FE	Y
Rating, Date FE	Y
Use of proceeds, Security FE	Y
Bank x Quarter FE	Y
Observations	96,332
F-stat	22.57

- Increases by 14 percentage points → a 74% increase over the mean follow rate of 0.19.

Second Stage: IV

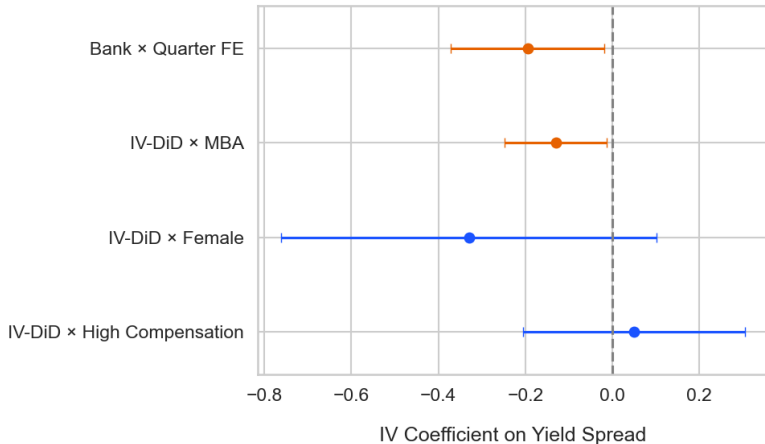
- The marginal decision to follow the banker brings a 19 bps reduction in borrowing costs.

	First Stage (Follow_Banker) (1)	IV-DiD (Spread) (2)
<i>Post</i> × <i>Affected Issuer</i>	0.14*** (0.03)	
<i>Follow_Banker</i> (IV)		-0.195** (0.08)
Controls	Y	Y
Issuer, County FE	Y	Y
Rating, Date FE	Y	Y
Bank x Quarter FE	Y	Y
Use of proceeds FE	Y	Y
Observations	96,332	96,332
F-stat	22.57	

Economic significance: ~ \$400K saved per issuer

Who adds the most value?

- Bankers with MBA degrees bring additional 13.5 bps reduction in spreads.



Economic Mechanism 1:

Do bankers provide information about borrowers?

Economic Mechanism 1: Information Asymmetry

- Do bankers transfer information about the borrower to the new bank?
- Significant effect for non-rated borrowers.

► Revenue bonds test

	First Stage, (Follow_Banker) (1)	IV-DiD, (Spread) (2)
<i>Post</i> × <i>Affected Issuer</i>	0.093*** (0.02)	
<i>Follow_Banker</i> (IV)		-0.35* (0.18)
Controls	Y	Y
Issuer FE	Y	Y
Bank × Quarter FE	Y	Y
Other FE	Y	Y
Observations	82,378	82,378
F-stat	10.58	

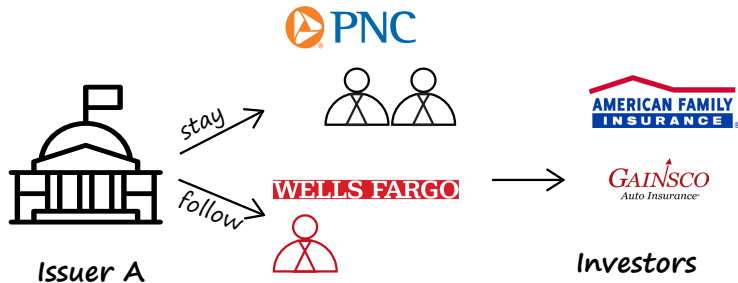
Economic Mechanism 2

Do bankers provide access to their investor networks?

Economic Mechanism 2: Investor Network

Do bankers have their own investor network?

- eMaxx data: bond-level investor holdings
- Covers about 30% of the sample



Investor Networks Test

- Bankers bring their investor networks to the new bank
- Hiring of relationship banker brings $\sim$ \$1 million in assets per investor quarterly.

	New Relationship With Bank (1)	Capital Allocated (2)	Capital Allocated (3)
<i>Post</i> $\times$ <i>Affected Investor</i>	0.002 (0.002)	-63.88 (104.86)	22.91 (127.71)
<i>Post</i> $\times$ <i>Bank Hired Banker</i>	-0.01 (0.01)	304.72** (138.76)	304.48** (389.91)
<i>Post</i> $\times$ <i>Affected Investor</i> $\times$ $\times$ <i>Bank Hired Banker</i>	0.005 (0.003)	1,054.35*** (284.34)	798.06** (389.91)
Year-quarter FE	Y	Y	Y
Investor FE	Y	Y	
Bank FE	Y	Y	
Bank $\times$ Investor FE			Y
Observations	168,116	168,116	168,116
R-squared	0.03	0.08	0.23
Const	0.03***	305.32***	313.23 ***

What This Paper Shows

Q: Do individual bankers add value beyond the bank level in bond underwriting?

Approach: Novel data on banker mobility + Exogenous shock

⇒ **Takeaway:** Market knowledge and investor connections travel with the banker

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Contribution:

- Human capital in financial intermediation Ibert et. al., 2018; Cahn et al., (2024); Giannetti et al., (2017); Santos and Winton (2008); Schenone (2010), Ewens and Sosyura (2023)...
- ★ In bond underwriting, banker human capital is portable.
- Search and information frictions in muni bond market: Butler (2007); Li and Schürhoff (2019); Garrett and Ivanov (2025)...
- ★ Role of bankers in alleviating frictions.

Thank you!

Literature + Contribution

Human capital in financial intermediation:

- Ibert et. al., 2018; Cahn et al., (2024); Giannetti et al., (2017); Santos and Winton (2008); Schenone (2010), Ewens and Sosyura (2023)...
- ★ In bond underwriting, banker human capital is portable.

Relationships with banks and bankers:

- Engelberg et al., (2012); Drexler and Schoar (2014); Fisman et al. (2017); Karolyi (2018); Bushman et al. (2021); Herpfer (2021); Papoutsis (2024); Even-Tov et al. (2024), Tuft and Yimfor (2024), Chemmanur, Ertugrul, and Krishnan (2019), Guo et al. (2020), Wan et al. (2021)...
- ★ Disentangling banker value from bank value.

Municipal bonds:

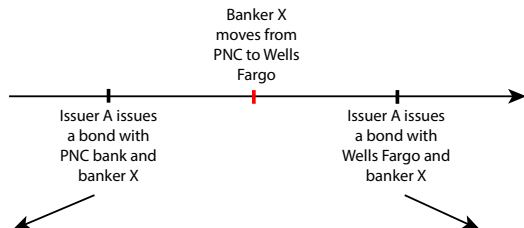
- Search and information frictions: Butler (2007); Li and Schürhoff (2019); Garrett and Ivanov (2025)...
- ★ Role of bankers in alleviating frictions.

Timeline and Definitions

Sample: Municipal bonds issued in Texas between 2019 and 2024

- Only issuers whose banker moved [including moves from non-banned to non-banned].

Borrower follows the banker:



- *Affected Issuer_i*: Relied on banned underwriters for at least 10% of their deals in the last 5 years before the ban.
 - 12% of municipalities in Texas are
- *Follow_{i,b,t}*: Issuer switches to the bank that hired their relationship banker.
 - 44% of affected issuers follow their banker to a new bank.
 - 56% of affected issuers do not follow

Municipal Bond Prospectus

**NEW ISSUES
BOOK-ENTRY ONLY**

Ratings: See "RATINGS" herein.



\$369,750,000
WAYNE COUNTY AIRPORT AUTHORITY
Airport Revenue Bonds
(Detroit Metropolitan Wayne County Airport), Series 2023A-E
consisting of:

\$105,200,000
Airport Revenue Bonds
Series 2023A (Non-AMT)

\$78,205,000
Airport Revenue Bonds
Series 2023B (AMT)

\$139,115,000
Airport Revenue Refunding Bonds
Series 2023C (Non-AMT)

\$18,520,000
Airport Revenue Refunding Bonds
Series 2023D (AMT)

\$28,710,000
Airport Revenue Refunding Bonds
Series 2023E (AMT)

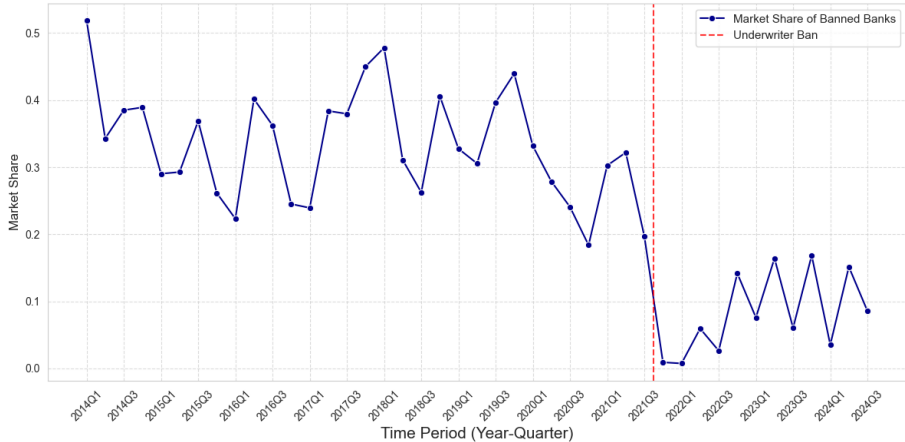
Dated: Date of Delivery

Due: December 1, as shown on the inside cover page

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Market Share of Banned Underwriters

- Banned underwriters exit the market:



Appendix: Banned Banks Quit Net Zero Alliance

≡ **THE BOND BUYER**

Texas to drop reviews after banks quit climate group

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Source: The Bond Buyer, January 2025

Simple OLS: Possible Selection

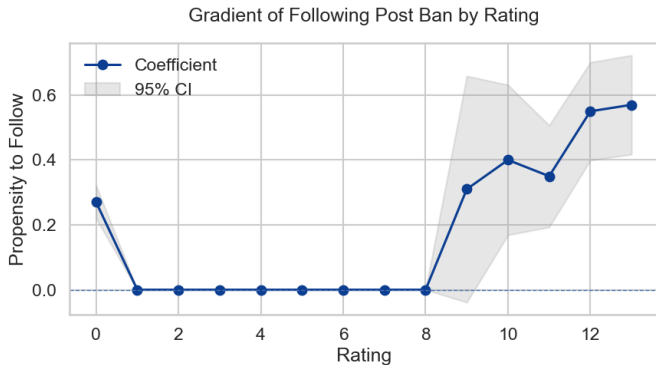
Bond-level data: $Spread_{itb} = \beta_0 + \beta_f \times Follow_{itb} + FE + u_{itb}$

FE: Issuer, Date, County, Rating, Proceeds, Security type

	Spread (Full Sample) (1)	Spread (Among Movers) (2)
<i>Follow_Banker</i>	-0.01** (0.004)	-0.02*** (0.00)
Controls	Y	Y
Bank x Quarter FE	Y	Y
Observations	114,919	96,332
R-sq	0.7	0.7

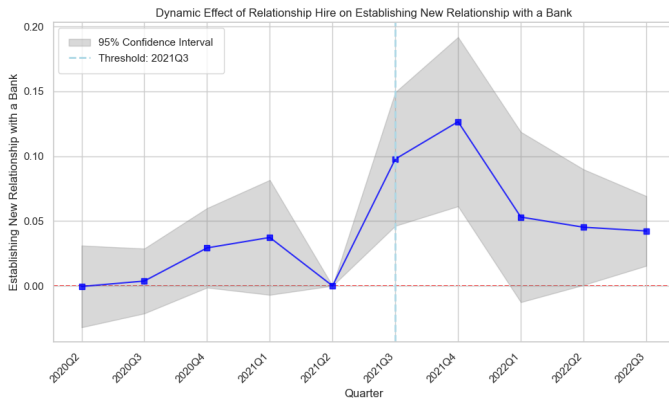
- After following the banker, borrowers obtain approximately the same price → no new issuer information

Appendix: Heterogeneity in Following the Banker



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Appendix: Dynamic Following the Banker

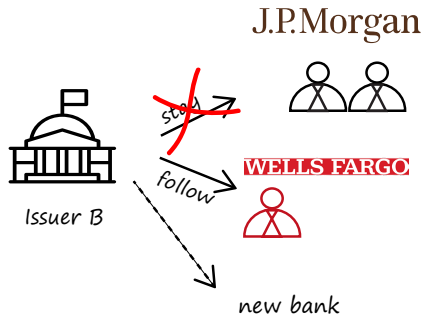
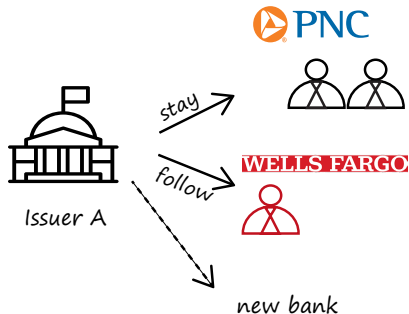


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Appendix: Heterogeneity in Following

	Baseline First Stage (1)	First Stage with Heterogeneity (2)
PostBan $\times$ Affected Issuer	0.14*** (0.03)	0.13*** (0.03)
$\times \log(\text{Volume})$		-0.006 (0.007)
$\times \text{Rating}$		0.012*** (0.004)
Issuer FE	Y	Y
Date FE, County $\times$ Year FE	Y	Y
$\log(\text{Volume})$, Rating, HHI	Y	Y
Use-of-Proceeds FE	Y	Y
Bank $\times$ Quarter FE	Y	Y
Observations	96,332	96,332
R-sq		0.77

Appendix: Follow vs. Not Follow Options



Appendix: Complier Characteristics

	Proportion of Compliers Above the Sample Median (%)	Ratio: Compliers to Sample)
	(1)	(2)
Amount at Maturity	46.4	0.93
Rating	22.3	1.54
Maturity	48.6	0.97
Amount per Underwriter	46.4	0.93
Size (pre-ban)	31.8	1.11
Spread	43.4	0.87
Yield	39.4	0.79

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IV Approach

Treatment: $D(z) = 1$ if Follow; $D(z) = 0$ otherwise

Instrument: $Z = 1$ if Affected; $Z = 0$ otherwise

Compliance groups:

- **Compliers (C):** $D(1) = 1, D(0) = 0$ — follow only when encouraged

Complier Characteristics

- Always-takers (AT): $D(1) = D(0) = 1$ — follow regardless
- Never-takers (NT): $D(1) = D(0) = 0$ — never follow

Share of compliers: $\rho_C = 1 - \rho_{AT} - \rho_{NT}$

Local Average Treatment Effect:

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

LATE in detail

Appendix: IV details

Local Average Treatment Effect (LATE):

$$\hat{\beta}^{IV} = E[Y(D=1) - Y(D=0) \mid D(1)=1, D(0)=0]$$

AT and NT cancel out:

- For **AT**: $D(1) = D(0) = 1 \Rightarrow Y(D(1)) - Y(D(0)) = Y(1) - Y(1) = 0$.
- For **NT**: $D(1) = D(0) = 0 \Rightarrow Y(0) - Y(0) = 0$.
- For **C**: $D(1) = 1, D(0) = 0 \Rightarrow Y(1) - Y(0)$ (non-zero).

Target Selection

Banned Underwriters vs. Non-Banned Underwriters			
	Banned (1)	Non-Banned (2)	Difference (t-stat) (3)
Market Share in Texas (%)	0.06	0.02	1.61
Relationships with Municipalities in Texas	11.6	16.86	-0.97
Market Share in the US	0.07	0.01	2.94**
Share of Texas in Bank Portfolio	0.08	0.24	-3.11***
Yield (%)	1.24	1.25	-0.68
Amount Underwritten (\$ Mil)	1,016.31	333.17	1.53
Issuers' Credit Rating	AA+	AA	0.58
Non-Rated Issuers (N)	7.80	15.23	-1.56

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Mechanism 1.2: Information Asymmetry in Revenue Bonds

- Do bankers certify the credibility of the bond?
- No differential effect between revenue and general obligation bonds.

	First Stage, (Follow_Banker) (1)	IV-DiD, (Spread) (2)
<i>Post</i> × <i>Affected Issuer</i>	0.14*** (0.03)	
<i>Follow_Banker (IV)</i> × <i>RevenueBond</i>		-0.13 (0.15)
<i>Follow_Banker (IV)</i>		-0.29* (0.17)
Controls	Y	Y
Issuer FE	Y	Y
Bank × Quarter FE	Y	Y
Other FE	Y	Y
Observations	96,332	96,332
F-stat	23.33	

Mechanism 2.2: LinkedIn Connections and Investor Network

- Capital inflow impact: +\$59K per quarter for a 1 SD increase

	Capital Allocated
<i>Post</i> × <i>Affected Investor</i> × <i>Bank Hired Banker</i> × <i>LinkedIn_Conns</i>	11.37** (5.21)
Year FE	Y
Bank FE	Y
Investor FE	Y
Observations	46,134
R-sq	0.12

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Competitive vs. Negotiated Bidding

- No differential effect between competitive and negotiated bidding.

	First Stage, (Follow_Banker) (1)	IV-DiD, (Spread) (2)
<i>Post × Affected Issuer</i>	0.14*** (0.03)	
<i>Follow_Banker (IV) × CompetitiveBid</i>		0.15 (0.12)
<i>Follow_Banker (IV)</i>		-0.42* (0.18)
Controls	Y	Y
Issuer FE	Y	Y
Bank x Quarter FE	Y	Y
Other FE	Y	Y
Observations	96,332	96,332
F-stat	28.39	

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