



**Written Testimony of Gary Hall**  
**On behalf of the Securities Industry and Financial Markets Association**  
**Before the U.S. House of Representatives**  
**Committee on Financial Services**  
**Subcommittee on Oversight and Investigations**  
**Hearing entitled “Examining the Role of Municipal Bond Markets in Advancing – and  
Undermining – Economic, Racial and Social Justice”**  
**April 28, 2021**

Chairman Green, Ranking Member Barr, Chairwoman Waters, Ranking Member McHenry, and distinguished members of the Subcommittee, thank you for the opportunity to testify on behalf of the Securities Industry and Financial Markets Association (“SIFMA”)<sup>1</sup>, and to share our members’ commitment to a fair, strong, and well-functioning municipal securities market. SIFMA commends the members of this Subcommittee for your collective focus on these important issues.

I currently sit on the board of SIFMA, the leading trade association for broker-dealers, investment banks, and asset managers operating in the U.S. and global capital markets. The combined businesses of SIFMA’s members underwrite over 90% of the new issue volume of municipal securities, represent 75% of the U.S. broker-dealer sector by revenue, and 50% of the asset management sector by assets under management.

I am a Partner and the National Head of Infrastructure and Public Finance Investment Banking at Siebert Williams Shank & Co. (“SWS”), the nation’s largest minority-owned investment bank. SWS has alums from Historical Black College and Universities (“HBCUs”) within both our employee and partnership ranks. Hence, my firm is a huge beneficiary of talent and human capital from those educated at HBCUs and in return, has been a generous benefactor to HBCUs on an individual employee basis and as a firm. On a personal note, please know that my connection to HBCUs runs deep. Before graduating from Howard University, I attended Alcorn State University, an HBCU located in Lorman, MS. Additionally, my son is a sophomore at Howard, where he chose to follow not only my footsteps but also his mother’s paternal and maternal lineage, which have produced five and three generations of HBCU graduates, respectively. Therefore, I would like to join SIFMA by expressing appreciation on behalf of my firm, my family, and myself to the Subcommittee for bringing attention to HBCUs having fair access to the public municipal bonds markets.

My career in the municipal bonds markets includes serving as an issuer, a lawyer, and a banker. I am the immediate past Chairman of the Municipal Securities Rulemaking Board (“MSRB”), the self-regulatory organization that safeguards the \$4 trillion municipal securities industry. Therefore, I know first-hand how municipal bonds are a critical funding source for infrastructure in America. These bonds finance the bridges, roads, schools, health care facilities, higher education facilities, water and sewer facilities, airports, and seaports our communities rely on. I believe that members of this Subcommittee understand and agree that investing in municipal bonds means investing in the success of American people. Such impact has become evident during these challenging times for our communities, where state and local governments are accessing the bond market to address the nation’s critical infrastructure need and refinancing existing debt to free up funds for additional projects. Congress was decisive in passing the CARES Act and authorizing the Federal Reserve’s Municipal Liquidity Facility, a program that provided key and timely support during last year’s loss of market liquidity due to the pandemic. We are thankful for this swift action that stabilized the tax-exempt market and we hope that Congress continues to

---

<sup>1</sup> SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

recognize the importance of a healthy municipal bonds market to a robust economic recovery for the nation.

That being said, our national infrastructure challenges, amongst others, are both large in scale and extremely complex. SIFMA believes that the financing solutions offered by America's capital markets to state and local governments in the form of bonds will help spur infrastructure investment as well as the myriad of related benefits such as economic growth and job creation. Still, it must be acknowledged that minority communities have, and continue to, face significant challenges due to historical underinvestment. I can say that SIFMA and its members, are committed to not only fostering a culture of diversity and inclusion within our firms and industry, but also investing in diverse communities nationwide and increasing the availability of financing for critical local infrastructure projects. SIFMA and its members understand that America's capital markets can play an important role in enabling and financing programs to combat generational hardships such as poverty, racism, climate change, and other critical infrastructure needs. It is especially worth noting that municipal bonds can also be leveraged in terms of sustainable finance. State and local governments are increasingly turning to municipal bonds to finance projects that align with certain environmental, social, and governance goals. We view it as a business imperative and our responsibility to serve all of our clients equally and to help improve the communities in which we operate by offering financial solutions to locally identified capital projects.

As it pertains to the subject of this hearing, I would first like to emphasize that SIFMA and its members are committed to fair pricing, pursuant to MSRB Rule G-17. The banks and broker dealers that underwrite municipal bonds act as intermediaries between the borrower and the investor, but we would not have repeat clients if we didn't obtain the lowest cost of financing possible based on fundamentals of credit and risk. Further, I am always appreciative of being able to learn from scholarly research and academic analysis. However, I believe there are certain contextual considerations that are important to highlight that pertain to the analysis and conclusions reached in the 2018 study that has been cited today as evidence of possible HBCU-related pricing discrimination in the municipal bonds market.

First, the data underpinnings of the study (1988-2010) does not take into account significant market advances over the last decade. For example, transparency enhancements to secondary municipal bond trading activity, a data subset that the study relies heavily upon, have substantially increased with the MSRB's launch of its Real-time Transaction Reporting System ("RTRS") in 2010. In fact, today, MSRB Rule G-14 requires municipal bonds dealers to submit transaction data to RTRS within 15 minutes of the time of the trade. Transaction prices are electronically disseminated on the MSRB's Electronic Municipal Market Access ("EMMA") website immediately after transactions are received by the MSRB. The study readily admits that the availability of bond pricing data is important to investors and that bonds that traded relatively infrequently, such as HBCU-issued bonds, were more prone to delayed reporting which may have contributed to a "differential information environment" relative to other bonds during a significant period of the study. Given the RTRS reporting requirements, no such "differential information environment" exists today.

Another important observation regarding the period of the study (1988-2010) versus the current market environment, is the overwhelming use of municipal bond insurance prior to the financial crisis the country

incurred in 2008. During the period of 1988 to 2010, 43.7%<sup>3</sup> of all municipal bonds were covered by bond insurance. In 2020, only 8.9%<sup>4</sup> of muni bond volume was insured. The study attempts to compare HBCU bonds that were categorized as “AAA” by the bond rating agencies due to bond insurance with certain non-HBCU receiving a “AAA” rating based on underlying credit characteristics. I can tell you as a muni practitioner for several decades, equating pricing demand and creditworthiness of higher education institutions with a natural or underlying “AAA”-ratings with those that achieve such rating only due to buying bond insurance is not an apples to apples comparison. During the period of the study, investors frequently incurred capacity constraints to avoid being overly saturated with bonds insured by certain bond insurance firms. Institutional investors such as bond funds typically are bound by risk restrictions limiting their exposure or holdings to any obligor, which on an insured bond would be the bond insurance company and not the underlying borrower. Hence, insured higher education bond issuances competed against insured state and local government issuances, with the latter enjoying many more revenue drivers (i.e. property taxes, income taxes, user fees, etc.) to enhance its underlying credit profile. Bonds rated “AAA” naturally (e.g. without bond insurance) were in higher demand and received a commensurate favorable pricing differential.

Next, I would like to draw attention to the underlying methodology behind this study, specifically, the list of HBCU (treatment) schools vs. (control) schools. Howard University is a very different institution than Georgetown University. Clark Atlanta University is a very different institution than Emory University. While certainly these institutions are in close geographic proximity, that is where the similarities end. Simply put, there are significant structural differences between the treatment and control schools that renders the comparison invalid. Specifically, the risk profiles of these institutions are not comparable due to the differences in critical factors, which were not included in the study, including but not limited to endowment size, tuition payment mix, debt liquidity, and the total amount of outstanding debt. It is also important to note that issuers that infrequently tap the public debt market and come to market with smaller par sizes, typically attract lower demand in the primary market and are less liquid in the secondary market. Institutional investors typically look for frequent issuers and large block sizes, as these bonds are easier to manage and cheaper to trade. I suspect the relatively limited sample size of the HBCU issuances (102 or 2.5% of the total sample size of 4,145 bonds issues over 23 years), comprised of infrequent issuers and bond offering of smaller par sizes, may be more dispositive of the pricing differential than other factors cited in the study.

In 2010, Congress pass the Dodd-Frank Act which President Obama signed into law on July 21, 2010. As part of the Dodd-Frank Act, Congress amended Section 15B of the Securities Exchange Act of 1934, which brought municipal securities advisors under federal regulation and imposed a federal fiduciary duty upon these market participants. Most transactions today include a municipal advisor, who is hired by the issuer or non-profit borrower as its fiduciary, to protect its interests, including ensuring that the borrower obtains the lowest cost of financing. The percentage of transactions that included a municipal advisor have increased dramatically over the last three decades. In fact, in 1988 only 47.7%<sup>5</sup> of municipal bond

---

<sup>3</sup> Refinitiv.

<sup>4</sup> Id.

<sup>5</sup> Id.

transactions included a municipal advisor, whereas in 2020 a full 85.7%<sup>6</sup> of new issues in the \$451.4<sup>7</sup> billion municipal bond market had that benefit. The numbers are comparable when looking specifically at municipal bonds issued for the purpose of funding institutions of higher education. Issuers in the higher education market benefitted from municipal advisors on 41.3%<sup>8</sup> of municipal bond transactions in 1988 increasing to 84.6%<sup>9</sup> of the \$42.2 billion municipal bonds issued for this purpose in 2020. While the study specifically mentions that the inclusion of a municipal advisor as net positive to the selection process of underwriters, my experience has been that municipal advisors acting as the issuer's fiduciary have a greater impact on enhancing price transparency and fairness in the muni underwriting process. HBCU issuers are frequently adding municipal advisors to their financing teams and are benefiting from the added expertise and fiduciary support to achieve a low cost of borrowing in today's bonds market.

Despite the above-raised issues pertaining to the analysis in the study, we fervently believe more can be done to assist HBCUs with accessing the capital markets more cost-effectively going forward. Specifically, SIFMA supports authorizing triple tax exemption for HBCU-sponsored debt. Ironically, the study specifically stated that "perhaps states could allow interest from out-of-states issuers to be tax exempt; eliminating state level exemptions altogether" as a potential remedy to its research conclusion. As the study suggests, providing HBCUs with the ability to attract a larger pool of potential investors (i.e. from states with higher state income taxes--such as California and New York versus their domicile state), would increase demand and contribute to favorable pricing.

In our view, the current market environment represents a unique opportunity to ignite investor demand for HBCU-issued municipal bonds. The appetite for social impact bonds, a subset of ESG bonds, has never been greater. This market saw a volume spike to \$154 billion in 2020 versus \$17.9 billion issued in all of 2019. Social impact investors would highly covet HBCU-issued debt, as such funding will comply the investment objectives of these buyers to fund projects that are designed to produce social benefits that address socioeconomic advancement and empowerment of students from underserved communities. As such, granting HBCUs the opportunity to tap a wider social impact investor base due to expanded tax exemption would greatly impact pricing performance. Other ways to expand the buyer base for HBCUs bond issuances to increase demand and lower borrowing cost could include having the federal government authorize a high-subsidy direct pay bond (similar to disaster recovery bonds) for HBCUs or authorize a federal guaranty on taxable direct pay bonds for HBCUs (as there can be no federal guaranty on tax-exempt debt).

Please note that we continue to support the Department of Education's HBCU Capital Financing Program and applaud the action earlier this month to discharge \$1.6 billion of HBCU debt.

\* \* \* \*

In addition to the ideas above, SIFMA views a partnership among federal, state, and local governments and private investors as necessary to ease the burden on the cash-strapped federal government by

---

<sup>6</sup> Id.

<sup>7</sup> Id.

<sup>8</sup> Id.

<sup>9</sup> Id.

leveraging our capital markets to create expanded financing options. We believe that this partnership is especially important during this difficult fiscal environment as states and local governments, as well as non-profit borrowers, seek to lower their costs and also finance much-needed infrastructure such as schools, roads, and hospitals. We believe it is critical to close the infrastructure financing gap by restoring and creating additional vehicles to assist in resolving these needs.

After decades of underinvestment, the entire U.S. faces an extraordinary infrastructure deficit. In their most recent report card, The American Society of Civil Engineers (ASCE) estimates a \$2.59 trillion investment gap over 10 years between what we are currently projected to spend on infrastructure and what must be spent to fully address the deficiencies in our aging infrastructure. They also estimate that by 2039, a continued underinvestment in our nation's infrastructure at current rates will cost \$10 trillion in GDP, more than 3 million in American jobs, and \$2.4 trillion in exports over the next 30 years. With existing federal infrastructure programs failing to meet current demand, the U.S. is continuing the troubling trend of underinvestment in this area and risks substantially adding to the financial burdens of state and local governments. This will only lead to additional delays of investment in and maintenance of critical public projects, including highways, bridges, hospitals, airports, schools, water, and sewer systems. Further as many of you understand, the burden of crumbling infrastructure will fall disproportionately on low-income and minority communities.

Specifically, SIFMA strongly supports providing incentives to rebuild our nation's infrastructure including: 1) preserving the tax exemption for interest earned by investors on state and local bonds; 2) reinstating the tax exemption on the advance refunding of municipal bonds; 3) expanding private activity bonds (PABs); 4) reinstating a direct pay bond program; and 5) expanding the small issuer exception so that states and municipalities have a variety of additional tools to finance their local projects. It is important to note that all of these priorities were included in some form in H.R. 2, the Moving Forward Act, which SIFMA publicly supports. While some of these tools are just that and available to all communities for a variety of uses, others such as the small issuer exception and expanding private activity low-income housing bonds offer targeted provisions to directly aid communities in need.

Addressing historical and systemic discrimination and ensuring that we serve all of our clients and communities equally is a business imperative for our industry and an unwavering commitment of SIFMA. In order to enhance outreach to a more diverse group of college students, provide better connectivity to financial services sector and the potential career opportunities it has to offer, SIFMA has been working with HBCUs on the SIFMA Invest! Program, which had its inaugural launch at Texas Southern university earlier this month.<sup>10</sup> The SIFMA Invest! program and virtual platform offers students a myriad of educational, industry research and career development opportunities for those interested in pursuing a career in financial services. SIFMA and its members are committed to the financial wellbeing of our clients in states and local communities across this United States. I again commend the work of this Subcommittee and encourage lawmakers to use this opportunity to consider the proposals suggested in this testimony that will help expand the ability of all states and localities to finance their infrastructure needs, including expanding opportunities for HBCUs to access the capital markets.

---

<sup>10</sup> See: <https://www.sifma.org/resources/news/sifma-partners-with-texas-southern-university-on-diverse-talent-pipeline-resource-sifma-invest/>.