

# THE BOND BUYER

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## Apex Acquisition gives Rice Financial an Edge on the Sell Side

By Mark T. Kuiper

**R**ice Financial Products Inc. had an inauspicious beginning, emerging from the ashes of **Calvin Grigsby's** defunct broker-dealer. But since then, the municipal derivatives boutique has used a stream of ideas that even its competitors grudgingly admit are unique in order to convince issuers it still belongs in the big leagues.

And last month, it completed its break from the past by purchasing its own general broker-dealer arm, Houston-based **Apex Securities Inc.** The move gave the firm valuable sell-side issuer associations and a franchise in the Southeast.

The foray into plain-vanilla municipal business marks a significant departure for the firm, which has not underwritten a single municipal bond, or provided financial advisory and financial consultancy services, since it was founded as **GBR Financial Products** in 1994.

However, the firm has thrived in its core business – the murky and little understood world of municipal derivatives, where, according to **J. Donald Rice**, president and founder of the firm, it has executed transactions totaling in excess of \$3 billion.

“In the past, as a derivatives player, Rice Financial stresses the intellectual prowess of its bankers,” Rice said. “We strive to provide innovative swap transactions which require a high level of banking expertise coupled with close one-on-one relationship banking. We now intend to apply this technically focused approach to the municipal bond underwriting process.”



**Under Michael Murray, J. Donald Rice, and Brian Nevel, Rice Financial Products is now taking on muni underwriting**

### WEATHERING THE STORM

That message was obscured for a time following the collapse of **Grigsby, Brandford & Co.** amidst news of a federal investigation into charges that Grigsby, the firm's founder, offered bribes in exchange for municipal underwriting business in Florida.

While several of Grigsby Brandford's leading investment bankers, including **Napoleon Brandford** and **Suzanne Shank**, quickly moved to join or forge alliances with other firms, Rice chose to go it alone.

Rice, a one-time **Merrill Lynch & Co.** derivatives banker, chose to ride out the firestorm. He and partners

**Brian Nevel** and **Michael Murray**, vice presidents at Rice and fellow Merrill alumni, bought out Grigsby's interest in the derivatives unit, renamed the outfit, and struck out on their own.

The firm's mainstay products include tricky floating-to-floating and fixed-to-floating interest rate swaps, all designed to leverage off the relative steepness of the municipal yield curve compared with the taxable yield curve.

Overall, New York City-based Rice Financial employs three full-time derivatives bankers and two associates.

The firm currently boasts four partners: Rice, Nevel, Murray, and most recently **Rodney Ellis**, director of Apex. Rice and Ellis maintain the largest vested interests in the venture.

Moreover, with the Apex acquisition, Rice Financial effectively boosts its national presence. Apex currently has public finance offices in Dallas, Houston, and New Orleans. Ellis, a Democratic state senator in Houston, is the firm's director. Additionally, senior managers have hired veteran municipal bond bankers from a variety of disciplines. For example, **Peter Barbera**, a former principal with **Alex Brown & Sons**, was hired for Apex's sales and trading desk.

**Timothy Simon**, however, left his position as president of Apex last month.

"There is significant synergy between the bond underwriting and derivatives execution functions at the firm," said Murray.

In a departure from Rice's highly specialized forte, Apex will continue to provide plain-vanilla municipal bond underwriting and trading. The firm has a wide reputation in Texas as a consistent co-manager on municipal transactions.

According to Securities Data Co., the firm completed 31 deals as co-manager in 1996 worth \$2.67 billion. In 1997, it executed 30 transactions worth \$4.9 billion. In year-to-date numbers, it has participated in 16 issues worth \$2.5 billion. It has not senior managed any municipal bond issues in the last 18 months, and in 1996 ran the books on only one deal worth \$68 million.

## Apex Securities Financial Adviser Rankings

	Principal Amount*	No. of Issues
1993	\$131.4	3
1994	78.0	4
1995	227.7	4
1996	52.0	1
1997	87.8	5
1998†	.0	0

\*Dollars in millions

†Through July 27

Source: Securities Data Co.

## Apex Securities Underwriter Rankings

	<u>As Senior Manager</u>		<u>As Co-Manager</u>	
	Principal Amount*	No. of Issues	Principal Amount*	No. of Issues
1993	\$55.8	1	\$7,061.9	65
1994	4.6	1	4,408.9	36
1995	45.0	1	3,048.5	31
1996	68.6	1	2,679.0	31
1997	0.0	0	4,910.1	30
1998†	0.0	0	2,499.8	16

\*Dollars in millions †Through July 27

Source: Securities Data Co.

Rice said he fully expects to extend the depth of Apex's underwriting business, and is looking to hire additional bankers throughout the Southeast.

### TOILING IN OBSCURITY

Relatively little has been written about Rice Financial, adding to its mystique as a swap provider. However, market insiders agree that the Apex acquisition is an obvious extension of the firm's overall expertise that complements its existing derivatives business. Moreover, Ellis' investment into the company also helps increase its capital strength. And Rice Financial conducts a much different business than Apex Securities. Indeed, since the municipal derivatives market is private, there are no public statistics available to accurately record Rice's history of transactions, or even to guess at its client list.

"Our clients are private, just like with other derivatives shops," Rice said. "However, where the client would like us to speak about a particular transaction, we do, and we have tried to get the word out to the Street."

Some of those public transactions have included swaptions for **Dade County, Fla.**, the **Texas Veterans Land**

### Board, Oakland-Alameda County, and Fort Worth.

A survey by The Bond Buyer concluded that between June 1997 and June 1998, about \$2.85 billion of tax-exempt swaps and swaptions were brought to market. The number of outstanding transactions is currently estimated at between \$10 billion and \$20 billion.

**Peter Shapiro**, a managing director with **Swap Financial Group**, a municipal derivatives shop, said that Rice Financial is a solid municipal boutique that has forced many municipal market leaders to sit up and take notice of the tiny firm.

"Their deals often contain a fair amount of complexity," Shapiro said. He added that the firm will typically take a transaction and mix interest rate indices "where the borrower is seeking to pay floating over fixed rates. Rice sees some additional creativity in these type of structures."

For example, the firm conducted a notable \$140 million Dade County deal that garnered praise from the Street and made even some hardened muni bankers take notice.

The transaction took place in October 1997, and many market pundits said the \$140 million floating-to-floating interest-rate swap was actually the first of its kind, effectively lowering Dade's borrowing costs to under 3% and

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providing \$12 million of cash-flow savings over the life of the deal.

The transaction also incorporated a unique blend of two interest rate

indexes, pricing off both The Bond Market Association Index and the London Interbank Offered Rate Index, a move which is designed to allow Dade to exploit the spread

difference between the tax-exempt BMA Index and the taxable Libor Index.

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## Corrections to Rice Financial Products Co. Profile

A profile on Rice Financial Products Co. that ran last Thursday carried a number of inaccuracies and several misleading statements that The Bond Buyer regrets.

We regret that the firm was misidentified as Rice Financial Products Inc., and that the article stated that Rice Financial “does not directly take risks” in swaps transactions. The firm does in fact serve as principal and counterparty in all of its interest rate swaps and other transactions.

The article incorrectly associates Rice Financial’s business strategy

with the term markups. Rice Financial makes money in the swaps and derivatives transactions it enters into by offsetting those transactions with hedging transactions. Rice Financial does not accept advisory or consulting fees in relation to any of its transactions.

The story also incorrectly characterized Rice Financial’s relationship to Grigsby Brandford & Co. Grigsby Brandford never had an equity stake in Rice Financial Products or in GBR Financial Products. The broker-dealer did have a non-controlling equity interest in a subsidiary that Rice Financial con-

ducted transactions through. That subsidiary is now dormant.

The article mischaracterized Rodney Ellis’ relationship with Rice Financial Products. Rice purchased 100% of Apex Securities and Ellis joined the parent company, Rice Financial Products Co., as a partner. In addition, a quote identifying financial advisers as gatekeepers to swaps transactions was incorrectly attributed to Brian Nevel, vice president at Rice Financial.

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