If RBC Capital Markets’ position among the top five negotiated underwriters the past two years doesn’t show that the company is in the muni market to stay, its massive trading floor in downtown Manhattan’s Three World Financial Center just might. The location is a longtime symbol of prominence in the finance industry and RBC is now the second-largest tenant in the building.

RBC’s office at Three World has given the muni team a front-row seat to watch its work in action. Adjacent to the building is the dynamic World Trade Center, a $15-billion reconstruction project of the heart of New York. In September last year, RBC was selected among four firms to serve as senior manager of a $2 billion taxable deal to fund ongoing development at the site, including construction of One World Trade Center and a transportation hub.

Just as One World Trade asserts its 100-story dominance over the New York skyline, so too does RBC solidify its near decade-long ascent to the top of its class.

“The U.S. is RBC’s second home market,” said Mark Standish, president and co-chief executive officer of Royal Bank of Canada Capital Markets.

Toronto-based RBC has been on a steady climb up the negotiated underwriting scoreboard since the financial crisis, when the company seized the opportunity to pick up market share while the investment banking industry struggled to pick up the pieces.

Since 2008, RBC has outpaced the competition, picking up more market share than any other major underwriters, almost all of whom have seen their slice of the municipal pie shrink. RBC’s negotiated issuance by par jumped 37% from 2008 to 2012, while eight of the other top 10 underwriters saw decreases of as much as 41% during that time, according to Thomson Reuters data.

The firm is on pace for yet another record year, so far responsible for more than $13 billion, or 7.7% of the negotiated market, by par amount. With more than twice as many issues as league leader Bank of America, RBC deals are proliferating in a year when overall issuance has fallen 10% and negotiated issuance 12%, according to Thomson Reuters numbers through July.

“It’s about getting in the batter’s box and chasing clients and winning mandates,” Chris Hamel, head of municipal finance, said in an interview. “We think we’re in this space to stay and that we can compete against anyone, and on any given day, win. We feel good about that.”

RBC attributes that high batting average to a bulked-up balance sheet and high credit rating that have enabled the bank to commit capital at a time when government regulators are forcing banks in the U.S. to shore up their capital positions. Innovative deals like a $100 million mortgage-backed security pass-through for the Illinois Housing Development Authority have added to RBC’s appeal among municipalities looking for creative ways to finance projects at attractive yields.

For RBC, scaling the rankings ladder is more than just a corporate resume-builder – it’s an affirmation of the previously lesser-known bank’s presence in its home away from Canadian home. The firm’s municipal business, a relatively new one that began in 2001 with the purchase of Minneapolis-based Dain Rauscher, now RBC Wealth Management - US, embarked on a decade of expansion that culminated in the 2011 milestone of a top-five rank in negotiated deals.

As of Sept. 4, RBC is now vying with Morgan Stanley to take the number four spot. Wells Fargo & Co, the only other bank that has seen a gain in par amount since 2008, ranks at number seven with $8.5 billion of par so far this year. Along the way, RBC has broadened its approach to the market, said Mark Maroney, head of municipals, rates and securitized products.

“In the early 2000s, customers knew us as a high grade, intermediate part of the curve trading house, because that’s really all we did,” he said. “As we began to grow outside of that footprint, we augmented strategies to trade on the
long end of the curve, the short end of the curve, a little bit deeper in credits and sectors like housing and healthcare, making sure we had a relevant platform to both the largest and smallest of the buyer base.”

The post-crisis environment of transition, as Hamel describes it, left an opening that highly-rated RBC jumped on, snatching up players from other firms as talent shuffled and major institutions folded into one another. Hamel and Ken Friedrich, head of municipal sales, trading and syndication joined the company from Rauscher. Maroney and Jaime Durando, municipal syndicate head, got onboard a few years before RBC began tackling market share in 2008.

“To complement our growth on the investment banking side, we had to make sure we had the right staff and expertise to transact, to underwrite, to trade in the secondary – not only our long-standing middle market franchise – but also to have the capability to provide that same level of service to our new large issuers that we were bringing to market,” Maroney said.

Creativity is key to being a successful manager in the post-crisis municipal industry, and there’s no way to separate the muni business from the rest of the banking world anymore, Friedrich said. On the trading floor, RBC has utilized physical proximity between the mortgage security and fixed income desks as a catalyst for sparking ideas.

“Our housing trader is constantly going over and picking their brain,” Maroney said. “And actually they’ve come over here and said, ‘we like that muni state [Housing Finance Agency] paper, we’ve got some ideas.’ There’s been some structuring innovation and creativity coming out of it.”

In March, RBC’s mortgage-backed security pass-through structure helped about 1,000 borrowers obtain affordable mortgage loans with $100 million of Illinois Housing Development Authority revenue bonds. The structure enabled bond the overall bond yield to pick up nearly 100 basis points.

RBC introduced the pass-through deal structure, which differs from traditional structures in that it passes pre-payments through to investors instead of the HFAs, in July 2012, when it managed $50 million of bonds sold by the Minnesota Housing Finance Agency. Such transactions are more familiar to investors in mortgage-backed securities, who are then more likely to invest in the product.

“We sold bonds right away,” said Don Wyszynski, chief financial officer of the Minnesota housing agency. “It really had an immediate impact for us in terms of getting some of our loans off the balance sheet and into a bond issue, and build a business based on spreads.”

Redefining the municipal underwriting game by pioneering new strategies has been a point of pride for RBC. Bringing attention to floating rate notes, obligations whose interest rates reset periodically, was a change to the market that was long overdue, Hamel said.

RBC leads the negotiated FRN market with $4.24 billion in par amount in 20 deals through July 23. That’s 22% of the market share, according to Thomson Reuters data. In June, the company hosted an industry conference to garner attention for the increasingly popular financial instrument.

“The proactive nature of the conference, bringing issuers and investors together brought it back to the basics to understand the structure of FRNs,” said James Pruskowski, managing director of BlackRock Inc.’s municipal institutional portfolio team. “Today’s fear is of better growth and rising interest rates, how do you hedge against that in a long only muni market? Floating rate notes give the investor the ability to keep coupons going, so that’s a big appeal.”

Though FRNs have taken a string of punches the past few months, RBC believes there is a natural fit for the product in all interest rate environments, even one with a steeper yield curve, Maroney said.

And that’s what RBC ultimately hopes to accomplish as it cements its position as a top-five underwriter: provide solutions for issuers in every economic environment. In a market where improving a deal by a few basis points is a noteworthy accomplishment, RBC wants to redefine how municipalities issue bonds.

To that end, RBC has greatly increased the use of its bulked-up balance sheet to commit up to five times the amount of capital that it did in the days before the Great Recession. It has helped issuers by stepping up and committing capital to maintain continuity when pockets of a transaction stumble to find investors, Durando said.

“We try to be there in the thick and thin, in good markets and in bad markets, to be willing to commit capital where necessary to our clients,” Maroney said. “I don’t think everyone does that.”

James Ramage contributed to this story.