Government Finance Officers Association
International City/County Management Association
National League of Cities
National Governors Association
National Association of State Auditors, Comptrollers and Treasurers
National Association of State Treasurers
National Association of Counties
U.S. Conference of Mayors
American Public Power Association
Council of Infrastructure Financing Authorities
National Association of Health and Higher Education Facilities Authorities
National Council of State Housing Agencies
American Public Gas Association
International Municipal Lawyers Association
Large Public Power Council
National Association of Local Housing Finance Agencies

May 27, 2015

The Honorable John Boehner
U.S. House of Representatives
H-107 U.S. Capitol Building
Washington, DC 20515

RE: Cosponsor HR 2209 – Classify Municipal Securities as High Quality Liquid Assets

Dear Speaker Boehner:

On behalf of the organizations listed above we request that you cosponsor HR 2209, bipartisan legislation that directs the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency (OCC) to classify all investment grade municipal securities as High Quality Liquid Assets (HQLA).

This important legislation is necessary to amend the 2014 *Liquidity Coverage Ratio: Liquidity Risk Measurement Standards; Final Rule - 79 Fed. Reg. 61439*. While the rule established a minimum liquidity requirement for large banking organizations and identified acceptable investments – deemed HQLA – to meet this requirement, it failed to include municipal securities in any of the acceptable investment categories. In doing so, regulators overlooked core features of these securities that are consistent with all of the criteria proposed by regulators to be characterized as HQLA, including limited price volatility, high trading volumes and deep and stable funding markets, as discussed below.

After U.S. Treasuries, municipal securities are the safest available investment, with state and local governments having nearly a zero default rate. Yet the rule classifies foreign sovereign debt securities as HQLA while excluding investment grade municipal securities. Not classifying municipal securities as HQLA will increase borrowing costs for state and local governments to finance public infrastructure projects, as banks will likely demand higher interest rates on yields on the purchase of municipal bonds during times of national economic stress, or even forgo the purchase of municipal securities. The resulting cost impacts for state and local governments could be significant, with bank holdings of municipal securities and loans having increased by 86 percent since 2009.[1]

With the American Society of Civil Engineers estimating a $3.6 trillion cost to state and local governments over the next five years to meet our nation's infrastructure needs, the ability of states and localities to finance infrastructure at the lowest possible cost is critical. Classifying investment grade municipal securities as HQLA will help ensure low-cost infrastructure financing remains available for municipal securities issuers to continue to build the infrastructure for commerce, public safety, job creation and the development of an educated workforce that our communities and national economy rely on. For these reasons we urge you to cosponsor HR 2209.

Thank you for your consideration of this request.

Sincerely,

American Public Gas Association, Dave Schryver, 202-464-0835
American Public Power Association, John Godfrey, 202-467-2929
Council of Infrastructure Financing Authorities, Rick Farrell, 202-547-1866
Government Finance Officers Association, Dustin McDonald, 202-393-0208
International City/County Management Association, Elizabeth Kellar, 202-962-3611
International Municipal Lawyers Association, Chuck Thompson, 202-742-1016
Large Public Power Council, Noreen Roche-Carter, 916-732-6509
National Association of Counties, Mike Belarmino, 202-942-4254
National Association of Health and Higher Education Facilities Authorities, Chuck Samuels, 202-434-7211
National Association of Local Housing Finance Agencies, Jason Boehlert, 202-367-1197
National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou, 202-624-5451
National Association of State Treasurers, John Provenzano, 202-347-3865
National Council of State Housing Agencies, Garth Riemen, 202-624-7710
National League of Cities, Carolyn Coleman, 202-626-3023
U.S. Conference of Mayors, Larry Jones, 202-861-6709

[1] 2014 SIMFA Data.

MUNICIPAL SECURITIES SATISFY REGULATORY HQLA CRITERA

Low Price Volatility

Investment grade municipal securities are significantly less risky than other investment vehicles, [2] and compare well with other investment categories that were given HQLA status under the rule (U.S. Treasuries, government agency obligations, investment-grade corporate bonds). During the 2008 financial crisis municipal general obligation and revenue bonds retained their value more consistently than high and lower investment grade corporate bonds, and performed similarly to government sponsored enterprise (GSE) secured bonds. Still, under the rule GSE bonds and BBB- corporate bonds are considered HQLA while municipal securities are not.

High Transaction Volume

The municipal market trades as a percentage of the total outstanding market in nearly the same volume as corporate and GSE bonds. According to SIFMA data[3], the municipal market trades 0.31 percent of its total outstanding par every day, compared to the corporate bond market trades of 0.20 percent per day and the GSE bond market trades of 0.33 percent per day.

Deep and Stable Funding Markets

More than 70 percent of all outstanding municipal securities are held by thousands of individual investors, either directly or through mutual funds and money market funds.[4] Individual investor behavior has demonstrated a strong correlation between demands and yields, with retail investors historically opting to maintain or add to their holdings in periods of rising rates. This consistent correlation demonstrates a high level of liquidity in the municipal market. In addition to retail investors, a long list of other investors comprises the remaining 30 percent of municipal securities investors, and includes property, casualty and life insurance companies, GSE's, broker dealers, credit unions, U.S. banks and foreign governments.

[2] Moody's Investor Service Special Comment, March 7, 2012: U.S. Municipal Bond Defaults and Recoveries, 1970-2011. Page 2
[3] SIFMA's Outstanding U.S. Bond Market Debt
[4] 2010 Thompson Reuters.