NATIONAL ASSOCIATION OF
STATE TREASURERS

September 20, 2016

United States Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

RE: Classifying Municipal Securities as High Quality Liquid Assets

Dear Senator,

For more than 100 years, tax-exempt bonds have been the primary financing mechanism for state and local infrastructure projects. These critical infrastructure tools have provided essential funding for states, counties and localities across the nation. In fact, three-quarters of all public infrastructure projects in the U.S. are built by states and local governments utilizing the public-private partnership embodied in these bonds.

In September of 2014, the liquidity coverage ratio (LCR) requirement was adopted by the Federal Reserve, Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC). The rule requires large banking organizations to hold a minimum amount of high-quality liquid assets (HQLA) that can be readily converted into cash during a 30-day period of financial stress. The LCR does not currently include municipal securities as HQLA.

By excluding municipal securities as HQLA under the 2014 LCR, NAST is concerned that borrowing costs for state and local governments to finance public purpose projects will increase, as banks will demand higher interest rates on yields on the purchase of municipal securities, or even forgo the purchase of municipal securities altogether.

NAST supports a legislative solution that provides uniformity among the FDIC, OCC, and Federal Reserve on investment grade municipal securities. While the nation's Treasurers believe these securities should be classified as level 2A assets, at minimum a level 2B liquid asset designation for general obligation, appropriations backed, and revenue credit municipal bonds among all three entities is required. We would ask that you join us in supporting a common sense legislative solution cosponsored by Senators Warner (VA), Rounds (SD), and Schumer (NY).

By classifying these investment grade municipal securities as HQLA, you would provide much needed support for states, counties and localities that rely on municipal securities as low-cost, efficient sources of funding for schools, roads, bridges and other essential public infrastructure projects.

Thank you for consideration of this request,

John Provenzano
Executive Director