NATIONAL ASSOCIATION OF
STATE TREASURERS

March 17, 2020

VIA Electronic Mail

President Donald J. Trump
President of the United States
The White House
1600 Pennsylvania Ave., NW
Washington, D.C. 20500

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
317 Russell Senate Office Building
Washington, D.C. 20510

The Honorable Charles Schumer
Minority Leader
U.S. Senate
322 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
235 Cannon House Office Building
Washington, D.C. 20515

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
326 Cannon House Office Building
Washington, D.C. 20515

Dear Mr. President, Senators and Representatives:

On behalf of the National Association of State Treasurers (NAST), and the state finance officials and offices we represent, we write to express our appreciation for the congressional consideration of legislation to respond to the potential market impacts of the COVID-19 virus.

States governments are on the frontlines of combatting this crisis and will continue to face massive challenges as a result. We understand there is a need to provide immediate relief to those affected and longer-term economic stimulus to address ensuing market effects. While drafting legislation targeted at the latter— to stimulate the economy— we urge you to turn to state governments as partners and to consider the inclusion of tried and proven tools that support states and the markets.

Our members rely on municipal bonds to provide immediate low-cost capital to finance projects of critical national and local importance. Last week, we proudly joined the Public Finance Network (PFN), in suggesting a number of proposals that have proven successful in past economic relief programs. Today, we would like to focus on two provisions relating to the municipal bond market that we belief will provide stimulus to state issuers, free up public capital to further address the COVID-19 outbreak, and provide additional liquidity to stabilize the markets:

<u>Restore Tax-Exempt Advance Refunding Bonds (H.R. 2772):</u>
Prior to 2018, state and local governments could refinance outstanding municipal bond debt prior to the call date by issuing an "advance refunding bond." The tool allowed issuers to take advantage of lower interest rates or more favorable covenants to lower borrowing costs, achieve savings, and ultimately free up public capital. Restoring the ability for state governments to advance refund tax-exempt municipal bonds would better allow state governments to adjust to market changes and free up billions of dollars in borrowing costs that they could otherwise spend on infrastructure projects and relief programs. We ask you to restore advance refunding bonds thereby providing debt service savings for taxpayers which can be put to immediate public works and service purposes.[1] This would be of immense help for planning and budgeting purposes for state and local communities and institutions, such as hospitals who are first line responders during this immediate crisis.

<u>Consider Pausing the Liquidity Coverage Ratio (LCR) Discount for Investment Grade Municipal Bonds Until the Emergency Has Subsided</u>
Municipal bonds have historically maintained a near-zero default rate, limited price volatility, high trading volumes, and remain both liquid and readily marketable. As such, the last Congress already made the decision to elevate investment grade municipal securities to level 2B High Quality Liquid Assets (HQLA). While the move allowed large institutional investors to count high quality and marketable municipal securities toward their HQLA, the value of Level 2B assets are reduced by a 50% discount rate when determining a bank's LCR. Allowing large institutional investors to include the full value of their investment grade municipal bond holdings would relieve the strain on banks trying to maintain their LCR, add additional liquidity to the market, and further increase the attractiveness of municipal bonds to large institutional investors, which in turn would lower borrowing costs for borrowers, and stimulate both the primary and secondary markets.

While the full impact the COVID-19 virus will have on the economy remains uncertain, acting now to support state issuers and stimulate the economy will help to reduce the need to act further in the future. We look forward to working with you on this and other matters of mutual interest.

Sincerely,

Shaun Snyder
Executive Director
National Association of State Treasurers

CC: Members of the United States Congress
The Honorable Steven Mnuchin, Secretary of the U.S. Treasury
The Honorable Jerome Powell, Chairman of the Board of Governors of the Federal Reserve System
The Honorable Jelena McWilliams, Chairman of the Federal Deposit Insurance Corporation (FDIC)
The Honorable Joseph M. Otting, Comptroller of the Currency

[1] The *Investing in Our Communities Act* (H.R. 2772) has been introduced in the 116th Congress and would once again permit the issuance of tax-exempt advance refunding bonds.

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