[Bond Case Briefs]

Municipal Finance Law Since 1971

[Banking Bill Expected to Help Lower State and Local Borrowing Costs.]

The banking bill President Trump signed into law on Thursday promises to help reduce state and local borrowing costs, public finance officials and experts said.

A section in the bill would reclassify investment grade municipal bonds as “high-quality liquid assets,” referred to as HQLA for short.

This change opens the door for the nation’s biggest banks to use the bonds to meet federal liquidity requirements. Liquidity is a measure of how swiftly assets can be converted to cash to meet financial obligations.

Enabling banks to count the bonds as liquid assets is expected to drive up demand for the bonds and, in turn, push down interest rates for state and local borrowers.

“HQLA is huge for us,” said Emily S. Brock, who leads the Government Finance Officers Association’s federal liaison center. “We’ve been working it for about four years.”

The Federal Reserve, Federal Deposit Insurance Corporation and the Comptroller of the Currency approved liquidity rules in 2014 for banks with over $250 billion in assets, setting guidelines for the high-quality liquid assets that they need to maintain. But “muni” bonds didn’t qualify as an HQLA asset under those rules.

Vermont Treasurer Beth Pearce is the current president of the National Association of State Treasurers.

“For me as a treasurer, and treasurers across the country, we’re concerned about the cost for our taxpayers and we see this as an important improvement,” Pearce said.

“It’s a very big deal,” she added.

State and local governments commonly borrow to pay for infrastructure like roads, schools and water systems. The municipal debt market in the U.S. totals about $3.8 trillion.

It’s too early to know how much the HQLA designation could save states and localities, according to Brock and Pearce.

But Brock anticipates no shortage of interest among banks in municipal debt. “Banks love safety, they love liquidity and they love yield,” she said. “Municipal securities do it for them.”

The bipartisan legislation the president signed Thursday is dubbed the Economic Growth, Regulatory Relief, and Consumer Protection Act.

It rolls back rules for small- and medium-sized banks that were imposed as part of the 2010 Dodd-Frank law, which lawmakers passed in the wake of the nation’s 2008 financial crisis.

Route Fifty

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