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WSJ: Volcker Rule Could Raise Municipal Borrowing Costs, California Treasurer Says.

Worry Is That Banks May Boost Fees to Sell Municipal Securities

Implementing the Volcker rule could result in higher borrowing costs for municipalities as banks may boost fees they charge to sell securities that finance state budgets, schools and other public needs, California's top treasury official said on Wednesday.

California Treasurer Bill Lockyer said he thought banks may boost fees on bond deals as one way to offset profits lost due to the Volcker rule. Regulators are set to vote on a final version of the rule next week. It is part of the 2010 Dodd-Frank financial overhaul legislation, and intends to curb banks from making risky bets on their own behalf.

"Borrowing costs may increase," Mr. Lockyer said. The concern is that if banks don't make a profit from proprietary trading, they will boost the fees they charge to customers, just as they might to anyone with a checking account, he told The Wall Street Journal. Mr. Lockyer was attending a conference in New York of the National Association of State Treasurers.

Mr. Lockyer's comments come as the municipal bond market suffered this year amid fears of rising interest rates and the ripple effects of large defaults, such as Detroit's. Investors have redeemed a record $51 billion from municipal bond funds this year, according to Lipper, and some analysts predict the trend to continue into 2014.

California's bond issues are routinely oversubscribed, suggesting the state is gaining, not losing, investor confidence, Mr. Lockyer said. But there are "segments where there is greater perceived risk," he said.

While higher fees are a concern, inflation and interest rates are still the "more substantial" long-term concerns surrounding the state's borrowing costs, he said.

By AL YOON

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