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Fifteen Groups Urge House to Vote on Pending HQLA Bill.

WASHINGTON – Fifteen muni market groups are urging House members to vote on a bill that would treat investment grade and actively-traded municipal securities as high quality liquid assets under a bank liquidity rule adopted by bank regulators in September 2014.

The organizations, including Government Finance Officers Association and National Association of State Treasurers, each signed on to identical letters sent to every member of the House, as well as a similar one that went to Speaker Paul Ryan, R-Wis., asking for action on the bill before Congress adjourns this month.

The current bank liquidity rule, which banks will have to comply with by Jan. 1, 2017, requires banks with at least $250 billion of total assets or consolidated on-balance sheet foreign exposures of at least $10 billion to have a high enough liquidity coverage ratio – the amount of HQLA to total net cash outflows – to deal with periods of financial stress. Assets are considered HQLA if they can easily be converted into cash with no loss of value during a period of liquidity stress.

When the Federal Reserve Board, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corp. first adopted the rule, they did not include munis as HQLA because of concerns they are not liquid or easily marketable.

The Fed proposed amendments to the rule in May that would allow a limited number of munis to be treated as HQLA as long as they are, at a minimum, uninsured investment grade general obligation bonds. Munis would be considered Level 2B, the same as corporate bonds that are liquid and readily marketable, but could only make up 5% of a bank's HQLA.

Muni dealer groups welcomed the Fed's changes, but said they were narrow and that without agreement from the FDIC and OCC, which regulate a majority of larger institutions, they would not help.

Rep. Luke Messer, R-Ind., proposed a bill that same month that would apply to all bank regulators and treat munis that are investment grade and actively-traded in the secondary market as Level 2A assets, the same level as some sovereign debt and debt of U.S. government entities like Fannie Mae and Freddie Mac. Munis could also make up 40% of a bank's HQLA under Messer's bill.

The bill passed the House Financial Services Committee by a vote of 56 to 1 on Nov. 4 and now the groups are asking that Paul Ryan bring it to a vote in the full House and that House members urge him to take action.

"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 groups said. "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."

The groups that signed the letter include: GFOA; NAST; International City/County Management Association; National League of Cities; National Governors Association; National Association of State Auditors, Comptrollers and 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; Large Public Power Council; and National Association of Local Housing Finance Agencies.

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