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Financial Crisis Rule May be Relaxed.

Congress appears to be on the cusp of ordering regulators to relax some of the rules that were put in place after the financial crisis.

The House next week will vote on a bill from Reps. Luke Messer (R-Ind.) and Carolyn Maloney (D-N.Y.) that would change the rules that stipulate what constitutes a safe investment for banks.

If it passes, the legislation would be a big win for state and local governments, as well as the banking industry.

"Making common-sense tweaks to help states and municipalities access the credit market is clearly something that appeals to members on both sides of the aisle," said James Ballentine of the American Bankers Association.

"We're pleased that Republicans and Democrats have recognized that there are problems … that are fixable and we support their efforts to address them."

The bill is already attracting attention in the Senate from key players.

Sen. Charles Schumer (D-N.Y.), who is expected to ascend to Democratic leader next year, has said through a spokesman that either he or a fellow Democrat will be offering companion legislation and will "get it done in the Senate."

If the bill passes and is signed by President Obama, it would represent a rare break from the partisan warfare that has surrounded financial rules.

Ever since the Dodd-Frank financial reform law was enacted in 2010, the debate around regulating Wall Street has been characterized by fierce partisanship.

Republicans have lined up dozens of bills tweaking or scrapping regulations on the financial system, while Democrats have mostly rallied against them. The White House, when necessary, has chimed in with veto threats, arguing Dodd-Frank needs to be given time to work before it is changed.

The bill coming up for a vote in the House would tweak a set of rules that banking regulators put in place after the financial crisis.

In an effort to ensure banks can muster up enough cash to stay afloat during tough times, regulators established a "liquidity coverage ratio" in 2014, requiring banks to hold a certain amount of safe, easily sold assets that could easily be turned into cash.

The rules stemmed from the international Basel III banking accord.

The major concern for banks, as well as state and local governments looking to sell their debt, is that municipal bonds were generally not included in the high-quality debt category.

State and local government officials say that exclusion could make it harder for them to sell bonds to finance projects. That’s unfair, they say, since state and local debt has long been considered among the safest investments available.

A host of government groups, including the National Governors Association and the National League of Cities, called on Speaker Paul Ryan (R-Wis.) to move on legislation changing the rule December.

They argued that regulators missed the mark in certifying debt from some foreign nations as safe, while failing to do the same for top-ranked debt back home. They added that with massive infrastructure needs coming down the pike, carving out municipal debt would make it that much harder to raise the funds needed.

The financial industry has also thrown its support behind the effort, arguing the debt would be right at home with other high security investments.

In November, the House Financial Services Committee cleared the bill by a vote of 56 to 1. And top Democrats in the Senate, who have stood in the way of regulatory rollbacks in the past, have indicated they are interested as well.

The Federal Reserve already revisited the rule in May, proposing that some municipal debt be considered high quality. However, the other two regulators behind the rule, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, have not followed suit.

So lawmakers want to force the issue, by passing legislation that would require regulators to include highly rated municipal debt under the rule.

Not everyone is on board with the changes. The Wall Street reform group Better Markets is not specifically lobbying on the bill, but is broadly concerned about giving municipal debt the implicit seal of approval.

While municipal bonds have an extremely low default rate, Better Markets argues that if times turn tough, it might be difficult to actually sell the bonds and raise the cash as intended.

“Most of them don’t trade that often, they are by definition not liquid,” said Frank Medina, the group’s senior counsel. “People should be concerned that it’s undermining the regulation.

And municipal debt is not a guarantee, as places like Detroit and Puerto Rico have faced significant trouble paying back bondholders after budget troubles.

“If you’ve got stuff on your books that you can’t sell, and you can’t borrow against, you might as well not hold it at all,” added Medina.

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