



Americans for Financial Reform
1629 K St NW, 10th Floor, Washington, DC, 20006
202.466.1885

November 3, 2015

Dear Representative,

On behalf of Americans for Financial Reform, we are writing to express our opposition to HR 2209 and HR 3857.¹ HR 3857 is a poorly drafted message bill that contains an overly vague mandate to the Federal Reserve and FSOC that would be difficult to interpret and could increase financial risk. We urge you to oppose it. HR 2209 mandates that banking regulators classify investment grade, readily marketable municipal debt obligations as level 2A liquid assets under the Liquidity Coverage Ratio (LCR) rule, the strongest liquidity category under the rule outside of cash and government debt. While we sympathize with the belief that municipal debt was incorrectly treated under the initial LCR rule, we believe that it is inappropriate to classify such debt as a Level 2A asset. AFR therefore opposes this bill unless a more appropriate liquidity classification is used.

HR 3857 would ban the FSOC from designating non-bank financial companies as systemically significant until the Federal Reserve “establishes prudential standards for non-bank financial companies” as required under Section 165 of the Dodd-Frank Act.

This requirement is poorly drafted, overly broad and vague. It is unclear whether the requirement is to establish standards for any such company, or whether the Federal Reserve must establish prudential standards for every company already designated before any additional company is designated. If the requirement is to establish standards for any single non-bank company, the Federal Reserve has already satisfied it by crafting prudential standards for GE Capital

However, if the requirement is to establish standards for every company ever designated before any additional company is designated, then this will make it difficult or impossible to designate multiple companies in quick succession, even if such designation is necessary. Such a requirement could mean that the Federal Reserve would not have adequate time to craft standards that are tailored to each non-bank company’s specific business model, or that the FSOC must delay addressing emerging risks even if the case for designation is clear.

¹ Americans for Financial Reform is an unprecedented coalition of more than 200 national, state and local groups who have come together to reform the financial industry. Members of our coalition include consumer, civil rights, investor, retiree, community, labor, faith based and business groups. A list of coalition members is available at <http://ourfinancialsecurity.org/about/our-coalition/>

HR 3857 also requires the Federal Reserve to issue regulations establishing the safe harbor required under Section 170 of the Dodd-Frank Act before additional companies are designated by the FSOC. We sympathize with the argument that the Federal Reserve rulemaking is late. However, there are many areas of the Dodd-Frank Act in which rules are delayed or incomplete. For example, regulators still have not finalized rules governing financial sector executive pay under Section 956 of the Dodd-Frank Act, despite a statutory requirement that such rules be completed within 9 months of Dodd-Frank passage. Tying delays in one area to further delays in another moves things in the wrong direction for financial stability.

Other requirements in this bill, such as the requirement that the FSOC reexamine the status of already designated companies, are redundant to activities the FSOC is already carrying out. Under Section 113(d) of the Dodd-Frank Act, the FSOC is already statutorily mandated to reexamine each designation on an annual basis.

Because some of its mandates are overly broad and could increase financial risk, and others are redundant, we urge you to oppose HR 3857.

HR 2209 would mandate that banking regulators classify investment grade, readily marketable municipal debt obligations as Level 2A liquid assets under the Liquidity Coverage Ratio (LCR) rule. Outside of cash and Treasuries, this is the strongest liquidity categorization available under the rule, and includes for example debt issued by Government Sponsored Entities (GSEs).

When the LCR rule was passed, many commenters raised questions as to the regulatory classification of municipal debt obligations under the rule. AFR shares those concerns. In our comment to regulators we suggested that it was not appropriate to treat all municipal bonds less favorably than investment grade corporate bonds, and advised regulators to reconsider whether there were municipal debt obligations which could be treated similarly to investment grade corporate bonds under the rule.² This is consistent with AFR's long-standing focus on fairer treatment of municipal debt.³

We are pleased that the Federal Reserve has already acted along the lines of these recommendations to improve the treatment of municipal debt under the LCR rule. Earlier this year, the Federal Reserve proposed to reclassify investment grade and readily marketable

² Americans for Financial Reform, "[Letter to Regulators on Proposed Liquidity Coverage Rule](#)", January 31, 2014.

³ As one example, see AFR's comments to the SEC concerning the double standard in rating agency treatment of municipal debt. E.g. AFSCME, Americans for Financial Reform, and SEIU, "[Request for Re-Proposal Relating to Nationally Recognized Statistical Rating Agencies](#)", April 1, 2014. AFR has also done extensive work seeking better protections from exploitation of municipal borrowers by broker-dealers.

municipal debt as a Level 2B liquid asset, equivalent to investment-grade corporate bonds.⁴ This is similar to AFR's recommendation in our comment to regulators.

However, as a general matter, we have concerns about micromanaging regulators through statute in order to change this kind of detail in important rules. This is particularly true given that in this case regulators are already acting on the issue. Furthermore, we feel that the statutory mandate that regulators treat certain municipal bonds as equivalent in liquidity to GSE debt is inappropriate, excessive, and could increase risk. While certain municipal bonds can be very safe and liquid, we do not believe that they are realistically equivalent to GSE debt, which outside of currencies and U.S. Treasuries may be the deepest and most liquid market in the world. We therefore oppose a mandate to treat municipal debt as a level 2A asset under the liquidity rules.

Adding to our concern about micromanagement, any effect of the LCR rule on the municipal debt market appears to be extremely limited if it exists at all. The LCR rule went into effect at the beginning of this year. Year to date, the return on municipal debt has averaged 3.66 percent. This represents the lowest annual average return (and therefore the highest valuation) for municipal debt in 50 years, since the mid 1960s.⁵ While this is admittedly a rough metric, it is difficult to see that the LCR rule has significantly impacted the market. According to data from the Office of the Comptroller, banks hold less than 10 percent of municipal debt and banks fully affected by the LCR rule hold less than 5 percent, likewise suggesting that the LCR rule has extremely limited market impact.

Thank you for your consideration. For more information please contact AFR's Policy Director, Marcus Stanley at marcus@ourfinancialsecurity.org or 202-466-3672.

Sincerely,

Americans for Financial Reform

⁴ Federal Reserve System, "[Liquidity Coverage Ratio: Treatment of U.S. Municipal Securities as High Quality Liquid Assets](#)", RIN 7100 AE-32, Federal Register, Vol. 180 No. 102, Thursday May 28, 2015.

⁵ Based on the Bond Buyer GO 20-Bond Municipal Bond Index Weekly Data, as of October 29, 2015, available at <https://research.stlouisfed.org/fred2/series/WSLB20/>.

Following are the partners of Americans for Financial Reform.

All the organizations support the overall principles of AFR and are working for an accountable, fair and secure financial system. Not all of these organizations work on all of the issues covered by the coalition or have signed on to every statement.

- AARP
- A New Way Forward
- AFL-CIO
- AFSCME
- Alliance For Justice
- American Income Life Insurance
- American Sustainable Business Council
- Americans for Democratic Action, Inc
- Americans United for Change
- Campaign for America's Future
- Campaign Money
- Center for Digital Democracy
- Center for Economic and Policy Research
- Center for Economic Progress
- Center for Media and Democracy
- Center for Responsible Lending
- Center for Justice and Democracy
- Center of Concern
- Center for Effective Government
- Change to Win
- Clean Yield Asset Management
- Coastal Enterprises Inc.
- Color of Change
- Common Cause
- Communications Workers of America
- Community Development Transportation Lending Services
- Consumer Action
- Consumer Association Council
- Consumers for Auto Safety and Reliability
- Consumer Federation of America
- Consumer Watchdog
- Consumers Union
- Corporation for Enterprise Development
- CREDO Mobile
- CTW Investment Group
- Demos
- Economic Policy Institute
- Essential Action
- Green America
- Greenlining Institute
- Good Business International

- Government Accountability Project
- HNMA Funding Company
- Home Actions
- Housing Counseling Services
- Home Defenders League
- Information Press
- Institute for Agriculture and Trade Policy
- Institute for Global Communications
- Institute for Policy Studies: Global Economy Project
- International Brotherhood of Teamsters
- Institute of Women's Policy Research
- Krull & Company
- Laborers' International Union of North America
- Lawyers' Committee for Civil Rights Under Law
- Main Street Alliance
- Move On
- NAACP
- NASCAT
- National Association of Consumer Advocates
- National Association of Neighborhoods
- National Community Reinvestment Coalition
- National Consumer Law Center (on behalf of its low-income clients)
- National Consumers League
- National Council of La Raza
- National Council of Women's Organizations
- National Fair Housing Alliance
- National Federation of Community Development Credit Unions
- National Housing Resource Center
- National Housing Trust
- National Housing Trust Community Development Fund
- National NeighborWorks Association
- National Nurses United
- National People's Action
- National Urban League
- Next Step
- OpenTheGovernment.org
- Opportunity Finance Network
- Partners for the Common Good
- PICO National Network
- Progress Now Action
- Progressive States Network
- Poverty and Race Research Action Council
- Public Citizen
- Sargent Shriver Center on Poverty Law
- SEIU
- State Voices
- Taxpayer's for Common Sense
- The Association for Housing and Neighborhood Development

- The Fuel Savers Club
- The Leadership Conference on Civil and Human Rights
- The Seminal
- TICAS
- U.S. Public Interest Research Group
- UNITE HERE
- United Food and Commercial Workers
- United States Student Association
- USAction
- Veris Wealth Partners
- Western States Center
- We the People Now
- Woodstock Institute
- World Privacy Forum
- UNET
- Union Plus
- Unitarian Universalist for a Just Economic Community

List of State and Local Partners

- Alaska PIRG
- Arizona PIRG
- Arizona Advocacy Network
- Arizonans For Responsible Lending
- Association for Neighborhood and Housing Development NY
- Audubon Partnership for Economic Development LDC, New York NY
- BAC Funding Consortium Inc., Miami FL
- Beech Capital Venture Corporation, Philadelphia PA
- California PIRG
- California Reinvestment Coalition
- Century Housing Corporation, Culver City CA
- CHANGER NY
- Chautauqua Home Rehabilitation and Improvement Corporation (NY)
- Chicago Community Loan Fund, Chicago IL
- Chicago Community Ventures, Chicago IL
- Chicago Consumer Coalition
- Citizen Potawatomi CDC, Shawnee OK
- Colorado PIRG
- Coalition on Homeless Housing in Ohio
- Community Capital Fund, Bridgeport CT
- Community Capital of Maryland, Baltimore MD
- Community Development Financial Institution of the Tohono O'odham Nation, Sells AZ
- Community Redevelopment Loan and Investment Fund, Atlanta GA
- Community Reinvestment Association of North Carolina
- Community Resource Group, Fayetteville A
- Connecticut PIRG
- Consumer Assistance Council
- Cooper Square Committee (NYC)

- Cooperative Fund of New England, Wilmington NC
- Corporacion de Desarrollo Economico de Ceiba, Ceiba PR
- Delta Foundation, Inc., Greenville MS
- Economic Opportunity Fund (EOF), Philadelphia PA
- Empire Justice Center NY
- Empowering and Strengthening Ohio's People (ESOP), Cleveland OH
- Enterprises, Inc., Berea KY
- Fair Housing Contact Service OH
- Federation of Appalachian Housing
- Fitness and Praise Youth Development, Inc., Baton Rouge LA
- Florida Consumer Action Network
- Florida PIRG
- Funding Partners for Housing Solutions, Ft. Collins CO
- Georgia PIRG
- Grow Iowa Foundation, Greenfield IA
- Homewise, Inc., Santa Fe NM
- Idaho Nevada CDFI, Pocatello ID
- Idaho Chapter, National Association of Social Workers
- Illinois PIRG
- Impact Capital, Seattle WA
- Indiana PIRG
- Iowa PIRG
- Iowa Citizens for Community Improvement
- JobStart Chautauqua, Inc., Mayville NY
- La Casa Federal Credit Union, Newark NJ
- Low Income Investment Fund, San Francisco CA
- Long Island Housing Services NY
- MaineStream Finance, Bangor ME
- Maryland PIRG
- Massachusetts Consumers' Coalition
- MASSPIRG
- Massachusetts Fair Housing Center
- Michigan PIRG
- Midland Community Development Corporation, Midland TX
- Midwest Minnesota Community Development Corporation, Detroit Lakes MN
- Mile High Community Loan Fund, Denver CO
- Missouri PIRG
- Mortgage Recovery Service Center of L.A.
- Montana Community Development Corporation, Missoula MT
- Montana PIRG
- New Economy Project
- New Hampshire PIRG
- New Jersey Community Capital, Trenton NJ
- New Jersey Citizen Action
- New Jersey PIRG
- New Mexico PIRG
- New York PIRG
- New York City Aids Housing Network

- New Yorkers for Responsible Lending
- NOAH Community Development Fund, Inc., Boston MA
- Nonprofit Finance Fund, New York NY
- Nonprofits Assistance Fund, Minneapolis M
- North Carolina PIRG
- Northside Community Development Fund, Pittsburgh PA
- Ohio Capital Corporation for Housing, Columbus OH
- Ohio PIRG
- OligarchyUSA
- Oregon State PIRG
- Our Oregon
- PennPIRG
- Piedmont Housing Alliance, Charlottesville VA
- Michigan PIRG
- Rocky Mountain Peace and Justice Center, CO
- Rhode Island PIRG
- Rural Community Assistance Corporation, West Sacramento CA
- Rural Organizing Project OR
- San Francisco Municipal Transportation Authority
- Seattle Economic Development Fund
- Community Capital Development
- TexPIRG
- The Fair Housing Council of Central New York
- The Loan Fund, Albuquerque NM
- Third Reconstruction Institute NC
- Vermont PIRG
- Village Capital Corporation, Cleveland OH
- Virginia Citizens Consumer Council
- Virginia Poverty Law Center
- War on Poverty - Florida
- WashPIRG
- Westchester Residential Opportunities Inc.
- Wigamig Owners Loan Fund, Inc., Lac du Flambeau WI
- WISPIRG

Small Businesses

- Blu
- Bowden-Gill Environmental
- Community MedPAC
- Diversified Environmental Planning
- Hayden & Craig, PLLC
- Mid City Animal Hospital, Pheonix AZ
- UNET