OFFICE OF CITY TREASURER

JON D. LUMBRA
CITY TREASURER

SANDRA SMITH
ASSISTANT TREASURER

August 28, 2014

The Honorable Janet Yellen, Chair
cc: Michael S. Gibson, Director
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

Attention: Division of Banking Supervision and Regulation
The Honorable Thomas J. Curry, Comptroller
Office of the Comptroller of the Currency
Department of the Treasury
400 7th Street, S.W., Suite 3E-218
Mail Stop 9W-11
Washington, D.C. 20219
Attention: Legislation and Regulatory Activities Division

The Honorable Martin J. Gruenberg, Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
Attention: Robert E. Feldman, Executive Secretary

RE: New Federal Banking Rules Could Increase Borrowing Costs for State and Local Governments

Dear Ladies and Gentlemen:

You as Federal regulators are set to approve new liquidity standards on banks that could increase borrowing costs for state and local governments, according to reports from Bloomberg and other news outlets. It is my understanding that The Federal Reserve, Federal Deposit Insurance Corporation, and Office of the Comptroller of Currency are scheduled to vote on September 3, 2014, on the new rules, which would require banks with at least $250 billion in assets to meet new liquidity requirements. The new rules are a response to the 2008 financial crisis and are aimed at ensuring that large banks are capable of funding their operations for 30 days during times of fiscal stress. Under the rules, banks that meet the total asset threshold must maintain designated levels of "high-quality liquid assets" – assets that can be easily converted to cash.

I would like you to consider the merit of including municipal securities as high-quality liquid assets, as well as the impact on state and local governments of failing to do so. Specifically, I am concerned that failure to qualify municipal bonds as high-quality liquid assets would reduce the appeal of municipal

536 DWIGHT STREET • TREASURER'S OFFICE • HOLYOKE, MASSACHUSETTS 01040-5019
PHONE: (413) 322–5560 • FAX: (413) 322–5561 • E-MAIL: lumbraj@holyoke.org

securities for banks and make them less likely to underwrite munis, which would increase state and local governments' borrowing costs for financing desperately needed infrastructure projects. The cost could have significant effects on governments, as bank holdings of municipal securities and loans have increased by 86% since 2009.

I ask you to Please vote NO on this proposal on September 3!

As federal resources to fund an estimated infrastructure investment gap of $3.6 trillion by 2020 have been reduced over the last five years, state and local governments, which are still recovering from the 2008 economic crisis, continue to play a leading role in financing our nation's infrastructure through tax exempt bonds.

The role of banks has been critical in supporting our investments in infrastructure, with bank holdings of municipal securities and loans having increased by 86% since 2009.

Approval of this proposal will reduce demand from large banks for municipal securities, and in so doing increase borrowing costs to state and local governments.

Governments faced with higher borrowing costs will be forced to delay much-needed infrastructure projects, or forgo them entirely. Both of these scenarios will produce negative local, regional, and national economic impacts.

The characteristics of municipal securities are consistent with other investment categories (U.S. Treasuries, government agency obligations, investment-grade corporate bonds) that the proposal classifies at high-quality liquid assets.

It is outrageous that the proposal characterizes foreign sovereign debt securities as high-quality liquid assets, yet neglects municipal securities. Municipal securities not only have a nearly a zero default rate, but they also meet the qualifications for limited price volatility, high trading volumes, and deep and stable funding markets required by the Federal Reserve, FDIC, and OCC under the proposal

The proposed rule has a laudable goal – to strengthen banks' ability to withstand financial stress in years to come. That objective can be attained, however, without inflicting undue harm on governmental entities and the taxpayers they serve. I urge you not to pass this rule as it is currently written.

I thank you in advance for your timely attention and consideration on this urgent matter.

Respectfully

Jon D. Lumbra