NCSHA

October 1, 2018

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street SW
Washington, DC, 20219

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

RE: Liquidity Coverage Ratio Rule: Treatment of Certain Municipal Obligations as High-Quality Liquid Assets (83 FR 44451)

To Whom it May Concern:

On behalf of the state Housing Finance Agencies (HFAs) it represents[1], the National Council of State Housing Agencies (NCSHA) appreciates the opportunity to comment on the August 31 interim final rule published by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve, and the Federal Deposit Insurance Corporation (hereafter, "the Regulators") that would classify certain municipal bonds as "High-Quality Liquid Assets" under Federal Liquidity Coverage Ratio standards (83 FR 44451).

NCSHA thanks the Regulators for expeditiously carrying out Congress' direction (through the Economic Growth, Regulatory Relief, and Consumer Protection Act, Public Law No: 115-174) to classify all municipal bonds that are "liquid and readily marketable," including tax-

[1] NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

exempt private activity Housing Bonds, as HQLAs. The rule provides a larger incentive for banks to invest in tax-exempt Housing Bonds, safe investments that support financing for needed affordable housing opportunities. We urge the Regulators to move as quickly as possible to finalize the rule. In addition, we recommend the Regulators consider amending the Liquidity Coverage Ratio standards to lower the haircut that banks have to take for their Housing Bond and other municipal bond investments.

HFAs are state-chartered housing agencies that operate in every state, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands. Though they vary widely in their characteristics, including their relationship to state government, they share a common goal of providing affordable housing help to those of their constituents who need it.

The sale of tax-exempt municipal Housing Bonds is vital to HFAs' affordable housing activities. HFAs utilize single-family Mortgage Revenue Bonds (MRBs) to help working families purchase their first homes. HFAs have used MRBs to help over 3.1 million low-and-moderate-income households purchase their first homes. The national median income among MRB borrowers in 2016, the last year for which such data is currently available, was $45,466, 21 percent below the national median family income of $57,617. Through multifamily bonds, HFAs finance the development of affordable rental housing that would otherwise not have been built in the private market. HFAs have used multifamily Housing Bonds to finance over 1 million affordable apartments, and use them to finance an additional 30,000 apartments each year.

In addition to addressing critical housing needs, HFA-issued Housing Bonds have a long-track record of strong performance. No state HFA bond issue has ever defaulted in paying bond holders. All state HFAs maintain a high credit rating. As of 2017, S&P Global assigned all of its state HFA clients a rating between A and AAA. Many large banks already find Housing Bonds to be reliable investments, and also utilize them to meet their Community Reinvestment Act (CRA) requirements.

Quickly finalizing the changes promulgated in the interim rule will all establish certainty in the market that will allow banks to factor in Housing Bonds' value as HQLAs. This will increase competition for Housing Bonds, leading to lower prices for HFAs and allowing them to dedicate more resources toward affordable housing.

Consider Adjusting Haircuts for Municipal Bond Investments

The Economic Growth, Regulatory Relief, and Consumer Protection Act directs the Regulators to classify municipal bonds specifically as "level 2b" HQLAs. Under the Liquidity Coverage Ratio standards, banks can only use level 2b HQLAs to account for 15 percent of their required liquidity and must discount the value of their investment by 50 percent. The Regulators have discretion to adjust the haircuts required for the various levels of HQLAs.

As mentioned above, Housing Bonds have an extremely strong performance record. The municipal bond market as a whole enjoys a similar strong track record. Given this, and the critical roll municipal bonds play in financing affordable housing and other critical infrastructure needs, we recommend the Regulator review whether a lower haircut would be appropriate for Housing Bonds and other municipal bonds. We note that there is currently pending in the U.S. House of Representatives legislation (the Municipal Finance Support Act of 2017, H.R. 1624) that would classify municipal bond investments as level 2a HQLAs, which require only a 15-percent haircut and can be used for up to 40 percent of a bank's qualifying HQLAs.

Thank you for your consideration of our comments. Please do not hesitate to contact me if we can provide additional information.

Sincerely,

[redacted]

Garth Rieman
Director of Housing Advocacy and Strategic Initiatives