Finance Department

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Department of the Treasury
Office of the Comptroller of the Currency
Docket ID OCC-2013-0016
VIA ELECTRONIC MAIL: regs.comments@occ.treas.gov

Board of Governors of the Federal Reserve System
Attn: Robert deV. Frierson, Secretary
Docket No. R-1466
VIA ELECTRONIC MAIL: regs.comments@federalreserve.gov

FDIC
Robert E. Feldman, Executive Secretary
Attn: Comments / Legal ESS
RIN No. 3064-AE04
VIA ELECTRONIC MAIL: comments@FDIC.gov

RE: Federal Proposal for Bank Liquidity Coverage Rules and Unintended Negative Consequences to Municipal Bond Market

Interested Parties:

The County of Wake, North Carolina (Wake County) appreciates the opportunity to respond to the request for comment issued by the Office of the Comptroller of the Currency, Department of the Treasury, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (collectively, "the Agencies") on the proposed rule implementing the Basel III Liquidity Coverage Ratio (the "Proposed Rule"). It is our understanding that the intention of the Proposed Rule is to implement a quantitative liquidity requirement consistent with the liquidity coverage ratio standard established by the Basel Committee on Banking Supervision ("BCBS") for large, internationally active banking organizations and covered nonbank companies and their consolidated subsidiary depository institutions with total assets greater than $10 billion.

Wake County fully supports the efforts of the Agencies to enhance liquidity risk management in the banking sector. However, we are concerned that the proposed definition of High Quality Liquid Assets ("HQLA") wrongly excludes municipal bonds even though the BCBS proposal includes them in its definition of HQLA. This omission may have unintended consequences; the most pressing is that municipal bonds will have diminished marketability and banks will be discouraged from purchasing them.

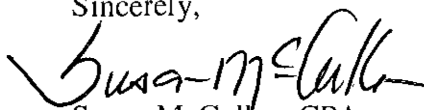
In North Carolina, counties are responsible for financing the construction of public schools and community college facilities. In about seven years, Wake County has added more than 170,000 people and expects to surpass one million residents in another two years. The County is home to the 15th largest public school system nationwide (Wake County Public School System) with enrollment exceeding 153,000 students. The county's community college, Wake Technical Community College, has over 70,000 curriculum and continuing education students. In order to finance new facilities and renovations for education, as well as financing initiatives such as libraries, open space, and public safety facilities to address the needs of a growing community, Wake County regularly issues municipal bonds to finance its capital program. Wake County currently has $2 billion of debt outstanding and has another $950.4 million of bonds authorized and unissued.

The County agrees that HQLA should include assets that are low risk and have limited price volatility, are traded in high volume and may be pledged at the central bank. Any assumption that municipal bonds are not liquid and do not meet the Agencies' liquidity criteria is unfounded. The County's general obligation bonds are rated AAA/AAA/Aaa and the County's sound adherence to its debt and capital financial policies ensure that there is no risk of default. There is a large and well established market for municipal debt, including the County's. Even during times of economic uncertainty, the County experienced very little volatility in the municipal market for its new money bond issues. The County also advanced refunded bond issues to take advantage of lower interest rates, with the expectation that United States Treasuries will be the source of future principal and interest payments. Of note, treasuries are included in the definition of HQLA.

Wake County's triple-A bond rating allows the County to receive lower interest rates on municipal bonds, which in turns allows the County to borrow money at the lowest cost to the tax payer. We are concerned that the exclusion of municipal bonds from the HQLA definition may result in a lower demand of municipal bonds from banks, which may result in higher interest rates. Increased costs of financing will either reduce the County's ability to finance the same scope of capital projects or will result in taxpayers paying additional property taxes in support of the County's debt service requirements. In addition, the County is also concerned that decreased availability of bonds for collateralization will result in lower earnings rates for municipal deposits. As the County uses its interest earnings as a source of revenue for its debt service obligations, this will also create additional costs to the County, and thus the taxpayer.

Municipal bonds, such as the County's, meet the criteria for inclusion in HQLA. They are a secure investment by United States financial institutions and are more qualified to be classified as HQLA than most corporate bonds and the debt of other sovereign states. That County's debt is a very safe and liquid investment vehicle. Leaving municipal bonds out of HQLA will have a negative impact on the bond market, infrastructure, and the debt management of the County. We urge the Agencies to amend the proposed rule in order to reclassify all investment grade municipal securities as eligible for inclusion as Level 2A HQLA.

Sincerely,



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Finance Director

Nicole Kreiser
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CC:
Senator Richard Burr
Senator Kay Hagan
Representative Renee Ellmers
Representative David Price