

THE BOND BUYER

Senate bill favors munis, Puerto Rico, but will it move forward?

By

Lynn Hume

Published

March 15, 2018, 4:32pm EDT

WASHINGTON – Now that the Senate has passed a bank deregulation bill that would treat certain municipal securities as high-quality liquid assets and increase protections for Puerto Rico investors, will it move forward in the House?

The good news is the House has already passed legislation on these two issues.

The bad news is if the House wants more sweeping deregulation either by amending the Senate bill or pushing forward with its own bill, a legislative impasse between the two chambers could result.

House Financial Services Committee chairman Rep. Jeb Hensarling, R-Texas, on Wednesday congratulated the Senate on passing the Economic Growth, Regulatory Relief and Consumer Protection Act (S. 2155) on a bipartisan basis. It was approved by a vote of 67 to 31.

“I look forward to combining them with our helpful House bipartisan banking bills and getting that combined bill to the president’s desk,” he said.

But the Senate has not taken up some of the bipartisan bank bills the House has passed in recent months and viewed as a complete nonstarter the Financial Choice Act (H.R. 10), the committee Republicans’ bigger effort to roll back Dodd-Frank. That legislation passed the House last June by a vote of 244 to 196, mostly along party lines.

Hensarling has asked that about 30 of the smaller bipartisan bills be included in any final bank bill.

“I’ve heard some House members want more. The Senate’s position is going to be, ‘This is as far as we can go with Democratic support,’” said one long-time observer of Congress. “I don’t think anything more than what passed Wednesday will make it through the Senate.”

The Senate's bank deregulation bill would treat investment grade municipal securities that are readily-marketable as level 2B liquid assets – the same as mortgage securities -- under rules designed to protect banks against periods of financial stress. These rules require banks with at least \$250 billion of total assets or consolidated on-balance sheet foreign exposures of at least \$10 billion, to have a high enough liquidity coverage ratio to withstand financial stress. The LCR is the amount of HQLA to total net cash outflows.

Banks have been major buyers of munis, with their holdings rising to about \$537 billion in 2016 from about \$191 billion in 2006, according to the Municipal Securities Rulemaking Board.

Bank regulators did not include munis as HQLA under the liquidity rule because they thought they were not liquid. The Federal Reserve Board later amended its rules to include some munis as HQLA, but muni market participants said the amendments were still too restrictive and, in any case, would mean little if other bank regulators did not also adopt them.

So the Senate's approval of the HQLA provisions is favorable to the muni market. The same provisions were included in the Financial CHOICE Act that passed the House.

The Senate's bill also included legislation (S. 484) sponsored by Sen. Robert Menendez, D-N.J. that would put an end a legal loophole that allowed broker-dealers to defraud Puerto Rico investors by underwriting the territories bonds and then repackaging those bonds into mutual funds whose shares they then sold exclusively to investors on the island. The bill would apply the Investment Company Act of 1940 to investment companies operating in Puerto Rico and other territories.

The House passed an identical bill (H.R. 1366) in early May of 2017. That bill was sponsored by Rep. Nydia Velázquez, D-N.Y.

The Senate banking bill also requires the General Accountability Office to produce a report detailing the impact that Hurricane Maria has had on foreclosures, delinquencies, and home ownership in Puerto Rico. GAO would be required to provide policy recommendations to address adverse impacts.

In Dodd-Frank roll-backs, the Senate bill would reduce the number of banks considered "systemically important" and "too big to fail" by bank regulations by raising the amount of assets to \$250 billion from \$50 billion.

The bill also would exempt firms with less than \$10 billion in assets from the Volcker Rule, which would prohibit them making certain kinds of speculative investments that could harm their customers.

[PrintReprint](#)