Securities Industry and Financial Markets Association

November 17, 2008

The Honorable Barney Frank
Chairman
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Richard Neal
Chairman
Ways and Means Subcommittee on Select Revenue Measures
2208 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairmen Frank and Neal:

The Securities Industry and Financial Markets Association (SIFMA)[1] greatly appreciates the introduction of H.R. 6333, the *Municipal Bond Market Support Act of 2008*. This legislation eases burdensome tax code requirements that severely limit investor demand for municipal bonds and increase financing costs for state and local governments.

Specifically, the bill extends the "two percent de minimis rule" to financial institutions. Under current law, a corporation's interest expense generally is not deductible if the borrowed funds are used to purchase or carry tax-exempt securities. A de minimis exception exists if the tax-exempt securities comprise less than two percent of the corporation's total active business assets. However, this exception does not apply to banks or brokers in municipal bonds. Extending the two percent de minimis rule to banks and brokers would significantly increase demand for tax-exempt securities. The larger market for tax-exempt debt would translate into lower costs for state and local issuers of municipal bonds.

In addition, H.R. 6333 increases the "bank qualified debt limit" from $10 million to $30 million and provides for annual inflation adjustments. Under current law, financial institutions can deduct the interest expense associated with buying and carrying tax-exempt bonds only if the state or local government's annual bond issuance is less than $10 million. This limit was set in the law more than 20 years ago. Today, even small communities do not meet the $10 million threshold. Increasing the "small issuer" exception will allow smaller governments to directly place their issuances with banks, thereby reducing their lending costs. Moreover, indexing the limit for inflation will allow the program to become a meaningful planning tool for government finance officials.

[1] The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

Both of these changes are well-received by the capital markets and represent a well-timed legislative response in light of current market conditions. SIFMA supports your efforts and looks forward to working with you as the bill moves through the legislative process. Thank you for your continued leadership on issues of importance to the municipal bond market.

Sincerely,

T. Timothy Ryan, Jr.
President and CEO