CONNECTICUT
HOUSING FINANCE
AUTHORITY

NORBERT J. DESLAURIERS
INTERIM EXECUTIVE VICE PRESIDENT

July 24, 2015

Robert de V. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Proposed Amendments to the Board's LCR's requirement to include certain U.S. Municipal Securities as High-Quality Liquid Assets
Docket No. R- 1514

Dear Mr. Frierson:

Thank you for the opportunity to comment on the proposed rule to amend the liquidity coverage ratio (LCR) to include certain municipal securities as High Quality Liquid Assets (HQLAs).

I am submitting my comments on behalf of the Connecticut Housing Finance Authority (CHFA), a state housing finance agency created by the Connecticut state legislature in 1969. CHFA is charged by statute with the mission to alleviate the shortage of affordable housing in our state. In four decades, we have issued more than 130,000 first time homebuyer mortgages and financed the creation of more than 38,000 affordable rental units. We have accomplished these goals through the issuance of municipal bonds that finance our programs. As an experienced issuer of municipal securities, we offer our perspective on the proposed rule.

First, we support the inclusion of municipal securities in the definition of HQLAs as Level 2b liquid assets. We appreciate your initiative in opening this issue for further comment and consideration. Recognizing that you have received a great deal of feedback requesting that municipal securities be included as HQLAs, we are offering the following additional comments for your consideration.

We understand the intent of the original rule issued in September 2014 in establishing the LCR requirement and limiting the definition to HQLAs, however the rule fails to include an excellent class of investment assets, namely high quality municipal securities, that are equal to or in some cases more liquid that investment categories already included in the definition of HQLAs.

Like many other state housing finance agencies, we can offer strong evidence of the liquidity, marketability and strength of our bonds. In the last 45 years we have issued more than $11 billion in municipal bonds, which have always been in high demand. In 2014 alone, we issued nearly $600 million in municipal securities, and, for every bond sold, the bond was oversubscribed by approximately 3 to 1. These conditions demonstrate that CHFA bonds are liquid, readily marketable and deserving of being categorized as HQLAs.

Like many municipal issuers, our securities are rated highly by the credit rating agencies. CHFA bonds are rated AAA by Standard and Poor's and Aaa by Moody's. Furthermore, the credit rating agencies have assigned us high marks due to the bond program's ability to satisfy "stressed scenarios" including but not limited to unanticipated swap termination payments, large assets haircuts and delinquencies and high interest rate environments. We have held this credit rating since 2001, maintaining excellent financial stability throughout the most recent financial crisis. Since its inception, CHFA has never missed a bond principal and interest payment to bondholders.

CHFA bonds and those like ours are not on par with corporate bonds. Rather, our bonds are more secure than corporate bonds. We do not issue preferred stock. Our bonds are backed and secured by the financial strength of our bond program and CHFA's equity. Furthermore, our bonds are secured by the State of Connecticut. In many ways, the strength of this type of municipal security is more akin to the financial strength and liquidity of the Government -Sponsored Enterprises than corporate bonds. And like CHFA, there are many other municipal issuers with similarly strong financial stories to tell. These stories argue strongly for the inclusion of high quality municipal securities as HQLAs.

The exclusion of municipal securities as HQLAs will have a lasting negative impact on the market for municipal securities without the justification for treating them differently than less liquid assets that are already included in the definition. The impact will be sharply felt through reduced marketability and an increase in costs for this asset class. Further, a decreased interest by banks in municipal securities will have a deleterious effect on state and local governments, their ability to promote infrastructure projects and their economies. We oppose the broad brush that has been applied to municipal securities in excluding them from the HQLA definition and encourage you to recognize that they deserve to be included in the Level 2b liquid asset category.

Lastly, as you consider classifications of assets and limits to the holding of certain asset categories, we ask that these limits be based on the relative strength of the issuing entity and its credit rating. We believe these factors to be far better predictors of liquidity and marketability than the broad classifications and limits found within the current rule.

Again, on behalf of CHFA, I commend you for taking a major step to improving the current rule with a proposal to include municipal securities under the definition of HQLAs. My staff and I would be happy to offer additional information to assist you in your review of this important issue. Thank you in advance for your consideration.

Sincerely,

Norbert J. Deslauriers
Interim Executive Vice President