Congress of the United States

Washington, DC 20515

February 28, 2008

The Honorable Charles B. Rangel
Chairman, Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Jim McCrery
Ranking Member, Committee on Ways and Means
U.S. House of Representatives
1106 Longworth House Office Building
Washington, DC 20515

Dear Chairman Rangel and Ranking Member McCrery:

In light of the ongoing problems in our capital markets that are affecting the ability of States, cities, towns, authorities, and other entities to issue bonds to construct roads, build and renovate schools and hospitals, repair bridges, fund college loans, and ease budgeting constraints, we write to request that the Ways and Means Committee schedule a markup of H.R. 2091 as soon as possible. This legislation would amend the Internal Revenue Code of 1986 to allow bonds with credit enhancement by the Federal Home Loan Banks to be treated as tax-exempt bonds.

As you may already know, the House Financial Services Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises held a hearing on February 14 to examine the problems facing the bond insurance industry. The Financial Services Committee also has plans to convene another hearing soon to further explore the impact on State and local governments and other municipal authorities of the current credit crunch, including the consequences of the upheaval currently affecting the bond insurance industry.

In recent years, many bond insurers moved from insuring the timely payment of principal and interest on municipal bonds into insuring structured finance products, including those backed by subprime mortgages. These business decisions and the decline of the value of subprime debt have now resulted in downgrades or the threat of downgrades by credit-rating agencies.

We are very concerned about the effects of these downgrades on municipalities. Municipal markets issue approximately $2.6 trillion in bonds, about one-half of which are insured. The recent downgrades could therefore cause cities and towns to make difficult decisions about whether they can afford to pay more for bond insurance, pay higher interest on bonds issued without insurance, or delay much-needed projects.

The limited availability of bond insurance has also led to hundreds of failures in the offering of auction rate securities in recent weeks. These auction breakdowns have resulted in some municipal issuers paying default penalty rates of 10 percent, 15 percent, or more on their outstanding short-term debts. For example, we learned during the Capital Markets

Subcommittee hearing that the Port Authority of New York and New Jersey has recently experienced a jump from 4 percent to 20 percent on its auction rate bonds. Media outlets have highlighted many similar situations throughout the country in recent days, as well.

During this time of economic uncertainty, we need to work together to help our local communities to lower their borrowing costs in order to move forward with important projects, provide needed services, operate more efficiently, and avoid unnecessary budget cuts. According to the testimony that we received at the Capital Markets Subcommittee hearing, the enactment of H.R. 2091 would help to bring greater stability to the municipal finance market.

Introduced by Congressmen Levin and English and now pending before the Ways and Means Committee, H.R. 2091 would amend Section 149 of the Internal Revenue Code to add the Federal Home Loan Banks to the list of entities that can credit enhance tax-exempt municipal, industrial development, and other private activity bonds. Federal Home Loan Bank letters of credit are already routinely issued through their local bank members on both taxable debt and tax-exempt housing bonds. Unfortunately, the Internal Revenue Service has ruled that the tax code does not permit the Federal Home Loan Banks to credit enhance more traditional tax-exempt bonds. H.R. 2091 would fix this problem.

Adding letters of credit from Federal Home Loan Banks as an option for municipal governments and issuers of tax-exempt bonds for charitable health care facilities and schools will create a new source of credit enhancement and help to fill a void created by the ongoing problems in the bond insurance industry. This legislation will also help to reduce the cost of taxpayers for municipal bond issues aimed at improving water treatment facilities, repairing fire stations, providing long-term care for the elderly, establishing medical clinics, and purchasing school buses, among other things. These reforms are especially important at a time when we have experienced a contraction in the credit enhancement marketplace.

In sum, the current upheaval in the credit markets and the municipal bond insurance industry has increased the need for additional sources of credit enhancement. H.R. 2091 would allow the Federal Home Loan Banks to provide credit enhancements that will reduce the cost of municipal financing and charitable undertakings by raising the rating of the debt. We therefore request that you work to advance this bill through the legislative process and stand ready to support you in these efforts.

Sincerely,

Paul E. Kanjorski
Member of Congress

Deborah Pryce
Member of Congress

Barney Frank
Member of Congress

Spencer Bachus
Member of Congress

Michael N. Castle
Member of Congress

William Lacy Clay
Member of Congress

Maxine Waters
Member of Congress

Carolyn McCarthy
Member of Congress

Donald A. Manzullo
Member of Congress

Dennis Moore
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Melissa L. Bean
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Gwen Moore
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Dan Boren
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Ed Perlmutter
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Albio Sires
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David Scott
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Rubén Hinojosa
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Ron Paul
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Emanuel Cleaver, II
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Geoff Davis
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Dean Heller
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Frank D. Lucas
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Al Green
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Carolyn B. Maloney
Member of Congress

Ginny Brown-Waite
Member of Congress

Jim Gerlach
Member of Congress

Steven C. LaTourette
Member of Congress

cc: The Honorable Sander M. Levin
Member of Congress

The Honorable Phil English
Member of Congress