



February 13, 2012

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Attn: Elizabeth M. Murphy, Secretary
Release No. 34-65545; File No. S7-41-11;
RIN 3235-AL07

Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attn: Jennifer J. Johnson, Secretary
Docket No. R-1432; RIN 7100-AD82

Office of the Comptroller of the Currency
250 E Street, SW., Mail Stop 2-3
Washington, DC 20219
Docket No. OCC-2011-14; RIN 1557-AD44

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
RIN 3064-AD85
Attn: Comments
Robert E. Feldman, Executive Secretary
RIN No. 2064-AD85

RE: Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds

Ladies and Gentlemen:

As the Washington representative of the state Housing Finance Agencies (HFAs) in all 50 states, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands, the National Council of State Housing Agencies (NCSHA) thanks you for the opportunity to comment on the proposed rule implementing the proprietary trading provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). We urge you to exempt all municipal securities, including tax-exempt housing bonds issued by HFAs, from the rule's proprietary trading restrictions and to exempt also all HFA-issued taxable securities and other HFA financial products and loans. We further recommend that you exempt financial institution investments in Low Income Housing Tax Credits (Housing Credits) from the rule's proprietary trading restrictions.

NCSHA represents HFAs, which issue mostly tax-exempt private activity bonds (Housing Bonds) to finance affordable housing for home buyers and renters. HFAs also administer a wide range of affordable housing and community development programs,

including the Housing Credit, HOME, Section 8, down payment assistance, homebuyer education, loan servicing, homeless assistance programs, and state housing trust funds.

Expand the Definition of Exempt Municipal Securities

The proposed rule's exemption for municipal obligations is too narrowly defined as including only "obligations of states and political subdivisions thereof." This definition is significantly narrower than the well-established definition of "municipal securities" included in the Securities Act of 1934 (the '34 Act), which includes securities and bonds issued or guaranteed by units of state and local government and their instrumentalities, agencies, and authorities, including HFAs. Municipal debt issued by such governmental entities is a crucial method by which they address defined, circumscribed, and critical purposes, including housing, water, sewer, electricity, airports, economic development, health care, and education.

The proposed rule's definition would exclude thousands of municipal securities, disrupting the municipal market and raising costs for state and local governments. Due to the variety of ways in which debt can be issued pursuant to federal, state and local laws, the definition in the proposed rule could leave 40 percent of the market exposed to its restrictions on proprietary trading, therefore limiting market liquidity and increasing costs for municipal securities.

There is no indication that Congress contemplated or supported the proposed rule's distinction between aspects of the current municipal market. There seems no justification for it, given that expanding the exemption for municipal securities would pose virtually no additional risk to the financial institutions or banking system.

Municipal securities are among the safest assets in the U.S. capital markets. Default rates for municipal securities are among the lowest of all sectors of the capital markets, second only to bonds backed directly by the U.S. government. Banks have been active participants in the U.S. municipal bond market, holding nearly 9 percent of the over \$3.7 trillion of municipal obligations outstanding and have been active municipal bond investors for many decades.

As an alternative to Housing Bonds, HFAs commonly use similar taxable mortgage bonds, securities, and other financing structures that might not be covered by a definition based on the '34 Act's definition of municipal securities. For example, HFAs might finance mortgages through other legal structures, including securitization trusts or warehouse lines of credit. They might also finance mortgages with federal or state funds or their own fund balances without securitizing such mortgages.

All HFA securities and loans, regardless of the financing structures or programs through which they are financed, share common characteristics that merit exemption from the proposed rule's proprietary trading restrictions, including government oversight, an important public

purpose, strong underwriting, proactive servicing, and a proven track record of safe and sound performance.

Exempt Low Income Housing Tax Credits from Investment Restrictions

In addition, we recommend the rule's limits on private equity investments be amended to exempt financial institution investments in Low Income Housing Tax Credits (Housing Credits). The proposed rule's restrictions on private equity investments might be construed to prevent financial institutions from investing in Housing Credits. Losing this important source of investors for Housing Credits could drive up the cost of equity for important affordable rental housing developments and limit financial institutions from an attractive and low-risk investment class. We do not believe that this is consistent with congressional intent.

Thank you for your consideration of our comments. Please do not hesitate to contact me if we can provide additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Garth B. Rieman", with a long horizontal flourish extending to the right.

Garth B. Rieman
Director of Housing Advocacy and Strategic Initiatives