

Basel III Endgame's Impact on Municipal Bonds

New capital proposal would raise costs for infrastructure and other public projects in communities across the nation, ultimately hurting taxpayers.

Municipal bonds (munis) play a crucial role in financing public infrastructure, allowing local and state governments to borrow funds for vital projects, such as hospitals, roads, bridges, and schools. However, higher capital requirements would make it more difficult and costly for governments to finance these projects, ultimately increasing prices for taxpayers.

“When a local government issues municipal bonds to finance local infrastructure, they may find that financing is more expensive, or in some cases unavailable.”

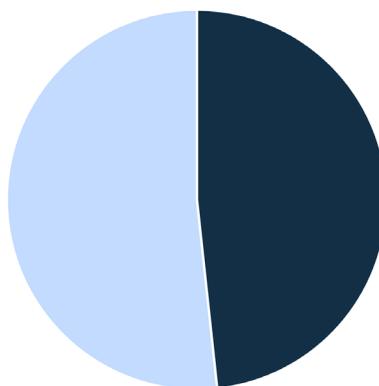
[Federal Reserve Governor Michelle Bowman](#)

Banks, Bonds, and Basel

State and local governments rely upon banks to market or underwrite these securities to investors through a competitive bidding process. Forum members account for \$95 billion in municipal securities holdings.

Regulators are proposing a hefty 25 percent increase in capital requirements for the largest banks in the Basel III Endgame proposal. Banks would need more capital to hold and trade municipal securities, and to guard against unrelated “operational risk” losses like theft or physical damage. The largest banks already maintain the highest amounts of capital to address these potential risks. Basel III Endgame would make it harder and more expensive for state and local leaders to improve and support their communities. That will lead to higher costs for taxpayers.

Forum members account for almost half (48.3%) of municipal securities underwriting that fund essential projects like hospitals, roads, bridges, and schools.



■ Forum members ■ Others

What They're Saying

“Our U.S. state and local government issuers and conduit nonprofit borrowers rely on access to affordable credit, primarily through the issuance of municipal bonds and direct loans from financial institutions, to finance our nation’s infrastructure assets and critical public services...**Increases in debt service costs for municipal issuers and conduit borrowers will result in declined investment in infrastructure, public safety, education, and numerous other social services.**”

[Government Finance Officers Association et al.](#)

“**We should be creating a financial environment that allows these historic investments to flourish, not only building critical new infrastructure, but resulting in economic growth through good-paying jobs that result from those projects. Sadly, the Federal Reserve’s proposal would do the opposite, making it unclear as to whether quick access to credit and lending services will continue to be available.**”

[Aliquippa, Pa., Mayor Dwan B. Walker](#)

“Institutions subject to Basel III will therefore be disincentivized from trading or holding these bonds. **This will drive up borrowing costs for municipalities ultimately raising costs or shrinking project scope for communities all over the country.**”

[American Securities Association President and CEO Chris Iacovella](#)

“Higher capital requirements would mean that access to much-needed funding would be limited for infrastructure projects and more costly. Such a move could lead to a significant decrease in investments and the loss of vital jobs in our communities. **Here in Ohio, where \$90 million were allocated to local and state transportation projects ahead of Intel’s arrival, a proposal like this one would be damaging to our state’s development and our workforce.**”

[Columbus/Central Ohio Building & Construction Trades Council Executive Secretary-Treasurer, Dorsey Hager Jr.](#)

The Bottom Line:

The Basel III Endgame proposal would be a costly burden for local and state governments to fund infrastructure development and public projects, ultimately increasing prices for taxpayers. The nation’s largest banks play a critical role in helping communities make lasting investments, helping states and localities build schools, hospitals, highways, and other critical projects. At a time when burdensome regulations are already pushing banks out of the muni business, communities can’t afford to lose access to funding for vital projects that families and businesses rely upon.

For specific questions on the capital proposal, please contact capital@fsforum.com.

Learn More: smartbankcapital.com

Watch our Policy Cents Video: [The Role of Big Banks in Community Infrastructure](#)