



REGIONAL
BOND DEALERS
ASSOCIATION

**1940 Duke St.
Second Floor
Alexandria, VA 22314
703-486-5672**

RBDA Board Member Michael Marz Supports New Municipal Bond Market Legislation In Testimony Before House Financial Services Committee

Contact: Jon Teall, Teall & Associates, 212-317-8296

May 21, 2009—Testifying before the House Financial Services Committee, RBDA Board member and First Southwest Company Vice Chairman Michael J. Marz strongly supported new legislation aimed at restoring health to the municipal bond market and addressing regulatory gaps. The legislation was proposed last week by Committee Chairman Barney Frank and others and comprises of four bills designed to address various problems, including continued paralysis in the variable-rate securities market, the lack of regulation over financial advisors in the municipal market, municipal market bond insurance, and bond rating discrepancies.

“Chairman Frank’s draft legislation would help address all these issues,” said Mr. Marz. “It offers targeted, temporary federal assistance to help states and localities until the credit markets return to normal and creates reasonable solutions to help assure that regulators have the tools they need to keep the market safe.”

The variable-rate securities market, including auction rate securities and variable rate demand notes, has experienced more stress than other sectors of the municipal as a result of the credit crisis. The auction rate market has remained virtually frozen since auctions began to fail in large numbers at the beginning of last year. It is estimated state and local governments, as well as other entities including closed-end funds and issuers of student loan-backed securities, have roughly \$200 billion still stuck in the auction rate markets and another \$400 billion in the VRDN

market. The new legislation would essentially authorize the Federal Reserve to act as a liquidity backstop for VRDN's.

Another bill introduced as part of the legislation would require municipal bond market financial advisors to register with the Securities and Exchange Commission in the same way broker-dealers are obligated to register. Financial advisors are currently unregistered, and numerous instances have arisen in recent months that show how conflicts of interest and poor advice have significantly harmed cities and states.

“While the majority of FAs are honest and competent,” commented Mr. Marz. “It is inappropriate for any party to a securities transaction whose decisions and advice have such significant implications to fall outside any regulatory jurisdiction.”

Mr. Marz also testified today that the RBDA supports two other bills in the proposed legislation. One would direct the Treasury Department to offer \$50 billion per year in reinsurance to monoline insurers. The availability of bond insurance in the municipal market has dropped dramatically over the last two years, and the RBDA believes Treasury intervention would significantly help cities and states, while perhaps even earning a small profit for the government because municipalities rarely default on their obligations. Another bill would require credit rating agencies to rate municipal bonds in the same manner they rate other securities.

The Regional Bond Dealers Association is the Washington, DC based organization that represents securities firms active in the U.S. bond markets. The RBDA is the only organization representing the unique interests of national, middle-market dealers. In addition to federal advocacy, the RBDA hosts a series of meetings and conferences specific to domestic fixed income.