NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

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April 15, 2010

Secretariat
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland

Re: Consultative Document: International Framework for Liquidity Risk Measurement, Standards and Monitoring

Transmitted by e-mail to: baselcommittee@bis.org

Dear Sir or Madam:

I am writing on behalf of the 1.2 million members of the National Association of REALTORS® (NAR) to provide comments on Basel Committee's Consultative Document entitled "International Framework for Liquidity Risk Measurement, Standards and Monitoring." We have submitted our comments on the Consultative Document entitled "Strengthening the Resilience of the Banking Sector" in a separate letter.

The National Association of REALTORS® is America's largest trade association, including NAR's five commercial real estate institutes and its societies and councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,400 local associations or boards, and 54 state and territory associations of REALTORS®. REALTORS® have a strong stake in the health and vitality of the financial system, and in ensuring the responsible availability of credit on reasonable terms to creditworthy consumers.

NAR agrees with the Committee's findings that adequate liquidity management is key for the ongoing safety and soundness of financial institutions. As you correctly note, the financial crisis that began in 2007 demonstrates that unrecognized liquidity risks can quickly crystallize and sources of funding can evaporate, leading to systemic disruption in our financial markets. Thus, the Basel Committee should be commended for developing its proposal regarding liquidity management, and the need for objective international liquidity standards. However, as with any new and far reaching proposal, we are concerned that implementation of the proposal without significant modifications can have unintended consequences that would be harmful to the economy and to the safety of our banking system.

As we pointed out in our letter on the Consultative Paper on strengthening the resilience of the banking sector, it is important to recognize that a myriad of regulatory changes are being proposed or implemented at the current time, and unless these changes are considered together, we run the risk of overwhelming the capacity of our financial system to provide the credit our economy needs to thrive. For

example, under current proposals in the U.S. Congress, a new regulatory structure will be implemented in the United States that will mandate higher prudential standards for systemically important banks. Among other things, the legislation will require increased liquidity risk management as well as more stringent capital requirements. The proposals developed by the Basel Committee must take into account these and other regulatory changes that will no doubt be implemented worldwide.

We also would like to make some recommendations about some of the specific provisions in the proposal. As drafted, banking organizations would have to comply with two new liquidity measures: (i) the liquidity coverage ratio and (2) the net stable funding ratio.

The liquidity coverage ratio requires depository institutions to have high quality liquid assets to withstand a 30 day period of extreme financial distress. The stress test assumes the existence of very harsh economic circumstances, and for example, contemplates that all lines of credit to bank customers will be drawn upon while the bank's liquidity facilities with third parties will not be available. As a result, it is likely that under this test banks will be required to hold levels of liquidity that will not be justified by the economic risk present except in the most unusual circumstances—circumstances that did not even occur during the recent turmoil. However, since liquid assets are typically low yielding, our banking institutions will have to devote a significant amount of their balance sheet to hold assets that provide little or no income to the institution. Banks will therefore have an incentive to invest in higher risk assets (rather than mortgages and other secured loans) to make up for this lost income. This will hurt both the safety of our banking system and the availability of mortgage credit.

We also note with concern that time tested sources of third party liquidity, such as the advances provided by Federal Home Loan Banks, are not allowed to count toward meeting the liquidity standards. The Federal Home Loan Banks provide loans that are collateralized by mortgage assets held by these institutions. During the recent financial crisis, the Federal Home Loan Banks were reliable sources of liquidity for mortgage lenders, and they have established beyond question that they can and do provide an important liquidity cushion. We would recommend that the proposal be modified to recognize that lines of credit with the Federal Home Loan Banks may be used to satisfy the liquidity standard under this liquidity test, as well as the long term stable funding test discussed below.

The proposal states that the Basel Committee is considering whether high quality corporate debt may be used to satisfy the liquidity standard. We would urge that other highly rated debt instruments should also be considered as acceptable, including highly rated obligations of the U.S. housing agencies, such as Federal Home Loan Bank debt obligations.

The net stable funding ratio is a test of the sufficiency of a bank's long term stable funding. Under this test another stress scenario is assumed, for example a downgrade in the bank's rating or a damaging legal judgment against the institution. The test requires that the bank have enough stable sources of funding to survive these adverse events over a one year period.

A bank's "available stable funding" includes some items as the bank's capital, outstanding preferred stock, and a percentage of insured deposits. However, no credit is given for access to the Federal Home Loan Bank advance window. As noted above, these Banks provide a stable source of liquidity that should be recognized in any liquidity test.

A bank's required amount of stable funding is determined by assigning a "required stable funding" (RSF) factor to each asset and off-balance sheet exposure. The RSF is, in essence, a measure of the asset's liquidity. The more liquid the asset, the lower the RSF factor. We believe that highly rated U.S. housing agency debt and U.S. housing agency guaranteed mortgage-backed securities are extremely liquid and should qualify for a 0 RSF factor.

In conclusion, we agree with the Basel Committee that improvements in liquidity risk management, coupled with international standards, are necessary and would improve the safety and soundness of our financial system. However, we would urge that the Committee consider the cumulative effects of all of the proposed regulatory changes currently under discussion and not act in a vacuum. To this end, the Basel Committee should not rush to put in place a final framework by some arbitrary deadline, but instead should continue to use the consultative process to further improve its proposals.

If you would like to discuss our comments and concerns, please contact Jeff Lischer, NAR's Managing Director for Regulatory Policy, at 202.383.1117 or jlischer@realtors.org.

Sincerely,

Vicki Cox Golder, CRB
2010 President
National Association of REALTORS®