



January 12, 2009

The Honorable John Kerry
Senate Committee on Finance
304 Russell Senate Office Building
Washington, D.C. 20510

The Honorable Olympia Snowe
Senate Committee on Finance
154 Russell Senate Office Building
Washington, D.C. 20510

The Honorable Blanche Lincoln
Senate Committee on Finance
355 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senators Kerry, Snowe, and Lincoln:

The Securities Industry and Financial Markets Association (SIFMA)¹ strongly supports S.138, which would permanently exclude private-activity bond interest from the alternative minimum tax (AMT). This bill will spur demand for private-activity bonds and lower the financing costs for state and local issuers at a time of critical fiscal and budgetary constraint. We urge Congress to include a permanent exclusion of private-activity bond interest from the AMT in any economic recovery package that is considered.

Individual investors are the primary buyers of municipal securities, either directly or through mutual funds. Most municipal bond interest earned by individual investors is exempt from individual income tax. As a result, investors are willing to earn a lower rate of return on their municipal bonds holdings, thereby lowering the cost of borrowing for state and local governments.

However, not all municipal bond interest is exempt from income taxation. Under current law, private-activity bond interest is subject to the individual AMT. In other words, interest on private activity bonds can push taxpayers into the AMT or increase their AMT liability. As a result, private activity bonds must be issued at higher yields to compensate investors for this risk. The higher yield translates into higher borrowing costs for states and localities.

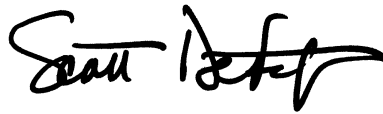
Historically so-called “AMT bonds” have paid a premium of 25-30 basis points more than non-AMT bonds. This premium has grown as high as 100 basis points because of the turmoil in the credit markets generally, and the municipal securities market specifically. The AMT premium has made it difficult for state and local issuers to meet the financing needs of their

¹ SIFMA brings together the shared interests of more than 650 securities firms, banks, and asset managers. SIFMA’s mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services, and create efficiencies for member firms, while preserving and enhancing the public’s trust and confidence in the markets and the industry. SIFMA works to represent its members’ interests locally and globally. It has offices in New York, Washington, D.C., and London. Its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong. More information may be found on our website: <http://www.sifma.org>.

communities for such necessary facilities as wastewater treatment, sewage, mass commuting, solid waste disposal, water furnishing, and necessary programs such as financing student loans and community development.

Eliminating the AMT for private-activity bonds is an opportunity to help state and local governments fund critical projects for their communities at little or no cost to the federal government. SIFMA strongly supports your efforts and looks forward to working with you as the bill moves through the legislative process. Thank you for your leadership on this critical issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott DeFife". The signature is fluid and cursive, with a prominent loop at the end.

Scott DeFife
Senior Managing Director
Government Affairs

cc: Senate Finance Committee Chairman Max Baucus
Senate Finance Committee Ranking Member Charles Grassley