



December 20, 2012

The Honorable Barack Obama  
President  
United States of America  
1600 Pennsylvania Avenue, NW  
Washington, DC 20500

Dear President Obama:

The Municipal Bonds for America (MBFA) coalition is devoted to preserving the tax-exempt status of interest on municipal bonds. The coalition is led by state and local government officials who rely upon affordable borrowing through municipal bonds, and unites those officials with municipal market professionals who act as a network to support the efficient and time-tested flow of capital to local communities for public works. We are writing to warn of the negative consequence of limiting the value of the tax exemption on municipal bonds and to urge you to ensure it does not become part of any deal to address the fiscal cliff.

Any proposal to limit the value of the municipal tax exemption, such as the 28% cap originally proposed in the Administration's FY 2012 budget, will immediately and fundamentally alter the function of what has been a healthy and efficient tax-exempt municipal bond market. The threat of such a cap has, in recent days, been a factor in causing municipal bonds to become more expensive from the perspective of state and local government issuers, with yields rising sharply. The municipal AAA ten-year benchmark yield has risen from 1.48% on December 7 to 1.82% on December 18, for an increase of 34 basis points. Markets are reacting in part to the perception that the Administration and Congress will tax a portion of interest on new and currently held municipal bonds, and that such a tax may become larger in the future. Should the cap become a reality, the result will be a significant increase in borrowing costs for state and local governments – an increase far exceeding 34 basis points, and which may even exceed the amount of revenue raised by the tax itself. Further, smaller issuers -- communities that use tax-exempt bonds to finance schools and maintain roads and public buildings -- would be disproportionately affected as the tax exemption is more critical to their ability to access capital markets than for large issuers.

State and local governments are currently at a very fragile crossroads. Measures that increase local borrowing costs will continue to cause the financial markets to react negatively, and possibly in a manner last seen in bond markets during the 2008 fiscal crisis. The result will be to shift a significant cost burden to local governments and the taxpayers they serve. It is

imperative that the Administration and Congress protect the ability of state and local governments to access cost-effective capital through the use of time-tested tax-exempt municipal bonds.

The MBFA membership urges you to uphold nearly a century of established federal tax policy by preserving the federal tax-exemption for municipal bonds, thereby ensuring that state and local governments can continue to build and improve our nation's infrastructure by the most cost-effective means available to them.

Regards,

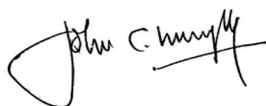
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