

January 13, 2015

To: Members of the House of Representatives

From: James Ballentine, Executive Vice President, Congressional Relations & Political Affairs

Re: Support for H.R. 37 and Collateralized Loan Obligation Provision

This week the House will consider important legislation H.R. 37, the Promoting Job Creation and Reducing Small Business Burdens Act. On behalf of the members of the American Bankers Association (ABA), I am writing specifically to express our support for an important provision in the legislation that would provide for an orderly process to occur for Collateralized Loan Obligations (CLOs) as part of the Volcker Rule.

Prior to the final Volcker Rule, banks made investments in CLOs – which provide more than \$350 billion in financing to U.S. companies – in good faith and in the normal course of their lending business. The interests in CLOs held by banking organizations differ from the direct loans that banks regularly make to borrowers.

CLOs have supported bank loans for new and small businesses that are either not large enough or seasoned enough to get funding from the securities markets on their own. They put funds to work to create jobs, encourage innovation, and move the local economy. Unfortunately, the Volcker Rule regulations would sweep these investments into the same category as “hedge funds.” H.R. 37 does not challenge that interpretation of the Volcker Rule regulations, but what it does do is aim to provide for an orderly liquidation of bank CLO holdings without significant and unnecessary market disruption. Importantly, the technical correction provides only a phased-in compliance and makes no substantive changes to either the Volcker Rule or to Dodd-Frank.

This issue was extensively debated in the previous Congress and there was near unanimous bipartisan support for legislation that addressed the consequences for CLOs caused under the Volcker Rule. Additionally, bipartisan organizations like the Bipartisan Policy Center (BPC) have expressed support for modifications to the CLO provisions and stated that “forcing a select group of banks to sell these assets over a short time is not the optimal solution. Such action would create an environment of institutions forced to sell and of buyers who can purchase CLOs at extraordinarily cheap prices.”

We support this legislation moving forward and would urge Congress to support the CLO provision, which keeps the Volcker Rule completely intact while providing an appropriate phase-in to legacy CLOs held by the tightly regulated banking industry.