The House Financial Services Committee approved legislation designed to eliminate a perceived market bias against municipal bonds by requiring credit rating agencies to score them in the same way as corporate debt.

The bill (H.R. 6308), which cleared on a voice vote with no audible dissent, would require the ratings agencies - such as Moody's Investors Services, Fitch Ratings and Standard and Poor's - to assess the risk of the tax-exempt municipal bonds on the basis of repayment alone. They are currently often also rated for timely repayment. The change is expected to boost the ratings of the "munies."

House Financial Services Chairman Barney Frank, D-Mass., the sponsor of the measure, said there was "no question" that the current system forced municipal bond issuers to pay higher interest rates than they should. He argued that the dual system was unwarranted because "full faith and credit municipal bonds almost never fail."

Agreed Rep. **John Campbell, R-Calif**.: "I do believe there is a fairness aspect that the bill addresses."

Via a manager's amendment, Frank included several new provisions in the bill to shore up GOP support for it. They included language clarifying that, in assessing municipal revenue bonds, the ratings agencies could still use additional criteria as long as it had a "demonstrated" relevance to this kind of offering.

The manager's measure also includes language that would effectively scuttle a recent SEC proposal calling for ratings firms to differentiate their ratings on structured finance products - such as mortgage backed securities and collateralized debt obligations _ as opposed to bonds. Issuers charged that the rule would undermine the marketability of the finance products and sow investor confusion.

The manager's amendment would require ratings agencies "to define clearly any rating symbol" and to "apply such rating symbol in a consistent manner for all types of securities and money market instruments."

"It sends a clear signal that policymakers, like investors, do not support a new and confusing ratings structure," said Brendan Reilly, a senior vice president of government relations at the Commercial Mortgage Association.

The legislation passed the committee after the members, in other voice votes, approved two non-controversial amendments, one from Rep. Michael Capuano, D-Mass., requiring rating agencies to use "objective" standards that can be documented and disclosed, and one from Rep. Peter Roskam, R-Ill., mandating a GAO study on the treatment of different types of bonds in the current ratings system.

Several controversial amendments were withdrawn. The included a measure from Rep. Patrick McHenry, R-N.C.,to require municipal bond issuers to provide full disclosure of assets backing up bond offerings, and language proposed by Campbell to require them to disclose liabilities. Frank pledged negotiations on the issues raised in the amendments.

To placate credit agencies who support a single standard but with gradations for some municipals, Frank included a provision prohibiting the Securities and Exchange Commission from stopping agencies from providing additional "complementary" ratings measuring the risk of a security.

The agencies nevertheless have nevertheless criticized the bill, arguing it could lead to an erosion of confidence in the bond ratings and the evolution of a system in which they are mandated by Congress. The time payment criteria is justified because in cases where municipal bond issuers issues are forced to restructure offerings, investors often cannot afford to wait for repayment, the agencies have contended.

In addition, led by attorney Floyd Abrams, who represents Standards and Poor, lawyers for some of the agencies have charged that Frank's bill would violate their constitutional right of free speech by limiting their ratings criteria.