THE BOND BUYER

Fed expects muni lending program up in few weeks, while issuers forge ahead

By

Sarah Wynn

Published

May 13, 2020, 2:45 p.m. EDT

Federal Reserve leadership said their municipal short-term lending program will be up and running in a matter of weeks, not months, while municipalities forge ahead and price deals to a mostly receptive muni market.

In a Senate Banking, Housing and Urban Affairs Committee hearing Tuesday, Fed Vice Chair of Supervision Randal Quarles said he expects the Fed's Municipal Liquidity Facility as well as its Main Street Lending Program to be open in a matter of weeks.

Committee Chairman Sen. Mike Crapo, R-Idaho, told Quarles he was concerned on how quickly the Fed could get those programs operating.

"I don't think we're looking at months, but it would be premature for me to say exactly how many weeks it would be before they will be operational," Quarles said. "But it is the highest priority of what we're working on."

The Fed, since the creation of the MLF in early April has been releasing details over the past few weeks on how it will work, but it has yet to begin buying munis. The program will buy $500 billion of short-term notes from issuers.

Fed Vice Chair of Supervision Randal Quarles said he expects the Fed's Municipal Liquidity Facility to be up and running in a matter of weeks, not months. ***Bloomberg News***

"Cities and states are already talking with their financial institutions and to their deal teams to make a determination of the best type of capital, the best source of capital, the best way for them to help to underpin what the challenges are ahead," said Emily Brock, director of the federal liaison center for the Government Finance Officers Association. "So a lot of states and localities have already taken the first step without the Fed even being around."

In an ideal world, it would have been great to get the MLF functioning few weeks ago, but the Fed also had to start from scratch, Brock said.

"Would it have been nice to get this information sooner?" Brock said. "Sure, ideally, but there are so many steps along the way that had to be taken in order to make this a substantial program. You don't want them to rush it either."

Market participants want the Fed to get the program in effect by the end of this month, Brock said.

“It’s both fast and slow at the same time,” Brock said. “If we get it in two weeks, has the issuer community figured out what they’re doing in terms of sources of capital?”

This year, the Fed has announced 11 different credit facilities to support the flow of credit to households and businesses that may have encountered financial difficulties as a result of COVID-19.

Many of the facilities the Fed has announced are similar to ones it initiated during the 2008 financial crisis, such as its Commercial Paper Funding Facility, the Money Market Fund Liquidity Facility and its corporate bond purchase programs.

“In 2008, the Fed didn’t take any action with respect to the municipal market,” said Michael Decker, senior vice president of policy and research at Bond Dealers of America. “They didn’t buy any bonds, they didn’t make any loans, they stayed completely out of the municipal market. So they are starting this up right from scratch and so I think that’s why it’s probably taking a little bit longer than some of the other facilities.”

Therefore, a few weeks isn’t too long, he said adding that he takes Quarles at his word and thinks the program will be online soon.

The Fed has asked issuers that may want to use the MLF to send them notices of interest so that the Fed can be prepared when the program is running, which indicates that the Fed is getting close, Decker said.

The American Securities Association has been engaging with the Fed and lawmakers and is pleased to know the Fed is moving forward, said Chris Iacovella, ASA CEO.

“This innovative new facility will definitely help the market function and support the economic recovery,” Iacovella said

Also at the committee hearing Tuesday, Quarles said compared to the 2008 crisis, the Fed has been able to move more rapidly.

Crapo also said he was concerned about the Fed’s cap on population size of the MLF. The Fed recently expanded it at the end of April to at least 500,000 for counties and 250,000 for cities, down from two million and one million.

“With regard to the municipal facility, as I have discussed with you, the caps on population as they play out in Idaho make it so not even a single city or county in Idaho can apply for support through this facility,” Crapo said.

Quarles said the Fed has tried to create an administrative structure that allows them to interact directly with larger jurisdictions and then have them allocate down to smaller jurisdictions.

“We are continuing to look at ways to improve the administration of the Municiapl Liqudity Facility in ways that do balance that requirement for state and local governments,” Quarles said.