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Fed Backstops Corner of Municipal Debt Markets Amid Calls for Support.

The Federal Reserve said it would backstop money market funds that invested in municipal bonds, making sure they can meet redemptions.

WASHINGTON — The Federal Reserve tiptoed into the market for municipal debt on Friday, a small move that economists, lawmakers and state treasurers say should be expanded as the coronavirus places huge financial pressure on local governments.

The Fed will now let banks tap cheap loans by pledging short-term, highly rated municipal debt as collateral. That gives banks an incentive to buy local debt from money market mutual funds, creating demand for securities that had become hard to trade amid broader financial turmoil.

The move could keep the mutual funds, popular investments among ordinary workers and companies, from crashing as investors cash out. The funds will now be able to sell off their municipal bond holdings to satisfy those redemptions. It could also help soothe the market for local bonds — used to finance everything from sewer projects to public transportation — where interest rates have surged as investors flee amid coronavirus economic fears.

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The New York Times

By Jeanna Smialek

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