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Fed Could Provide Massive Support for Business, States in Bill.

Congress could hand the U.S. Treasury at least $425 billion to backstop potentially much larger support by the Federal Reserve for business and municipal borrowers as part of an economic aid package being hammered out by the Trump administration and Congressional leaders.

The latest draft of the Republican-written bill, which GOP lawmakers are trying to finalize and pass Monday, would authorize the Treasury to use $425 billion "to make loans, loan guarantees, and other investments in support of programs or facilities established by the Board of Governors of the Federal Reserve System for the purpose of providing liquidity to the financial system that supports lending to eligible businesses, states or municipalities."

Earlier Sunday, Treasury Secretary Steven Mnuchin said the bill would provide up to $4 trillion in liquidity through broad-based lending programs operated by the Fed.

Lever Up

Details were unclear, but some analysts took the view that the money identified to support Fed programs would seed much larger assistance from the U.S. central bank.

"This is money the Fed can lever up," said Michael Feroli, chief U.S. economist at JPMorgan Chase & CO. in New York. "It's a very positive step. I hope the $4 trillion is enough but there's no guarantee."

Senate Banking Committee Chairman Mike Crapo told Bloomberg News that the legislation would expand the Fed's authority to include state and local governments as entities it can lend to, and buy debt from, to assist them.

Crapo said he supports the measure and would expect other Republicans to do so as well, but also noted that a supplemental appropriations bill would provide direct support to states.

Democrats on Sunday were not yet on board.

Emergency Lending

Last week, the Treasury backstopped two new emergency lending facilities rolled out by the central bank with a combined $20 billion. That was seen as enough to support up to approximately $1.7 trillion of eligible short-term securities.

The Fed has come under pressure from lawmakers and some former central bankers to extend support beyond shorter-dated debt markets and purchase long-run corporate and municipal bonds.

Companies, states and cities have found it increasingly difficult to borrow money as investors flee for safety amid the expanding coronavirus pandemic and the economic havoc its creating.

Cash Drain

”The cash drain on households and businesses, and state and local governments, is going to punch a massive hole in the global glut of savings, and this is an aggressive effort to fill that gap,” said Lou Crandall, chief economist at Wrightson ICAP.

Federal Reserve spokeswoman Michelle Smith declined to comment on what the legislation signaled on future Fed moves.

It’s unclear whether the Fed would require separate congressional approval for buying long-dated corporate and municipal bonds. Eric Rosengren, president of the Boston Fed said March 6 the Fed would need lawmakers’ consent to make such direct purchases.

But that might be open to debate.

Joseph Gagnon, a former Fed official now at the Peterson Institute for International Economics in Washington, has said he believes the Fed can extend credit to any entity as long as the collateral received in exchange is deemed adequate.

Bloomberg Economics

By Christopher Condon, Rich Miller, and Colin Wilhelm

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