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Fed Could Snap Up Municipal Debt Under New Senate Proposal.

- **Bill would amend the Federal Reserve Act for emergencies**
- **Measure would allow Fed to buy municipal bonds of any maturity**

A Senate bill introduced Friday would allow the Federal Reserve to purchase municipal debt, in an effort to ease the economic strain of the coronavirus pandemic on state and local governments.

The measure from Senator Bob Menendez, a New Jersey Democrat on the Senate Banking Committee, would amend the Federal Reserve Act to allow the Fed to buy municipal bonds under "unusual and exigent circumstances." The rule would be triggered by events like the rapid spread of a virus, other health emergencies or crises.

"States and localities are on the front lines in the fight against COVID-19 and need assistance from the federal government to be able to finance the increasing costs of the response to this health emergency," Menendez said in a statement. "The Municipal Bonds Emergency Relief Act would do that by allowing the Federal Reserve to provide support to state and local governments for this crisis and similar future emergencies."

The bill, which does not have any Republican cosponsors, would allow the Fed Board to authorize Federal Reserve banks to purchase municipal bonds on the open market. Five or more members of the board would have to vote to enact the procedure for it to work.

The Fed is already partially authorized to buy municipal bonds. Under Section 14 of the Federal Reserve Act, it can buy short-term municipal debt. This would expand that authority to debt of "any maturity."

Stemming Market Runs

The Fed on Friday amended the terms of a money market facility it launched earlier this week so that it could accept municipal debt of 12 months or less. The move is aimed at stemming runs in the market for municipal commercial paper. It isn't aimed at solving the liquidity problems in the market for longer-term muni debt.

Menendez was not satisfied with the Fed's move because while it would help municipalities with highly rated debt like New York City and others, it wouldn't help cities such as Newark with lower-rated debt, according to a person familiar with his thinking.

"Glad the Federal Reserve is moving in the right direction, but much more needs to be done," the senator said in a tweet. "Congress must pass my Municipal Bonds Emergency Relief Act to extend this help to all cities and states."

The global health crisis has hammered municipal bonds as states and localities strain resources to prepare a medical response, try to help local businesses and suffer revenue losses as they ask people

to stay at home.

Municipal bonds are headed for an 8% drop in March, their worst month of performance since 1981, according to Bloomberg Barclays indexes.

Bloomberg Markets

By Daniel Flatley

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— *With assistance by Craig Torres*

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