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Fed Includes Municipal Debt in Money-Market Lending Backstop.

Fed also will provide daily swap line operations with five other central banks

The Federal Reserve on Friday expanded a lending operation that will accept municipal debt as collateral amid funding strains that could intensify as cities and states combat the coronavirus pandemic.

The changes apply to a lending facility to backstop the $3.8 trillion money-market mutual-fund industry unveiled on Wednesday. The Fed originally limited the program to the $800 billion in prime money-market funds, which invest in very short-term corporate debt, but on Friday extended it to certain municipal money-market mutual funds. Municipal bond money-market funds contain $134 billion, according to the Fed.

The Fed said it will also accept highly-rated municipal debt of less than 12 months as collateral for the facility. While that might help alleviate some strains in muni-debt markets, the bulk of stresses have been in longer-dated securities that aren’t eligible for the facility.

Continue reading.

The Wall Street Journal

By Nick Timiraos and Heather Gillers

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