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Expansion of Federal Reserve's Municipal Liquidity Facility.

Economic Development News

On April 27, 2020, the Federal Reserve announced major changes to its Municipal Liquidity Facility (MLF) initiative. These changes were designed to expand and ease the eligibility requirements for governmental bodies to access much-needed, short-term funding through the MLF.

First announced on April 9, 2020, the MLF offers up to $500 billion in short-term loans to states and local governments to manage current cash flow stress and for other specified purposes. Loans under the MLF are made with funds provided by the Federal Reserve through a special purchase vehicle (SPV). The SPV, in turn, purchases short-term municipal securities – most commonly in the form of Tax Anticipation Notes (referred to commonly as "TANs"), Tax and Revenue Anticipation Notes (referred to commonly as "TRANs"), and Bond Anticipation Notes (referred to commonly as "BANs") – issued by eligible governmental bodies ("Eligible Notes").

Significant Changes in the New Announcement

Expansion of Eligible Governmental Borrowers

The most significant change in the new announcement is expansion of the number of eligible borrowers. Originally, only cities with more than 1 million residents and counties with more 2 million residents could apply. That resulted in just 20 potential borrowers. These thresholds were cut in half (i.e., cities with more than 500,000 residents and counties with more than 1 million residents) under the new announcement. Now, approximately 87 cities and 140 counties may qualify. It is noteworthy that the program does not prohibit a qualifying borrower from re-lending proceeds to smaller public bodies within its jurisdiction (e.g., a listed county obtaining a loan and re-lending the proceeds to cities and towns within its jurisdiction that do not meet the minimum population threshold).

A complete list of eligible cities and counties may be found here.

Investment-Grade Credit Rating

Previously, the Federal Reserve evaluated the creditworthiness of each potential borrower on a case-by-case basis. Under the new announcement, a borrower's creditworthiness is based on its long-term credit rating from at least two nationally recognized credit rating agencies (e.g., S&P Global Ratings, Moody's Investor Service, Inc. or Fitch Ratings, Inc.). Eligible borrowers must possess an "investment-grade" credit rating (i.e., BBB-/Baa3, or higher) as of April 8, 2020, from at least two of these credit rating agencies. For those that met this requirement but were subsequently downgraded, the threshold drops to BB-/Ba3. The Federal Reserve maintains final approval of the overall collateral securing repayment of the Eligible Note (e.g., general obligation, special tax pledge, utility revenue pledge).

Maturity Date

Previously, Eligible Notes had to mature within 24 months of issuance. The new announcement extends that maturity to 36 months.

Application and Closing Deadline

Under the new announcement, the deadline to apply for and close a loan has been extended from September 30, 2020, to December 31, 2020.

New Form of Eligible Issuer – Multi-State Entities

The updated MLF term sheet also includes "Multi-State Entity" within the list of eligible issuers. A Multi-State Entity is defined as "an entity that was created by compact between two or more States, which compact has been approved by the United States Congress[.]" Well-known interstate compacts include the Emergency Management Assistance Compact, the Multistate Tax Compact and the Southern Dairy Compact. To be eligible, Multi-State Entities must have been rated at least A-/A3 by two or more NRSROs as of April 8, 2020. If the Multi-State Entity is subsequently downgraded, it must be rated BBB-/Baa3 or higher by two or more credit rating agencies at the time of closing.

If you have questions or would like further information regarding how your community can access emergency funding through the Municipal Liquidity Facility, please contact Jim Murphy or Madison Haynes.

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