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Federal Reserve Expands Lending to More Cities and Counties.

WASHINGTON (AP) — The Federal Reserve will allow a much larger number of cities and counties to participate in a lending program that it announced earlier this month.

The program initially allowed only 10 cities and 16 counties to participate. It then came under criticism for leaving out many large metropolitan areas with heavy African-American populations.

But the Fed said Monday that it will open the program to cities with 250,000 people, and counties with 500,000, down from 1 million and 2 million, respectively. The program will also provide three-year loans, up from the two-year loans it previously announced.

States and cities are facing a double hit from collapsing tax revenues as businesses shutter and 26 million people have sought unemployment aid. At the same time health care costs have skyrocketed because of the coronavirus.

As part of a set of lending programs that could provide as much as $2.3 trillion, the Fed said earlier this month that it would lend to all 50 states and 10 cities and 16 counties that met the initial population cut-offs.

The Fed's announcement helped bring down interest rates for all municipal borrowers, but one study by the Brookings Institution found that the 35 most heavily African-American cities were excluded from the Fed's direct lending, including Atlanta and Detroit. That's because those cities happened to have smaller core cities and bigger metro areas, but the Fed only looked at the city populations.

Rep. Maxine Waters, a Democrat from California who chairs the House panel that oversees the Fed, wrote Fed Chair Jerome Powell April 16 and urged him to expand the program.

The lower population figures have now made about 80 cities and more than 100 counties eligible, including New Orleans, Newark, New Jersey, Miami, and Minneapolis, as well as Atlanta and Detroit.

Democrats in the House and Senate are pushing for the federal government to provide more funding to the cities and states to cover their rising budget shortfalls. But that push has run into resistance from Sen. Mitch McConnell from Kentucky, the leader of the Republican majority.

The Fed's support for muni securities is only a partial solution, some economists say, because the states and cities are facing such a large fall in revenues that more lending will simply add to interest costs.

"They need the federal government to fill in a massive hole for them," said David Wilcox, a former Fed official and now a senior fellow at the Peterson Institute for International Economics. "That's not the business of a central bank."

Associated Press

by Christopher Rugaber

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