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Fed Prices Muni Program, Spread to Range from 150 to 590 bps.

The Federal Reserve published pricing details for its Municipal Liquidity Facility, fleshing out the terms of the $500 billion emergency lending program for state and local governments hammered by the coronavirus pandemic.

The program, which is not yet up and running, aims to buy short-term debt issued by states and eligible municipalities. Pricing will be at a fixed interest rate based on comparable maturity overnight index swap rates, plus a spread based on the long-term rating of the security for the eligible notes. Spreads range from 1.5 percentage points for AAA/Aaa-rated notes, to 5.9 percentage points for notes below investment grade.

The facility is among nine programs announced by the Fed to limit the economic harm from the virus as businesses shutter to limit contagion. Its announcement on April 9 helped municipal bonds recover from a record sell-off in March.

The pricing penalty may deter states and cities from using the facility given that borrowing costs are already low. One-year AAA municipals yield 0.48%, around where yields stood before the March sell-off, according to Bloomberg BVAL.

The Fed also amended the requirements related to ratings from nationally recognized statistical rating organizations. Issuers with only one rating as of April 8 will be eligible provided that rating was BBB-/Baa3, or A-/A3 for multi-state issuers; the issuer is rated by at least two agencies at the time the facility makes a purchase; and such ratings are BB-/Ba3, or BBB-/Baa3 for multi-state issuers.

The previous term sheet required two or more ratings as of April 8.

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