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Fed's Municipal-Bond Backstop Is Still Too Punishing.

Given the history of state and city defaults, the central bank's interest rates look steep.

When the Federal Reserve first unveiled its backstop for the \$3.9 trillion municipal-bond market in early April, it drew swift backlash for setting arbitrary population cutoffs that excluded many crucial U.S. cities. Within about a month, the central bank significantly lowered its thresholds.

On Wednesday, it went even further, allowing all 50 states to have at least two cities or counties eligible to directly issue notes to the Fed's Municipal Liquidity Facility, regardless of their size. The central bank also said governors can designate two revenue-bond issuers, like public transit agencies or airports, as eligible borrowers. Apparently, Fed Chair Jerome Powell and his colleagues are trying to make sure that these funds can reach the smaller and poorer communities that need them the most.

Lost in this conversation: The Fed has set interest rates that are overly punitive anyway.

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Bloomberg Opinion

By Brian Chappatta

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