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Optimize Community QE - An Open Letter To Fed Chairman Powell

Regular readers of these pages will know that we regularly report on new developments in connection with the Fed's nascent and potentially 'game-changing' Municipal Liquidity Facility (MLF), or Community QE. Thus far the trajectory of change since the MLF's introduction in early April has been in the direction of progressive liberalization. State and municipal eligibility criteria have loosened, eligible bond maturities have lengthened, and the date of the new window's closing has been postponed.

There nevertheless remain a number of MLF features that are fundamentally incompatible with the Facility's purposes. Conspicuous among these are the Facility's rate and rating requirements, several of its still overly narrow eligibility criteria, and its being housed in the New York Fed alone rather than being distributed over all of the regional Federal Reserve Banks (FRBs).

The first and third sets of flaws register a simple category error, in that they mistakenly treat States and their Subdivisions as though they were speculative Wall Street financial institutions that have gotten themselves into trouble, rather than de facto federal agencies taking the lead role in addressing the Covid pandemic across our entire continental republic. The second set of flaws sound more in degree than in kind – they simply screen out, notwithstanding their gradual liberalization since April, too many de facto federal instrumentalities for which the Facility is meant to provide federal funding.

Continue reading.

Forbes

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