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House Democrats Seek Better Rates on Loans to Cities and States.

Rashida Tlaib, Alexandria Ocasio-Cortez and other House Democrats signed on to a letter urging the Federal Reserve to do more to support state and local governments, adding to criticism that the central bank is being too cautious in some of the programs it set up to help the economy during the pandemic.

"Our states and cities are already anticipating unprecedented and catastrophic budget shortfalls," according to the letter, shared with The New York Times ahead of its release on Thursday. It urges the Fed chair, Jerome H. Powell, to lower the rate charged on the loans the central bank makes to municipal bond holders to near-zero, while extending the debt payback period to at least five years.

The central bank is buying municipal bonds, something that Mr. Powell had long been wary of doing because he worried that it ran the risk of picking winners and losers. The Fed has restrained the pool of eligible borrowers and made the terms unattractive. Only Illinois has chosen to use the program to date, given its pricing.

The Fed generally charges relatively high rates in its emergency lending programs, because it tries not to compete with private capital. But the central bank's role has blurred during the coronavirus crisis. For example, it now buys corporate bonds and offers loans to midsize businesses, backed by Congressional funding provided to the Treasury Department to protect the Fed against losses. Those programs have been difficult to run as a backup option, and in some cases provide credit alongside the private market rather than as a last resort.

The Democrat's letter — led by Ms. Tlaib, Pramila Jayapal, Joe Neguse and Mark Pocan — argues that the central bank is offering friendlier loan terms to businesses than to state and local governments.

But it is difficult or impossible to make an apples-to-apples comparison between the terms of the corporate programs and the municipal facility, because the programs and the markets they aim to help are drastically different.

"The terms of borrowing are not particularly generous," Charles Evans, the president of the Federal Reserve Bank of Chicago told reporters this week, referring to the municipal program. "It would make sense for a lot of state and local governments to be waiting until they see what the parameters of fiscal support actually are."

Mr. Evans said that lowering the interest rate could be a "sensible thing to do," but he noted that the programs were settled on in conjunction with the Treasury Department.

"Sometimes there are differences of perspective there," he said. The Treasury has generally been more risk-averse than the Fed in creating emergency facilities.

The New York Times

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