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MTA Is Poised to Test Whether Fed Loans Beat Wall Street.

- **Fed cut rates on $500 billion government loan facility**
- **With market yields lower, Illinois is so far the only borrower**

The municipal-bond market will soon get a test of whether the Federal Reserve's decision to lower the price of its loans will draw governments to its virtually unused $500 billion lending program.

New York's Metropolitan Transportation Authority, among the agencies hardest hit financially by the coronavirus shutdowns, is planning to auction off $465 million of three-year notes on Aug. 18, according to bond offering documents released late Tuesday. The transit agency will accept bids from Wall Street banks — and then decide whether it will get a better deal if it borrows from the Fed instead.

That may be the first gauge of whether the central bank's announcement on Tuesday to cut the interest rates on its short-term loans by 50 basis points will spur more borrowing from it. The Fed has been criticized for the strict terms on its loans to states and cities, which can borrow at far lower rates in the open market.

Because of that, the Fed's first foray into the market has had little direct impact. It has extended only one loan, to Illinois, since it was announced in April, according to the central bank's most recent disclosures.

Yet the mere prospect of the Fed stepping in to act as lender of last resort arrested the steep selloff in March by reassuring investors that the market wouldn't be rocked by another liquidity crisis.Interest rates have since plunged to virtually zero for the highest-rated governments, benefiting those that are looking to raise cash to cover deficits or to find savings by refinancing existing debt. One-year municipal-bond debt yields 0.07% as of Wednesday morning, down from as high as 2.83% in March.

The MTA will sell transportation revenue bond-anticipation notes that will mature in 2023. The transit agency's transportation revenue bonds are rated A2 by Moody's Investors Service, A+ by Fitch Ratings, BBB+ by S&P Global Ratings, and AA+ by Kroll Bond Rating Agency, according to its website.

The Fed's term sheet for the Municipal Liquidity Facility says it will determine pricing for split ratings by calculating an average rating. Using the pricing laid out in the term sheet, that could put the potential interest-rate spread on the MTA's debt at about 200 basis points above an overnight index swap with a comparable maturity. The MTA must also pay an origination fee.

Given those terms, it's likely the MTA would come out ahead by tapping the Fed. An MTA bond-anticipation note maturing in 2023 traded at an average yield of 2.72% on Aug. 11.

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