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Near Zero Muni-Bond Yields Signal Fed Loans to Remain a Rarity.

- **MTA, hard hit by shutdown, became second to borrow from Fed**
- **But Texas borrows over $7 billion for yield of 0.23%**

Bond analysts don't expect the phone lines at the Federal Reserve's municipal-lending arm to start ringing off the hook.

While New York's Metropolitan Transportation Authority Tuesday became the second to borrow from its $500 billion lending program for state and local government agencies after the bank cut the penalties it charges, the program is likely to remain a last resort only for those hit hardest by the steep economic contraction.

Few have been as financial battered by the coronavirus as the MTA, the bus, subway and train agency whose revenue tumbled as New York earlier this year became an epicenter of the pandemic. That triggered concern among investors that left it paying relatively steep penalties to borrow in the public bond market, making the 1.92% charged by the Fed a better deal.

Yet most others are currently able to sell short-term debt at the lowest yields in decades as cash pours in to mutual funds and bond buyers anticipate that the Fed will keep interest rates low to spur a recovery.

Texas had little trouble selling more than $7 billion of notes Wednesday despite the setback dealt to its economy, paying yields of just 0.23%, according to data compiled by Bloomberg. San Diego County, California paid just 0.16% this month.

Those low rates are in part the result of the Federal Reserve's first-ever intervention into the municipal market. Even with only two loans so far made, the bank's commitment to ensure that even the shakiest governments can raise funds gave investors confidence that the market wouldn't be roiled by the financial damage left by the pandemic.

Karel Citroen, head of the municipal credit research group at Conning, said the program would only make economic sense to municipal borrowers hovering near the precipice of having a junk-bond rating. Illinois, the only other to tap it since it was rolled out in April, is at the lowest investment-grade rank.

"If you think about the larger issuers there are not that many," he said. "If you think about market access in general I think that's still good."

That's in part because of a steady flow of money into mutual funds. Since May, state and local debt funds have received an average of $2 billion in new cash each week, according to the Investment Company Institute's figures.

Philadelphia plans to issue short-term notes to steel its budget from a potential second wave of the virus. But the city is confident it will be able to borrow in the open market at rates below what the Fed would charge.

“We’re not considering it from a borrowing perspective,” said Philadelphia Treasurer Christian Dunbar said. “We can get much more advantageous pricing in the market place by a significant amount. Maybe even 200 basis points.”

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