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NY’s MTA Rejects Bank Bids for Cash Notes as Fed Loan Likely.

- **Fed created program to backstop some local government loans**
- **Central bank lowered borrowing costs earlier in August**

New York’s Metropolitan Transportation Authority rejected all the bids from Wall Street banks to purchase $465 million of short-term notes Tuesday, setting the stage for the struggling transit agency to borrow the cash from the Federal Reserve’s new municipal lending program.

The transit agency, bleeding cash because ridership is down amid the pandemic, rejected all the bids from banks including Citigroup Inc., Jefferies, and Barclays Plc, according to a notice by Grant Street, which runs an auction platform for municipal sales. The Fed had previously agreed to buy the debt that the MTA did not award to other bidders, according to documents released as part of the sale.

Aaron Donovan, spokesman at the MTA, did not have an immediate comment on the sale.

The central bank created the program earlier this year after the economic collapse from the pandemic rocked state and local government budgets and sent the $3.9 trillion municipal bond market into a tailspin. The Fed’s decision to act as lender of last resort arrested the steep sell-off in March by reassuring investors that the market wouldn’t be rocked by another liquidity crisis.

Since then, though, it’s only been used once, by Illinois, as municipal-bond yields have stayed low and cash continues to flood into the market. The MTA’s offering was seen as a test of whether the Fed’s decision on Aug. 11 to lower prices on the loans would increase use of the $500 billion program.

The New York MTA, the largest U.S. transit system and among the agencies hardest hit financially by the coronavirus shutdowns, said it’s facing a $16.2 billion deficit related to the pandemic, according to documents associated with the debt sale.

It was seeking to borrow the $465 million through cash-flow notes due in three years. Yet the weighted average true interest cost on bids submitted by the banks totaled about 2.79%, according to Grant Street. Investors have signaled nervousness about the MTA’s finances. Yields on an MTA bond-anticipation note maturing in 2023 have fallen to 2.24% after increasing as high as 7.5% during the market’s sell-off.

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.

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