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Treasury Opposes Extending Fed's Municipal Lending Program.

The U.S. Treasury Department opposes extending the Federal Reserve's $500 billion municipal lending program beyond the end of 2020 or easing the costly terms that have left it virtually unused.

The Trump administration's views were laid out in response to questions from the Congressional Oversight Commission, which was created to monitor the central bank lending efforts ushered in by the March economic stimulus bill.

Extending the Fed's ability to intervene in the $3.9 trillion municipal market improved the confidence of investors and caused prices to rebound from the fear-driven selloff that erupted in March and threatened to severely curtail governments' ability to raise cash. It has since been almost completely unused, with loans extended only to two borrowers, Illinois and New York's Metropolitan Transportation Authority, since governments can borrow more cheaply in the public markets.

The lending facility was the subject of a commission report last week that reflected a partisan split on whether it should be expanded. It's currently set to lapse at the end of December, unless the Fed's Board of Governors and the Treasury agree to extend it, according to the central bank.

The Treasury currently opposes keeping it in place beyond the end of the year, according to responses to questions included in an Oct. 16 letter to the commission from Frederick Vaughan, an official in the Treasury's Office of Legislative Affairs. The Treasury is also currently against lowering the pricing of the loans or extending their terms beyond the three-year limit, according to the document.

Local government lobbying groups have urged the Fed and Treasury to loosen the terms of the program and extend it, given that the pandemic continues to hurt municipal budgets and the prospects for a large amount of aid from Washington appear dim for now.

The Treasury said the program succeeded in calming the market by providing a backstop for state and local governments.

"The facility's low utilization reflects a recovered and functioning municipal securities market," the document says.

While the program hasn't seen major usage, it helped drive down borrowing costs for states and cities since March. Local government lobbying groups said in the letter last week that support for the market would likely still be needed in 2021 due to the pandemic's fiscal toll.

Bharat Ramamurti, a member of the Congressional Oversight Commission and a former aide to Senator Elizabeth Warren, said in an interview Tuesday that extending the facility into 2021 would be a "bare minimum" change that could help state and local governments.

He said the Treasury Department's position is reflective of Republicans' resistance to helping state and local governments.

"It's quite obvious that the hit that state and local governments are going to take from Covid is going to last beyond the end of this year," he said.

The Treasury Department worked with the Fed on the design of the program and reviewed amendments to it.

Ramamurti said the Treasury's comments show that officials there may be a key obstacle to the Fed expanding the scope of the facility given that the department could veto changes.

He noted that Treasury's resistance to some proposed changes have no legal basis. For example, local government lobbying groups have called for the Fed's Municipal Liquidity Facility to buy longer-term municipal debt. Current purchases are limited to debt maturing in three years or less, which borrowers say is too restrictive.

The Treasury noted in its responses that there's no legal impediment under the Cares Act to making that change, but said it opposed doing so.

Ramamurti said the Treasury is not being aggressive enough in trying to help governments, which the Cares Act called for.

"I'm really disappointed in the responses that we got," Ramamurti said.

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