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Reauthorize The Fed's Muni Lending Powers Or Risk Another Market Crisis.

As Senate Republicans continue blocking state and city budget aid in a new stimulus package, progressive advocates want the Federal Reserve to be a much more active municipal lender. But the immediate risk to the municipal finance market—and thus to state and city budgets— is the scheduled expiration of the Municipal Liquidity Facility (MLF) at the end of 2020, which could threaten a repeat of this spring's market liquidity crisis. So the MLF needs to be extended now.

Remember the MLF was created in response to spring's sudden liquidity crisis in municipal finance. Investors pulled back from the muni market, forcing a selloff to cover their withdrawals. The cascading selloff in turn quickly drove up interest rates for billions of dollars in muni bonds approaching 10% in some cases, threatening a seizing-up of the entire market.

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