Bond Case Briefs

Municipal Finance Law Since 1971

Democratic Senators Call for Expansion of Fed Lending Programs.

Four Democratic senators, including Minority Leader Chuck Schumer, urged the Federal Reserve and the U.S. Treasury to expand emergency lending programs for businesses and states and municipalities to provide support while Congress debates additional fiscal stimulus.

In a Nov. 5 letter to Fed Chair Jerome Powell and Treasury Secretary Steven Mnuchin obtained by Bloomberg, the senators asked that the programs be extended beyond their Dec. 31 deadlines, and that changes be made to make them more broadly available. In addition to Schumer, a senator from New York, the letter was signed by Mark Warner of Virginia, Sherrod Brown of Ohio and Elizabeth Warren of Massachusetts.

"Absent additional action, these facilities will fail to reach their full potential to support a robust economic recovery," the senators wrote.

Both the Main Street Lending Facility, which is aimed at providing loans to small- and mid-size businesses and nonprofits, and the Municipal Liquidity Facility, for state and local governments of a certain size, have faced criticism for low participation. The Fed has argued that the muni facility has worked in that it provided a backstop for the market, which seized up in March but has functioned smoothly since then.

No Decision

Powell told a press conference Thursday that there had been no decision taken on whether to extend the facilities, which the Fed would do in coordination with the Treasury, while stressing that they had provided an important backstop during the coronavirus crisis.

"If things deteriorate, that would be the case where you'd want to maybe continue the facilities and maybe change them and maybe have new ones," Powell said.

The Main Street program, which isn't seen as merely a backstop, has so far only lent out $4.1 billion of a potential $600 billion. Critics say that banks won't make loans to the companies that need it most right now, as they pose a higher risk. Without further stimulus from Congress on the immediate horizon, the Fed's emergency programs remain one of the few life lines in an economy that continues to struggle through a sputtering recovery.

The Fed has already made several changes to the Main Street program to widen the pool of potential borrowers. Last week it lowered the minimum loan amount to $100,000 from $250,000 and increased the fees banks stand to gain from participating in it. The senators propose further lowering the minimum to $50,000, which would target small businesses who no longer have access to the shuttered Paycheck Protection Program, and further incentivize banks to lend through a more-attractive fee structure.

Muni Facility

Beyond extending the deadlines, the senators also ask for longer terms in the facility loans, beyond 3 years for the municipal program and 5 years for Main Street.

The Treasury Department said last month it opposes extending the $500 billion municipal lending program beyond the end of 2020 or easing the costly terms that have left it virtually unused. But that could change should there be a change in administrations following this week's presidential election.

The senators also ask that the Fed and Treasury allow more localities to access the muni facility, which is limited by population size, and that they set up a program to buy muni bonds in the secondary market. The current facility buys bonds directly from the issuing entity, and some have argued that aid to the secondary market would be a better way to support local governments that have seen tax revenue plummet in the last few months.

They say that these changes would particularly help minority- and female-owned businesses, who tend to own smaller companies, and first responders, who also are also disproportionately female and Americans of color. They note that women and Americans of color have borne the brunt of the damage in the pandemic.

Bloomberg Business

By Catarina Saraiva

November 6, 2020, 8:54 AM PST