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Fed to Return Lending-Backstop Funds to Treasury as Requested.

- **Powell letter follows public rift that arose a day earlier**
- **Mnuchin argues money should be put to better use elsewhere**

The Federal Reserve said Friday it would comply with a Treasury Department request to return unused funds meant to backstop five emergency lending programs, moving to tamp down a public rift that arose a day earlier.

"We will work out arrangements with you for returning the unused portions of the funds allocated to the Cares Act facilities in connection with their year-end termination," Fed Chairman Jerome Powell said in a letter to Treasury Secretary Steven Mnuchin posted on the central bank's website.

Mnuchin on Thursday sparked a conflict between his agency and the central bank when he said he wouldn't agree to extend the facilities enabled by the Cares Act, passed by Congress in March. The law appropriated funds to act as loss-absorbing buffers that enabled the Fed to stabilize financial markets and make loans to companies and municipal debt issuers.

Mnuchin says the programs are no longer needed, and the money should be returned to Congress and put to better use elsewhere.

The Fed had responded on Thursday with its own statement, saying it "would prefer that the full suite of emergency facilities established during the coronavirus pandemic continue to serve their important role as a backstop for our still-strained and vulnerable economy."

'Deeply Irresponsible'

The move drew swift criticism from Democrats. President-elect Joe Biden's transition team spokeswoman, Kate Bedingfield, on Friday blasted Mnuchin's move as "deeply irresponsible."

The S&P 500 Index extended a weekly decline as traders weighed the dispute over the emergency lending programs. The credit markets seemed to hold up amid the uncertainty. Corporate bond investors continued to flood Carnival Corp.'s bankers with orders for debt.

On Friday, Powell conceded the Treasury's authority in the matter, saying in the letter that the Cares Act "assigns the Treasury secretary sole authority to make certain investments in Federal Reserve emergency lending facilities, subject to limits specified in the statute."

Some officials, including a Democrat sitting on the commission supervising spending under the Cares Act, have said the Fed wasn't legally required to return funds already transferred to it by the Treasury. But the Fed made clear it would not escalate the spat and would return the funds.

Other Funds

Powell, in his letter, also appeared to urge the Treasury to consider using other funds held by

Treasury to reauthorize at least some of the programs that will now be unable to make new loans after Dec. 31.

"As you noted in your letter, non-Cares Act funds remain in the Exchange Stabilization Fund and are, as always, available, to the extent permitted by law, to capitalize any Federal Reserve lending facilities that are needed to maintain financial stability and support the economy," Powell wrote.

The ESF contains about $75 billion that pre-dates the Cares Act. Mnuchin has also left open the possibility of using that money to re-activate the programs, but appeared to characterize that as an emergency option.

"In the unlikely event that it becomes necessary in the future to re-establish any of these facilities, the Federal Reserve can request approval from the secretary of the Treasury," Mnuchin said in his letter on Thursday.

The Fed, in contrast, believes the programs remain crucial. In an online event Nov. 17, Powell said the Fed would eventually shut down its emergency programs, but added, "I don't think that time is yet or very soon, we will put those tools away."

The programs affected include two that can purchase corporate bonds, one for municipal debt and one, the Main Street Lending Program, that makes loans to mid-sized companies through banks.

The programs will continue to hold existing assets and service loan agreements with banks. The Fed will retain about $26 billion received by the Treasury to continue to backstop the loans already made. But the programs won't be able to extend new credits unless they receive fresh funds from Treasury.

Bloomberg Economics

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November 20, 2020, 1:50 PM PST Updated on November 20, 2020, 3:04 PM PST