

## Fed Reintroduces Commercial Paper Funding Facility

By Rosalind Z. Wiggins

Original post [here](#).

On March 17, the Federal Reserve announced that it would implement a [Commercial Paper Funding Facility \(CPFF\)](#) to support the flow of credit to businesses and households during the coronavirus pandemic.

The Fed used its authority under section 13(3) of the Federal Reserve Act to implement the new program (see [here](#)). Section 13(3) allows the Fed to lend to nonfinancial organizations when the Federal Reserve Board determines there are “unusual and exigent circumstances.” This is the Fed’s first use of that authority since the Global Financial Crisis of 2007-09.

The Fed last employed a [CPFF in October 2008](#), when in the midst of the Global Financial Crisis outstanding CP had dropped by roughly \$300 billion. At that time, the market experienced severe shortening of maturities and increased rates making it difficult for issuers to place new paper.

The language in the terms of the new CPFF closely follows the language in the earlier CPFF. As in 2008, the Federal Reserve Bank of New York (FRBNY) will make loans to a special purpose vehicle that will purchase highly-rated US dollar-denominated, three-month unsecured and asset-backed commercial paper from eligible US issuers. As before, eligible issuers are U.S. issuers of commercial paper, including U.S. issuers with a foreign parent company. The program will purchase commercial paper until March 17, 2021. The Fed could extend the facility past that date. The 2020 CPFF Terms and Conditions can be found [here](#) and the 2008 CPFF Terms and Conditions and FAQs can be found [here](#) and [here](#), respectively.

The new program is supported by \$10 billion in credit protection provided by the U.S. Treasury Department, using the Exchange Stabilization Fund (ESF). The earlier CPFF was also supported by \$50 billion from the Treasury.

The 2008 CPFF’s role in helping to revive the term-lending market has been debated. However, in its first weeks it was highly utilized and purchased the overwhelming majority of new term CP. At its highest level in January 2009, the CPFF held \$350 billion of CP, 20% of all outstanding CP. Evidence suggests that the 2008 CPFF provided market participants a rollover option for maturing paper and helped restore lending by CPFF participants to their non-financial corporate borrowers.

**Click [here](#) to read a YPFS case study that discusses the 2008 CPFF in detail and provides access to the key documents utilized with that facility.**

## Fed Provides Liquidity Options to Cities and States

By Rosalind Z. Wiggins

Original post [here](#).

Over the past couple of weeks in response to the stresses of the COVID-19 pandemic the bond markets that states and cities traditionally access to raise funds have recently stalled; the “primary market that has all but shut down” as rates have followed Treasuries downward and many investors sell to await a rebound. ([Funk 03/23/2020](#)) ([Oh 2020](#)). In addition, many of the financial institutions that usually buy these bonds and make markets in them have been reluctant to do so because they are holding large quantities. ([Oh 2020](#)). Further, the commercial paper market has been experiencing runs. ([Tumulty 03/23/2020](#))

Hoping to provide a safety net for states and cities which are facing increased costs from fighting the health crisis while having to continue to fund payroll, pensions and debt service, the Federal Reserve (the “Fed”) has in the past three days provided three facilities aimed at assisting these entities with accessing liquidity.

- On March 20th, the Fed expanded the recently announced [Money Market Mutual Fund Liquidity Facility \(MMLF\)](#) to permit financial institutions to also borrow from the Federal Reserve Bank of Boston (FRBB) to purchase highly rated US municipal short-term debt with maturities of 12 months or less (“municipal debt”) from eligible single-state or other tax exempt money market funds (“state and city funds”). The FRBB will make nonrecourse loans to eligible financial institutions (including depository institutions, bank holding companies and US branches of foreign banks) anywhere in the country to facilitate the purchases. The MMLF would continue to provide loans to financial institutions to purchase designated high-quality assets from money market mutual funds (“money funds”).
- In another move, [the Fed announced today](#) that it would expand the MMLF further to permit the purchase of (i) negotiable certificates of deposits issued by states, municipalities, or banks, and (ii) highly rated municipal variable rate demand notes (VRDNs) with maturities of 12 months or less. The MMLF will begin accepting certificates of deposits and VRDNs as of March 25. However, such items purchased on March 23 and 24 may be accepted if pledged on March 25th.
- MMLF loans secured by municipal debt or VRDNs would be made at a rate equal to the primary rate plus 25 bps. Loans secured by Treasuries or agency securities would be at a rate equal to the primary rate, and loans secured by other collateral would be at a rate equal to the primary rate plus 100 bps.
- Also, as of [today](#) the Fed has expanded the ([Commercial Paper Funding Facility \(CPFF\)](#)) (reintroduced on March 17th) to include as eligible securities high-quality, tax-exempt commercial paper providing purchasers for municipal issuers. Under the CPFF, the Federal Reserve Bank of New York provides loans to a special purpose vehicle that purchases high-quality commercial paper from eligible issuers.
- For additional details see the [updated MMLF Term Sheet](#).
- For additional details see the [updated CPFF Term Sheet](#).

The Fed is employing all its tools to maintain the flow of funds to states and municipalities that may be experiencing liquidity constraints and or having difficulty placing new debt. During the Global Financial Crisis (GFC), many cities experienced severe economic stress as they suffered reduced tax revenues, losses on portfolios and higher unemployment. Several major cities, with Detroit, MI and Stockton, CA being the largest, filed for bankruptcy protection.

The Fed's efforts provide some avenues for states and cities needing liquidity but the Fed's arsenal in this area is not the broadest. Pursuant to [Section 14 of the Federal Reserve Act](#), the Fed can purchase municipal debt with maturities up to six months through its Open Markets Operations. This has led some commentators to state that what is also needed is action from the Congress to provide such broader authority to the Fed. Senator Bob Menendez, (D-NJ) has proposed "[The Municipal Bonds Emergency Relief Act](#)" that would amend the Federal Reserve Act to allow the Fed to buy municipal bonds of any maturity under "unusual and exigent circumstances." The bill would also include coverage for hospitals and colleges that issue tax-exempt bonds. The bill has received support from the Securities Industry and Financial Markets Association and the National League of Cities, but was not included in the bill proposed by the Senate and was cited as one of its weaknesses by the Democrats. ([Tumulty 03/23/2020](#))

The MMLF and the CPFF were both established under Section 13(3) of the Federal Reserve Act, with approval of the Treasury Secretary (see [here](#)). Section 13(3) allows the Fed to lend to any "individual, partnership or corporation" when the Federal Reserve Board determines there are "unusual and exigent circumstances". Using the Exchange Stabilization Fund, the Treasury has provided credit protection to the Fed for both programs.

Both the MMLF and CPFF are similar to programs that the Fed utilized during the GFC, however, then, municipal debt, certificates of deposits, VRDNs, and tax-exempt commercial paper were not included in the programs. These recent amendments demonstrate that the plans have some flexibility and can be easily expanded if the Fed determines circumstances warrant.