

Federal Reserve Expands Eligibility for Municipal Liquidity Facility

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Original post [here](#).

On April 27, the Federal Reserve announced an [expansion](#) in scope and duration of the [Municipal Liquidity Facility](#) (MLF), a new facility established on April 9 to alleviate the funding needs of cities, counties, and states as municipalities fight the ongoing threat of COVID-19 across the United States and bond markets stall.

The new terms of the MLF allow the 50 states, counties of 500,000 residents or more, and cities of 250,000 residents or more to sell their debt issuances directly to a special purpose vehicle created and funded by the Federal Reserve. The new rule is significantly more inclusive than the previous standard, as seen in the table below.

	Number of Cities	Population Covered (City)	Number of Counties	Population Covered (County)
Original MLF Terms	10	~26,000,000	16	~54,000,000
Revised MLF Terms ⁸⁷		~62,000,000	140	~162,000,000

Source: Census [City](#) and [County](#) Population Estimates

In addition to the changes in participation, the Federal Reserve revised standards for eligible notes. Eligible notes may now have maturities of up to 36 months after issuance, twelve months longer than the original 24 month maturity.

New guidelines regarding ratings also affect eligibility of issuances. Eligible issuers must have “investment grade” ratings--ratings of at least a BBB-/Baa3--as of April 8, by two or more nationally recognized statistical ratings organizations (NRSRO), such as Standard and Poor’s or Fitch. If an NRSRO subsequently downgrades an issuer after April 8, the issuer must raise their ratings to at least BB-/Ba3 by the time the MLF makes a purchase.

The Federal Reserve has also expanded participation in the facility to multi-state entities, such as the Port Authority of New York and New Jersey. The MLF will hold multi-state entities to higher standards. Multi-state entities must have ratings of A-/A3 as of April 8 by two or more NRSROs. Should NRSROs downgrade the entity, it must raise its ratings to BBB-/Baa3 by the time of purchase.

Multi-state entities may issue, in one or more issuances, up to 20% of the entity’s gross revenue in 2019; however, unlike states, multi-state entities may not issue in excess of the applicable limit and transfer the funding to political subdivisions within their jurisdictions.

Finally, the Federal Reserve has changed the facility’s termination date from September to December 2020.

Elected officials [widely criticized](#) the original terms of the MLF as too restrictive, making the funds unavailable to many cities and counties that needed aid. The previous iteration of the facility only allowed 10 cities and 16 counties to participate directly in the funding mechanism. Some [senators](#) complained that their states would qualify for aid, but their states' towns or counties were exempt. The previous iteration of the facility appeared to attend to this issue by allowing states to issue bonds and distribute the funding directly to municipalities within their jurisdictions. However, it appears this mechanism may not be direct enough, as some [states struggle to issue debt](#) based on state constitution barriers.

The Federal Reserve also said that it is [considering](#) allowing some governmental entities that issue revenue bonds to directly participate in the MLF as eligible issuers. However, it's unclear whether the Federal Reserve will approve this.