The Federal Reserve announced on April 9 that it is creating the Municipal Liquidity Facility (MLF), a tool to help states and localities deal with budgetary stresses caused by the COVID-19 pandemic. The facility will purchase up to $500 billion in short-term notes from “eligible issuers” and the proceeds may be used to continue government operations and serve citizens. Important details regarding the program are below.

What types of short-term debt will the Federal Reserve purchase?

The Federal Reserve will create a special purpose vehicle that will purchase new issuance, short-term debt from eligible issuers. These include tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs) and other short-term municipal bonds with a maturity of no more than 36 months.

Who is considered an eligible issuer and therefore can participate in the program?

The Municipal Liquidity Facility will support lending to all eligible issuers, which includes all 50 states and the District of Columbia, U.S. cities with a population exceeding 250,000 residents, and U.S. counties with a population exceeding 500,000 residents. Among other rating requirements, eligible issuers must have had an investment grade rating as of April 8, 2020 from at least two nationally recognized statistical rating organizations.

How much of an offering for purchase can states or localities request?

The state, city or county can request up to 20% of its general and utility revenue, using fiscal year 2017 as the baseline amount. A list of how much each state can request has been published by the Federal Reserve.

What can funds be used for?

The program provides a significant amount of flexibility and allows the state, city or county to use the funds from the Federal Reserve’s purchase to manage cash flow from decreased revenue, continue normal government operations or fund many of its obligations.

What is the first step for an Eligible Issuer to take part in the program?

The Federal Reserve Bank of New York released a Notice of Interest for Eligible Issuers to express their interest in selling notes to the Special Purpose Vehicle (SPV), which has been named the Municipal Liquidity Facility LLC. Filling out the Notice of Interest is the first step that Eligible Issuers must take to provide their eligibility information for review by the SPV. An Eligible Issuer should only submit a Notice of Interest when they have determined their financial needs.

Who will review the Notice of Interest and eligibility information?

The Municipal Liquidity Facility LLC has designated BLX Group LLC (BLX) as its administrative agent for the execution of the MLF. BLX will receive Notices of Interest and applications from Eligible Issuers, review that information based on criteria established by the Federal Reserve Bank of New York, and will be available to answer questions from Eligible Issuers. The decision whether to purchase Eligible Notes will solely be left up to the SPV.

Additional Notes

- Current estimates suggest that the municipal bond market is valued at $3.9 trillion, making this $500 billion injection a meaningful effort toward liquidity for the market.
- The Federal Reserve pricing methodology will be broadly applicable. It will be based on the eligible issuers long-term rating at the time of purchase and the maturity of the eligible notes, in addition to a spread over a publicly available benchmark or index.
- The eligible issuer will pay an origination fee of 10 basis points (which is payable from the proceeds of the issuance).
- The Federal Reserve, through the administrator of the special purpose vehicle, can call the bond at any time.
- The termination date for the facility is December 31, 2020.