

FAQs: Municipal Liquidity Facility

The following is intended to address questions about the Municipal Liquidity Facility (MLF or Facility). The Federal Reserve may periodically update these FAQs and, therefore, please check this website for new FAQs or revisions to a previously issued FAQ.

Effective April 27, 2020

PURPOSE AND DESIGN

Why is the Federal Reserve establishing the MLF?

The municipal securities market is an important part of the financial system, which helps provide states, cities, and counties (and their political subdivisions and other governmental entities) with the funding needed to provide essential public services to their citizens. Due to the COVID-19 pandemic, the municipal securities market has recently been under considerable strain. The municipal securities market saw a dramatic increase in sales by institutional investors, which has caused a swift and dramatic increase in interest rates on municipal securities. Although rates have come down from their highs and some issuers have been able to issue debt or secure loans, there are many issuers that have not been able to meet their financing needs through the capital markets. At the same time, states, cities, and counties are facing severe liquidity constraints resulting from the increase in state and local government expenditures related to the COVID-19 pandemic and the delay and decrease of certain tax and other revenues. By ensuring the smooth functioning of the municipal securities market, particularly in times of strain, the Federal Reserve is providing credit that will support families, businesses, and jobs in communities, large and small, across the nation.

The immediate purpose of the MLF is to enhance the liquidity of the primary short-term municipal securities market through the purchase at issuance of Tax Anticipation Notes (TANs), Tax and Revenue Anticipation Notes (TRANs), Bond Anticipation Notes (BANs), and similar short-term notes from Eligible Issuers (defined below) (collectively, Eligible Notes). The Eligible Issuer's proceeds from the sale of Eligible Notes to the SPV can in turn be used to support its political subdivisions and public authorities, among other uses. The Facility will provide a form of cash management financing to Eligible Issuers. In addressing the cash management needs of Eligible Issuers, the Facility will also help restore confidence in the municipal securities market.

The Federal Reserve will continue to closely monitor conditions in the primary and secondary markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments.

How will the MLF work?

The MLF will provide a liquidity backstop to issuers of Eligible Notes through a special purpose vehicle (SPV). The Treasury Secretary, using funds appropriated to the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), will make an initial equity investment of \$35 billion in the SPV. The SPV will have the ability to purchase up to \$500 billion of Eligible Notes.

When may Eligible Issuers begin selling Eligible Notes, and how long will the MLF operate?

Federal Reserve staff is working expeditiously to operationalize the MLF. The Federal Reserve will keep market participants apprised and announce in advance when the SPV will commence operations and begin purchasing Eligible Notes. The SPV will cease purchasing Eligible Notes on December 31, 2020, unless the Board and the Treasury Department extend the term of the Facility.

Under what legal authority are purchases of Eligible Notes through MLF made?

The Federal Reserve Board established the MLF pursuant to section 13(3) of the Federal Reserve Act.

What third-party vendors are supporting the MLF?

The Federal Reserve Bank of New York (FRBNY) has selected PFM Financial Advisors LLC (PFM) as its administrative agent for the MLF. In serving as the administrative agent, PFM will coordinate and review the applications under the MLF based on criteria established by the FRBNY.

Where should questions regarding the MLF be directed?

Questions should be directed through <http://www.federalreserve.gov/apps/contactus/feedback.aspx?refurl=/muni/> or via email to MLF@ny.frb.org.

How may I receive updates regarding changes to MLF documents?

Sign up for email alerts.

ELIGIBLE ISSUERS

Who is an Eligible Issuer?

An Eligible Issuer is a State, City, or County (or, subject to Federal Reserve review and approval, an entity that issues securities on behalf of the State, City, or County, respectively, for the purpose of managing its cash flows) or a Multi-State Entity, in each case as defined below. Pursuant to section 13(3) of the Federal Reserve Act, an Eligible Issuer may not be insolvent.

An Eligible Issuer that is a State, City, or County (or, subject to Federal Reserve review and approval, an entity that issues securities on behalf of the State, City, or County, respectively, for the purpose of managing its cash flows) must have been rated at least BBB-/Baa3 as of April 8, 2020, by two or more major nationally recognized statistical rating organizations (NRSROs).

Eligible Issuers that were rated at least BBB-/Baa3 as of April 8, 2020, but are subsequently downgraded, must be rated at least BB-/Ba3 by two or more major NRSROs at the time the Facility makes a purchase.

An Eligible Issuer that is a Multi-State Entity must have been rated at least A-/A3 as of April 8, 2020, by two or more major NRSROs. A Multi-State Entity that was rated at least A-/A3 as of April 8, 2020, but is subsequently downgraded, must be rated at least BBB-/Baa3 by two or more major NRSROs at the time the Facility makes a purchase.

For purposes of the Facility, a “State” is one of the fifty U.S. states or the District of Columbia; a “City” is a U.S. city with a population exceeding 250,000 residents; and a “County” is a U.S. county with a population exceeding 500,000 residents based on the most recent available U.S. Census data as of April 6, 2020. A Multi-State Entity is an entity that was created by a compact between two or more States, which compact has been approved by the U.S. Congress, acting pursuant to its power under the Compact Clause of the U.S. Constitution.

A list of Eligible Issuers based on their populations, other than Multi-State Entities, is provided in Appendix A. As of April 6, 2020, the most recent data available on population size for cities was 2018 data, and the most recent data available on population size for counties was 2019 data. Changes in population size, as may be reflected in future U.S. Census Bureau releases, will not affect this list of Eligible Issuers.

What is “an entity that issues securities on behalf of the State, City, or County for the purpose of managing its cash flows,” as described in the “Eligible Issuer” section of the MLF term sheet?

Many States, Cities, and Counties issue debt securities through an authority, agency, department, division or other entity that is statutorily authorized to issue debt on behalf of the applicable State, City, or County. Such an authority, agency, department, division or other entity of a State, City, or County may also issue debt securities for the purposes of assisting in cash flow management on behalf of one or more of the political subdivisions or other governmental entities of the applicable State, City, or County. Such an entity would constitute an Eligible Issuer, subject to Federal Reserve review, only if (i) such entity can commit the credit of, or pledge revenues of, the applicable State, City, or County, or (ii) the State, City, or County guarantees the Eligible Notes issued by such issuer. Each eligible State, City, and County may only access the Facility through one issuer; provided that the Federal Reserve may approve one or more additional issuers per State, City, or County to facilitate the provision of assistance to political subdivisions and other governmental entities of the relevant State, City, or County.

What is a “political subdivision or other governmental entity” as described in the “Eligible Use of Proceeds” section of the MLF term sheet?

States, Cities, and Counties may use the proceeds of Eligible Notes sold to the SPV under the MLF to purchase the notes of, or otherwise assist, any of their political subdivisions or other governmental entities as described above. For purposes of the “Eligible Use of Proceeds” section, a “political subdivision or other governmental entity” is broadly defined as any county, city, municipality, township, village, school district, special district, utility, authority, agency or other unit of government, as determined by the Eligible Issuer. However, an Eligible Issuer may not lend the proceeds of Eligible Notes to a political subdivision or other governmental entity that is insolvent.

If an Eligible Issuer uses the proceeds of Eligible Notes to purchase the notes of one of its “political subdivisions or other governmental entities” (as used in the “Eligible Use of Proceeds” section), does the Facility assume the risk of those notes?

No. Regardless of the use of proceeds, the Facility (and any other holder of the Eligible Notes) faces only the credit of the Eligible Issuer. The Eligible Issuer would bear the credit risk associated with any notes it purchased from its political subdivision or other governmental entity.

May governmental entities that provide public services on behalf of a State, City, or County and issue bonds backed by their own revenues participate directly in the MLF as Eligible Issuers?

Other governmental entities that provide essential public services on behalf of a State, City, or County may participate in the MLF indirectly by borrowing through an eligible State, City, or County. The Federal Reserve is also considering expanding the Facility to allow a limited number of such entities to participate directly in the MLF as Eligible Issuers, taking into consideration the objective of quickly and efficiently making the Facility available to the currently defined set of Eligible Issuers. The inclusion of

any such additional Eligible Issuers would be publicly announced at a future date. The Federal Reserve continues to encourage Eligible Issuers to make funding from the Facility available to their political subdivisions and other governmental entities that are in need of such funding.

ELIGIBLE NOTES

What are Eligible Notes?

Eligible Notes are tax anticipation notes (TANs), tax and revenue anticipation notes (TRANS), bond anticipation notes (BANs), and other similar short-term notes issued by Eligible Issuers, provided that such notes mature no later than 36 months from the date of issuance. In each case, a note's eligibility is subject to review by the Federal Reserve.

What are TANs, TRANS, and BANs?

States and other municipalities issue TANs and TRANS or other similar short-term notes to address the timing mismatch between the receipt of taxes or other revenues and ongoing expenditures. TANs and TRANS are generally backed by and rated based on the anticipated receipt of tax and other revenues over the course of a fiscal year or longer, in amounts sufficient to pay off the notes by maturity.

BANs are issued in anticipation of future bond issuance and are typically not secured by a pledged revenue stream, but are rated based on the long-term credit rating of the issuer and its assumed future market access for refinancing (either as new BANs or long-term bonds).

What can the proceeds of the Eligible Notes be used for?

An Eligible Issuer may use the proceeds of the Eligible Notes purchased by the SPV for the following purposes: (1) to help manage the cash flow effects of income tax deferrals resulting from an extension of an income tax filing deadline; deferrals or reductions of tax and other revenues or increases in expenses related to or resulting from the COVID-19 pandemic; and requirements for the payment of principal and interest on obligations of the Eligible Issuer or its political subdivisions or other governmental entities; (2) to purchase similar notes issued by, or otherwise to assist, its political subdivisions and other governmental entities for the purposes enumerated in clause (1); and (3) to fund the costs of issuing the Eligible Notes and paying the SPV issuance fee.

What form of note security will be required?

Note security will be subject to review and approval by the Federal Reserve. The source of repayment and security for Eligible Notes will depend on the applicable constitutional and statutory provisions governing the Eligible Issuer and should be generally consistent with the source of repayment and strongest security typically pledged to repay publicly offered obligations of the Eligible Issuer. Eligible Notes of Eligible Issuers that are not Multi-State Entities will generally be expected to represent general obligations of the Eligible Issuer, or be backed by tax or other specified governmental revenues of the applicable State, City, or County. If the Eligible Issuer is an authority, agency, or other entity of a State, City, or County, such Eligible Issuer must either commit the credit of, or pledge revenues of, the State, City, or County, or have the State, City, or County guarantee the Eligible Notes issued by such issuer. If the Eligible Issuer is a Multi-State Entity, the Eligible Notes will be expected to be parity obligations of existing debt secured by a senior lien on the Multi-State Entity's gross or net revenues.

Will the Eligible Notes or the Eligible Issuer require a rating?

Yes, an Eligible Issuer must meet certain ratings criteria, described above in question B1, to participate in the MLF. In addition, at the time of sale or pricing of the Eligible Notes, the Federal Reserve will require a confirmation of any outstanding long-term ratings of the Eligible Issuer by each major NRSRO that has an outstanding rating of the Eligible Issuer relating to the same type or source of repayment and security as is offered for the Eligible Notes, along with evidence that such NRSROs have been notified of the issuance of the Eligible Notes by the Eligible Issuer. If an Eligible Issuer does not have an outstanding long-term rating, it will be required to apply for and be assigned a rating on the Eligible Notes by at least two major NRSROs prior to the sale or pricing of the Eligible Notes.

From which NRSROs will ratings be accepted?

Currently, the ratings criteria for the MLF refer to ratings provided by three NRSROs: S&P Global Ratings, Moody's Investor Service, Inc., and Fitch Ratings, Inc. The Federal Reserve is considering including other NRSROs under the MLF.

How will the notes be priced?

Under Section 13(3) of the Federal Reserve Act and the Board's Regulation A, the interest rate on the Eligible Notes must be a penalty rate, meaning a rate that is a premium to the market rate in normal circumstances, affords liquidity in unusual and exigent circumstances, and encourages repayment of the credit and discourages use of the Facility as the unusual and exigent circumstances that motivated the program recede and economic conditions normalize.

The Federal Reserve will establish a pricing methodology that will be broadly applicable to all Eligible Issuers. The methodology will be based on the Eligible Issuer's long-term rating at the time of purchase of the Eligible Notes and the maturity of the Eligible Notes, plus a spread over a publicly available benchmark or index.

When will interest on the Eligible Notes be due?

Interest on Eligible Notes may be paid at such times as are consistent with applicable constitutional and statutory requirements, provided that all interest will be due no later than the maturity date of the Eligible Notes.

Will interest on the Eligible Notes be required to be exempt from federal or applicable local income taxes and accompanied by a tax opinion thereto?

No. The Eligible Issuer may issue taxable or tax-exempt Eligible Notes.

Is there a prepayment right on the Eligible Notes?

The Eligible Notes purchased by the SPV may be prepaid by the Eligible Issuer at any time, in whole or in part, at par prior to maturity with the approval of the Federal Reserve.

May Eligible Notes be refinanced through the Facility after December 31, 2020?

No. The Facility will no longer extend credit after its termination date, including by refinancing any maturing Eligible Notes.

May investors sell outstanding TANs, TRANs, and BANs to the SPV?

No. The SPV will only purchase newly issued TANs, TRANs, BANs or other similar newly issued notes of Eligible Issuers. The SPV will not purchase notes in the secondary market.

OTHER TERMS

How much of an Eligible Issuer's Eligible Notes may the MLF SPV purchase?

For a State, City, or County, the SPV may purchase Eligible Notes in one or more issuances of up to an aggregate amount of 20% of the general revenue from own sources and utility revenue of the Eligible Issuer (or its associated State, City, or County if the Eligible Issuer is an authority, agency or other associated entity) for fiscal year 2017. The maximum aggregate amount may be used for the benefit of both the Eligible Issuer and its respective political subdivisions and other governmental entities. The SPV may purchase Eligible Notes issued by or on behalf of a Multi-State Entity in one or more issuances of up to an aggregate amount of 20% of the Multi-State Entity's gross revenue as reported in its audited financial statements for fiscal year 2019. An Eligible Issuer (other than a Multi-State Entity) may request that the SPV purchase Eligible Notes in excess of the limit in order to assist its political subdivisions and other governmental entities that are not eligible for direct issuance to the Facility. If necessary, the Federal Reserve will establish procedures for requesting and allocating additional Eligible Note purchase amounts.

What is an Eligible Issuer's "general revenue from own sources and utility revenue"?

An Eligible Issuer's "general revenue from own sources and utility revenue," which is used to calculate issuance limits for the Facility, is calculated using the most recent available data for all States, Cities, and Counties from the U.S. Census Bureau, the "2017 State & Local Government Finance Historical Datasets and Tables." The Board's calculation of the general revenue from own sources and utility revenue for each eligible State, City, and County is provided in Appendix A, along with the Board's methodology for its calculations. In the case of an Eligible Issuer that is an authority, agency or other entity of a State, City, or County, the applicable "general revenue from own sources and utility revenue" shall be that of the State, City, or County that formed the Eligible Issuer. The list in Appendix A may be revised if changes are made to the MLF. Please check this website for any revisions and sign up for email alerts.

Is there a fee associated with the Facility?

Yes, each Eligible Issuer must pay an origination fee equal to 10 basis points of the principal amount of the Eligible Issuer's Eligible Notes purchased by the SPV. The origination fee may be paid from the proceeds of the issuance.

Will the Federal Reserve disclose information regarding transactions entered into by the MLF?

The Federal Reserve will publicly disclose information on a monthly basis regarding the MLF during the operation of the Facility, including information regarding names of participants, amounts borrowed and interest rates charged, and overall costs, revenues and other fees. Balance sheet items related to the SPV and MLF will be reported weekly, on an aggregated basis, on the H.4.1 statistical release titled "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks," published by the Federal Reserve. In addition, the Federal Reserve will disclose to Congress information pursuant to Section 13(3) of the Federal Reserve Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the Board's Regulation A.

What legal opinions and certifications will be required?

Eligible Issuers will be required to deliver standard legal opinions for the issuance of debt, including, but not limited to, an opinion of nationally recognized note counsel as to the validity, enforceability, and binding nature of the notes. Each Eligible Issuer must also provide a written certification that it is unable to secure adequate credit accommodations from other banking institutions and that it is not insolvent. Further information on required legal opinions and certificates will be determined and publicly announced prior to commencement of the MLF.

For the purposes of participating in the MLF, what does it mean for an Eligible Issuer to certify that it is unable to secure adequate credit accommodations?

The Federal Reserve must obtain evidence that participants in the MLF are unable to secure adequate credit accommodations from other banking institutions. In certifying whether the issuer is unable to secure adequate credit accommodations from other banking institutions, issuers may consider economic or market conditions in the market intended to be addressed by the MLF as compared to normal conditions, including the availability and price of credit. Lack of adequate credit does not mean that no credit is available. Lending may be available, but at prices or on conditions that are inconsistent with a normal, well-functioning market.

What form of disclosure from Eligible Issuers will be required?

Requirements for the type and amount of disclosure will be announced at a later date.

When will application materials be available?

Application materials are being assembled. Details regarding application materials and the date on which the Federal Reserve will commence accepting applications will be posted on this FAQ page when available.

Appendix A: Eligible Issuers [PDF](#)
