Holland & Knight

Municipal Liquidity Facility

The MLF, a $500 billion program, supplants the existing resources for banks on municipal debt that were available through the Money Market Mutual Fund Liquidity Facility (MMMFLF) — a program that allowed banks to post investment grade municipal short-term debt as collateral for a loan. The MLF will purchase bonds upon their issuance, directly from the issuer.

Read the MLF term sheet. Key details are as follows:

» The Federal Reserve's special purpose vehicle will purchase new issuance bonds that are tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs) and other short-term municipal bonds with a 24 month or less maturation from designated, eligible issuers.

» Only one issue per state, city or county (or their instrumentalities) may sell new issuances into this program. The MLF will support lending to the states and the District of Columbia, U.S. cities with a population exceeding 1 million residents, and U.S. counties with a population exceeding 2 million residents.

» The state, city or county can only request up to 20 percent of their general, expected revenue, using fiscal year 2017 as the baseline amount.

» The Federal Reserve will purchase the municipal bonds based on a price the Federal Reserve sets that takes into consideration the credit rating of the bond or issuer. More details are forthcoming about additional criteria the Federal Reserve will use to price the purchases.

» The designated, eligible issuer pays 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 MLF allows the state, city or county to use the funds resulting from the Federal Reserve's purchase to fund nearly any of its obligations or to purchase other notes from non-qualifying bond issuers.

» The special purchase vehicle will cease purchasing eligible notes on Sept. 30, 2020.

FAQ on Municipal Liquidity Facility:

» Who is going to administer the special purpose vehicle that the Federal Reserve will set up?

- The Treasury Department and Federal Reserve have not yet released details on what bank or company has been selected to administer the program (and will be accepting the purchase requests).

» How is this MLF facility different from the earlier support through the MMMFLF?

- That MMMFLF created a program that allowed banks to borrower funds using existing investment grade municipal bonds as collateral. This program is a direct purchase program by the Federal Reserve of eligible bonds, which are defined by the issuer (states or large cities), rather than the investment grade of the bond. The bottom line: more municipal bonds will be able to be purchased. It also commits to buy bonds upon their issuance, not bonds that were already issued.

» How does the MLF help the economy?

- The MLF is going to help states and larger cities to be able to continue to fund operations and support programs even as their ability to collect taxes (sales, property, income, etc.) is diminished.
- Current estimates suggest that the municipal bond market is valued at $3.9 trillion today, making this potential for a $500 billion injection a meaningful effort toward liquidity for the market.