

Chairman Jay Powell
Board of Governors of the Federal Reserve System
20th St. and Constitution Ave. NW
Washington, DC 20551

Dear Chairman Powell:

On behalf of the undersigned organizations and public officials, we are writing to urge you to expeditiously change the rules to the Municipal Liquidity Facility (MLF) to make it a practical tool to help states and localities manage the looming fiscal crisis they face.

States and localities provide critical public services, and more than 1.5 million state and local jobs have been lost since February. Without credit support like that which should be provided by this Facility, deeper job losses and service cuts can be expected as states grapple with unprecedented fiscal challenges in the face of the coronavirus crisis. Supporting states and localities is critical for economic recovery and for assisting communities impacted by the dual public health and economic crisis we face. While loans such as those provided by the MLF cannot replace grant assistance, adequate credit assistance is one part of helping states and localities avoid cutbacks which will deepen our current economic crisis.

Unfortunately, the terms on which the Federal Reserve provides credit to states and localities through its Municipal Liquidity Facility (MLF) are inadequate and act as a major barrier for state and local governments that might need to use the facility. These terms are far more restrictive than the terms on which credit is being provided to private businesses, despite the fact that defaults on state and local general obligation credit are extremely rare compared to defaults by private sector businesses.

Under current rules, the length of lending period for MLF funds is too short, the price of the credit is too high, and the scope of entities for which credit support is available is too narrow. In each case, far better terms are being provided to private sector borrowers who in many cases are less likely to pay back loans than municipal borrowers.

Length of lending period: States and localities must pay back loans from the MLF within three years. This is a very short period given that an extended recession in line with current Federal Reserve forecasts means that state and local governments will still face extreme fiscal pressures three years from now. In contrast, private sector borrowers from the Main Street Lending Facilities, who may include very highly leveraged businesses, receive five-year loans.

Cost of credit: The MLF charges a spread of 150 basis points to 590 basis points over index rates, depending on the credit rating of the issuer. This is not just a penalty rate, but a crushing and extreme multiple of current municipal market rates. For example, the rate for three-year loans to AA-rated MLF borrowers is 175 basis points over the relevant OIS benchmark, more than double the current market rate for ***ten-year*** loans to similarly rated municipal borrowers. The cost of credit for lower rated MLF borrowers, many of them with large proportions of low-income or Black residents, is much higher still. In contrast,

interest rates for private sector borrowers from the Main Street Lending Facilities are capped at 300 basis points over a LIBOR benchmark. This is likely at or below what at least some of the highly leveraged businesses eligible to borrow from the Main Street Lending Facility could obtain in the private sector.

Scope of entities eligible for direct borrowing: Between the Primary Market Corporate Credit Facility, the Main Street Lending Facilities, and its support for the Paycheck Protection Program, the Federal Reserve is offering direct lending or supporting bank lending to all private sector businesses nationally. In contrast, the Municipal Lending Facility is directly open only to states, to cities over 250,000 population, counties over 500,000 population, and a limited number of other entities designated by state governments. Local fiscal needs are more broad than is encompassed by this set of direct borrowers. We urge the Board to act to support credit for a greater range of municipal borrowers, for example by further expanding MLF eligibility or permitting the Main Street Lending Facilities to support bank loans to smaller municipal entities.

The terms of municipal lending under the MLF and other current and potential future Federal Reserve credit facilities are not set in statute and the Board has very broad discretion to set those terms. We urge you to use that discretion to significantly extend the permitted maturity length of MLF loans, significantly lower the cost of MLF credit, and significantly expand the scope of municipal borrowers eligible for credit support. We also believe that the deadline for applying for MLF loans are available should be extended beyond the end of 2020.

There are several mandated changes to the MLF included in Division K, Title VIII of the HEROES Act recently passed by the U.S. House of Representatives. These include extending the loan term to ten years, capping interest rates at the Federal borrowing rates, expanding eligibility to jurisdictions with above 50,000 population, and extending the deadline for application to the end of 2021. The Board could and should adopt such changes even without Congressional action. At a minimum, it is critical that the Board immediately act to close the glaring double standard in the terms of credit it is offering to private sector businesses and to municipal borrowers. Given that municipal borrowers provide critical public services and have far lower default rates than private sector businesses, it is unacceptable that they cannot borrow for at least the same length of time and at similar prices relative to default risks as private sector businesses.

The Board should not be deterred from making these needed changes by any concern regarding increases in MLF use. At its current 7% capitalization rate – very high compared to any historical experience with municipal defaults – the MLF can support up to \$500 billion in lending. The greatest *total* annual volume of municipal issuance ever recorded was \$452 billion in 2019, and this includes all types of borrowing by all issuers. Even if terms were significantly less restrictive, only a small minority of typical types of municipal borrowing would be supported by the MLF. The MLF could accommodate a very high volume of municipal borrowing compared to any reasonable estimate of demand.

It is urgent that the Board act to make the MLF a more feasible tool for states and localities to use in managing the fiscal impacts of the current economic crisis. We thank you for your attention to these matters.

Sincerely,

Executive Public Officials

Dave Young, Colorado State Treasurer
Michael W. Frerichs, Illinois State Treasurer
Henry Beck, Maine State Treasurer
Thomas Di Napoli, New York State Comptroller
Scott Stringer, New York City Comptroller
Joe Torsella, Pennsylvania State Treasurer
Seth Magaziner, Rhode Island State Treasurer
Henry (Hank) Levy, Alameda County Treasurer-Tax Collector
Sabrina Javellana, Vice Mayor, City of Hallandale Beach
Joan Hartmann, Third District Supervisor, Santa Barbara County
Mitchell Little, Executive Director, Philadelphia's Office of Community Empowerment

State and Local Legislative Representatives

Cathy Breen, Maine State Senate, Chair, Committee on Appropriations & Financial Affairs
Félix W. Ortiz, New York State Assembly, Assistant Speaker
Senator William J. Conley, Jr., Rhode Island Senate Finance Chair
Dominick J. Ruggerio, Rhode Island Senate President
Brianna C Titone, Colorado State Representative, District 27
Cathy Kipp, Colorado State Representative, District 52
Luke Evslin, Kaua'i County Councilmember
Mason Chock, Kaua'i County Councilmember
Byron Sigcho Lopez, Chicago Alderman, Ward 25
Scott Waguespack, Chicago Alderman, Ward 32
Rossana Rodriguez Sánchez, Chicago Alderman, Ward 33
Susan Sadlowski Garza, Chicago Alderwoman, Ward 10
Arti Walker-Peddakotla, Oak Park Village Trustee (Illinois)
Jonathan Grieder, Waterloo City Councilor
Mary Ware, Kansas State Senator, District 25
Margaret Craven, Maine State Representative, District 16
Lois Galgay Reckitt, Maine State Representative, District 31
Bill Henry, Baltimore City Councilmember
Jon Cardin, Maryland State Delegate, District 11
Julie Palakovich Carr, Maryland State Delegate, District 17
Lorig Charkoudian, Maryland State Delegate, District 20
Maria Robinson, Massachusetts State Representative, District 6
Fue Lee, Minnesota State Representative, District 59A

Mark King, New Hampshire State Representative, Hillsborough 33
Bill Tallman, New Mexico State Senator, District 18
Rebecca Wolff, City of Hudson Alderwoman (New York)
Brad Lander, New York City Council Member
Ron Kim, New York State Assembly District 40
Fred Thiele, New York State Assembly Member, District 1
Aravella Simotas, New York State Assembly Member, District 36
Walter Mosley, New York State Assembly Member, District 57
Deborah J. Glick, New York State Assembly Member, District 66
Robert J. Rodriguez, New York State Assembly Member, District 68
Harvey Epstein, New York State Assembly Member, District 74
Richard N. Gottfried, New York State Assembly Member, District 75
John C. Liu, New York State Senator, District 11
Jessica Ramos, New York State Senator, District 13
Toby Ann Stavisky , New York State Senator, District 16
Julia Salazar, New York State Senator, District 18
Roxanne J. Persaud, New York State Senator, District 19
Kevin S. Parker, New York State Senator, District 21
Andrew Gounardes, New York State Senator, District 22
Brian Kavanagh, New York State Senator, District 26
Brad Hoylman, New York State Senator, District 27
Liz Krueger, New York State Senator, District 28
Robert Jackson, New York State Senator, District 31
Gustavo Rivera, New York State Senator, District 33
Shelley Mayer, New York State Senator, District 37
David Carlucci, New York State Senator, District 38
Neil D. Breslin, New York State Senator, District 44
Senator Rachel May, New York State Senator, District 53
Anna M. Kaplan, New York State Senator, District 7
Todd Kaminsky, New York State Senator, District 9
Damon Seils Carrboro, NC Town Council Member
Pricey Harrison, North Carolina State Representative, District 57
JoBeth Hamon, Oklahoma City Council Member, Ward 6
Christine Reuther, Delaware County Council (Pennsylvania)
Mary Jo Daley, Pennsylvania State Representative
Cherelle L. Parker, Philadelphia City Council, Majority Leader
Edith H Ajello, Rhode Island State Representative, District 1
Rebecca Kislak, Rhode Island State Representative, District 4
Gregg Amore, Rhode Island State Representative, District 65
Liana Cassar, Rhode Island State Representative, District 66
Terri Cortvriend, Rhode Island State Representative, District 72
Valarie Lawson, Rhode Island State Senator, District 14
Ryan Pearson, Rhode Island State Senator, District 19

Melissa Murray, Rhode Island State Senator, District 24
Sandra Cano, Rhode Island State Senator, District 8
Colby Sledge, Nashville-Davidson County Metro Council Member
Tartisha Hill, City of Balch Springs Councilwoman (Texas)
Joel K. Briscoe, Utah State Representative, District 25
Peter D. Anthony, PhD., Vermont State Representative, District 3
Krystal Marx, Deputy Mayor, Burien City Council (Burien, WA)
Mia Su-Ling Gregerson, State Representative Washington State District 33
Beth Doglio, Washington State Representative, District 22

Labor and Public Interest Organizations

20/20 Vision
Action Center on Race and the Economy
AFL-CIO
AFSCME
AFSCME Maryland Council 3
Alliance of Californians for Community Empowerment
American Family Voices
Americans for Financial Reform
Bargaining for the Common Good
Better Markets
Center for Tax and Budget Accountability
Chicago Teachers Union
Communications Workers of America (CWA)
Connecticut Voices for Children
Consumers for Auto Reliability and Safety
Delaware Community Reinvestment Action Council, Inc.
District Council 37 AFSCME, AFL-CIO
Economic Policy Institute
Economic Progress Institute (RI)
Empire State Indivisible
Hawaii Appleseed Center for Law & Economic Justice
Home Preservation and Prevention Inc HPP CARES
Local Progress
Long Island Progressive Coalition
Maine Center for Economic Policy
New York State Council of Churches
Nobody Leaves Mid-Hudson
Partnership for Working Families
Public Citizen
Public Good Law Center
Public Justice Center
SC Appleseed

Service Employees International Union
Strong Economy For All Coalition
Tennessee Citizen Action
The Bell Policy Center
Village Independent Democrats

