Staff Groups: Main Street Lending Facility; Main Street Lending – Nonprofit Organization Facilities; Municipal Liquidity Facility

To Whom It May Concern:

The Americans for Financial Reform Education Fund ("AFR") appreciates the opportunity to comment on the Main Street Lending Facility. Members of AFR Education Fund include consumer, civil rights, investor, retiree, community, labor, faith based, and business groups.[1]

The Board has requested comment on the expansion of the Main Street Lending Facilities (MSLF) to make credit available to nonprofit organizations through the program. The proposed expansion would make available new loans of between $250,000 and $35 million (or one quarter of 2019 revenue) and expanded loans of between $10 million and $300 million (or one quarter of 2019 revenue) to tax-exempt non-profit organizations with between 50 and 15,000 employees. The price and terms of loans are very similar to those already being offered to private businesses through the MSLF.

We support the expansion of the MSLF to support nonprofit organizations. However, our purpose in writing this letter is to urge the Board to also expand MSLF assistance to municipal and government entities not currently being served by the Municipal Liquidity Facility (MLF). As you know, direct eligibility for the MLF is currently limited to entities that are states, counties with at least 500,000 residents, cities with at least 250,000 residents, or a small number of other large cities, counties, or Revenue Bond Issuers designated by state governors. This is only a small fraction of the total number of local government entities that may have credit needs. Even if direct MLF eligibility was expanded, many smaller cities, towns, school districts, and public entities such as hospitals would not have direct access to the MLF program. Bank lending to municipal entities has expanded rapidly over the past decade and now constitutes a substantial share of all municipal credit outstanding.[2] Many smaller municipal entities would be well positioned to take out a bank loan financed by the Main Street facility.

It is true that larger borrowers such as state governments can borrow from the MLF on behalf of smaller jurisdictions within their state. However, this would involve the intermediary borrower assuming the credit risk of the final borrower. At a time of unprecedented fiscal stress in states and localities it is unlikely that many states or other intermediary borrowers will wish to assume this risk. Further, there can be substantial political complexities for states in making choices about on-lending to smaller borrowers.

[1] A list of coalition members is available at: http://ourfinancialsecurity.org/about/our-coalition/

[2] Ivanov, Ivan and Tom Zimmerman, "The Privatization of Municipal Debt", Brookings Institution Hutchins Center Working Paper #45, September, 2018, available at https://www.brookings.edu/wp-content/uploads/2018/08/WP45.pdf

We believe that the MSLF could be very beneficial to smaller municipal borrowers. Not only would it be available to a far greater range of municipal borrowers, MSLF credit from banks is being offered at more attractive terms than direct Federal Reserve credit from the Municipal Lending Facility. MSLF credit extends for a term of five years, while MLF credit is being offered for only three years. MSLF credit is being offered at a spread of 300 basis points over short-term LIBOR, while MLF credit is being offered at spreads of 150 to 590 basis points over the benchmark rate, which would be higher in many cases.[3] Being able to negotiate the structure of the loan with a bank might also allow more legal flexibility for borrowing under local laws.

Chairman Powell's stated justification for expanding the MSLF to nonprofit entities is that "Nonprofit organizations are critical parts of our economy, employing millions of people, providing essential services to communities, and supporting innovation….Nonprofits provide vital services across the country and we are working to help them through this difficult time." All the elements of this justification apply equally to smaller municipal government entities. There are many similarities between non-profit and smaller government entities, in that both types of entities do not operate for profit and are structured to perform public service needs. In many cases nonprofit entities are financed by grants from public entities, meaning that expanding the MSLF to government entities would also help to support non-profits.

In sum, we urge you to expand the MSLF beyond non-profits to support bank loans to smaller municipal entities which are unable to take advantage of the Municipal Liquidity Facility.

Thank you for your attention to this issue. Should you have questions, please contact AFR's Policy Director, Marcus Stanley, at marcus@ourfinancialsecurity.org.

Sincerely,

Americans for Financial Reform Education Fund

[3] We do not agree with the highly restrictive terms of MLF credit, and see no justification for MLF lending on such inferior terms to the MSLF, but simply note it here.