NATIONAL ASSOCIATION OF STATE TREASURERS

April 16, 2020

VIA Electronic Mail
AND Portal Submission:
https://www.federalreserve.gov/apps/contactus/feedback.aspx?refurl=/muni/

The Honorable Jerome Powell
Chair of the Board of Governors
The Federal Reserve
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

RE: Response to Municipal Liquidity Facility

Dear Chair Powell,

On behalf of the nation's State Treasurers and state financial officials we represent, we appreciate your continued efforts to stabilize our markets and maintain access to credit for municipal issuers as they combat the COVID-19 pandemic. We also applaud your announcement of a Municipal Liquidity Facility (MLF), which we believe has the potential to alleviate historically large borrowing needs by providing direct credit access to the nation's largest issuers.

Ultimately, the utility of the MLF will be determined by its borrowing rates, barriers to access, terms and other key details. As you develop these details, we urge you to prioritize setting fair and competitive rates, acknowledge state-by-state legal restrictions, and to strike a balance between the need for useful disclosure and timely access for issuers to this credit. We must also acknowledge that the facility limits direct access to fewer than 80 issuers and excludes direct access to territories and smaller issuers who need credit most during these times. While the MLF does permit states to borrow beyond their needs to then sub-lend downstream to their local governments — legal, constitutional, credit risk and other practical barriers make it unlikely that this would occur uniformly throughout the 50 states and D.C. In addition, due to the uncertainty on the term of current actions in response to the current COVID-19 pandemic, we suggest that the termination date be extended beyond September 30, 2020.

The MLF is a significant, historic and necessary first step in aiding larger issuers, particularly as they face delayed income tax revenues resulting from the IRS's decision to delay tax filing deadlines. We now believe the Federal Reserve can provide the most significant next step in relief for issuers by developing a second facility aimed at providing relief to the secondary municipal securities market. Over the past few weeks, an historic cash crunch has caused unprecedented turbulence in the secondary market, which drives valuations of primary market issues. The market has recently thawed, but it has done so largely based on expectations, resulting from the passage of the CARES Act, that the Federal Reserve will take additional actions to stabilize the market. While the weekly outflows have lowered from those seen in mid-March, we continue to see outflows well above $1 billion per week. Even if the market switched to inflows of $1 to $1.5 B per week, which remains unlikely in the immediate future, it would take months to recover during a time when credit from our existing capital markets is most needed. Furthermore, restoring stability to the secondary market would aid smaller issuers who have historically turned to existing markets to meet their needs.

Above all else, issuers wish to see our capital markets quickly normalized as such capital markets are important for issuers to continue important infrastructure projects that will have positive impacts on the national economy. As the crisis continues, the challenges facing state and local governments will likely evolve and additional considerations may be needed. For now, we offer ourselves and our diverse membership of state finance officials to serve as a resource as you continue to operationalize the MLF and contemplate further actions in our municipal markets. I have asked our policy director, Brian Egan (brian@statetreasurers.org | 202-630-1880), to answer any questions you may have relating to this letter or otherwise. Thank you for your consideration, as well as your continued willingness to hear directly from issuers. Please stay well during these challenging times.

Sincerely,

Shaun Snyder
Executive Director
National Association of State Treasurers

CC: Municipal Liquidity Facility (MLF) Staff Group