The Fed's Municipal Liquidity Facility, explained

America needs a bridge — a bridge that will get households, communities, and businesses over the unanticipated challenges created by the COVID-19 shutdown. In helping to build that bridge, the Federal Reserve, with authorization from Congress, has created and revived a number of rare lending programs, each providing targeted assistance to the needs of those impacted.

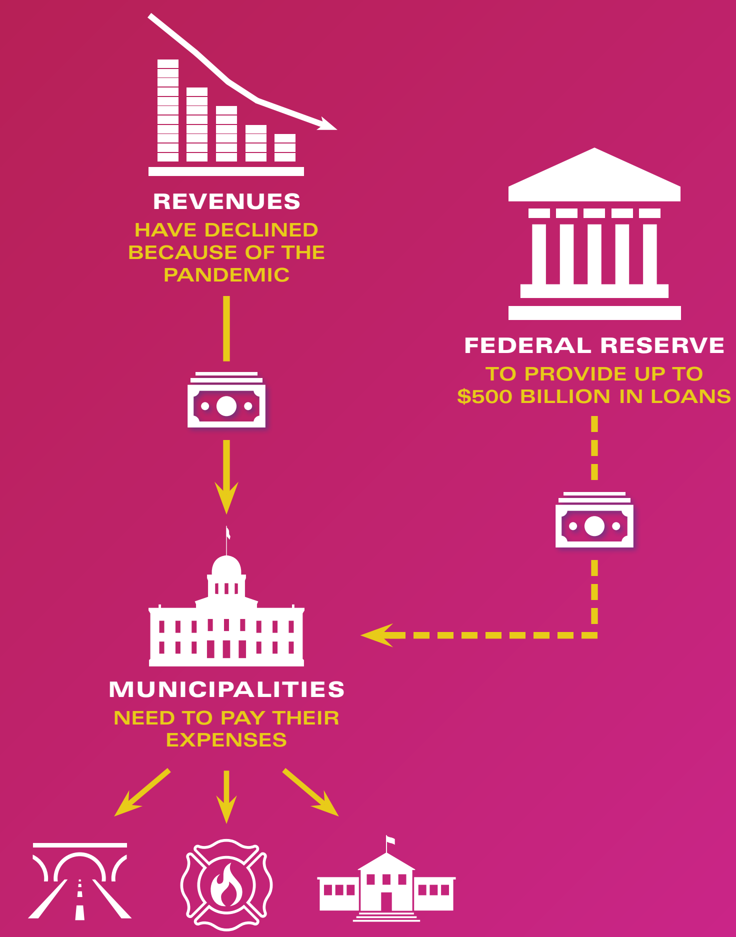
The challenge Many of the revenues that cities, states, and counties take in have been adversely impacted by the pandemic. For example, the sales taxes they collect are down because local businesses are selling less. Income tax revenues are down because millions of people are laid off or working less. All the while, these places still need to fund essential goods and services for their citizens, such as roads, schools, and public transportation. As a result, many cities, counties, and states face mounting financial pressure. Before the pandemic, they might have issued municipal bonds to raise funds. But for places to issue bonds and successfully raise money, investors have to be willing to buy the bonds. Through this program, the Fed is stepping up as one of those investors.

The response The Fed is lending up to $500 billion to eligible cities, counties, and states. Eligible borrowers include all 50 states and Washington DC, counties with at least 500,000 residents, and cities with at least 250,000 residents. Nearly 270 cities, counties, and states meet these thresholds. To ensure smaller places may also be supported, potential borrowers also include cities or counties identified by governors in states where less than two cities and counties meet these population thresholds. Additionally, governors may identify two entities in their states that draw revenue through government activities—for example, public transit, toll facilities, and airports—as eligible to borrow from the Fed.

The details Cities, counties, and states borrowing from the Fed may use the money to help manage their cash flows and to supply funds to other bodies, including townships and villages, school districts, and utilities. Those that borrow are expected to pay back the original amount plus interest in up to three years. Borrowers pay that interest plus a fee to borrow from the Fed. To ensure broader participation, each entity is limited in what it can borrow. Should losses occur, the US Treasury has pledged $35 billion to cover losses stemming from this lending.

The goal? To support the families, businesses, and jobs that depend on and call these places—large and small across America—home.

The Fed is committed to transparency and makes periodic reports and updates related to this lending available.



For more information: *www.newyorkfed.org/markets/municipal-liquidity-facility/municipal-liquidity-facility-faq*

Federal Reserve | Updated August 7, 2020 | *Curious about what else the Fed is doing to help?*