Bond Dealers of America

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Submitted Electronically

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington DC 20551

Subject: Main Street Lending Facilities

Ladies and gentlemen,

The Bond Dealers of America (BDA) is pleased to provide comments on the Federal Reserve's April 9, 2020 announcement of the formation of the Municipal Liquidity Facility (MLF).[1] This is a temporary program to facilitate Fed financing for certain short-term cash management notes issued by state and local governments. We support the Fed's efforts to provide emergency liquidity to states and localities facing severe uncertainties as a result of the virus crisis. The April 9 announcement indicated that certain terms and features of the program are still being resolved. In that context, BDA offers our recommendations for key elements of the MLF. BDA is the only DC-based group exclusively representing the interests of securities dealers and banks focused on the US fixed income markets.

Scope of participation. The Fed's announcement specifies that only states, counties with populations of at least 2 million, and cities with populations of at least one million are eligible to access the MLF directly. The Fed provides that "States may request that the SPV purchase Eligible Notes in excess of the applicable limit in order to assist political subdivisions and instrumentalities that are not eligible for the Facility." Unfortunately, the cut-off for direct issuer participation is much too high. By our calculation, only 24 local governments nationwide would qualify for direct access to the Fed program. This would leave tens of thousands of local governments and authorities unable to access the facility directly. We urge the Fed to consider opening the facility to a broader group of local governments.

The Fed's announcement suggests that states are intended to be the conduit whereby local government units below the population thresholds access the program. First, some states may be legally or constitutionally prohibited from serving this role on behalf of their local governments. Also, some states may be limited in the volume of debt they can incur, even for debt that is nominally the obligation of local government units. Second, to the extent that states are the conduit for local government access to the MLF, it is vital that the Fed explicitly indemnify states from losses associated with defaults and other credit events by the "downstream" local borrowers who will access the facility through their state governments. While states may in some cases be able to serve the function of administrator for participating local governments, states are most definitely not in a position to absorb default losses.

[1] https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200409a3.pdf

That would go against the goals of MLF any way, since the intention of the program is for the Fed to support the market by taking on short-term credit risk.

Pricing. The Fed's MLF announcement provided few details on how notes will be priced. We recommend basing pricing on one or more of several widely used municipal market pricing benchmarks, including MMD,[2] MMA,[3] Bloomberg BVAL,[4] MBIS,[5] ICE,[6] the Treasury curve, or others. Pricing for the MLF would be the one year point on the benchmark yield curve plus some premium based on credit quality, perhaps the index flat for triple-A borrowers, the index plus 10 basis points for double-A borrowers, plus 20 basis points for single-A borrowers, etc.

Information disclosure. In order to streamline participation in the program to a significant degree, we urge the Fed to require as little documentation and disclosure as possible while still protecting the Fed's interests in the transactions. We do not believe, for example, that filing financial statements as a prerequisite for accessing the facility is necessary. For issues where the focus is on compliance with program terms, we urge the Fed to allow issuers to satisfy those requirements with representations and warranties rather than the submission of financial or other documents.

Cost of issuance. We urge the Fed to specify that costs of issuance can be paid by issuers from the proceeds of borrowing. In addition to the Fed's 10-basis point origination fee, issuers are likely to incur other costs of issuance such as legal, financial advisor, and others. In market-placed note issuance, these expenses are typically paid from the proceeds of borrowing.

We believe the MLF has the potential to provide meaningful assistance to state and local governments facing fiscal hardships as a result of the coronavirus crisis. We commend the Fed for initiating the facility. As you work through the details, in order to ensure the program is as successful as possible, we ask that you adopt our recommendations on key program features.

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Thank you for the opportunity to provide these comments. We look forward to the opportunity discuss our concerns with you.

Sincerely,

Mike Nicholas
Chief Executive Officer
Bond Dealers of America

[2] https://www.tm3.com/
[3] https://www.mma-research.com/
[4] https://www.bloomberg.com/professional/product/bval-aaa-muni-callable-curve/
[5] https://mbis.com/
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