

Fed Expands Money Market Mutual Fund Liquidity Facility to Include Municipal Bonds

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The Federal Reserve **announced** an expansion of the Money Market Mutual Fund Liquidity Facility (**MMLF**) originally **announced** on March 18, 2020 as part of its response to the coronavirus crisis. Under the expanded MMLF, certain municipal bonds are eligible as collateral and certain municipal MMFs are eligible for the support provided under the program.

For more information on the MMLF, please see our updated [memorandum](#), which reflects the terms of the program pursuant to the term sheet released by the Federal Reserve on March 20, 2020, as well as [this page](#) on the Federal Reserve Bank of Boston's website, which includes [FAQs](#), an [MMLF Request Form](#) and [borrowing documents](#) initially posted on March 21, 2020. This post highlights some of the key changes associated with the expansion of the MMLF's collateral and borrower eligibility.

Under an MMLF transaction, the Federal Reserve Bank of Boston would provide a non-recourse loan to a banking organization (as **eligible borrower**), taking as collateral certain types of assets (**eligible collateral**) purchased by the banking organization from an **eligible MMF**. To qualify for the facility, the eligible collateral must be purchased from an eligible MMF either (1) concurrently with the borrowing or (2) on or after March 18, 2020 but before the opening of the MMLF.

Key features relative to the March 18, 2020 version of the MMLF include:

- Eligible MMFs now include single state and other tax exempt MMFs (together, **municipal MMFs**), which invest in securities exempt from local income taxes, primarily municipal bonds.

- Government MMFs, which invest most of their assets in cash, U.S. government securities and repurchase agreements backed by these securities, remain ineligible.
- Eligible collateral now includes U.S. municipal debt with a maturity of 12 months or less rated in the short-term rating category at least SP1, MIG1, or F1 (as applicable) by two or more major rating agencies (or rated within the top category if rated by only one major rating agency). For municipal debt that is not rated in the short-term rating category, such debt still qualifies as eligible collateral if it is rated in the top long-term rating category (AA or above) by at least two major rating agencies (or rated within the top category if rated by only one major rating agency), provided that its remaining maturity is 12 months or less.
 - As of March 20, 2020, the MMLF will not accept variable rate demand notes (**VRDNs**) or tender option bonds. The Federal Reserve noted, however, that it would consider “the feasibility of adding these and other asset classes to the facility” in the future.
- The MMLF term sheet now specifies that the size of each advance will equal the value of the collateral pledge to secure the advance (100 percent loan-to-value), which will be valued at either amortized cost or fair value.
- The March 18, 2020 MMLF term sheet had stated that advances secured by U.S. Treasury and Fully Guaranteed Agency Securities, as well as securities issued by GSEs, would be provided at the primary credit rate, and that advances secured by all other eligible collateral would be provided at the primary credit rate plus 100 bps. The March 20, 2020 MMLF term sheet adds that advances secured by municipal bonds will be provided by the primary credit rate plus 100 bps.
- No other feature has changed, including the scope of eligible borrowers and the regulatory capital relief **announced** by the federal banking regulators on March 19, 2020.