

# Municipal Credit and the CARES Act and Federal Lending Programs



As of April 23, 2020

Over the past few weeks the Federal government and the Federal Reserve have announced key programs that have helped to stabilize the credit markets. Below we outline these ones we believe are critical for municipal bond market:

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PROGRAM	EFFECTIVE	DETAILS	IMPACT TO MUNICIPAL CREDIT
Money Market Mutual Fund Liquidity Facility (\$10bln facility)	March 23 <sup>rd</sup>	<p>Announced March 18<sup>th</sup>. The Federal Reserve Bank of Boston will make loans available to eligible financial institutions secured by high-quality assets purchased by the financial institution from money market mutual funds.</p> <p>Eligible municipal instruments include:</p> <ul style="list-style-type: none"> <li>▪ Short term municipal debt not exceeding 12 months rated in the top short-term rating category or if not rated, then security must be in the top two long term rating categories.</li> <li>▪ If VRDNs, they need demand feature and rated in top short term or top two long term rating categories.</li> </ul>	Increased confidence in short term lending markets to reduce funds outflows.
CARES Act	March 27 <sup>th</sup>	<p>Announced March 25<sup>th</sup>, the wide encompassing act will provide:</p> <ul style="list-style-type: none"> <li>▪ \$150 billion Coronavirus Relief Fund to states tribal governments and territories based on population</li> <li>▪ \$100 billion for health care</li> <li>▪ \$25 billion for transit agencies</li> <li>▪ \$10 billion for airports</li> <li>▪ \$14 billion higher education</li> <li>▪ \$13 billion elementary, secondary and charter schools</li> <li>▪ \$3 billion to Governor's for education</li> </ul>	<p>The \$150 billion fund was based on population, with no state getting less than \$1.25 billion. It was not based on number of COVID cases. That means that smaller states get a greater percentage of the fund than larger states.</p> <p>Aid to hospitals, transportation and education has helped credit, but it is expected that more will be needed.</p> <p>This aid does generally not replace lost tax revenues.</p>
Municipal Liquidity Facility	TBD	<p>Announced April 9<sup>th</sup>. Authorized under the CARES Act, the Municipal Liquidity Facility will allow the Federal Reserve to buy up to \$500 billion in short term (24 month) TANs, RANs, TRANS, BANs and other short-term notes, for the purpose of managing cash flow, subject to review by the Federal Reserve.</p> <ul style="list-style-type: none"> <li>▪ The limit per issuer is 20% of the general revenue from own sources and utility revenue of the applicable State, City or County government for fiscal year 2017.</li> <li>▪ The total own source revenue for states and local issuers was \$2.4 trillion in FY 2017. All 50 states, 10 cities with a population over 1 million, and 14 counties with a population over 2 million can issue on their own.</li> </ul>	<p>Assists with cash flow issues, as the change in the Federal income tax due date from April 15 to July 15 has impacted issuers, in addition to the economic slowdown.</p> <p>How other local issuers will be assisted, among other details will be discussed in an FAQ to be released by the Fed.</p>

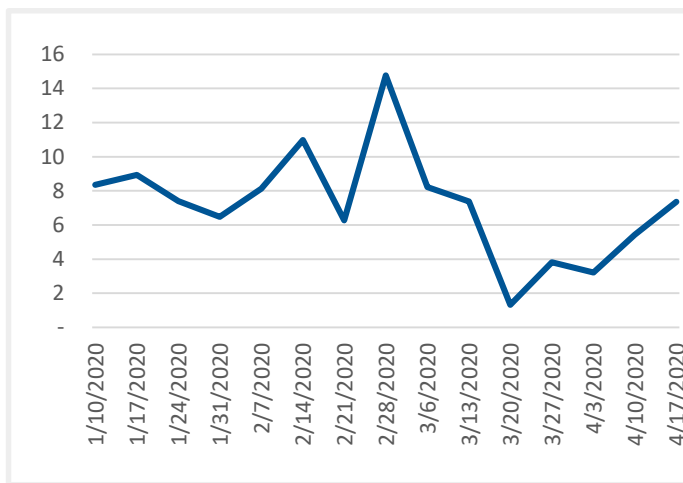
# Municipal Credit and the CARES Act and Federal Lending Programs



## Key implications across the municipal credit market

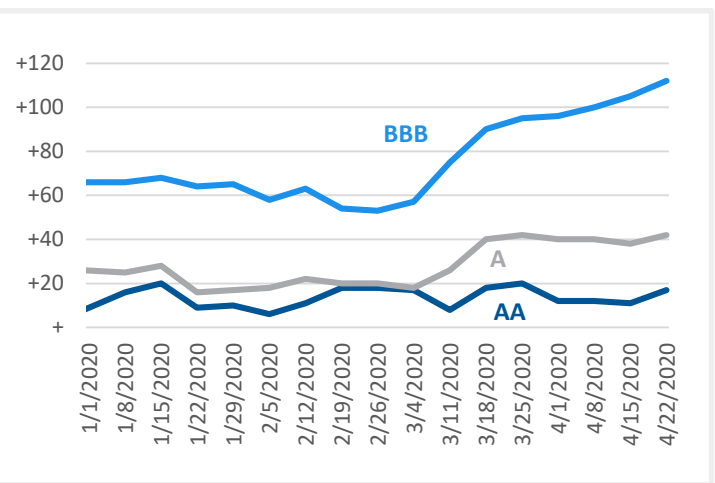
The market reactions to these measures have been varied. Higher rated credit spreads and liquidity have stabilized, while lower-rated credits, especially BBBs, continue to be challenged. While we have seen an increase of new issuance, the potential for additional issuance depends on a more stable demand environment. However, these programs do not replace lost revenues during this crisis period. Hospitals have already asked Congress for more dollars, as have the governors. How the Federal government responds will be important in continuing to stabilize the market and provide confidence to investors.

### Municipal Issuance (\$ Billion)



Source: Bloomberg, as of 4/17/20

### Spreads Over 5-Year AAA Municipals



Source: Fiera Capital, as of 4/22/20

There remain outstanding questions related to the municipal liquidity facility that have been asked by market participants including:

- ▶ How will smaller issuers will be helped?
- ▶ What is the rating criteria?
- ▶ What is the security for the notes and what is the continuing disclosure responsibility?
- ▶ How will the Fed apply their criteria?
- ▶ What happens if the issuer can't repay the notes in 24 months?

These and other questions are expected to be addressed in an FAQ by the Fed.

As of the date of this piece, the Senate has passed a bill authorizing approximately \$100 billion for emergency hospital funding and testing, with the final numbers to be determined when the House passes the bill. No additional direct funding for states and local governments is included in this bill. We will continue to update you as we receive additional information.

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