

# Chapman Client Alert

May 11, 2020

Current Issues Relevant to Our Clients

## Federal Reserve Releases Amended Term Sheet and Updated FAQs for Its Municipal Liquidity Facility

The Federal Reserve today issued an [amended term sheet](#) establishing pricing criteria for its Municipal Liquidity Facility (MLF) last described in our April 29, 2020, Client Alert [Federal Reserve Announces Changes to Its Municipal Lending Facility](#). The revised term sheet is attached as [Attachment I](#). [Attachment II](#) highlights the differences between the new term sheet and the previous term sheet. The Federal Reserve Bank of New York (FRBNY) also issued today a [revised FAQs](#) for the MLF, which is attached as [Attachment III](#) and provides further information on pricing and procedures for issuers to express interest in using the MLF. [Attachment IV](#) highlights differences between the new FAQs and the previous FAQs.

The revised term sheet contains a pricing annex with a grid establishing a spread above the OIS (i.e., overnight index swap) rate for a maturity comparable to the Eligible Note to be sold by an Eligible Issuer under the MLF. Thus, a municipal issuer selling a 3 year note (the maximum maturity for an Eligible Note under the MLF) would pay the fixed rate for a three year OIS rate swap plus a spread of between 150 bps (for a AAA rate Eligible Note) and 590 bps (for a non-investment grade rated Eligible Note).

This pricing is for tax-exempt Eligible Notes. Any Eligible Notes that are not tax exempt would have their interest rate “grossed-up” by dividing the above determined interest rate by 0.65 to account for a tax rate of 35%.

The revised FAQs explains “OIS rate quotes are widely available from bond market service providers and vendors. Additional information regarding OIS is available at <https://www.cftc.gov/MarketReports/SwapsReports/DataDictionary/index.htm>.”

The revised FAQs also explains: “If an Eligible Issuer selects a maturity for which no direct OIS quote is available, the OIS rate for the Eligible Notes will be calculated using a straight line interpolation of the direct OIS quotes for the nearest maturity that is shorter than the Eligible Notes and the nearest maturity that is longer than the Eligible Notes. The calculation will be conducted by the SPV on the pricing date of the Eligible Notes.”

For split ratings Eligible Notes, the FAQs further explains: “To account for split ratings across different credit rating agencies, an average rating will be calculated by assigning a numerical value to each outstanding rating of the credit for the Eligible Notes from a major NRSRO and rounding the average of such

numerical values to the nearest numerical value that corresponds to a rating. If an average rating is equidistant between the numerical value corresponding to one rating and the numerical value corresponding to another rating, then the Eligible Issuer will be treated as having the lower rating. However, if a credit has only two ratings from major NRSROs and one of the ratings is two or more gradations higher than the other rating, then the Eligible Issuer will have the option to either (1) obtain a third rating from a major NRSRO and price the Eligible Notes based on the average of its three ratings or (2) price the Eligible Notes based solely on the lower of the two existing ratings.”

In describing the required Eligible Issuer ratings, the revised FAQs states that the rating to be used can be an “issuer credit rating or a general obligation rating,” but in answering “how will the Federal Reserve determine pricing under the MLF?”, the Federal Reserve explains that the relevant rating is the rating “for the specific credit of the Eligible Notes at the time of pricing of the Eligible Notes.”

To sell notes under the MLF, the FAQs explains that issuers must file a “notice of interest” (NOI) in a form to be posted by the FRBNY. As previously announced, PFM Financial Advisors LLC will act as administrative agent for the MLF.

In explaining when to file an NOI to notify the Federal Reserve that an issuer has interest in using the MLF, the revised FAQs explains: “The MLF is not a “first come, first served” program. An Eligible Issuer should not submit an NOI until it has determined its financial needs and schedule. Each Eligible Issuer has been allocated a certain maximum amount of available MLF Funds (see Appendix A). There is no preference given to early filers.”

The revised FAQs also describes in detail how competitive bid sales will be handled. In general, the SPV will not submit a competitive bid, but simply purchase the remaining Eligible Notes that were not “awarded to bidders in the competitive sale.” If, however, applicable law does not permit an issuer to directly sell any notes otherwise than through competitive bidding (i.e., the unallocated offered notes cannot be directly placed with a buyer that did not submit a bid), the SPV will submit a bid. Such bid, of course, would be established under the pricing grid described above.

For now, the revised FAQs states that the Federal Reserve has no preference whether notes are sold under a competitive bid or direct sale procedure nor whether competitive bidding is

a traditional “all or none” or “modified Dutch auction” procedure, but the Federal Reserve reserves the right to indicate a preference in the future.

The revised FAQs also specifies pre-sale and ongoing disclosure requirements for issuers using the MLF.

### [For More Information](#)

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If you would like further information concerning the matters discussed in this article, please contact the Chapman attorney with whom you regularly work.

## Chapman and Cutler LLP

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To the extent that any part of this summary is interpreted to provide tax advice, (i) no taxpayer may rely upon this summary for the purposes of avoiding penalties, (ii) this summary may be interpreted for tax purposes as being prepared in connection with the promotion of the transactions described, and (iii) taxpayers should consult independent tax advisors.

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## Municipal Liquidity Facility

Effective May 11, 2020<sup>1</sup>

**Facility:** The Municipal Liquidity Facility (“Facility”), which has been authorized under Section 13(3) of the Federal Reserve Act, will support lending to U.S. states and the District of Columbia (together, “States”), U.S. cities with a population exceeding 250,000 residents<sup>2</sup> (“Cities”), U.S. counties with a population exceeding 500,000 residents<sup>3</sup> (“Counties”), and Multi-State Entities. Under the Facility, the Federal Reserve Bank of New York (“Reserve Bank”) will commit to lend to a special purpose vehicle (“SPV”) on a recourse basis. The SPV will purchase Eligible Notes directly from Eligible Issuers at the time of issuance. The Reserve Bank will be secured by all the assets of the SPV. The Department of the Treasury, using funds appropriated to the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act, will make an initial equity investment of \$35 billion in the SPV in connection with the Facility. The SPV will have the ability to purchase up to \$500 billion of Eligible Notes.

**Eligible Notes:** Eligible Notes are tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), and other similar short-term notes issued by Eligible Issuers, provided that such notes mature no later than 36 months from the date of issuance. In each case, a note’s eligibility is subject to review by the Federal Reserve. Relevant legal opinions and disclosures will be required as determined by the Federal Reserve prior to purchase.

**Eligible Issuer:** An Eligible Issuer is a State, City, or County (or, subject to Federal Reserve review and approval, an entity that issues securities on behalf of the State, City, or County for the purpose of managing its cash flows) or a Multi-State Entity. An Eligible Issuer that is not a Multi-State Entity must have been rated at least BBB-/Baa3 as of April 8, 2020, by two or more major nationally recognized statistical rating organizations (“NRSROs”). An Eligible Issuer that is not a Multi-State Entity and that was rated at least BBB-/Baa3 as of April 8, 2020, but is subsequently downgraded, must be rated at least BB-/Ba3 by two or more major NRSROs at the time the Facility makes a purchase. An Eligible Issuer that is a Multi-State Entity must have been rated at least A-/A3 as of April 8, 2020, by two or more major NRSROs. A Multi-State Entity that was rated at least A-/A3 as of April 8, 2020, but is subsequently downgraded, must be rated at least BBB-/Baa3 by two or more major NRSROs at the time the Facility makes a purchase. Notwithstanding the foregoing, if a State, City, County, or Multi-State Entity was rated by only one major NRSRO as of April 8, 2020, it may be an Eligible Issuer under the Facility if (i) the rating was at least BBB-/Baa3 (for a State, City, or County) or A-/A3 (for a Multi-State Entity); (ii) the State, City, County, or Multi-State Entity is rated by at least two major NRSROs at the time the Facility makes a purchase; and (iii) such ratings are at least BB-/Ba3 (for a State, City, or County) or BBB-/Baa3 (for a Multi-State Entity).

Only one issuer per State, City, County, or Multi-State Entity is eligible; provided that the Federal Reserve may approve one or more additional issuers per State, City, or County to facilitate the provision of assistance to political subdivisions and other governmental entities of the relevant State, City, or County.

<sup>1</sup> The Board of Governors of the Federal Reserve System (“Board”) and Secretary of the Treasury may make adjustments to the terms and conditions described in this term sheet. Any changes will be announced on the Board’s website.

<sup>2</sup> Source: U.S. Census Bureau, Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2018, as of April 6, 2020 (<https://www.census.gov/data/tables/time-series/demo/popest/2010s-total-cities-and-towns.html>).

<sup>3</sup> Source: U.S. Census Bureau, “Population, Population Change, and Estimated Components of Population Change: April 1, 2010 to July 1, 2019 (CO-EST2019-alldata)” dataset as of April 6, 2020 ([https://www.census.gov/data/datasets/time-series/demo/popest/2010s-counties-total.html#par\\_textimage\\_739801612](https://www.census.gov/data/datasets/time-series/demo/popest/2010s-counties-total.html#par_textimage_739801612)).

**Multi-State Entity:** A Multi-State Entity is an entity that was created by a compact between two or more States, which compact has been approved by the United States Congress, acting pursuant to its power under the Compact Clause of the United States Constitution.

**Security for Eligible Notes:** Note security will be subject to review and approval by the Federal Reserve. The source of repayment and security for Eligible Notes will depend on the applicable constitutional and statutory provisions governing the Eligible Issuer and should be generally consistent with the source of repayment and strongest security typically pledged to repay publicly offered obligations of the Eligible Issuer. Eligible Notes issued by Eligible Issuers that are not Multi-State Entities will generally be expected to represent general obligations of the Eligible Issuer, or be backed by tax or other specified governmental revenues of the applicable State, City, or County. If the Eligible Issuer is an authority, agency, or other entity of a State, City, or County, such Eligible Issuer must either commit the credit of, or pledge revenues of, the State, City, or County, or the State, City, or County must guarantee the Eligible Notes issued by such issuer. If the Eligible Issuer is a Multi-State Entity, the Eligible Notes will be expected to be parity obligations of existing debt secured by a senior lien on the Multi-State Entity's gross or net revenues.

**Limit per State, City, County, and Multi-State Entity:** The SPV may purchase Eligible Notes issued by or on behalf of a State, City, or County in one or more issuances of up to an aggregate amount of 20% of the general revenue from own sources and utility revenue of the applicable State, City, or County government for fiscal year 2017.<sup>4</sup> The SPV may purchase Eligible Notes issued by a Multi-State Entity in one or more issuances of up to an aggregate amount of 20% of the Multi-State Entity's gross revenue as reported in its audited financial statements for fiscal year 2019. States may request that the SPV purchase Eligible Notes in excess of the applicable limit in order to assist political subdivisions and other governmental entities that are not eligible for the Facility.

**Pricing:** The methodology for pricing is set forth in the attached Pricing Appendix.

**Origination Fee:** Each Eligible Issuer that participates in the Facility must pay an origination fee equal to 10 basis points of the principal amount of the Eligible Issuer's notes purchased by the SPV. The origination fee may be paid from the proceeds of the issuance.

**Prepayment Right:** With the approval of the SPV, Eligible Notes purchased by the SPV may be prepaid by the Eligible Issuer at any time, in whole or in part, at par (or, in the case of Eligible Notes purchased at a premium, par plus unamortized premium) plus accrued interest, prior to maturity.

**Eligible Use of Proceeds:** An Eligible Issuer may use the proceeds of Eligible Notes purchased by the SPV to help manage the cash flow impact of income tax deferrals resulting from an extension of an income tax filing deadline; deferrals or reductions of tax and other revenues or increases in expenses related to or resulting from the COVID-19 pandemic; and requirements for the payment of principal and interest on obligations of the Eligible Issuer or its political subdivisions or other governmental entities. An Eligible Issuer (other than a Multi-State Entity) may use the proceeds of the notes purchased by the SPV to purchase similar notes issued by, or otherwise to assist, political subdivisions and other governmental entities of the relevant State, City, or County for the purposes enumerated in the prior sentence.

<sup>4</sup> Source: U.S. Census Bureau, 2017 State & Local Government Historical Datasets and Tables, as of April 6, 2020 (<https://www.census.gov/data/datasets/2017/econ/local/public-use-datasets.html>).

**Termination Date:** The SPV will cease purchasing Eligible Notes on December 31, 2020, unless the Board and the Treasury Department extend the Facility. The Reserve Bank will continue to fund the SPV after such date until the SPV's underlying assets mature or are sold.

### Municipal Liquidity Facility - Pricing Appendix

**Tax-Exempt Eligible Notes:** If interest on the Eligible Notes is excluded from gross income for federal income tax purposes, pricing will be at a fixed interest rate based on a comparable maturity overnight index swap (“OIS”) rate plus the applicable spread based on the long-term rating of the security for the Eligible Notes as follows:

Rating*	Spread (bps)
AAA/Aaa	150
AA+/Aa1	170
AA/Aa2	175
AA-/Aa3	190
A+/A1	240
A/A2	250
A-/A3	265
BBB+/Baa1	325
BBB/Baa2	340
BBB-/Baa3	380
Below Investment Grade	590

\* To account for split ratings across different credit rating agencies, an average rating generally will be calculated.

**Taxable Eligible Notes:** If interest on the Eligible Notes is not excluded from gross income for federal income tax purposes, pricing will be at a fixed interest rate that is calculated by (i) first, adding the comparable maturity OIS rate to the spread in the above table that would apply to such Eligible Notes if the Eligible Notes were tax-exempt Eligible Notes, and (ii) second, dividing the sum calculated under clause (i) by 0.65.

## Municipal Liquidity Facility

Effective ~~April~~May 2711, 2020<sup>1</sup>

**Facility:** The Municipal Liquidity Facility (“Facility”), which has been authorized under Section 13(3) of the Federal Reserve Act, will support lending to U.S. states and the District of Columbia (together, “States”), U.S. cities with a population exceeding 250,000 residents<sup>2</sup> (“Cities”), U.S. counties with a population exceeding 500,000 residents<sup>3</sup> (“Counties”), and Multi-State Entities. Under the Facility, the Federal Reserve Bank of New York (“Reserve Bank”) will commit to lend to a special purpose vehicle (“SPV”) on a recourse basis. The SPV will purchase Eligible Notes directly from Eligible Issuers at the time of issuance. The Reserve Bank will be secured by all the assets of the SPV. The Department of the Treasury, using funds appropriated to the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act, will make an initial equity investment of \$35 billion in the SPV in connection with the Facility. The SPV will have the ability to purchase up to \$500 billion of Eligible Notes.

**Eligible Notes:** Eligible Notes are tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), and other similar short-term notes issued by Eligible Issuers, provided that such notes mature no later than 36 months from the date of issuance. In each case, a note’s eligibility is subject to review by the Federal Reserve. Relevant legal opinions and disclosures will be required as determined by the Federal Reserve prior to purchase.

**Eligible Issuer:** An Eligible Issuer is a State, City, or County (or, subject to Federal Reserve review and approval, an entity that issues securities on behalf of the State, City, or County for the purpose of managing its cash flows) or a Multi-State Entity. An Eligible Issuer that is not a Multi-State Entity must have been rated at least BBB-/Baa3 as of April 8, 2020, by two or more major nationally recognized statistical rating organizations (“NRSROs”). An Eligible Issuer that is not a Multi-State Entity and that was rated at least BBB-/Baa3 as of April 8, 2020, but is subsequently downgraded, must be rated at least BB-/Ba3 by two or more major NRSROs at the time the Facility makes a purchase. An Eligible Issuer that is a Multi-State Entity must have been rated at least A-/A3 as of April 8, 2020, by two or more major NRSROs. A Multi-State Entity that was rated at least A-/A3 as of April 8, 2020, but is subsequently downgraded, must be rated at least BBB-/Baa3 by two or more major NRSROs at the time the Facility makes a purchase. Notwithstanding the foregoing, if a State, City, County, or Multi-State Entity was rated by only one major NRSRO as of April 8, 2020, it may be an Eligible Issuer under the Facility if (i) the rating was at least BBB-/Baa3 (for a State, City, or County) or A-/A3 (for a Multi-State Entity); (ii) the State, City, County, or Multi-State Entity is rated by at least two major NRSROs at the time the Facility makes a purchase; and (iii) such ratings are at least BB-/Ba3 (for a State, City, or County) or BBB-/Baa3 (for a Multi-State Entity).

Only one issuer per State, City, County, or Multi-State Entity is eligible; provided that the Federal Reserve may approve one or more additional issuers per State, City, or County to facilitate the provision of assistance to political subdivisions and other governmental entities of the relevant State, City, or County.

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<sup>1</sup> The Board of Governors of the Federal Reserve System (“Board”) and Secretary of the Treasury may make adjustments to the terms and conditions described in this term sheet. Any changes will be announced on the Board’s website.

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**Multi-State Entity:** A Multi-State Entity is an entity that was created by a compact between two or more States, which compact has been approved by the United States Congress, acting pursuant to its power under the Compact Clause of the United States Constitution.

**Security for Eligible Notes:** Note security will be subject to review and approval by the Federal Reserve. The source of repayment and security for Eligible Notes will depend on the applicable constitutional and statutory provisions governing the Eligible Issuer and should be generally consistent with the source of repayment and strongest security typically pledged to repay publicly offered obligations of the Eligible Issuer. Eligible Notes issued by Eligible Issuers that are not Multi-State Entities will generally be expected to represent general obligations of the Eligible Issuer, or be backed by tax or other specified governmental revenues of the applicable State, City, or County. If the Eligible Issuer is an authority, agency, or other entity of a State, City, or County, such Eligible Issuer must either commit the credit of, or pledge revenues of, the State, City, or County, or the State, City, or County must guarantee the Eligible Notes issued by such issuer. If the Eligible Issuer is a Multi-State Entity, the Eligible Notes will be expected to be parity obligations of existing debt secured by a senior lien on the Multi-State Entity's gross or net revenues.

**Limit per State, City, County, and Multi-State Entity:** The SPV may purchase Eligible Notes issued by or on behalf of a State, City, or County in one or more issuances of up to an aggregate amount of 20% of the general revenue from own sources and utility revenue of the applicable State, City, or County government for fiscal year 2017.<sup>4</sup> The SPV may purchase Eligible Notes issued by a Multi-State Entity in one or more issuances of up to an aggregate amount of 20% of the Multi-State Entity's gross revenue as reported in its audited financial statements for fiscal year 2019. States may request that the SPV purchase Eligible Notes in excess of the applicable limit in order to assist political subdivisions and other governmental entities that are not eligible for the Facility.

~~Pricing: Pricing will be based on an Eligible Issuer's rating at the time of purchase with details to be provided later.~~ **Pricing:** [The methodology for pricing is set forth in the attached Pricing Appendix.](#)

**Origination Fee:** Each Eligible Issuer that participates in the Facility must pay an origination fee equal to 10 basis points of the principal amount of the Eligible Issuer's notes purchased by the SPV. The origination fee may be paid from the proceeds of the issuance.

**Prepayment Right:** [With the approval of the SPV](#), Eligible Notes purchased by the SPV may be prepaid by the Eligible Issuer at any time, in whole or in part, at par [\(or, in the case of Eligible Notes purchased at a premium, par plus unamortized premium\) plus accrued interest](#), prior to maturity ~~with the approval of the Federal Reserve.~~

**Eligible Use of Proceeds:** An Eligible Issuer may use the proceeds of Eligible Notes purchased by the SPV to help manage the cash flow impact of income tax deferrals resulting from an extension of an income tax filing deadline; deferrals or reductions of tax and other revenues or increases in expenses related to or resulting from the COVID-19 pandemic; and requirements for the payment of principal and interest on obligations of the Eligible Issuer or its political subdivisions or other governmental entities. An Eligible Issuer (other than a Multi-State Entity) may use the proceeds of the notes purchased by the SPV to purchase similar notes issued by, or otherwise to assist, political subdivisions and other governmental entities of the relevant State, City, or County for the purposes enumerated in the prior sentence.

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<sup>4</sup> Source: U.S. Census Bureau, 2017 State & Local Government Historical Datasets and Tables, as of April 6, 2020 (<https://www.census.gov/data/datasets/2017/econ/local/public-use-datasets.html>).



**Termination Date:** The SPV will cease purchasing Eligible Notes on December 31, 2020, unless the Board and the Treasury Department extend the Facility. The Reserve Bank will continue to fund the SPV after such date until the SPV's underlying assets mature or are sold.

### Municipal Liquidity Facility - Pricing Appendix

**Tax-Exempt Eligible Notes:** If interest on the Eligible Notes is excluded from gross income for federal income tax purposes, pricing will be at a fixed interest rate based on a comparable maturity overnight index swap ("OIS") rate plus the applicable spread based on the long-term rating of the security for the Eligible Notes as follows:

<u>Rating*</u>	<u>Spread (bps)</u>
<u>AAA/Aaa</u>	<u>150</u>
<u>AA+/Aa1</u>	<u>170</u>
<u>AA/Aa2</u>	<u>175</u>
<u>AA-/Aa3</u>	<u>190</u>
<u>A+/A1</u>	<u>240</u>
<u>A/A2</u>	<u>250</u>
<u>A-/A3</u>	<u>265</u>
<u>BBB+/Baa1</u>	<u>325</u>
<u>BBB/Baa2</u>	<u>340</u>
<u>BBB-/Baa3</u>	<u>380</u>
<u>Below Investment Grade</u>	<u>590</u>

\* To account for split ratings across different credit rating agencies, an average rating generally will be calculated.

**Taxable Eligible Notes:** If interest on the Eligible Notes is not excluded from gross income for federal income tax purposes, pricing will be at a fixed interest rate that is calculated by (i) first, adding the comparable maturity OIS rate to the spread in the above table that would apply to such Eligible Notes if the Eligible Notes were tax-exempt Eligible Notes, and (ii) second, dividing the sum calculated under clause (i) by 0.65.

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## FAQs: Municipal Liquidity Facility

The following is intended to address questions about the Municipal Liquidity Facility (MLF or Facility). The Federal Reserve may periodically update these FAQs and, therefore, please check this website for new FAQs or revisions to a previously issued FAQ.

Effective May 11, 2020

### PURPOSE AND DESIGN

#### Why is the Federal Reserve establishing the MLF?

The municipal securities market is an important part of the financial system, which helps provide states, cities, and counties (and their political subdivisions and other governmental entities) with the funding needed to provide essential public services to their citizens. Due to the COVID-19 pandemic, the municipal securities market has recently been under considerable strain. The municipal securities market saw a dramatic increase in sales by institutional investors, which has caused a swift and dramatic increase in interest rates on municipal securities. Although rates have come down from their highs and some issuers have been able to issue debt or secure loans, there are many issuers that have not been able to meet their financing needs through the capital markets. At the same time, states, cities, and counties are facing severe liquidity constraints resulting from the increase in state and local government expenditures related to the COVID-19 pandemic and the delay and decrease of certain tax and other revenues. By ensuring the smooth functioning of the municipal securities market, particularly in times of strain, the Federal Reserve is providing credit that will support families, businesses, and jobs in communities, large and small, across the nation.

The immediate purpose of the MLF is to enhance the liquidity of the primary short-term municipal securities market through the purchase at issuance of Tax Anticipation Notes (TANs), Tax and Revenue Anticipation Notes (TRANs), Bond Anticipation Notes (BANs), and similar short-term notes from Eligible Issuers (defined below) (collectively, Eligible Notes). The Eligible Issuer's proceeds from the sale of Eligible Notes to the special purpose vehicle (SPV) can in turn be used to support its political subdivisions and public authorities, among other uses. The Facility will provide a form of cash management financing to Eligible Issuers. In addressing the cash management needs of Eligible Issuers, the Facility will also help restore confidence in the municipal securities market.

The Federal Reserve will continue to closely monitor conditions in the primary and secondary markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments.

#### How will the MLF work?

The MLF will provide a liquidity backstop to issuers of Eligible Notes through an SPV. The Treasury Secretary, using funds appropriated to the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), will make an initial equity investment of \$35 billion in the SPV. The SPV will have the ability to purchase up to \$500 billion of Eligible Notes.

**When may Eligible Issuers begin selling Eligible Notes, and how long will the MLF operate?**

Federal Reserve staff is working expeditiously to operationalize the MLF. The Federal Reserve will keep market participants apprised and announce in advance when the SPV will commence operations and begin purchasing Eligible Notes. The SPV will cease purchasing Eligible Notes on December 31, 2020, unless the Board and the Treasury Department extend the term of the Facility.

**Under what legal authority are purchases of Eligible Notes through MLF made?**

The Federal Reserve Board established the MLF pursuant to section 13(3) of the Federal Reserve Act.

**What third-party vendors are supporting the MLF?**

The Federal Reserve Bank of New York (New York Fed) has selected PFM Financial Advisors LLC (PFM) as its administrative agent for the MLF. In serving as the administrative agent, PFM will coordinate and review the applications under the MLF based on criteria established by the New York Fed.

**Where should questions regarding the MLF be directed?**

Questions should be directed through <http://www.federalreserve.gov/apps/contactus/feedback.aspx?refurl=/muni/> or via email to [MLF@ny.frb.org](mailto:MLF@ny.frb.org).

**How may I receive updates regarding changes to MLF documents?**

Sign up for email alerts.

**ELIGIBLE ISSUERS****Who is an Eligible Issuer?**

An Eligible Issuer is a State, City, or County (or, subject to Federal Reserve review and approval, an entity that issues securities on behalf of the State, City, or County, respectively, for the purpose of managing its cash flows) or a Multi-State Entity, in each case as defined below. Pursuant to section 13(3) of the Federal Reserve Act, an Eligible Issuer may not be insolvent.

An Eligible Issuer that is a State, City, or County (or, subject to Federal Reserve review and approval, an entity that issues securities on behalf of the State, City, or County, respectively, for the purpose of managing its cash flows) must have been rated at least BBB-/Baa3 as of April 8, 2020, by two or more major nationally recognized statistical rating organizations (NRSROs). Eligible Issuers that were rated at least BBB-/Baa3 as of April 8, 2020, but are subsequently downgraded, must be rated at least BB-/Ba3 by two or more major NRSROs at the time the Facility makes a purchase.

An Eligible Issuer that is a Multi-State Entity must have been rated at least A-/A3 as of April 8, 2020, by two or more major NRSROs. A Multi-State Entity that was rated at least A-/A3 as of April 8, 2020, but is subsequently downgraded, must be rated at least BBB-/Baa3 by two or more major NRSROs at the time the Facility makes a purchase.

Notwithstanding the foregoing, if a State, City, County, or Multi-State Entity was rated by only one major NRSRO as of April 8, 2020, it may be an Eligible Issuer under the MLF if (i) the rating was at least BBB-/Baa3 (for a State, City, or County) or A-/A3 (for a Multi-State Entity); (ii) the State, City, County, or Multi-State Entity is rated by at least two major NRSROs at the time the MLF makes a purchase; and (iii) such ratings are at least BB-/Ba3 (for a State, City, or County) or BBB-/Baa3 (for a Multi-State Entity).

For purposes of the Facility, a “State” is one of the fifty U.S. states or the District of Columbia; a “City” is a U.S. city with a population exceeding 250,000 residents; and a “County” is a U.S. county with a population exceeding 500,000 residents based on the most recent available U.S. Census data as of April 6, 2020. A Multi-State Entity is an entity that was created by a compact between two or more States, which compact has been approved by the U.S. Congress, acting pursuant to its power under the Compact Clause of the U.S. Constitution.

A list of Eligible Issuers based on their populations, other than Multi-State Entities, is provided in [Appendix A](#). As of April 6, 2020, the most recent data available on population size for cities was 2018 data, and the most recent data available on population size for counties was 2019 data. Changes in population size, as may be reflected in future U.S. Census Bureau releases, will not affect this list of Eligible Issuers.

**What is “an entity that issues securities on behalf of the State, City, or County for the purpose of managing its cash flows,” as described in the “Eligible Issuer” section of the MLF term sheet?**

Many States, Cities, and Counties issue debt securities through an authority, agency, department, division or other entity that is statutorily authorized to issue debt on behalf of the applicable State, City, or County. Such an authority, agency, department, division or other entity of a State, City, or County may also issue debt securities for the purposes of assisting in cash flow management on behalf of one or more of the political subdivisions or other governmental entities of the applicable State, City, or County. Such an entity would constitute an Eligible Issuer, subject to Federal Reserve review, only if (i) such entity can commit the credit of, or pledge revenues of, the applicable State, City, or County, or (ii) the State, City, or County guarantees the Eligible Notes issued by such issuer. Each eligible State, City, and County may only access the Facility through one issuer; provided that the Federal Reserve may approve one or more additional issuers per State, City, or County to facilitate the provision of assistance to political subdivisions and other governmental entities of the relevant State, City, or County.

**What is a “political subdivision or other governmental entity” as described in the “Eligible Use of Proceeds” section of the MLF term sheet?**

States, Cities, and Counties may use the proceeds of Eligible Notes sold to the SPV under the MLF to purchase the notes of, or otherwise assist, any of their political subdivisions or other governmental entities as described above. For purposes of the “Eligible Use of Proceeds” section, a “political subdivision or other governmental entity” is broadly defined as any county, city, municipality, township, village, school district, special district, utility, authority, agency or other unit of government, as determined by the Eligible Issuer. However, an Eligible Issuer may not lend the proceeds of Eligible Notes to a political subdivision or other governmental entity that is insolvent.

**If an Eligible Issuer uses the proceeds of Eligible Notes to purchase the notes of one of its “political subdivisions or other governmental entities” (as used in the “Eligible Use of Proceeds” section), does the Facility assume the risk of those notes?**

No. Regardless of the use of proceeds, the Facility (and any other holder of the Eligible Notes) faces only the credit of the Eligible Issuer. The Eligible Issuer would bear the credit risk associated with any notes it purchased from its political subdivision or other governmental entity.

**May governmental entities that provide public services on behalf of a State, City, or County and issue bonds backed by their own revenues participate directly in the MLF as Eligible Issuers?**

Other governmental entities that provide essential public services on behalf of a State, City, or County may participate in the MLF indirectly by borrowing through an eligible State, City, or County. The Federal Reserve is also considering expanding the Facility to allow a limited number of such entities to participate directly in the MLF as Eligible Issuers, taking into consideration the objective of quickly and efficiently making the Facility available to the currently defined set of Eligible Issuers. The inclusion of any such additional Eligible Issuers would be publicly announced at a future date. The Federal Reserve continues to encourage Eligible Issuers to make funding from the Facility available to their political subdivisions and other governmental entities that are in need of such funding.

## **ELIGIBLE NOTES**

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**What are Eligible Notes?**

Eligible Notes are tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), and other similar short-term notes issued by Eligible Issuers, provided that such notes mature no later than 36 months from the date of issuance. In each case, a note’s eligibility is subject to review by the Federal Reserve.

**What are TANs, TRANs, and BANs?**

States and other municipalities issue TANs and TRANs or other similar short-term notes to address the timing mismatch between the receipt of taxes or other revenues and ongoing expenditures. TANs and TRANs are generally backed by and rated based on the anticipated receipt of tax and other revenues over the course of a fiscal year or longer, in amounts sufficient to pay off the notes by maturity.

BANs are issued in anticipation of future bond issuance and are typically not secured by a pledged revenue stream, but are rated based on the long-term credit rating of the issuer and its assumed future market access for refinancing (either as new BANs or long-term bonds).

**What can the proceeds of the Eligible Notes be used for?**

An Eligible Issuer may use the proceeds of the Eligible Notes purchased by the SPV for the following purposes: (1) to help manage the cash flow effects of income tax deferrals resulting from an extension of an income tax filing deadline; deferrals or reductions of tax and other revenues or increases in expenses related to or resulting from the COVID-19 pandemic; and requirements for the payment of principal and interest on obligations of the Eligible Issuer or its political subdivisions or other governmental entities; (2) to purchase similar notes issued by, or otherwise to assist, its political subdivisions and other governmental entities for the purposes enumerated in clause (1); and (3) to fund the costs of issuing the Eligible Notes and paying the SPV issuance fee.

**What form of note security will be required?**

Note security will be subject to review and approval by the Federal Reserve. The source of repayment and security for Eligible Notes will depend on the applicable constitutional and statutory provisions governing the Eligible Issuer and should be generally consistent with the source of repayment and strongest security typically pledged to repay publicly offered obligations of the Eligible Issuer. Eligible Notes of Eligible Issuers that are not Multi-State Entities will generally be expected to represent general obligations of the Eligible Issuer, or be backed by tax or other specified governmental revenues of the applicable State, City, or County. If the Eligible Issuer is an authority, agency, or other entity of a State, City, or County, such Eligible Issuer must either commit the credit of, or pledge revenues of, the State, City, or County, or have the State, City, or County guarantee the Eligible Notes issued by such issuer. If the Eligible Issuer is a Multi-State Entity, the Eligible Notes will be expected to be parity obligations of existing debt secured by a senior lien on the Multi-State Entity's gross or net revenues.

**Will the Eligible Notes or the Eligible Issuer be required to be rated?**

Yes, an Eligible Issuer must meet certain ratings requirements regardless of the method of sale. An Eligible Issuer that is a State, City, or County must have an issuer credit rating or a general obligation rating of at least BBB-/Baa3 as of April 8, 2020, by two or more major NRSROs. Any such Eligible Issuers that were rated at least BBB-/Baa3 as of April 8, 2020, but are subsequently downgraded, must be rated at least BB-/Ba3 by two or more major NRSROs at the time the SPV makes a purchase. An Eligible Issuer that is a Multi-State Entity must have been rated at least A-/A3 as of April 8, 2020, by two or more major NRSROs. A Multi-State Entity that was rated at least A-/A3 as of April 8, 2020, but is subsequently downgraded, must be rated at least BBB-/Baa3 by two or more major NRSROs at the time the SPV makes a purchase. Notwithstanding the foregoing, if a State, City, County, or Multi-State Entity was rated by only one major NRSRO as of April 8, 2020, it may be an Eligible Issuer under the Facility if (i) the rating was at least BBB-/Baa3 (for a State, City, or County) or A-/A3 (for a Multi-State Entity); (ii) the State, City, County, or Multi-State Entity is rated by at least two major NRSROs at the time the Facility makes a purchase; and (iii) such ratings are at least BB-/Ba3 (for a State, City, or County) or BBB-/Baa3 (for a Multi-State Entity).

Regardless of the method of sale, the Eligible Issuer (or the entity issuing Eligible Notes on its behalf) must provide a confirmation at the time of pricing of all of the existing long-term ratings on the applicable credit to be used for the Eligible Notes.

Consistent with municipal market practices and requirements, if an Eligible Issuer intends to first offer the Eligible Notes through a competitive sale process, the Eligible Issuer must obtain ratings for the Eligible Notes. The Federal Reserve will not require ratings on Eligible Notes that are sold to the SPV without first conducting a competitive sale process.

**From which NRSROs will ratings be accepted?**

For purposes of the MLF, "major NRSRO" means S&P Global Ratings, Moody's Investor Service, Inc., Fitch Ratings, Inc., and Kroll Bond Rating Agency, Inc.

**How will the Federal Reserve determine pricing under the MLF?**

Under Section 13(3) of the Federal Reserve Act and the Board's Regulation A, the interest rate on the Eligible Notes must be a penalty rate, meaning a rate that is a premium to the market rate in normal circumstances, affords liquidity in unusual and exigent circumstances, and encourages repayment of the Eligible Notes and discourages use of the Facility as the unusual and exigent circumstances that motivated the program recede and economic conditions normalize.

The SPV will purchase Eligible Notes with a fixed interest rate that is determined on the pricing date of the Eligible Notes. The method of sale selected by an Eligible Issuer will not affect the determination of the interest

rate. The Federal Reserve's pricing methodology will be publicly available and applicable to all Eligible Issuers. The pricing methodology will be based on the overnight indexed swap (OIS) rate for a comparable maturity plus a fixed spread that corresponds with the ratings of the Eligible Notes and their relevant tax status. The ratings considered in pricing the Eligible Notes will be all of the Eligible Issuer's long-term ratings from major NRSROs for the specific credit of the Eligible Notes at the time of pricing of the Eligible Notes. If the credit has different ratings (i.e. "split ratings"), the applicable spread will be determined by calculating an average of all of the confirmed ratings. If interest on the Eligible Notes is not excluded from gross income for federal income tax purposes, the pricing of the Eligible Notes will be calculated using the methodology for taxable notes. If the SPV purchases multiple Eligible Notes from the same Eligible Issuer over the term of the MLF, pricing will be determined based on the ratings as confirmed by the applicable major NRSROs on the pricing date of each Eligible Note.

See [Appendix B](#) for the MLF pricing grid and methodology. This pricing grid and methodology are subject to revision should market conditions change materially. Any such revisions will be made available on the New York Fed's website for the MLF.

### What is OIS?

An overnight indexed swap (OIS) is an interest rate derivative contract in which parties exchange a payment priced at a fixed rate against a payment priced at an average overnight published reference rate, such as the effective federal funds rate. The MLF will use the fixed OIS rate based on the effective federal funds rate for the maturity that corresponds to the maturity of the Eligible Notes.

OIS rate quotes are widely available from bond market service providers and vendors. Additional information regarding OIS is available at <https://www.cftc.gov/MarketReports/SwapsReports/DataDictionary/index.htm>.

### May Eligible Notes have a maturity for which no direct OIS quote is available?

Yes. Eligible Issuers may select any maturity up to 36 months. If an Eligible Issuer selects a maturity for which no direct OIS quote is available, the OIS rate for the Eligible Notes will be calculated using a straight line interpolation of the direct OIS quotes for the nearest maturity that is shorter than the Eligible Notes and the nearest maturity that is longer than the Eligible Notes. The calculation will be conducted by the SPV on the pricing date of the Eligible Notes.

### How will the Eligible Notes be priced if the credit for the Eligible Notes has split ratings?

To account for split ratings across different credit rating agencies, an average rating will be calculated by assigning a numerical value to each outstanding rating of the credit for the Eligible Notes from a major NRSRO and rounding the average of such numerical values to the nearest numerical value that corresponds to a rating. If an average rating is equidistant between the numerical value corresponding to one rating and the numerical value corresponding to another rating, then the Eligible Issuer will be treated as having the lower rating. However, if a credit has only two ratings from major NRSROs and one of the ratings is two or more gradations higher than the other rating, then the Eligible Issuer will have the option to either (1) obtain a third rating from a major NRSRO and price the Eligible Notes based on the average of its three ratings or (2) price the Eligible Notes based solely on the lower of the two existing ratings.

See below for the numerical values that will be assigned to ratings and a hypothetical example.

### Rating Mapping Table

Rating Aaa	AAA					
Value	0	0				
Rating Aa1	AA+	Aa2	AA	Aa3	AA-	
Value	0.66	0.66	1	1	1.33	1.33
Rating A1	A+	A2	A	A3	A-	
Value	1.66	1.66	2	2	2.33	2.33
Rating Baa1	BBB+	Baa2	BBB	Baa3	BBB-	
Value	2.66	2.66	3	3	3.33	3.33
Rating Ba1	BB+	Ba2	BB	Ba3	BB-	

**Rating Mapping Table**

Value	3.66	3.66	4	4	4.33	4.33
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**Hypothetical Example****Ratings of Security for Eligible Notes Numerical Value**

A1	1.66
A+	1.66
A	2

Average Numerical Value 1.77

Average Rating A+/A1

**When will interest on the Eligible Notes be due?**

Interest on Eligible Notes may be paid at such times as are consistent with applicable constitutional and statutory requirements, provided that all interest will be due no later than the maturity date of the Eligible Notes.

**Will interest on the Eligible Notes be required to be exempt from federal or applicable local income taxes and accompanied by a tax opinion thereto?**

No. The Eligible Issuer may issue taxable or tax-exempt Eligible Notes.

**Is there a prepayment right on the Eligible Notes?**

With the approval of the SPV, Eligible Notes purchased by the SPV may be prepaid by the Eligible Issuer at any time, in whole or in part, at par (or, in the case of Eligible Notes purchased at a premium, par plus unamortized premium) plus accrued interest, prior to maturity.

**May Eligible Notes be refinanced through the Facility after December 31, 2020?**

No. The Facility will no longer extend credit after its termination date, including by refinancing any maturing Eligible Notes.

**May investors sell outstanding TANs, TRANs, and BANs to the SPV?**

No. The SPV will only purchase newly issued TANs, TRANs, BANs or other similar newly issued notes of Eligible Issuers. The SPV will not purchase notes in the secondary market.

**Will Eligible Notes be required to have CUSIPs?**

Yes, CUSIPs will be required regardless of the method of sale. The Eligible Issuer or its financial advisor should obtain the CUSIPs. The Federal Reserve will not obtain CUSIPs.

**Will Eligible Notes be required to be DTC-eligible?**

Yes. Closing will occur through DTC.

**DISCLOSURE****Will the Federal Reserve require disclosure from Eligible Issuers?**

Consistent with municipal market practices and requirements, Eligible Issuers offering Eligible Notes in a competitive sale process should anticipate providing the same level of disclosure normally prepared in connection with a public offering of notes.

If the Eligible Issuer is not conducting a competitive sale process and is, therefore, not preparing a disclosure document for public sale, then the Federal Reserve will review the financial information and operating data provided by the Eligible Issuer on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (EMMA) and on the Eligible Issuer's website. Eligible Issuers will be required to provide a direct link to the financial information on their websites and EMMA. For Eligible Notes that are TRANs, TANs, or other similar notes to be repaid from revenues of the Eligible Issuer, Eligible Issuers will also be required to provide cashflow statements (prior year actuals and 12-month projections). The Eligible Issuer also must explain statutorily

required or policy-determined “set asides” from taxes and revenue for repayment of TRANS, TANs, and other similar notes. If set-asides are not required, the Issuer must provide a plan for the repayment of the notes. For Eligible Notes that are BANs, the Eligible Issuer must provide its authorization to issue bonds to pay off the BANs and explain why it expects to be able to issue such bonds on or before the maturity of the BANs. Each Eligible Issuer will also be required to provide copies of written materials containing financial information and operating data that have been provided to the rating agencies in connection with the process to obtain confirmation of the Eligible Issuer’s ratings. The Federal Reserve may also require that certain other additional publicly available information be provided to it.

### **Will the Federal Reserve require Eligible Issuers to provide continuing disclosure as otherwise required by the Securities and Exchange Commission’s Rule 15c2-12?**

Yes. Each Eligible Issuer will be required to provide the continuing disclosure described in Rule 15c2-12 regardless of the method of sale and whether or not the sale of the Eligible Notes would otherwise be subject to Rule 15c2-12. The following requirements also will apply to all transactions in which the SPV purchases Eligible Notes:

- On the Eligible Issuer’s website, it must provide a report (1) of quarterly cash flows, which will show actual and projected results, and (2) on the funding of planned set-asides, with an explanation of any negative variances.
- On the Eligible Issuer’s website, it must provide access to quarterly financial reports and/or information in a format regularly provided to any governing body or otherwise made public.
- The Eligible Issuer will provide to the Federal Reserve, at 6 months prior to maturity and at 3 months prior to maturity, a written report explaining how it will repay the Eligible Notes at maturity. For BANs, such a report will identify any material credit or other matters relating to issuing the bonds expected to take out any BANs.
- The Federal Reserve may request, and will have the right to receive, other information relating to the ability of the Eligible Issuer to repay the Eligible Notes when payments become due. The Federal Reserve reserves the right to make public any and all information that it receives pursuant to its rights described herein, including to Congress or otherwise.

## **METHOD OF SALE AND PROCESS**

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### **How will the MLF purchase Eligible Notes?**

The MLF will purchase, through an SPV, Eligible Notes from Eligible Issuers. An Eligible Issuer may conduct a competitive sale process, and the SPV will provide a commitment to purchase Eligible Notes that are not awarded to bidders in the competitive sale. Alternatively, an Eligible Issuer may sell the Eligible Notes directly to the SPV without the Eligible Issuer first undertaking a competitive sale process. Each Eligible Issuer will specify its preferred method in the MLF Notice of Interest.

### **How will the MLF purchase notes from an Eligible Issuer that cannot legally enter into a direct purchase transaction with the SPV, even after a competitive sale process?**

The SPV generally will not submit a bid in a competitive sale process, but instead will serve as a backstop and agree to purchase Eligible Notes that are not awarded to other bidders. The SPV will arrange to submit a bid in a competitive sale process only in cases where an Eligible Issuer (i) is required by law to sell Eligible Notes through a competitive sale process and (ii) does not have the authority to sell Eligible Notes directly to the SPV, even following a competitive sale process in which fewer than all of the Eligible Notes are sold.

### **Does the Federal Reserve prefer one type of sale over the other?**

No. The Eligible Issuer may choose between a competitive sale process, with the SPV providing a commitment to purchase Eligible Notes that are not awarded to bidders in the competitive sale process, or a direct sale to the SPV without first undertaking a competitive sale process. A competitive sale process may be a traditional “all or none” process whereby one bidder is awarded the entire amount of the offered securities or a “modified Dutch auction” whereby multiple bidders may bid for and be awarded portions of the total par amount of securities offered. As the SPV commences operation and completes purchases, the Federal Reserve reserves the right to indicate a preference or require one type of sale in the future.

### **What are the steps to participate in the MLF?**

Interested issuers will be required to complete a Notice of Interest (NOI) on a form that will be made available on the New York Fed’s website for the MLF. The NOI is designed to provide the Federal Reserve with an indication of



the Eligible Issuers that intend to sell Eligible Notes. The Eligible Issuer will be notified when the NOI package has been approved and may then move forward at the appropriate time with documentation of the transaction.

Prior to the mailing of a Preliminary Offering Statement (POS) in a competitive transaction and prior to pricing of any transaction, the Eligible Issuer must submit an Application. Upon approval of the Application, the SPV will commit to purchasing Eligible Notes and pricing may proceed. Eligible Issuers should expect that closing conditions and schedules will be substantially consistent with the conditions and schedules typical for such Eligible Issuer's securities. Application forms are being developed and will be posted on the MLF website when available.

#### **When should an Eligible Issuer submit an NOI?**

The MLF is not a "first come, first served" program. An Eligible Issuer should not submit an NOI until it has determined its financial needs and schedule. Each Eligible Issuer has been allocated a certain maximum amount of available MLF Funds (see [Appendix A](#)). There is no preference given to early filers.

#### **Will Eligible Issuers be limited to one issuance of Eligible Notes to the SPV?**

No. An Eligible Issuer may sell Eligible Notes in one or more issuances to the SPV up to, in the aggregate, the Eligible Issuer's allocated amount. The Eligible Issuer should submit a separate NOI for each requested issuance of Eligible Notes at such time as it has determined its financial needs and schedule for such portion of its allocated amount. Eligible Issuers should not use the MLF as a line of credit by conducting frequent, small issuances. The Federal Reserve may establish a maximum number of issuances per issuer or a minimum par amount per issuance.

#### **Will the Federal Reserve provide forms for Eligible Notes and sale documents, or will Eligible Issuers be expected to provide their own documentation?**

Each Eligible Issuer should expect to use its standard form of note and the documentation that it typically uses when selling its securities. Each Eligible Issuer will also be required to submit evidence of compliance with the MLF program requirements. Following approval of the Eligible Issuer's application, the Federal Reserve will provide a purchase commitment to memorialize the terms of the transaction and the conditions to funding. The SPV and the Federal Reserve will not execute closing or other certificates relating to the transaction.

#### **When will application materials be available?**

Application materials are being assembled. Details regarding application materials and the date on which the Federal Reserve will commence accepting applications will be posted on this FAQ page when available.

## **OTHER TERMS**

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#### **How much of an Eligible Issuer's Eligible Notes may the MLF SPV purchase?**

For a State, City, or County, the SPV may purchase Eligible Notes in one or more issuances of up to an aggregate amount of 20% of the general revenue from own sources and utility revenue of the Eligible Issuer (or its associated State, City, or County if the Eligible Issuer is an authority, agency or other associated entity) for fiscal year 2017. The maximum aggregate amount may be used for the benefit of both the Eligible Issuer and its respective political subdivisions and other governmental entities. The SPV may purchase Eligible Notes issued by or on behalf of a Multi-State Entity in one or more issuances of up to an aggregate amount of 20% of the Multi-State Entity's gross revenue as reported in its audited financial statements for fiscal year 2019. An Eligible Issuer (other than a Multi-State Entity) may request that the SPV purchase Eligible Notes in excess of the limit in order to assist its political subdivisions and other governmental entities that are not eligible for direct issuance to the Facility. If necessary, the Federal Reserve will establish procedures for requesting and allocating additional Eligible Note purchase amounts.

#### **What is an Eligible Issuer's "general revenue from own sources and utility revenue"?**

An Eligible Issuer's "general revenue from own sources and utility revenue," which is used to calculate issuance limits for the Facility, is calculated using the most recent available data for all States, Cities, and Counties from the U.S. Census Bureau, the "2017 State & Local Government Finance Historical Datasets and Tables." The Board's calculation of the general revenue from own sources and utility revenue for each eligible State, City, and County is provided in [Appendix A](#), along with the Board's methodology for its calculations. In the case of an Eligible Issuer that is an authority, agency or other entity of a State, City, or County, the applicable "general revenue from own sources and utility revenue" shall be that of the State, City, or County that formed the Eligible Issuer. The list in

[Appendix A](#) may be revised if changes are made to the MLF. Please check this website for any revisions and sign up for email alerts.

**Is there a fee associated with the Facility?**

Yes, each Eligible Issuer must pay an origination fee equal to 10 basis points of the principal amount of the Eligible Issuer's Eligible Notes purchased by the SPV. The origination fee may be paid from the proceeds of the issuance.

**Will the Federal Reserve disclose information regarding transactions entered into by the MLF?**

The Federal Reserve will publicly disclose information on a monthly basis regarding the MLF during the operation of the Facility, including information regarding names of participants, amounts borrowed and interest rates charged, and overall costs, revenues and other fees. Balance sheet items related to the SPV and MLF will be reported weekly, on an aggregated basis, on the H.4.1 statistical release titled "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks," published by the Federal Reserve. In addition, the Federal Reserve will disclose to Congress information pursuant to Section 13(3) of the Federal Reserve Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the Board's Regulation A.

**What legal opinions and certifications will be required?**

Eligible Issuers will be required to deliver standard legal opinions for the issuance of debt, including, but not limited to, an opinion of nationally recognized note counsel as to the validity, enforceability, and binding nature of the notes. Each Eligible Issuer must also provide a written certification that it is unable to secure adequate credit accommodations from other banking institutions and that it is not insolvent. Further information on required legal opinions and certificates will be determined and publicly announced prior to commencement of the MLF.

**For the purposes of participating in the MLF, what does it mean for an Eligible Issuer to certify that it is unable to secure adequate credit accommodations?**

The Federal Reserve must obtain evidence that participants in the MLF are unable to secure adequate credit accommodations from other banking institutions. In certifying whether the issuer is unable to secure adequate credit accommodations from other banking institutions, issuers may consider economic or market conditions in the market intended to be addressed by the MLF as compared to normal conditions, including the availability and price of credit. Lack of adequate credit does not mean that no credit is available. Lending may be available, but at prices or on conditions that are inconsistent with a normal, well-functioning market.

[Appendix A: Eligible Issuers](#) [PDF](#)

[Appendix B: Pricing Appendix](#) [PDF](#)

[FAQs: April 27, 2020](#) »

# FEDERAL RESERVE BANK of NEW YORK *Serving the Second District and the Nation*

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## FAQs: Municipal Liquidity Facility

The following is intended to address questions about the Municipal Liquidity Facility (MLF or Facility). The Federal Reserve may periodically update these FAQs and, therefore, please check this website for new FAQs or revisions to a previously issued FAQ.

Effective ~~April~~May 27, 2020

### PURPOSE AND DESIGN

#### Why is the Federal Reserve establishing the MLF?

The municipal securities market is an important part of the financial system, which helps provide states, cities, and counties (and their political subdivisions and other governmental entities) with the funding needed to provide essential public services to their citizens. Due to the COVID-19 pandemic, the municipal securities market has recently been under considerable strain. The municipal securities market saw a dramatic increase in sales by institutional investors, which has caused a swift and dramatic increase in interest rates on municipal securities. Although rates have come down from their highs and some issuers have been able to issue debt or secure loans, there are many issuers that have not been able to meet their financing needs through the capital markets. At the same time, states, cities, and counties are facing severe liquidity constraints resulting from the increase in state and local government expenditures related to the COVID-19 pandemic and the delay and decrease of certain tax and other revenues. By ensuring the smooth functioning of the municipal securities market, particularly in times of strain, the Federal Reserve is providing credit that will support families, businesses, and jobs in communities, large and small, across the nation.

The immediate purpose of the MLF is to enhance the liquidity of the primary short-term municipal securities market through the purchase at issuance of Tax Anticipation Notes (TANs), Tax and Revenue Anticipation Notes (TRANs), Bond Anticipation Notes (BANs), and similar short-term notes from Eligible Issuers (defined below) (collectively, Eligible Notes). The Eligible Issuer's proceeds from the sale of Eligible Notes to the [special purpose vehicle \(SPV\)](#) can in turn be used to support its political subdivisions and public authorities, among other uses. The Facility will provide a form of cash management financing to Eligible Issuers. In addressing the cash-management needs of Eligible Issuers, the Facility will also help restore confidence in the municipal securities market.

The Federal Reserve will continue to closely monitor conditions in the primary and secondary markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments.

#### How will the MLF work?

The MLF will provide a liquidity backstop to issuers of Eligible Notes through ~~a special purpose vehicle (an SPV)~~. The Treasury Secretary, using funds appropriated to the Exchange Stabilization Fund under section 4027 of the

Coronavirus Aid, Relief, and Economic Security Act (CARES Act), will make an initial equity investment of \$35 billion in the SPV. The SPV will have the ability to purchase up to \$500 billion of Eligible Notes.

**When may Eligible Issuers begin selling Eligible Notes, and how long will the MLF operate?**

Federal Reserve staff is working expeditiously to operationalize the MLF. The Federal Reserve will keep market

participants apprised and announce in advance when the SPV will commence operations and begin purchasing Eligible Notes. The SPV will cease purchasing Eligible Notes on December 31, 2020, unless the Board and the Treasury Department extend the term of the Facility.

### **Under what legal authority are purchases of Eligible Notes through MLF made?**

The Federal Reserve Board established the MLF pursuant to section 13(3) of the Federal Reserve Act.

### **What third-party vendors are supporting the MLF?**

The Federal Reserve Bank of New York (~~FRBNY~~[New York Fed](#)) has selected PFM Financial Advisors LLC (PFM) as its administrative agent for the MLF. In serving as the administrative agent, PFM will coordinate and review the applications under the MLF based on criteria established by the ~~FRBNY~~[New York Fed](#).

### **Where should questions regarding the MLF be directed?**

Questions should be directed through <http://www.federalreserve.gov/apps/contactus/feedback.aspx?refurl=/muni/> or via email to [MLF@ny.frb.org](mailto:MLF@ny.frb.org), [MLF@ny.frb.org](mailto:MLF@ny.frb.org).

### **How may I receive updates regarding changes to MLF documents?**

Sign up for ~~email alerts~~[email alerts](#).

## **ELIGIBLE ISSUERS**

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### **Who is an Eligible Issuer?**

An Eligible Issuer is a State, City, or County (or, subject to Federal Reserve review and approval, an entity that issues securities on behalf of the State, City, or County, respectively, for the purpose of managing its cash flows) or a Multi-State Entity, in each case as defined below. Pursuant to section 13(3) of the Federal Reserve Act, an Eligible Issuer may not be insolvent.

An Eligible Issuer that is a State, City, or County (or, subject to Federal Reserve review and approval, an entity that issues securities on behalf of the State, City, or County, respectively, for the purpose of managing its cash flows) must have been rated at least BBB-/Baa3 as of April 8, 2020, by two or more major nationally recognized statistical rating organizations (NRSROs). Eligible Issuers that were rated at least BBB-/Baa3 as of April 8, 2020, but are subsequently downgraded, must be rated at least BB-/Ba3 by two or more major NRSROs at the time the Facility makes a purchase.

An Eligible Issuer that is a Multi-State Entity must have been rated at least A-/A3 as of April 8, 2020, by two or more major NRSROs. A Multi-State Entity that was rated at least A-/A3 as of April 8, 2020, but is subsequently downgraded, must be rated at least BBB-/Baa3 by two or more major NRSROs at the time the Facility makes a purchase.

Notwithstanding the foregoing, if a State, City, County, or Multi-State Entity was rated by only one major NRSRO as of April 8, 2020, it may be an Eligible Issuer under the MLF if (i) the rating was at least BBB-/Baa3 (for a State, City, or County) or A-/A3 (for a Multi-State Entity); (ii) the State, City, County, or Multi-State Entity is rated by at least two major NRSROs at the time the MLF makes a purchase; and (iii) such ratings are at least BB-/Ba3 (for a State, City, or County) or BBB-/Baa3 (for a Multi-State Entity).

For purposes of the Facility, a "State" is one of the fifty U.S. states or the District of Columbia; a "City" is a U.S. city with a population exceeding 250,000 residents; and a "County" is a U.S. county with a population exceeding 500,000 residents based on the most recent available U.S. Census data as of April 6, 2020. A Multi-State Entity is an entity that was created by a compact between two or more States, which compact has been approved by the U.S. Congress, acting pursuant to its power under the Compact Clause of the U.S. Constitution.

A list of Eligible Issuers based on their populations, other than Multi-State Entities, is provided in ~~Appendix A~~[Appendix A](#). As of April 6, 2020, the most recent data available on population size for cities was 2018 data, and the most recent data available on population size for counties was 2019 data. Changes in population size, as may be reflected in future U.S. Census Bureau releases, will not affect this list of Eligible Issuers.

**What is “an entity that issues securities on behalf of the State, City, or County for the purpose of managing its cash flows,” as described in the “Eligible Issuer” section of the MLF term sheet?**

Many States, Cities, and Counties issue debt securities through an authority, agency, department, division or other entity that is statutorily authorized to issue debt on behalf of the applicable State, City, or County. Such an authority, agency, department, division or other entity of a State, City, or County may also issue debt securities for the purposes of assisting in cash flow management on behalf of one or more of the political subdivisions or other governmental entities of the applicable State, City, or County. Such an entity would constitute an Eligible Issuer,

subject to Federal Reserve review, only if (i) such entity can commit the credit of, or pledge revenues of, the applicable State, City, or County, or (ii) the State, City, or County guarantees the Eligible Notes issued by such issuer. Each eligible State, City, and County may only access the Facility through one issuer; provided that the Federal Reserve may approve one or more additional issuers per State, City, or County to facilitate the provision of assistance to political subdivisions and other governmental entities of the relevant State, City, or County.

**What is a “political subdivision or other governmental entity” as described in the “Eligible Use of Proceeds” section of the MLF term sheet?**

States, Cities, and Counties may use the proceeds of Eligible Notes sold to the SPV under the MLF to purchase the notes of, or otherwise assist, any of their political subdivisions or other governmental entities as described above. For purposes of the “Eligible Use of Proceeds” section, a “political subdivision or other governmental entity” is broadly defined as any county, city, municipality, township, village, school district, special district, utility, authority, agency or other unit of government, as determined by the Eligible Issuer. However, an Eligible Issuer may not lend the proceeds of Eligible Notes to a political subdivision or other governmental entity that is insolvent.

**If an Eligible Issuer uses the proceeds of Eligible Notes to purchase the notes of one of its “political subdivisions or other governmental entities” (as used in the “Eligible Use of Proceeds” section), does the Facility assume the risk of those notes?**

No. Regardless of the use of proceeds, the Facility (and any other holder of the Eligible Notes) faces only the credit of the Eligible Issuer. The Eligible Issuer would bear the credit risk associated with any notes it purchased from its political subdivision or other governmental entity.

**May governmental entities that provide public services on behalf of a State, City, or County and issue bonds backed by their own revenues participate directly in the MLF as Eligible Issuers?**

Other governmental entities that provide essential public services on behalf of a State, City, or County may participate in the MLF indirectly by borrowing through an eligible State, City, or County. The Federal Reserve is also considering expanding the Facility to allow a limited number of such entities to participate directly in the MLF as Eligible Issuers, taking into consideration the objective of quickly and efficiently making the Facility available to the currently defined set of Eligible Issuers. The inclusion of any such additional Eligible Issuers would be publicly announced at a future date. The Federal Reserve continues to encourage Eligible Issuers to make funding from the Facility available to their political subdivisions and other governmental entities that are in need of such funding.

## ELIGIBLE NOTES

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**What are Eligible Notes?**

Eligible Notes are tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), and other similar short-term notes issued by Eligible Issuers, provided that such notes mature no later than 36 months from the date of issuance. In each case, a note’s eligibility is subject to review by the Federal Reserve.

**What are TANs, TRANs, and BANs?**

States and other municipalities issue TANs and TRANs or other similar short-term notes to address the timing mismatch between the receipt of taxes or other revenues and ongoing expenditures. TANs and TRANs are generally backed by and rated based on the anticipated receipt of tax and other revenues over the course of a fiscal year or longer, in amounts sufficient to pay off the notes by maturity.

BANs are issued in anticipation of future bond issuance and are typically not secured by a pledged revenue stream, but are rated based on the long-term credit rating of the issuer and its assumed future market access for refinancing (either as new BANs or long-term bonds).



**What can the proceeds of the Eligible Notes be used for?**

An Eligible Issuer may use the proceeds of the Eligible Notes purchased by the SPV for the following purposes: (1) to help manage the cash flow effects of income tax deferrals resulting from an extension of an income tax filing deadline; deferrals or reductions of tax and other revenues or increases in expenses related to or resulting from the COVID-19 pandemic; and requirements for the payment of principal and interest on obligations of the Eligible Issuer or its political subdivisions or other governmental entities; (2) to purchase similar notes issued by, or

otherwise to assist, its political subdivisions and other governmental entities for the purposes enumerated in clause (1); and (3) to fund the costs of issuing the Eligible Notes and paying the SPV issuance fee.

### What form of note security will be required?

Note security will be subject to review and approval by the Federal Reserve. The source of repayment and security for Eligible Notes will depend on the applicable constitutional and statutory provisions governing the Eligible Issuer and should be generally consistent with the source of repayment and strongest security typically pledged to repay publicly offered obligations of the Eligible Issuer. Eligible Notes of Eligible Issuers that are not Multi-State Entities will generally be expected to represent general obligations of the Eligible Issuer, or be backed by tax or other specified governmental revenues of the applicable State, City, or County. If the Eligible Issuer is an authority, agency, or other entity of a State, City, or County, such Eligible Issuer must either commit the credit of, or pledge revenues of, the State, City, or County, or have the State, City, or County guarantee the Eligible Notes issued by such issuer. If the Eligible Issuer is a Multi-State Entity, the Eligible Notes will be expected to be parity obligations of existing debt secured by a senior lien on the Multi-State Entity's gross or net revenues.

### Will the Eligible Notes or the Eligible Issuer ~~require a rating~~ be required to be rated?

Yes, an Eligible Issuer must ~~meet certain ratings criteria, described above in question B1, to participate in the MLF. In addition, at the time~~ meet certain ratings requirements regardless of the method of sale. An Eligible Issuer that is a State, City, or County must have an issuer credit rating or a general obligation rating of at least BBB-/Baa3 as of April 8, 2020, by two or more major NRSROs. Any such Eligible Issuers that were rated at least BBB-/Baa3 as of April 8, 2020, but are subsequently downgraded, must be rated at least BB-/Ba3 by two or more major NRSROs at the time the SPV makes a purchase. An Eligible Issuer that is a Multi-State Entity must have been rated at least A-/A3 as of April 8, 2020, by two or more major NRSROs. A Multi-State Entity that was rated at least A-/A3 as of April 8, 2020, but is subsequently downgraded, must be rated at least BBB-/Baa3 by two or more major NRSROs at the time the SPV makes a purchase. Notwithstanding the foregoing, if a State, City, County, or Multi-State Entity was rated by only one major NRSRO as of April 8, 2020, it may be an Eligible Issuer under the Facility if (i) the rating was at least BBB-/Baa3 (for a State, City, or County) or A-/A3 (for a Multi-State Entity); (ii) the State, City, County, or Multi-State Entity is rated by at least two major NRSROs at the time the Facility makes a purchase; and (iii) such ratings are at least BB-/Ba3 (for a State, City, or County) or BBB-/Baa3 (for a Multi-State Entity).

~~Regardless of the method of sale, the Eligible Issuer (or pricing of the the entity issuing Eligible Notes, on the Federal Reserve will require its behalf) must provide a confirmation of any outstanding at the time of pricing of all of the existing long-term ratings of the Eligible Issuer by each major NRSRO that has an outstanding rating of the Eligible Issuer relating to the same type or source of repayment and security as is offered on the applicable credit to be used for the Eligible Notes, along,~~

~~Consistent with evidence that such NRSROs have been notified of the issuance of the Eligible Notes by municipal market practices and requirements, if an Eligible Issuer intends to first offer the Eligible Notes through a competitive sale process, the Eligible Issuer. If an Eligible Issuer does not have an outstanding long-term rating, it will be required to apply obtain ratings for and be assigned a rating on the Eligible Notes. The Federal Reserve will not require ratings on Eligible Notes by at least two major NRSROs prior that are sold to the SPV sale or pricing of the Eligible Notes without first conducting a competitive sale process.~~

### From which NRSROs will ratings be accepted?

~~Currently, the ratings criteria for~~ For purposes of the MLF refer to ratings provided by three NRSROs: "major NRSRO" means S&P Global Ratings, Moody's Investor Service, Inc., ~~and~~ Fitch Ratings, Inc. ~~The, and~~ Kroll Bond Rating Agency, Inc.

### How will the Federal Reserve ~~is considering including other NRSROs~~ determine pricing under the MLF: How will the notes be priced?

Under Section 13(3) of the Federal Reserve Act and the Board's Regulation A, the interest rate on the Eligible Notes must be a penalty rate, meaning a rate that is a premium to the market rate in normal circumstances, affords liquidity in unusual and exigent circumstances, and encourages repayment of the ~~credit~~ Eligible Notes and discourages use of the Facility as the unusual and exigent circumstances that motivated the program recede and economic conditions normalize.

The SPV will purchase Eligible Notes with a fixed interest rate that is determined on the pricing date of the Eligible Notes. The method of sale selected by an Eligible Issuer will not affect the determination of the interest

rate. The Federal Reserve will establish a's pricing methodology that will be broadly publicly available and applicable to all Eligible Issuers. The pricing methodology will be based on the overnight indexed swap (OIS) rate for a comparable maturity plus a fixed spread that corresponds with the ratings of the Eligible Notes and their relevant tax status. The ratings considered in pricing the Eligible Notes will be all of the Eligible Issuer's long-term rating ratings from major NRSROs for the specific credit of the Eligible Notes at the time of purchase pricing of the Eligible Notes and, if the maturity of the Eligible Notes, plus a spread over a publicly available benchmark or index credit has different ratings (i.e. "split ratings"), the applicable spread will be determined by calculating an average of all of the confirmed ratings. If interest on the Eligible Notes is not excluded from gross income for federal income tax purposes, the pricing of the Eligible Notes will be calculated using the methodology for taxable notes. If the SPV purchases multiple Eligible Notes from the same Eligible Issuer over the term of the MLF, pricing will be determined based on the ratings as confirmed by the applicable major NRSROs on the pricing date of each Eligible Note.

See Appendix B for the MLF pricing grid and methodology. This pricing grid and methodology are subject to revision should market conditions change materially. Any such revisions will be made available on the New York Fed's website for the MLF.

### **What is OIS?**

An overnight indexed swap (OIS) is an interest rate derivative contract in which parties exchange a payment priced at a fixed rate against a payment priced at an average overnight published reference rate, such as the effective federal funds rate. The MLF will use the fixed OIS rate based on the effective federal funds rate for the maturity that corresponds to the maturity of the Eligible Notes.

OIS rate quotes are widely available from bond market service providers and vendors. Additional information regarding OIS is available at <https://www.cftc.gov/MarketReports/SwapsReports/DataDictionary/index.htm>.

### **May Eligible Notes have a maturity for which no direct OIS quote is available?**

Yes. Eligible Issuers may select any maturity up to 36 months. If an Eligible Issuer selects a maturity for which no direct OIS quote is available, the OIS rate for the Eligible Notes will be calculated using a straight line interpolation of the direct OIS quotes for the nearest maturity that is shorter than the Eligible Notes and the nearest maturity that is longer than the Eligible Notes. The calculation will be conducted by the SPV on the pricing date of the Eligible Notes.

### **How will the Eligible Notes be priced if the credit for the Eligible Notes has split ratings?**

To account for split ratings across different credit rating agencies, an average rating will be calculated by assigning a numerical value to each outstanding rating of the credit for the Eligible Notes from a major NRSRO and rounding the average of such numerical values to the nearest numerical value that corresponds to a rating. If an average rating is equidistant between the numerical value corresponding to one rating and the numerical value corresponding to another rating, then the Eligible Issuer will be treated as having the lower rating. However, if a credit has only two ratings from major NRSROs and one of the ratings is two or more gradations higher than the other rating, then the Eligible Issuer will have the option to either (1) obtain a third rating from a major NRSRO and price the Eligible Notes based on the average of its three ratings or (2) price the Eligible Notes based solely on the lower of the two existing ratings.

See below for the numerical values that will be assigned to ratings and a hypothetical example.

### **Rating Mapping Table**

#### **Rating Aaa AAA**

**Value 0 0**

#### **Rating Aa1 AA+ Aa2 AA Aa3 AA-**

**Value 0.66 0.66 1 1 1.33 1.33**

#### **Rating A1 A+ A2 A A3 A-**

**Value 1.66 1.66 2 2 2.33 2.33**

#### **Rating Baa1 BBB+ Baa2 BBB Baa3 BBB-**

**Value 2.66 2.66 3 3 3.33 3.33**

[Rating Ba1](#) [BB+](#) [Ba2](#) [BB](#) [Ba3](#) [BB-](#)

Rating Mapping Table

Value	3.66	3.66	4	4	4.33	4.33
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Hypothetical ExampleRatings of Security for Eligible Notes Numerical Value

A1	1.66
----	------

A+	1.66
----	------

A	2
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Average Numerical Value	1.77
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Average Rating	A+/A1
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**When will interest on the Eligible Notes be due?**

Interest on Eligible Notes may be paid at such times as are consistent with applicable constitutional and statutory requirements, provided that all interest will be due no later than the maturity date of the Eligible Notes.

**Will interest on the Eligible Notes be required to be exempt from federal or applicable local income taxes and accompanied by a tax opinion thereto?**

No. The Eligible Issuer may issue taxable or tax-exempt Eligible Notes.

**Is there a prepayment right on the Eligible Notes?**

~~The~~With the approval of the SPV, Eligible Notes purchased by the SPV may be prepaid by the Eligible Issuer at any time, in whole or in part, at ~~par~~par (or, in the case of Eligible Notes purchased at a premium, par plus unamortized premium) plus accrued interest, prior to maturity ~~with the approval of the Federal Reserve.~~

**May Eligible Notes be refinanced through the Facility after December 31, 2020?**

No. The Facility will no longer extend credit after its termination date, including by refinancing any maturing Eligible Notes.

**May investors sell outstanding TANs, TRANS, and BANs to the SPV?**

No. The SPV will only purchase newly issued TANs, TRANS, BANs or other similar newly issued notes of Eligible Issuers. The SPV will not purchase notes in the secondary market.

**Will Eligible Notes be required to have CUSIPs?**

Yes. CUSIPs will be required regardless of the method of sale. The Eligible Issuer or its financial advisor should obtain the CUSIPs. The Federal Reserve will not obtain CUSIPs.

**Will Eligible Notes be required to be DTC-eligible?**

Yes. Closing will occur through DTC.

**DISCLOSURE**

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**Will the Federal Reserve require disclosure from Eligible Issuers?**

Consistent with municipal market practices and requirements, Eligible Issuers offering Eligible Notes in a competitive sale process should anticipate providing the same level of disclosure normally prepared in connection with a public offering of notes.

If the Eligible Issuer is not conducting a competitive sale process and is, therefore, not preparing a disclosure document for public sale, then the Federal Reserve will review the financial information and operating data provided by the Eligible Issuer on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (EMMA) and on the Eligible Issuer's website. Eligible Issuers will be required to provide a direct link to the financial information on their websites and EMMA. For Eligible Notes that are TRANS, TANs, or other similar notes to be repaid from revenues of the Eligible Issuer, Eligible Issuers will also be required to provide cashflow statements (prior year actuals and 12-month projections). The Eligible Issuer also must explain statutorily

required or policy-determined “set asides” from taxes and revenue for repayment of TRANS, TANs, and other similar notes. If set-asides are not required, the Issuer must provide a plan for the repayment of the notes. For Eligible Notes that are BANs, the Eligible Issuer must provide its authorization to issue bonds to pay off the BANs and explain why it expects to be able to issue such bonds on or before the maturity of the BANs. Each Eligible Issuer will also be required to provide copies of written materials containing financial information and operating data that have been provided to the rating agencies in connection with the process to obtain confirmation of the Eligible Issuer’s ratings. The Federal Reserve may also require that certain other additional publicly available information be provided to it.

### **Will the Federal Reserve require Eligible Issuers to provide continuing disclosure as otherwise required by the Securities and Exchange Commission’s Rule 15c2-12?**

Yes. Each Eligible Issuer will be required to provide the continuing disclosure described in Rule 15c2-12 regardless of the method of sale and whether or not the sale of the Eligible Notes would otherwise be subject to Rule 15c2-12. The following requirements also will apply to all transactions in which the SPV purchases Eligible Notes:

- On the Eligible Issuer’s website, it must provide a report (1) of quarterly cash flows, which will show actual and projected results, and (2) on the funding of planned set-asides, with an explanation of any negative variances.
- On the Eligible Issuer’s website, it must provide access to quarterly financial reports and/or information in a format regularly provided to any governing body or otherwise made public.
- The Eligible Issuer will provide to the Federal Reserve, at 6 months prior to maturity and at 3 months prior to maturity, a written report explaining how it will repay the Eligible Notes at maturity. For BANs, such a report will identify any material credit or other matters relating to issuing the bonds expected to take out any BANs.
- The Federal Reserve may request, and will have the right to receive, other information relating to the ability of the Eligible Issuer to repay the Eligible Notes when payments become due. The Federal Reserve reserves the right to make public any and all information that it receives pursuant to its rights described herein, including to Congress or otherwise.

## **METHOD OF SALE AND PROCESS**

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### **How will the MLF purchase Eligible Notes?**

The MLF will purchase, through an SPV, Eligible Notes from Eligible Issuers. An Eligible Issuer may conduct a competitive sale process, and the SPV will provide a commitment to purchase Eligible Notes that are not awarded to bidders in the competitive sale. Alternatively, an Eligible Issuer may sell the Eligible Notes directly to the SPV without the Eligible Issuer first undertaking a competitive sale process. Each Eligible Issuer will specify its preferred method in the MLF Notice of Interest.

### **How will the MLF purchase notes from an Eligible Issuer that cannot legally enter into a direct purchase transaction with the SPV, even after a competitive sale process?**

The SPV generally will not submit a bid in a competitive sale process, but instead will serve as a backstop and agree to purchase Eligible Notes that are not awarded to other bidders. The SPV will arrange to submit a bid in a competitive sale process only in cases where an Eligible Issuer (i) is required by law to sell Eligible Notes through a competitive sale process and (ii) does not have the authority to sell Eligible Notes directly to the SPV, even following a competitive sale process in which fewer than all of the Eligible Notes are sold.

### **Does the Federal Reserve prefer one type of sale over the other?**

No. The Eligible Issuer may choose between a competitive sale process, with the SPV providing a commitment to purchase Eligible Notes that are not awarded to bidders in the competitive sale process, or a direct sale to the SPV without first undertaking a competitive sale process. A competitive sale process may be a traditional “all or none” process whereby one bidder is awarded the entire amount of the offered securities or a “modified Dutch auction” whereby multiple bidders may bid for and be awarded portions of the total par amount of securities offered. As the SPV commences operation and completes purchases, the Federal Reserve reserves the right to indicate a preference or require one type of sale in the future.

### **What are the steps to participate in the MLF?**

Interested issuers will be required to complete a Notice of Interest (NOI) on a form that will be made available on the New York Fed’s website for the MLF. The NOI is designed to provide the Federal Reserve with an indication of



the Eligible Issuers that intend to sell Eligible Notes. The Eligible Issuer will be notified when the NOI package has been approved and may then move forward at the appropriate time with documentation of the transaction.

Prior to the mailing of a Preliminary Offering Statement (POS) in a competitive transaction and prior to pricing of any transaction, the Eligible Issuer must submit an Application. Upon approval of the Application, the SPV will commit to purchasing Eligible Notes and pricing may proceed. Eligible Issuers should expect that closing conditions and schedules will be substantially consistent with the conditions and schedules typical for such Eligible Issuer's securities. Application forms are being developed and will be posted on the MLF website when available.

#### **When should an Eligible Issuer submit an NOI?**

The MLF is not a "first come, first served" program. An Eligible Issuer should not submit an NOI until it has determined its financial needs and schedule. Each Eligible Issuer has been allocated a certain maximum amount of available MLF Funds (see Appendix A). There is no preference given to early filers.

#### **Will Eligible Issuers be limited to one issuance of Eligible Notes to the SPV?**

No. An Eligible Issuer may sell Eligible Notes in one or more issuances to the SPV up to, in the aggregate, the Eligible Issuer's allocated amount. The Eligible Issuer should submit a separate NOI for each requested issuance of Eligible Notes at such time as it has determined its financial needs and schedule for such portion of its allocated amount. Eligible Issuers should not use the MLF as a line of credit by conducting frequent, small issuances. The Federal Reserve may establish a maximum number of issuances per issuer or a minimum par amount per issuance.

#### **Will the Federal Reserve provide forms for Eligible Notes and sale documents, or will Eligible Issuers be expected to provide their own documentation?**

Each Eligible Issuer should expect to use its standard form of note and the documentation that it typically uses when selling its securities. Each Eligible Issuer will also be required to submit evidence of compliance with the MLF program requirements. Following approval of the Eligible Issuer's application, the Federal Reserve will provide a purchase commitment to memorialize the terms of the transaction and the conditions to funding. The SPV and the Federal Reserve will not execute closing or other certificates relating to the transaction.

#### **When will application materials be available?**

Application materials are being assembled. Details regarding application materials and the date on which the Federal Reserve will commence accepting applications will be posted on this FAQ page when available.

## **OTHER TERMS**

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#### **How much of an Eligible Issuer's Eligible Notes may the MLF SPV purchase?**

For a State, City, or County, the SPV may purchase Eligible Notes in one or more issuances of up to an aggregate amount of 20% of the general revenue from own sources and utility revenue of the Eligible Issuer (or its associated State, City, or County if the Eligible Issuer is an authority, agency or other associated entity) for fiscal year 2017. The maximum aggregate amount may be used for the benefit of both the Eligible Issuer and its respective political subdivisions and other governmental entities. The SPV may purchase Eligible Notes issued by or on behalf of a Multi-State Entity in one or more issuances of up to an aggregate amount of 20% of the Multi-State Entity's gross revenue as reported in its audited financial statements for fiscal year 2019. An Eligible Issuer (other than a Multi-State Entity) may request that the SPV purchase Eligible Notes in excess of the limit in order to assist its political subdivisions and other governmental entities that are not eligible for direct issuance to the Facility. If necessary, the Federal Reserve will establish procedures for requesting and allocating additional Eligible Note purchase amounts.

#### **What is an Eligible Issuer's "general revenue from own sources and utility revenue"?**

An Eligible Issuer's "general revenue from own sources and utility revenue," which is used to calculate issuance limits for the Facility, is calculated using the most recent available data for all States, Cities, and Counties from the U.S. Census Bureau, the "~~2017 State & Local Government Finance Historical Datasets and Tables~~ [2017 State & Local Government Finance Historical Datasets and Tables](#)." The Board's calculation of the general revenue from own sources and utility revenue for each eligible State, City, and County is provided in ~~Appendix A~~ [Appendix A](#), along with the Board's methodology for its calculations. In the case of an Eligible Issuer that is an authority, agency or other entity of a State, City, or County, the applicable "general revenue from own sources and utility revenue" shall be that of the State, City, or County that formed the Eligible Issuer. The list in ~~Appendix A~~

[Appendix A](#) may be revised if changes are made to the MLF. Please check this website for any revisions and sign up for email alerts.

**Is there a fee associated with the Facility?**

Yes, each Eligible Issuer must pay an origination fee equal to 10-basis points of the principal amount of the Eligible Issuer's Eligible Notes purchased by the SPV. The origination fee may be paid from the proceeds of the issuance.

**Will the Federal Reserve disclose information regarding transactions entered into by the MLF?**

The Federal Reserve will publicly disclose information on a monthly basis regarding the MLF during the operation of the Facility, including information regarding names of participants, amounts borrowed and interest rates charged, and overall costs, revenues and other fees. Balance sheet items related to the SPV and MLF will be reported weekly, on an aggregated basis, on the H.4.1 statistical release titled "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks," published by the Federal Reserve. In addition, the Federal Reserve will disclose to Congress information pursuant to Section 13(3) of the Federal Reserve Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the Board's Regulation A.

**What legal opinions and certifications will be required?**

Eligible Issuers will be required to deliver standard legal opinions for the issuance of debt, including, but not limited to, an opinion of nationally recognized note counsel as to the validity, enforceability, and binding nature of the notes. Each Eligible Issuer must also provide a written certification that it is unable to secure adequate credit accommodations from other banking institutions and that it is not insolvent. Further information on required legal opinions and certificates will be determined and publicly announced prior to commencement of the MLF.

**For the purposes of participating in the MLF, what does it mean for an Eligible Issuer to certify that it is unable to secure adequate credit accommodations?**

The Federal Reserve must obtain evidence that participants in the MLF are unable to secure adequate credit accommodations from other banking institutions. In certifying whether the issuer is unable to secure adequate credit accommodations from other banking institutions, issuers may consider economic or market conditions in the

market intended to be addressed by the MLF as compared to normal conditions, including the availability and price of credit. Lack of adequate credit does not mean that no credit is available. Lending may be available, but at prices or on conditions that are inconsistent with a normal, well-functioning market.

~~What form of disclosure~~

~~from~~ [Appendix A: Eligible Issuers](#)

~~will be required?~~

~~Requirements for the type and amount of disclosure will be announced at a later date.~~

~~When will application materials~~

~~be available?~~

~~Application materials are being assembled. Details regarding application materials and the date on which the Federal Reserve will commence accepting applications will be posted on this FAQ page when available.~~ [Appendix A: Eligible Issuers](#),

[PDF](#) [Appendix B: Pricing Appendix](#)

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