

U.S. Municipal Bond Market

Another Corporate Facility Launched, Fed Chair's Prepared Comments are Stale, & PPP Expires

Summary

- A scattered reopening rollback continued in the U.S., and an increase in confirmed COVID-19 cases is still expected.
- The U.S. Federal Reserve launched its Primary Market Corporate Credit Facility yesterday—still nothing similar for the municipal bond market. Something comparable should be prepared.
- Comments prepared for U.S. Federal Reserve Chair Jerome Powell's statement to the House Committee on Financial Services are stale. The Q&A will be more informative and up to date.
- The Paycheck Protection Program has its inefficiencies and funds remain, but the need for relief for small business will continue.

Reopening Rollback Continues

The number of U.S. confirmed COVID-19 cases continues to rise, prompting the reopening of business in the U.S. to continue to pause, but still only in parts of the country. We are not yet seeing widespread action. No governor has yet to resort to a redo of a statewide shelter-in-place order. Yesterday, New Jersey Governor Phil Murphy indefinitely paused the reopening of indoor dining that was slated to commence on Thursday. Los Angeles-area beaches will be closed over the Fourth of July holiday, according to local leaders. For now former FDA Commissioner Scott Gottlieb still says we can expect cases to increase later in the week despite the reopening rollback.¹

Primary Market Corporate Credit Facility is Another Corporate Funding Backstop

Yesterday, the U.S. Federal Reserve launched its Primary Market Corporate Credit Facility (PMCCF), released a term sheet about the program, and communicated pricing details. This is one of several Fed programs set up to facilitate lending to corporations as a result of financial market concerns resulting from the COVID-19 pandemic recession. The Fed indicated: "By standing ready to provide credit to qualifying issuers of corporate bonds in periods of stress, the PMCCF serves as a funding backstop, supporting market liquidity and the availability of credit for large employers."²

On March 23, the Fed initially designated that this backstop would be created along with its Secondary Market Corporate Credit Facility, which was activated during the week of June 15. Through this facility, the Fed will be able to purchase corporate bonds of eligible issuers rated at least Baa3/BBB- as of March 22, 2020, in a primary market capacity. Maturities must be four years or less.

Pricing

The Fed writes that, "Pricing will be issuer-specific, informed by market conditions, plus a 100 bps facility fee. Pricing also will be subject to minimum and maximum spreads over yields on comparable maturity U.S. Treasury securities, and such spread caps and floors will vary based on an eligible issuer's credit rating as of the date on which the Facility makes a purchase."³ The pricing process is in stark contrast to pricing of the Fed's Municipal Liquidity Facility.

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PMCCF Program Conclusion

Currently, the Fed expects to cease purchasing corporate bonds on Sept. 30, 2020, for now.

There is still no Fed program for the municipal bond market that comes close to what is being provided to corporates.

For More Information

Please see [the PMCCF Press Release here](#).

See the [June 29, 2020, Term Sheet here](#).

See the [FAQs as of June 29, 2020, here](#).

Still Nothing Like Primary or Secondary Market Corporate Credit Facility for Municipals

There is still no Fed program for the municipal bond market that comes close to what is being provided to corporates. The Municipal Liquidity Facility remains almost unused and even less likely to be utilized today as municipal market function has all but normalized. This reality should not be a reason to ignore the need to expand the municipal backstop. It makes sense for the Fed to expand primary and secondary market coverage for the municipal market in the same way it has for corporates—just to be prepared as Chair Powell has written and said about the corporate facilities.

Prepared Fed Chair Comments are Stale

U.S. Federal Reserve Chair Jerome Powell is scheduled to make a statement and take questions from the House Committee on Financial Services today.⁴ The prepared comments are stale. There is little mention of the reopening rollback that began last week. We expect the question-and-answer session to include more up-to-date commentary. The prepared comments also include mention of the Fed's Municipal Liquidity Facility and that municipal market function has mostly normalized.

U.S. Federal Reserve Chair Jerome Powell is scheduled to make a statement and take questions from the House Committee on Financial Services today. The prepared comments are stale.

We expect members of the committee will ask Chair Powell about the importance of aid to state and local governments. Chair Powell has been in favor of additional aid, and we expect he will make this clear again today. We wrote yesterday that the new infection surge and reopening rollback all but ensures another round of federal relief for the end of July.⁵

Paycheck Protection Program Expires, More Small Business Aid Likely Needed

As of the middle of June, the U.S. Small Business Administration (SBA) processed over \$512 billion in loans to small businesses through the CARES Act's \$670 billion Paycheck Protection Program. While the General Accountability Office recommended the SBA develop and implement plans to ensure PPP integrity, achieve effectiveness, and address fraud,⁶ about \$130 billion is still left unused before the plan's expiration,⁷ and we expect lawmakers to do their best to get the remaining relief to small businesses. We also expect additional U.S. small business aid is likely going to be needed going forward.

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¹ [Scott Gottlieb interview on CNBC; June 30, 2020.](#)

² [Federal Reserve Board releases new term sheet for the Primary Corporate Credit Facility adding pricing and other information; Fed Press Release; June 29, 2020.](#)

³ [Primary Market Corporate Credit Facility Term Sheet; U.S. Federal Reserve; June 29, 2020.](#)

⁴ [The prepared comments Coronavirus and CARES Act were released on Monday June 29, 2020.](#)

⁵ [Kozlik, Tom; The new surge renders thursday's June jobs numbers meaningless, almost ensures federal relief in July; HilltopSecurities; June 29, 2020.](#)

⁶ [COVID-19: Opportunities to Improve Federal Response and Recovery Efforts; General Accountability Office; June 25, 2020.](#)

⁷ [O'Connell, Jonathan; Erica Werner and Aaron Greg; Paycheck Protection Program nears end with \\$130 billion left unused, and lawmakers eye next steps; The Washington Post; June 30, 2020.](#)

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