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Fed Further Expands Money Market Mutual Fund Liquidity Facility to Include Municipal Variable Rate Demand Notes and Bank CDs

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The Federal Reserve **announced** a further expansion of the Money Market Mutual Fund Liquidity Facility (**MMLF**), originally **announced** on March 18, 2020 and **expanded** on March 20, 2020, as part of its response to the coronavirus crisis. Under the further expanded MMLF, additional securities are eligible as collateral.

For more information on the MMLF, please see our **memorandum** dated March 22, 2020 and the updated **term sheet released** by the Federal Reserve on March 23, 2020. Please also see **this page** on the Federal Reserve Bank of Boston's website, which includes **FAQs**, an **MMLF Request Form** and **borrowing documents** initially posted on March 21, 2020. This post highlights some of the key changes associated with the expansion of the MMLF's collateral.

Under an MMLF transaction, the Federal Reserve Bank of Boston would provide a non-recourse loan to a banking organization (as **eligible borrower**), taking as collateral certain types of assets (**eligible collateral**) purchased by the banking organization from an **eligible MMF**. To qualify for the facility, the eligible collateral generally must be purchased from an eligible MMF either (1) concurrently with the borrowing, if purchased from an eligible MMF after March 23, 2020, or (2) expeditiously starting on March 23, 2020, if purchased from an eligible MMF on or after March 18, 2020 but before March 23, 2020. Separate timing rules apply for the newly-eligible collateral types listed below.

Key features relative to the March 20, 2020 version of the MMLF include:

- Eligible collateral now includes:
  - Municipal variable rate demand notes (**VDRNs**); and
  - Bank certificates of deposit (**CDs**).
- The term sheet now refers to ratings assigned by "major nationally recognized statistical rating organizations" rather than "major rating agencies" and explains that ratings for instruments not rated in a short-term rating category must be rated in one of the top two long-term rating categories, rather than in the top long-term rating category.
- The term sheet now provides additional details on timing of use of the facility, including when collateral must be pledged.
- The term sheet changes the language, but not the substance, of the support provided by the Department of the Treasury.
- No other feature has changed, including the scope of eligible borrowers and the regulatory capital relief **announced** by the federal banking regulators on March 19, 2020.

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If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Luigi L. De Ghenghi
+1 212 450 4296
luigi.deghenghi@davispolk.com

Andrew Rohrkemper
+1 212 450 3207
andrew.rohrkemper@davispolk.com

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