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Fed Updates FAQs for the Money Market Mutual Fund Liquidity Facility

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The Federal Reserve has **issued updated FAQs** regarding its money market mutual fund liquidity facility (**MMLF**), modifying the FAQs issued on March 21.

For more information on the MMLF, please see our **memorandum** and **blog post** describing the original MMLF announced on March 18, our **blog post** describing the expansion of eligible collateral to include municipal bonds on March 20, and our **blog post** describing the further extension of eligible collateral to include municipal variable rate demand notes and bank CDs on March 23.

Under an MMLF transaction, the Federal Reserve Bank of Boston (**FRBB**) 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**. Eligible MMFs include prime MMFs, single state MMFs and other tax exempt MMFs.

Key differences between the March 21 FAQs and the March 25 FAQs include:

- Eligible Collateral
    - The updated FAQs reflect the March 23 term sheet's expansion of eligible collateral to include negotiable certificates of deposit (**NCDs**) and variable rate demand notes (**VRDNs**) that meet certain eligibility requirements.
    - Also as reflected in the March 23 term sheet, the FAQs specify that, to be eligible collateral, U.S. municipal short term debt that is not rated in a short-term category (for which an SP1/MIG1/F1 rating is required) and is only rated in a long-term category must have an AA rating or above.

- NCDs and commercial paper issued directly by a foreign entity are not eligible collateral, but those issued by a U.S. branch of a foreign bank are eligible.
- Tender option bonds are still not eligible collateral.

- Relationship of Borrowers to Pledged Collateral
  - Borrowers may pledge commercial paper and NCDs issued by the borrower.
  - Borrowers may pledge collateral for which they provide liquidity support and/or credit enhancement, including VRDNs.
- Maturity and Prepayment
  - The March 21 FAQs stated that the maturity date of a loan under the MMLF is the earlier of (1) the maturity date of the eligible collateral and (2) 12 months. The March 25 FAQs clarify that the maturity date of eligible collateral is the earlier of the original stated maturity or any prepayment, in whole or in part, of the collateral. The March 21 FAQs generally prohibited prepayment of loans under the MMLF, but the March 25 FAQs conceive of accelerated payment of advances upon prepayment of the collateral.
  - Where eligible collateral has, upon pledge, a remaining maturity of more than 12 months, the borrower will need to repay the loan after 12 months and choose to sell the collateral, request repayment of the security or retain the collateral on the borrower's balance sheet without nonrecourse treatment and capital relief.
  - If the issuer prepays the collateral (including exercising a demand feature on a VRDN), the borrower is expected to repay the loan associated with that collateral.
- Timing of Pledging Collateral
  - The FAQs include a new chart that describes, for each type of eligible collateral, when it must have been purchased to be eligible collateral and when it must be pledged relative to when it is purchased from the MMF.

- Administrative Points
  - Borrowers need to establish a Federal Reserve issued customer identification number (a **pseudo ABA**) at least 24 hours before requesting a loan.
  - MMLF loans will be issued to borrowers' pseudo ABAs in order to segregate these loans from other activity with FRBB, and loan activity will appear in the AMI application.
  - Borrowers will be sent via email a report of loan amounts and terms on the day following the borrowing.
  - Updates to the program and program documents are available at https://www.federalreserve.gov/monetarypolicy/mmlf.htm.