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Congress of the United States
House of Representatives

April 17, 2020

The Hon. Jerome Powell, Chairman
Federal Reserve
20th Street and Constitution Ave NW
Washington, D.C. 20551

Dear Chairman Powell:

On April 6 I wrote to you urging the Federal Reserve to use its authority under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and Section 14(2)(b) of the Federal Reserve charter to begin buying up municipal debt to give flexibility to states expending enormous resources to survive this pandemic.ⁱ Your announcement on April 9 to establish a Municipal Liquidity Facility (MLF) to commence the purchase of the debt of states and large cities is a good first step that will do much good. But the Federal Reserve must go further.

The insidiousness of this virus is that it is not impacting select segments of our country: all places, large and small both, are under threat and under siege. Yet, despite this equality of danger, and while all 50 states can participate in it, the Federal Reserve's MLF program only allows cities with at least one million residents and counties with at least two million residents to apply for relief. Under Census estimates, that would render just 10 cities and approximately 45 counties eligible for help. This is insufficient.

For example, as of April 16, my hometown Paterson, New Jersey, the third largest city in the Garden State with a population of approximately 145,627,ⁱⁱ has passed 2,700 COVID-19 infections, and my district's county Bergen, with a population of 932,202ⁱⁱⁱ has crossed the threshold of 11,000 infections, the tenth most in the nation.^{iv} Under the Federal Reserve's MLF program, neither are permitted to seek relief to help shoulder their debts incurred. Indeed, the tristate area is by far the region of America most impacted by this pandemic, but under the Federal Reserve's announced rules, only two cities in the Eastern Time Zone, which itself represents half of the United States population, will be eligible.

If the Federal Reserve is operating under the assumption that states applying to MLF can help their own counties and cities, that assumption badly underestimates the political divides that exist between local governments and their umbrella states across our nation. The current structure of the MLF excludes regions of America badly impacted by the pandemic and leaves their local

governments more vulnerable, including, perilously, all of the top 35 most populous African American cities in the nation.^v

Furthermore, I was struck by the Federal Reserve's announcement invoking Section 13(3) of its charter to construct the MLF and not Section 14(2)(b), which specifically grants the Federal Reserve the power to buy up municipal debt issued by governments at the state and local levels. The scope of this crisis is unprecedented and will require even more support from the Federal Reserve than your announcement of April 9 offers. I encourage the Federal Reserve not to be deterred by precedent-setting issues because of the unique nature of this crisis and invoke its authority granted under Section 14(2)(b).

Section 14(2)(b) should be invoked so the Federal Reserve can purchase all existing municipal debt incurred because of this crisis. This course will allow state and local governments across the country to focus on the current fight against COVID-19. Consequently, the \$500 billion cap, while a good start, must be just that – a start. As individual incomes and business revenues collapse, financing needs of state and local governments will come under increasing pressure. These municipalities will need the ability to manage the shortfalls of the moment while refinancing longer maturity debts under difficult or even unattainable terms. It is a false choice to make these governments balance decisions to fight the virus and its impacts now against fears of making harsh reductions to services that Americans rely on in their daily lives later.^{vi} Consequently, a \$500 billion cap is too small and must be raised to meet these challenges.

The Federal Reserve must not make the same mistakes of complacency that plagued the recovery from the Great Recession of 2008. If adequate steps are not taken, the cosmic costs imposed on our state, city, and local governments by COVID-19 may take tolls on essential services that will take years to undo and make ensuing recession even more protracted and painful than that which followed 2008. So far you have taken poised and decisive action that will help keep our economy afloat. I implore the Federal Reserve to expand its MLF program to allow more impacted communities to participate. Thank you for your prompt attention to this matter.

Sincerely,



Bill Pascrell, Jr.
Member of Congress

ⁱ <https://pascrell.house.gov/news/documentsingle.aspx?DocumentID=4232>

ⁱⁱ <https://www.census.gov/quickfacts/patersoncitynewjersey>

ⁱⁱⁱ <https://www.census.gov/quickfacts/bergencountynewjersey>

^{iv} See <https://coronavirus.jhu.edu/us-map>

^v See <https://twitter.com/Aarondklein/status/1248424588905594882>

^{vi} See <https://nathantankus.substack.com/p/stanch-the-bleeding-from-local-and>