The Money Market Mutual Fund Liquidity Facility

The Federal Reserve (Fed) established the Money Market Mutual Fund Liquidity Facility (MMLF) on March 18. At its core, this facility acts as a backstop for holdings of certain money market funds, helps stabilize the entire financial system, and supports the flow of credit to American households and businesses.

KEY TAKEAWAYS

- Money market funds are investment vehicles that invest in debt securities with short maturities and minimal credit risk. These funds provide safe and effective tools for American investors of all kinds, including individuals, small businesses, pension funds, and municipalities.
- The MMLF will make loans available to eligible financial institutions to facilitate the purchase of high-quality assets from an eligible money market mutual fund to support the flow of credit to American households and businesses.

The Role of Money Market Funds

Money market funds are investment vehicles that invest in debt securities with short maturities and minimal credit risk. Money Market Mutual Funds (MMMFs) are considered among investments with the lowest volatility and offer crucial benefits to both shareholders who rely on them as a cash management tools, and issuers who depend on money market funds as an important source of financing. All in all, these funds provide safe and effective tools for American investors of all kinds, including individuals, small businesses, pension funds, and municipalities amongst others.

COVID-19 Impact on Money Market Funds

Sudden disruptions in financial markets have put increasing liquidity pressure on MMMFs and they have faced an exceptional spike in redemption requests from clients with immediate cash needs. MMMFs may need to sell a significant number of assets to meet these redemption requests, which could further increase market pressures by forced liquidation of commercial paper, municipal securities, and other short-term obligations into already strained financial markets. Established by the Fed under their authority granted by section 13(3) of the Federal Reserve Act, the MMLF program will purchase a broader range of assets and relieve the pressure of abnormal redemption demands.

The MMLF is structured very similar to the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), that operated from late 2008 to early 2010. The AMLF helped stabilize asset outflows from money market mutual funds, and it improved liquidity in the asset-backed commercial paper market. The AMLF lent $150 billion in its first 10 days of operation, a total that would rise to $217 billion by its conclusion on February 1, 2010, and was ended with no credit losses to the Fed.¹

Under the MMLF, the FRBB will make loans available to eligible financial institutions to facilitate the purchase of high-quality assets from an eligible MMMF. Treasury will provide $10 billion as credit protection to the FRBB, using the Exchange Stabilization Fund, through September 30, 2020 unless extended by the Federal Reserve Board of Governors. The Board has also outlined their belief that the MMLF will not result in any losses to the Fed.

Additional Resources: Federal Reserve Bank of Boston Money Market Mutual Fund Liquidity Facility Program Page