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(Original Signature of Member)

111TH CONGRESS
1ST SESSION

H. R.

To amend the Federal Reserve Act to provide for lending authority for certain securities purchases, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

M. _____ introduced the following bill; which was referred to the Committee on _____

A BILL

To amend the Federal Reserve Act to provide for lending authority for certain securities purchases, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Municipal Market Li-
5 quidity Enhancement Act of 2009”.

1 **SEC. 2. FEDERAL RESERVE LENDING AUTHORITY FOR CER-**
2 **TAIN SECURITIES PURCHASES.**

3 Section 13 of the Federal Reserve Act (12 U.S.C.
4 342) is amended by adding at the end the following new
5 paragraph:

6 “(15) LENDING AUTHORITY FOR CERTAIN SE-
7 CURITIES PURCHASES.—

8 “(A) IN GENERAL.—Subject to such limi-
9 tations, restrictions, and regulations as the
10 Board may prescribe, any Federal reserve bank
11 may make advances to a special purpose vehicle
12 or a designated corporate entity on the promis-
13 sory notes of such special purpose vehicle or
14 designated corporate entity secured by the secu-
15 rities described in subparagraph (B).

16 “(B) RESTRICTIONS ON USE OF AD-
17 VANCES.—Such advances authorized by this
18 paragraph shall—

19 “(i) be used solely to finance the pur-
20 chase by such special purpose vehicle or
21 designated corporate entity of—

22 “(I) variable rate demand obliga-
23 tions issued prior to the date of the
24 enactment of this paragraph by a mu-
25 nicipal securities issuer, except those
26 variable rate demand obligations

1 issued for the purpose of refinancing
2 auction rate securities, or

3 “(II) short-term notes used for
4 cash-management and other short-
5 term borrowing needs, as determined
6 by the Board, issued by a municipal
7 securities issuer,

8 where such purchase is made under an
9 agreement between the special purpose ve-
10 hicle or designated corporate entity and
11 the obligation or note issuer whereby the
12 special purpose vehicle or designated cor-
13 porate entity agrees to purchase obliga-
14 tions or notes that are made publicly avail-
15 able for purchase, but are not otherwise
16 purchased; and

17 “(ii) bear interest at rates fixed from
18 time to time by the Federal reserve bank,
19 subject to the review and determination of
20 the Board.

21 “(C) COOPERATION NOT PROHIBITED.—
22 Nothing shall prohibit a Federal reserve bank
23 from cooperating with the Department of the
24 Treasury or other Government agency or de-

1 partment in making such advances authorized
2 by this paragraph.

3 “(D) NOT TO BE CONSTRUED AS A LIMITA-
4 TION.—Nothing in this paragraph shall be con-
5 strued to limit the authority of the Federal re-
6 serve banks or the Board under other para-
7 graphs of this section.

8 “(E) MUNICIPAL SECURITY ISSUER DE-
9 FINED.—For purposes of this paragraph, the
10 term ‘municipal security issuer’ means any enti-
11 ty that has the ability to issue a ‘State or local
12 bond’ (as such term is defined in section 103(c)
13 of the Internal Revenue Code of 1986 and the
14 regulations issued thereunder).”.

15 **SEC. 3. AUTHORITY UNDER THE EMERGENCY ECONOMIC**
16 **STABILIZATION ACT OF 2008.**

17 Section 101 of the Emergency Economic Stabilization
18 Act of 2008 (12 U.S.C. 5211) is amended by inserting
19 after subsection (f) the following new subsection:

20 “(g) CLARIFICATION OF AUTHORITY REGARDING
21 MUNICIPAL SECURITIES.—

22 “(1) CLARIFICATION.—The authority of the
23 Secretary to take any action under this title includes
24 the authority to provide credit enhancement in con-
25 nection with municipal securities whose purchase is

1 financed under any facility designed to enhance li-
2 quidity in the municipal market that is provided by
3 the Board or any Federal reserve bank.

4 “(2) DEFINITION.—For purposes of this sub-
5 section, the term ‘municipal security’ has the mean-
6 ing given the term ‘State or local bond’ in section
7 103(c) of the Internal Revenue Code of 1986) and
8 the regulations issued thereunder.”.

9 **SEC. 4. CERTAIN FEDERAL RESERVE LENDING AUTHORITY**
10 **NOT TREATED AS FEDERAL GUARANTEE**
11 **UNDER TAX EXEMPT BOND REQUIREMENTS.**

12 (a) IN GENERAL.—Subparagraph (A) of section
13 149(b)(3) of the Internal Revenue Code of 1986 is amend-
14 ed by striking “or” at the end of clause (ii), by striking
15 the period at the end of clause (iii) and inserting “, or”,
16 and by adding at the end the following new clause:

17 “(iv) any advances made by a Federal
18 reserve bank pursuant to section 13(15) of
19 the Federal Reserve Act (12 U.S.C.
20 342(15)).”.

21 (b) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to bonds issued after the date of
23 the enactment of this Act.