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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.—In unusual and exi-
9 gent circumstances, the Board, by the affirma-
10 tive vote of not less than five members, and
11 subject to such limitations, restrictions, and
12 regulations as the Board may prescribe, may
13 authorize any Federal reserve bank to make ad-
14 vances to a special purpose vehicle or a des-
15 ignated corporate entity on the promissory
16 notes of such special purpose vehicle or des-
17 ignated corporate entity secured to the satisfac-
18 tion of such Federal reserve bank by the securi-
19 ties described in subparagraph (B) or by other
20 forms of security.

21 “(B) RESTRICTIONS ON USE OF AD-
22 VANCES.—Such advances authorized by this
23 paragraph shall—

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

1 “(I) variable rate demand obliga-
2 tions issued prior to the date of the
3 enactment of this paragraph by a mu-
4 nicipal securities issuer,

5 “(II) variable rate demand obli-
6 gations issued to refund variable rate
7 demand obligations issued prior to the
8 date of the enactment of this para-
9 graph,

10 “(III) variable rate demand obli-
11 gations issued to refinance auction
12 rate securities, or

13 “(IV) short-term notes used for
14 cash-management and other short-
15 term borrowing needs, as determined
16 by the Board, issued by a municipal
17 securities issuer,

18 where such purchase is made under an
19 agreement between the special purpose ve-
20 hicle or designated corporate entity and
21 the obligation or note issuer whereby the
22 special purpose vehicle or designated cor-
23 porate entity agrees to purchase obliga-
24 tions or notes that are made publicly avail-

1 able for purchase, but are not otherwise
2 purchased; and

3 “(ii) bear interest at rates fixed from
4 time to time by the Federal reserve bank,
5 subject to the review and determination of
6 the Board.

7 “(C) COOPERATION NOT PROHIBITED.—
8 Nothing shall prohibit a Federal reserve bank
9 from cooperating with the Department of the
10 Treasury or other Government agency or de-
11 partment in making such advances authorized
12 by this paragraph.

13 “(D) NOT TO BE CONSTRUED AS A LIMITA-
14 TION.—Nothing in this paragraph shall be con-
15 strued to limit the authority of the Federal re-
16 serve banks or the Board under other para-
17 graphs of this section.

18 “(E) MUNICIPAL SECURITY ISSUER DE-
19 FINED.—For purposes of this paragraph, the
20 term ‘municipal security issuer’ means any enti-
21 ty that has the ability to issue a bond treated
22 as a ‘State or local bond’ (as such term is de-
23 fined in section 103(c) of the Internal Revenue
24 Code of 1986 and the regulations issued there-
25 under).”.

1 **SEC. 3. AUTHORITY UNDER THE EMERGENCY ECONOMIC**
2 **STABILIZATION ACT OF 2008.**

3 Section 101 of the Emergency Economic Stabilization
4 Act of 2008 (12 U.S.C. 5211) is amended by adding at
5 the end the following new subsection:

6 “(f) CLARIFICATION OF AUTHORITY REGARDING MU-
7 NICIPAL SECURITIES.—

8 “(1) CLARIFICATION.—The authority of the
9 Secretary to take any action under this title includes
10 the authority to provide credit enhancement in con-
11 nection with municipal securities whose purchase is
12 financed under any facility designed to enhance li-
13 quidity in the municipal market that is provided by
14 the Board or any Federal reserve bank.

15 “(2) WAIVER OF CERTAIN PROVISIONS.—In
16 connection with providing any credit enhancement
17 described in paragraph (1)—

18 “(A) the Secretary shall not be required to
19 apply the provisions of section 102; and

20 “(B) the Secretary shall not be required to
21 consider the total dollar amount of securities
22 subject to such credit enhancements as out-
23 standing for purposes of authorization to pur-
24 chase limitations under section 115.

25 “(3) DEFINITION.—For purposes of this sub-
26 section, the term ‘municipal security’ means any

1 bond treated as a ‘State or local bond’ (as such term
2 is defined in section 103(c) of the Internal Revenue
3 Code of 1986 and the regulations issued there-
4 under).’.

5 **SEC. 4. CERTAIN FEDERAL RESERVE LENDING AUTHORITY**
6 **NOT TREATED AS FEDERAL GUARANTEE**
7 **UNDER TAX EXEMPT BOND REQUIREMENTS.**

8 Subparagraph (A) of section 149(b)(3) of the Inter-
9 nal Revenue Code of 1986 is amended by striking “or”
10 at the end of clause (ii), by striking the period at the end
11 of clause (iii) and inserting “, or”, and by adding at the
12 end the following new clause:

13 “(iv) any advances made by a Federal
14 reserve bank pursuant to section 13(15) of
15 the Federal Reserve Act (12 U.S.C.
16 342(15)).’.