

Policy Option 3

EXPLORING BRIDGE LOANS TO INCREASE LIQUIDITY

Prior to the Federal Reserve's opening of the Municipal Liquidity Facility, pension funds used short-term bridge loans to meet their liquidity needs. For example, Bank of America has a municipal credit facility that large and small pension plans have used under various arrangements. These arrangements include revolving lines of credit, unsecured general recourse or asset-based recourse pledges, fixed- or floating-rate term loans, and letters of credit. Uses of bank municipal credit facilities include covering benefit payments, meeting capital calls associated with alternative investments, and rebalancing portfolios, to name a few.¹⁹

Now that the Federal Reserve Municipal Liquidity Facility and existing commercial bank municipal credit facility are available, pension funds may have more options to meet their liquidity needs. They can compare and assess what best fits their needs.

¹⁹ Chris Straub, *Bank Credit Facilities*, Public Pension Funding Forum presentation (September, 11, 2018).