SBIA Update: Federal Reserve Facilities
March 26, 2020

Recent Federal Reserve Credit Facilities in Response to Coronavirus Pandemic

On March 23rd, the Federal Reserve announced the creation of three new credit facilities to support the flow of credit in the economy during the coronavirus pandemic. These new facilities are in addition to other steps taken by the Fed, including the direct purchase of Treasury securities and agency/commercial mortgage-backed securities, programs that will ultimately provide $300 billion in new financing for businesses and consumers in conjunction with the Treasury Department's Exchange Stabilization Fund (ESF), a Money Market Mutual Fund Liquidity Facility (MMLF), a Commercial Paper Funding Facility (CPFF), and a Primary Dealer Credit Facility (PDCF).

Additionally, the Federal Reserve is expected to announce soon the creation of a Main Street Business Lending Program to "support lending to eligible small-and-medium sized businesses, complementing efforts by the SBA." SBIA will alert members as soon as details about this program are announced.

Below is an outline of eligibility and terms of the three new facilities announced by the Fed this week.

Primary Market Corporate Credit Facility (PMCCF)

The PMCCF will serve as a funding backstop for corporate debt issued by eligible issuers. A special purpose vehicle (SPV) run by the New York Federal Reserve will purchase qualifying bonds and provide loans to eligible issuers. Treasury will use the ESF to make an initial $10 billion equity investment in the SPV.

Eligible assets: The PMCCF will purchase bonds and make loans to issuers that meet the criteria below:

- Bonds are issued by an eligible issuer;
- Issuer is rated at least BBB-/Baa3 by a major NRSRO (and, if rated by multiple NRSROs, at least BBB-/Baa3 by two major NRSROs);
- Eligible bonds and loans must have a maturity of four years or less.

Eligible issuers: U.S. companies headquartered in the United States and with "material operations" in the U.S. The Fed notes that the scope of eligible issuers may be expanded in the future. Companies that are receiving direct assistance under the Coronavirus Aid, Relief, and Economic Security (CARES) Act are prohibited from participating in the PMCCF.

Issuer limits: The maximum amount of bonds or loans that an issuer borrows from the facility cannot exceed the below percentages of an issuer's maximum outstanding bonds or loans on any day between 3/22/2019 and 3/22/2020:

- 140 percent for eligible assets/issuers with a AAA/Aaa rating from a major NRSRO;
- 130 percent for eligible assets/issuers with a AA/Aa rating from a major NRSRO;
- 120 percent for eligible assets/issuers with a A/A rating from a major NRSRO;
- 110 percent for eligible assets/ issuers with a BBB/Baa rating from a major NRSRO.

Interest rate: Interest rates for bonds and loans administered through the program will have interest rates "informed by market conditions."

Termination: The PMCCF will cease buying bonds or issuing loans on September 30th, 2020 unless extended further by the Fed.

Secondary Market Corporate Credit Facility (SMCCF)

Under the SMCCF, the New York Fed will end – via an SPV – secondary market corporate debt issued by eligible issuers. The SPV will purchase individual bonds as well as bond exchange-traded funds (ETFs) in the secondary market. The Treasury's ESF will make an initial $10 billion equity investment in the SPV.

Eligible bonds/ETFs: The SMCCF may purchase bonds that meet the criteria below:

- Issued by an eligible issuer;
- Issuer is rated at least BBB-/Baa3 by a major NRSRO (and, if rated by multiple NRSROs, at least BBB-/Baa3 by two major NRSROs);
- Have a remaining maturity of five years or less;
- ETFs may be purchased if they have an investment objective "to provide broad exposure to the market for U.S. investment grade corporate bonds"

Eligible issuers: U.S. businesses with material operations in the United States. *Companies that receive direct assistance under the CARES Act are prohibited from participating*.

Pricing: The SMCCF will purchase bonds at fair market value in the secondary market and avoid purchasing ETFs if they materially exceed the net asset value of underlying assets.

Termination: The SMCCF will stop purchasing eligible bonds and ETFs on September 30th, 2020 unless the Fed extends the program.

Term Asset-Backed Securities Loan Facility (TALF)

The TALF is authorized under Section 13(3) of the Federal Reserve Act and is intended to meet the credit needs of consumers and small businesses by facilitating the issuance of asset-backed securities (ABS). The TALF will serve as a funding backstop for eligible ABS that were issued on or after 3/23/2020. The TALF SPV will initially make up to $100 billion of loans available. Loans will have a term of three years, be nonrecourse to the borrower, and will be fully secured by eligible ABS.

Eligible borrowers: All U.S. companies that maintain an account relationship with a primary dealer.

Eligible collateral: U.S. dollar ABS that have a credit rating in the highest long-term or highest short-term investment grade category from at least two eligible NRSROs and do not have a credit rating below the highest investment-grade category from an eligible NRSRO. Eligible collateral must be ABS where underlying credit exposures are one of the following:

- Auto loans and leases
- Student loans
- Credit card receivables
- Equipment loans
- Floorplan loans
- Insurance premium finance loans
- Certain small business loans guaranteed by the SBA
- Eligible servicing advance receivables

Pricing: For eligible ABS that do not have a government guarantee, interest rate will be 100bps over 2-year LIBOR swap rate for ABS with a weighted average life of less than two years; 100bps over 3-year LIBOR swap rate if weighted average life is greater than two years.

Maturity: Each loan under the TALF will have a maturity of less than three years.

Termination: No new credit extensions will be made after September 30th, 2020 unless the program is extended by the Fed.