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Memorandum

Federal Reserve Announces Extensive Actions to Support the Economy

March 24, 2020

On March 23, 2020, the Federal Reserve announced several new measures to support households, smaller and larger businesses, and to enhance overall market functioning and credit provision to the broader economy. The actions include an announcement by the Federal Open Market Committee ("FOMC") that it will increase open market operations, including the purchase of Treasury securities and agency mortgage-backed securities ("MBS"), and the announced establishment of several new liquidity programs pursuant to the Federal Reserve's emergency lending authority under section 13(3) of the Federal Reserve Act. Taken together, the new facilities will provide up to $300 billion in new financing.[1] The Treasury Department, using the Exchange Stabilization Fund ("ESF"), will provide $30 billion in equity to backstop these facilities. Specifically, the announced actions include:

- **Open Market Operations**: The FOMC will purchase Treasury securities and agency MBS in amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy. The FOMC had previously announced it would purchase at least $500 billion of Treasury securities and at least $200 billion of mortgage-backed securities. The FOMC will now also include purchases of agency commercial (multifamily) mortgage-backed securities in its agency mortgage-backed security ("ABS") purchases.
  - The Open Market Trading Desk at the Federal Reserve Bank of New York ("FRBNY") announced plans to conduct operations totaling approximately $75 billion of Treasury securities and approximately $50 billion of agency MBS each business day this week, subject to reasonable prices, and will begin purchasing agency CMBS this week. The Open Market Desk will continue to offer large-scale overnight and term repurchase agreement operations.
- **Primary Market Corporate Credit Facility ("PMCCF") & Secondary Market Corporate Credit Facility ("SMCCF")**: The Federal Reserve will establish the PMCCF to provide liquidity for new bond and loan issuance and the SMCCF to provide liquidity for outstanding corporate bonds.

[1] The Federal Reserve did not provide details on how all of the financings will be allocated across the programs, other than to note that the Term Asset-Backed Securities Loan Facility initially will make up to $100 billion of loans available.

- **Term Asset-Backed Securities Loan Facility (“TALF”)**: The Federal Reserve will establish the TALF to support the flow of credit to consumers and businesses. The TALF will enable the issuance of ABS backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (“SBA”), and certain other assets. TALF initially will make up to $100 billion of loans available. The TALF is structured similarly to the TALF that the Federal Reserve operated during the 2008 Financial Crisis.
- **Expansion of the Money Market Mutual Fund Liquidity Facility (“MMLF”)**: The Federal Reserve will expand the MMLF to include a wider range of securities, including municipal variable rate demand notes (“VRDNs”) and bank certificates of deposit. On March 20, 2020, the Federal Reserve also announced that it will expand the MMLF program to allow loans secured by high-quality assets purchased from money market funds that invest in securities issued by a single U.S. state and other tax-exempt municipal money market funds, as well as to permit a broader range of eligible collateral under the facility.
- **Expansion of the Commercial Paper Funding Facility (“CPFF”)**: The Federal Reserve will expand the CPFF to include high-quality, tax-exempt commercial paper as eligible securities. In addition, the pricing of the facility has been reduced.

The Federal Reserve also announced that it will soon establish a facility called the Main Street Business Lending Program to support lending to eligible small- and medium-sized businesses, complementing efforts by the SBA.

The Federal Reserve released high-level descriptions of the terms of the new facilities and the expansions of the existing facilities, which are included in the following appendices. More detailed program terms and conditions and an operational calendar will be subsequently published.

Primary Market Corporate Credit Facility Key Terms

The PMCCF will serve as a funding backstop for corporate debt issued by eligible issuers. Under the PMCCF, the FRBNY will commit to lend to a special purpose vehicle ("SPV") on a recourse basis. The SPV will (i) purchase qualifying bonds directly from eligible issuers and (ii) provide loans to eligible issuers. The Treasury Department, using the ESF, will make an initial $10 billion equity investment in the SPV in connection with the PMCCF. The Federal Reserve did not specify an aggregate limit on funding under this program.

- **Eligible Assets**: The PMCCF will purchase eligible corporate bonds directly from eligible issuers and will make eligible loans to eligible issuers. Eligible corporate bonds and loans must meet each of the following criteria at the time of bond purchase or loan origination by the PMCCF:
  - Issued by an eligible issuer;
  - Issuer is rated at least BBB-/Baa3 by a major nationally recognized statistical rating organization ("NRSRO") and, if rated by multiple major NRSROs, rated at least BBB-/Baa3 by two or more NRSROs, in each case subject to review by the Federal Reserve; and
  - Have a maturity of four years or less.
- **Eligible Issuers**: Eligible issuers are U.S. companies headquartered in the United States and with material operations in the United States. The scope of eligible issuers may be expanded in the future. Eligible issuers do not include companies that are expected to receive direct financial assistance under pending federal legislation (such as airlines).
- **Limits per Issuer**: The maximum amount of outstanding bonds or loans of an eligible issuer that borrows from the PMCCF may not exceed the applicable percentage of the issuer's maximum outstanding bonds and loans on any day between March 22, 2019 and March 22, 2020:
  - 140% for eligible assets/eligible issuers with a AAA/Aaa rating from a major NRSRO;
  - 130% for eligible assets/eligible issuers with a AA/Aa rating from a major NRSRO;
  - 120% for eligible assets/eligible issuers with a A/A rating from a major NRSRO; or
  - 110% for eligible assets/eligible issuers with a BBB/Baa rating from a major NRSRO.
- **Interest Rate**: The PMCCF will purchase bonds and make loans that have interest rates informed by market conditions.

  At the borrower's election, all or a portion of the interest due and payable on each interest payment date may be payable in kind for six months, extendable at the discretion of the Federal Reserve. Such interest amount will be added to the outstanding principal amount of the bond or loan. A borrower that makes this election may not pay dividends or make stock buybacks during the period it is not paying interest.
- **Commitment Fee**: The commitment fee will be set at 100 bps.
- **Call Right**: Bonds and loans under the PMCCF are callable by the eligible issuer at any time at par.

- **Program Termination**: The PMCCF will cease purchasing eligible corporate bonds or extending loans on September 30, 2020, unless the PMCCF is extended by the Federal Reserve. The FRBNY will continue to fund the PMCCF after such date until the PMCCF's underlying assets mature.

Secondary Market Corporate Credit Facility Key Terms

Under the SMCCF, the FRBNY will lend, on a recourse basis, to an SPV that will purchase in the secondary market corporate debt issued by eligible issuers. The SPV will purchase eligible individual corporate bonds as well as eligible corporate bond portfolios in the form of exchange traded funds ("ETFs") in the secondary market. The Treasury Department, using the ESF, will make an initial $10 billion equity investment in the SPV in connection with the SMCCF. The Federal Reserve did not specify an aggregate limit on funding under this program.

- **Eligible Individual Corporate Bonds**: The SMCCF may purchase corporate bonds that meet each of the following criteria at the time of purchase:
    - Issued by an eligible issuer, which include U.S. businesses with material operations in the United States. Eligible issuers do not include companies that are expected to receive direct financial assistance under pending federal legislation.
    - Rated at least BBB-/Baa3 by a major NRSRO and, if rated by multiple major NRSROs, rated at least BBB-/Baa3 by two or more NRSROs, in each case subject to review by the Federal Reserve.
    - Have a remaining maturity of five years or less.
- **Eligible ETFs**: The SMCCF also may purchase U.S.-listed ETFs whose investment objective is to provide broad exposure to the market for U.S. investment grade corporate bonds.
- **Limits per Issuer/ETF**: The maximum amount of bonds that the SMCCF will purchase from any eligible issuer will be capped at 10% of the issuer's maximum bonds outstanding on any day between March 22, 2019 and March 22, 2020. The SMCCF will not purchase more than 20% of the assets of any particular ETF as of March 22, 2020.
- **Pricing**: The SMCCF will purchase eligible corporate bonds at fair market value in the secondary market. The SMCCF will avoid purchasing shares of eligible ETFs when they trade at prices that materially exceed the estimated net asset value of the underlying portfolio.
- **Program Termination**: The SMCCF will cease purchasing eligible corporate bonds and eligible ETFs no later than September 30, 2020, unless extended by the Federal Reserve. The FRBNY will continue to fund the SMCCF after such date until the SMCCF's holdings either mature or are sold.

Term Asset-Backed Securities Loan Facility Key Terms

The TALF is a credit facility authorized under section 13(3) of the Federal Reserve Act intended to help meet the credit needs of consumers and small businesses by facilitating the issuance of ABS and improving the market conditions for ABS more generally. The TALF will serve as a funding backstop to facilitate the issuance of eligible ABS on or after March 23, 2020.

Under the TALF, the FRBNY will commit to lend to an SPV on a recourse basis. The Treasury Department will make an equity investment of $10 billion in the SPV in connection with the TALF, as described below.

The TALF SPV initially will make up to $100 billion of loans available. The loans will have a term of three years; will be nonrecourse to the borrower; and will be fully secured by eligible ABS.

- **Eligible Borrowers**: All U.S. companies that own eligible collateral and maintain an account relationship with a primary dealer are eligible to borrow under the TALF. A U.S. company would be defined as a U.S. business entity organized under the laws of the United States or a political subdivision or territory thereof (including such an entity that has a non-U.S. parent company), or a U.S. branch or agency of a foreign bank.
- **Eligible Collateral**: Eligible collateral includes U.S. dollar-denominated cash (that is, not synthetic) ABS that have a credit rating in the highest long-term or the highest short-term investment-grade rating category from at least two eligible NRSROs and do not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. All or substantially all of the credit exposures underlying eligible ABS must have been originated by a U.S. company. Eligible ABS must be issued on or after March 23, 2020.
    - Eligible collateral must be ABS where the underlying credit exposures are one of the following: (1) Auto loans and leases; 2) Student loans; 3) Credit card receivables (both consumer and corporate); 4) Equipment loans; 5) Floorplan loans; 6) Insurance premium finance loans; 7) Certain small business loans that are guaranteed by the Small Business Administration; or 8) Eligible servicing advance receivables.[2]
    - Eligible collateral will not include ABS that bear interest payments that step up or step down to predetermined levels on specific dates. In addition, the underlying credit exposures of eligible collateral must not include exposures that are themselves cash ABS or synthetic ABS.
    - To be eligible collateral, all or substantially all of the underlying credit exposures must be newly issued.
    - The feasibility of adding other asset classes to the TALF will be considered in the future.
- **Collateral Valuation**: The pledged eligible collateral will be valued and assigned a haircut according to a schedule based on its sector, the weighted average life, and historical volatility of the ABS. This haircut

[2] The detailed terms and conditions will further define the eligible underlying credit exposures for purposes of the TALF. The definitions are expected to be broadly consistent with the defined terms used for purposes of the TALF established in 2008.

schedule will be published in the detailed terms and conditions and will be roughly in line with the haircut schedule used for the TALF program established in 2008.

- **Pricing**: For eligible ABS with underlying credit exposures that do not have a government guarantee, the interest rate will be 100 basis points over the 2-year LIBOR swap rate for securities with a weighted average life less than two years, or 100 basis points over the 3-year LIBOR swap rate for securities with a weighted average life of two years or greater.[3] The pricing for other eligible ABS will be set forth in the detailed terms and conditions.
- **Fees**: The SPV will assess an administrative fee equal to 10 basis points of the loan amount on the settlement date for collateral.
- **Maturity**: Each loan provided under this facility will have a maturity of three years.
- **Non-Recourse**: Loans made under the TALF are made without recourse to the borrower, provided the requirements of the TALF are met.
- **Prepayment**: Loans made under the TALF will be pre-payable in whole or in part at the option of the borrower, but substitution of collateral during the term of the loan generally will not be allowed.
- **Program Termination**: No new credit extensions will be made after September 30, 2020, unless the TALF is extended by the Federal Reserve.

[3] If necessary, the pricing structure would be updated to account for the expected industry transition away from LIBOR.

Money Market Mutual Fund Liquidity Facility Key Terms

The MMLF was established pursuant to section 13(3) of the Federal Reserve Act to assist certain money market funds in meeting demands for redemptions by households and other investors, enhancing overall market functioning and credit provision to the broader economy. Under the MMLF, the Federal Reserve Bank of Boston ("FRB Boston") will lend to eligible borrowers, taking as collateral certain types of assets purchased by the borrower from funds. Specifically, the MMLF will make loans available to eligible financial institutions secured by high-quality assets purchased by the financial institution from certain money market mutual funds. After initially being established to accept loans secured by high-quality assets purchased from prime money market funds, the Federal Reserve announced on March 20, 2020 that it will expand the MMLF program to allow loans secured by high-quality assets purchased from money market funds that invest in securities issued by a single U.S. state and other tax-exempt municipal money market funds. There is no aggregate limit on funding under this program.

The Treasury Department will provide $10 billion of credit protection to the Federal Reserve in connection with the MMLF from the ESF.

- **Timing**: The MMLF will open on March 23, 2020. The MMLF will generally take eligible collateral that:
    - If purchased after March 23, 2020, is pledged concurrently with the borrowing; or
    - If purchased on or after March 18, 2020, but on or before March 23, 2020, is pledged expeditiously starting on March 23, 2020.

  For negotiable certificates of deposit and VRDNs, a borrower may purchase these assets on or after March 23, 2020, and pledge them on or after March 25, 2020.[4]

- **Borrower Eligibility**: All U.S. depository institutions, U.S. bank holding companies and their U.S. broker-dealer subsidiaries, and U.S. branches and agencies of foreign banks are eligible to borrow under the MMLF.
- **Funds**: A Fund must identify itself as a Prime, Single State or Other Tax Exempt money market fund under item A.10 of Securities and Exchange Commission Form N-MFP.
- **Advance Maturity**: The maturity date of an advance will equal the maturity date of the eligible collateral pledged to secure the advance made under the MMLF except in no case will the maturity date of an advance exceed 12 months.
- **Eligible Collateral**: Collateral that is eligible for pledge under the MMLF include the following:
    - U.S. Treasuries & Fully Guaranteed Agency Securities;
    - Securities issued by U.S. Government Sponsored Entities ("GSEs");

[4] The MMLF will not accept negotiable certificates of deposit or VRDNs until March 25, 2020. Negotiable certificates of deposit or VRDNs purchased on March 23 or 24, 2020, must be pledged expeditiously starting on March 25, 2020.

  - Asset-backed commercial paper, unsecured commercial paper, or a negotiable certificate of deposit that is issued by a U.S. issuer, and that has a short-term rating at the time purchased from the fund or pledged to the FRB Boston in the top rating category (*e.g.*, not lower than A1, F1, or P1, as applicable) from at least two major NRSROs or, if rated by only one major NRSRO, is rated within the top rating category by that NRSRO;
  - U.S. municipal short-term debt (excluding VRDNs) that (i) has a maturity that does not exceed 12 months; and (ii) at the time purchased from the fund or pledged to the FRB Boston:
    - is rated in the top short-term rating category (*e.g.*, rated SP1, MIG1, or F1, as applicable) by at least two major NRSROs or if rated by only one major NRSRO, is rated within the top rating category by that NRSRO; or
    - if not rated in a short-term rating category, is rated in one of the top two long-term rating categories (*e.g.*, AA or equivalent or above) by at least two major NRSROs or if rated by only one major NRSRO, is rated within the top two rating categories by that NRSRO.
  - VRDN that: (i) has a demand feature that allows holders to tender the note at their option within 12 months; and (ii) at the time purchased from the fund or pledged to the FRB Boston:
    - Is rated in the top short-term rating category (*e.g.*, rated SP1, VMIG1, or F1, as applicable) by at least two major NRSROs or if rated by only one major NRSRO, is rated within the top rating category by that NRSRO; or
    - If not rated in a short-term rating category, is rated in one of the top two long-term rating categories (*e.g.*, AA or equivalent or above) by at least two major NRSROs or if rated by only one major NRSRO, is rated within the top two rating categories by that NRSRO.

      In addition, the MMLF may accept receivables from certain repurchase agreements. The feasibility of adding these and other asset classes to the facility will be considered by the Federal Reserve in the future.

- **Rate**: Advances made under the MMLF that are secured by U.S. Treasuries & Fully Guaranteed Agency Securities or Securities issued by U.S. GSEs will be made at a rate equal to the primary credit rate in effect at the FRB Boston that is offered to depository institutions at the time the advance is made.

  Advances made under the MMLF that are secured by U.S. municipal short-term debt, including VRDNs, will be made at a rate equal to the primary credit rate in effect at the FRB Boston that is offered to depository institutions at the time the advance is made plus 25 bps.

  All other advances will be made at a rate equal to the primary credit rate in effect at the FRB Boston that is offered to depository institutions at the time the advance is made plus 100 bps.

- **Fees**: There are no special fees associated with the MMLF.
- **Collateral Valuation**: The collateral valuation will either be amortized cost or fair value. For asset-

backed commercial paper, unsecured commercial paper, negotiable certificates of deposit, and U.S. municipal short-term debt, including VRDNs, the valuation will be amortized cost.

- **Advance Size**: Each advance shall be in a principal amount equal to the value of the collateral pledged to secure the advance.
- **Non-Recourse**: Advances made under the MMLF are made without recourse to the borrower, provided the requirements of the MMLF are met.
- **Regulatory Capital Treatment**: As discussed in our March 19 memorandum regarding the Federal Reserve's initial announcement of the MMLF (available here), the Federal Reserve, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation issued an interim final rule to allow banking organizations to neutralize the effects of purchasing assets through the MMLF program on risk-based and leveraged capital ratios.
- **Program Termination**: No new credit extensions will be made after September 30, 2020, unless the MMLF is extended by the Federal Reserve Board.

Commercial Paper Funding Facility Key Terms

The CPFF will be structured as a credit facility to a SPV authorized under section 13(3) of the Federal Reserve Act. The SPV will serve as a funding backstop to facilitate the issuance of term commercial paper by eligible issuers.

The FRBNY will commit to lend to the SPV on a recourse basis. The Treasury Department, using the ESF, will make a $10 billion equity investment in the SPV. There is no aggregate limit on funding under this program.

- **Assets of the SPV**: The SPV will purchase from eligible issuers three-month U.S. dollar-denominated commercial paper through the FRBNY's primary dealers. Eligible issuers are U.S. issuers of commercial paper, including municipal issuers and U.S. issuers with a foreign parent company.

  Except as provided below, the SPV will only purchase U.S. dollar-denominated commercial paper (including asset-backed commercial paper ("ABCP")) that is rated at least A-1/P-1/F-1 by a major NRSRO or, if rated by multiple major NRSROs, is rated at least A-1/P-1/F-1 by two or more major NRSROs, in each case subject to review by the Federal Reserve.

  An issuer that, on March 17, 2020, was (1) rated at least A1/P1/F1 by a major NRSRO or, if rated by multiple major NRSROs, was rated at least A1/P1/F1 by two or more major NRSROs; and (2) is subsequently downgraded, will be able to make a one-time sale of commercial paper to the SPV so long as the issuer is rated at least A2/P2/F2 by a major NRSRO or, if rated by multiple major NRSROs, is rated at least A2/P2/F2 by two or more major NRSROs, in each case subject to review by the Federal Reserve.

  The SPV will not purchase ABCP from issuers that were inactive prior to the creation of the CPFF. An issuer will be deemed inactive if it did not issue ABCP to institutions other than the sponsoring institution for any consecutive period of three-months or longer between March 16, 2019 and March 16, 2020.

- **Issuer Limits**: The maximum amount of a single issuer's commercial paper the SPV may own at any time will be the greatest amount of U.S. dollar-denominated commercial paper the issuer had outstanding on any day between March 16, 2019 and March 16, 2020. The SPV will not purchase additional commercial paper from an issuer whose total commercial paper outstanding to all investors (including the SPV) equals or exceeds the issuer's limit.

  For an issuer that, on March 17, 2020, was (1) rated at least A1/P1/F1 by a major NRSRO or, if rated by multiple major NRSROs, was rated at least A1/P1/F1 by two or more major NRSROs; and (2) is rated at least A2/P2/F2 by a major NRSRO or, if rated by multiple major NRSROs, is rated at least A2/P2/F2 by two or more major NRSROs, the maximum amount of the issuer's commercial paper that the SPV will purchase is the amount of U.S. dollar-denominated commercial paper the issuer had outstanding the day before it was downgraded.

- **Pricing**: For commercial paper rated A1/P1/F1, pricing will be based on the then-current 3-month overnight index swap ("OIS") rate plus 110 basis points. For commercial paper rated A2/P2/F2, pricing will be based on the then-current 3-month OIS rate plus 200 basis points.

At the time of its registration to use the CPFF, each issuer must pay a facility fee equal to 10 basis points of the maximum amount of its commercial paper the SPV may own.

- **Termination Date**: The SPV will cease purchasing commercial paper on March 17, 2021, unless the Federal Reserve extends the facility, which would require unanimous approval by the Federal Reserve Board's five governors and consent from the Secretary of the Treasury. The FRBNY will continue to fund the SPV after such date until the SPV's underlying assets mature.

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