

Federal Reserve Announced Yesterday Sweeping Actions to Support the Flow of Credit and Provide Liquidity to the Markets

Prior to the open of markets in the U.S. yesterday, the Federal Reserve announced that it is committed to using its full range of tools to address the coronavirus pandemic. The steps announced by the Federal Reserve include:

- The Federal Open Market Committee (“FOMC”) will purchase Treasury securities and agency mortgage-backed securities “in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy”, in other words, removing the previously announced dollar amount limits on these purchases. The Fed also said the FOMC will include purchases of agency commercial mortgage-backed securities in its agency mortgage-backed security purchases.
- The Fed established the Primary Market Corporate Credit Facility (“PMCC”) to serve as a funding backstop for corporate debt issued by eligible issuers. PMCC will purchase eligible corporate bonds directly from eligible issuers and will make eligible loans to eligible issuers. The facility will be open to U.S. companies headquartered in the United States and with material operations in the United States, who are 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. The corporate debt and loans must have maturities of four years or less and the amount eligible to be borrowed by any company will be based on that company’s maximum outstanding bonds and loans during the 12 months prior to the announcement of the PMCC and the company’s credit rating. 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. A borrower that makes this election may not pay dividends or make stock buybacks during the period it is not paying interest. The PMCC is authorized through September 30, 2020, unless extended. The PMCC would not be available to companies that are expected to receive direct support under pending federal legislation.
- The Fed also established the Secondary Market Corporate Support Facility (“SMCS”), under which the Fed will lend, on a recourse basis, to a special purpose vehicle (“SPV”) that will purchase in the secondary market (i) corporate debt issued by eligible issuers, and (ii) eligible corporate bond portfolios in the form of exchange traded funds (“ETFs”). Companies are eligible to have their corporate debt purchased on the same criteria as used for the PMCC. The SMCS may purchase U.S.-listed

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ETFs whose investment objective is to provide broad exposure to the market for U.S. investment grade corporate bonds. The maximum amount of bonds that the SMCS will purchase from any company will be capped at 10 percent of the company's maximum bonds outstanding on any day during the 12 months prior to the announcement of the SMCS. The SMCS will not purchase more than 20 percent of the assets of any particular ETF as of March 22, 2020. Companies that are expected to receive direct financial assistance under pending federal legislation are not eligible for the SMCS. The SMCS is authorized through September 30, 2020, unless extended.

- In addition, the Fed announced that, under the Term Asset-Backed Securities Loan Facility ("TALF"), the Fed will make up to \$100 billion of loans available on a non-recourse basis to holders of certain asset-backed securities ("ABS") backed by newly and recently originated consumer and small business loans. The loans will have a term of three years; will be nonrecourse to the borrower; and will be fully secured by eligible ABS. U.S. companies that own eligible collateral and maintain an account relationship with a primary dealer are eligible to borrow under the TALF. Eligible collateral includes 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 nationally recognized statistical rating organizations ("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. 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.
- The actions announced yesterday are in addition to previously announced actions by the Fed:
 - The Fed established the Money Market Mutual Fund Liquidity Facility ("MMLF"), on March 18, 2020, to make loans available to eligible financial institutions secured by high-quality assets purchased by the financial institution from money market mutual funds. The MMLF assists money market funds in meeting demands for redemptions.
 - On March 17, 2020, the Fed established a Commercial Paper Funding Facility ("CPFF") to provide a liquidity backstop to U.S. issuers of commercial paper through a SPV that will purchase three-month U.S. dollar-denominated, unsecured and asset-backed commercial paper rated A1/P1 (as of March 17, 2020) directly from U.S. issuers of commercial paper, subject to volume limitations.
 - The Fed established a Primary Dealer Credit Facility ("PDCF") on March 17, 2020, to offer overnight and term funding primary dealers of the New York Fed. Funding under the PDCF has maturities up to 90 days. The PDCF will be in place for at least six months and may be extended as conditions warrant. Credit extended to primary dealers under this facility may be collateralized by a broad range of investment grade debt securities, including commercial paper and municipal bonds, and a broad range of equity securities. The interest rate charged will be the primary credit rate, or discount rate, at the Federal Reserve Bank of New York.

Taken together, the Fed's actions are a significant escalation of its efforts to contain the economic damage from the coronavirus pandemic. The unlimited purchases by the

FMOC underscores a willingness to provide markets with as much liquidity as needed in the face of market disruptions. The PMCC and the SMCS are designed to provide investment grade companies with direct access to funds through the PMCC and keep the corporate debt markets functioning for investment grade companies by providing liquidity through SMCS. The use of TALF loans is an effort to support lending in several key areas by supporting the market for ABS which funds such lending. As a whole, these steps are designed to keep U.S. markets and business intact and functioning during this crisis and these programs may have direct relevance to many companies as they work to finance their commitments to meeting the needs of their clients and support their employees.