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Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act - April 28, 2020

Federal Reserve System: Board of Governors

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Overview

The Board of Governors of the Federal Reserve System (Board) is providing the following updates concerning certain lending facilities established by the Board under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343). Pursuant to section 13(3)(C) of the Federal Reserve Act, the Board must provide the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives (the Committees) an initial report regarding each facility established under section 13(3) and periodic updates at least every 30 days thereafter. This report provides the first periodic update for (1) the Primary Market Corporate Credit Facility (PMCCF), (2) the Secondary Market Corporate Credit Facility (SMCCF), and (3) the Term Asset-Backed Securities Loan Facility (TALF).

In addition to the PMCCF, SMCCF, and TALF, the Board also has authorized the establishment of the following credit facilities under section 13(3) of the Federal Reserve Act: the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, the Money Market Mutual Fund Liquidity Facility, the Municipal Liquidity Facility, the Paycheck Protection Program Lending Facility, the Main Street New Loan Facility, and the Main Street Expanded Loan Facility. Periodic updates concerning these facilities will be provided at least every 30 days, in accordance with section 13(3) of the Federal Reserve Act.

A. Primary Market Corporate Credit Facility

On March 22, 2020, the Board authorized the Federal Reserve Bank of New York (FRBNY) to establish and operate the PMCCF. The PMCCF is intended to facilitate the provision of credit to a wide range of U.S. companies. On April 9, 2020, the terms of the PMCCF were revised to reflect the following:

Structure and Basic Terms**.** Under the PMCCF, the FRBNY will lend to a special purpose vehicle (SPV) on a recourse basis. The SPV will (i) purchase qualifying bonds as the sole investor in a bond issuance, and (ii) purchase portions of syndicated loans or bonds at issuance. The FRBNY will be secured by all the assets of the SPV. The Department of the Treasury will make a $75 billion equity investment in the SPV to support both the PMCCF and the SMCCF. The initial allocation of the equity will be $50 billion toward the PMCCF and $25 billion toward the SMCCF. The combined size of the PMCCF and the SMCCF will be up to $750 billion.

Eligible Assets. The PMCCF may purchase eligible corporate bonds as the sole investor in a bond issuance. Eligible corporate bonds must, at the time of purchase by the PMCCF, be issued by an eligible issuer and have a maturity of four years or less. The PMCCF also may purchase portions of syndicated loans or bonds of eligible issuers at issuance. Eligible syndicated loans and bonds must, at the time of purchase by the PMCCF, be issued by an eligible issuer and have a maturity of four years or less. The PMCCF may purchase no more than 25 percent of any loan syndication or bond issuance.

Eligible Issuers. Eligible issuers must satisfy the following conditions:

1. The issuer is a business that is created or organized in the United States or under the laws of the United States with significant operations in and a majority of its employees based in the United States.
2. The issuer was rated at least BBB-/Baa3 as of March 22, 2020, by a major nationally recognized statistical rating organization (NRSRO), and if rated by multiple major NRSROs, the issuer must be rated at least BBB-/Baa3 by two or more NRSROs as of March 22, 2020.
    a. Issuers that were rated at least BBB-/Baa3 as of March 22, 2020, but are subsequently downgraded, must be rated at least BB-/Ba3 at the time the PMCCF makes a purchase, and, if rated by multiple major NRSROs, such issuers must be rated at least BB-/Ba3 by two or more NRSROs at the time the PMCCF makes a purchase.
    b. In every case, issuer ratings are subject to review by the Federal Reserve.
3. The issuer is not an insured depository institution or depository institution holding company, as such terms are defined in the Dodd-Frank Act.
4. The issuer has not received specific support pursuant to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) or any subsequent federal legislation.
5. The issuer must satisfy the conflicts-of-interest requirements of section 4019 of the CARES Act.

Leverage. The PMCCF will leverage the Department of the Treasury's equity at 10 to 1 when acquiring corporate bonds or syndicated loans from issuers that are investment grade at the time of purchase. The PMCCF will leverage its equity at 7 to 1 when acquiring any other type of eligible asset.

Limits per Issuer. Issuers may approach the PMCCF to refinance outstanding debt, from the period of three months ahead of the maturity date of such outstanding debt. Issuers may additionally approach the PMCCF at any time to issue additional debt, provided their rating is reaffirmed at BB-/Ba3 or above with the additional debt by each major NRSRO with a rating of the issuer. The maximum amount of outstanding bonds or loans of an eligible issuer that borrows from the PMCCF may not exceed 130 percent of the issuer's maximum outstanding bonds and loans on any day between March 22, 2019, and March 22, 2020. The maximum amount of instruments that the PMCCF and the SMCCF combined will purchase with respect to any eligible issuer is capped at 1.5 percent of the combined potential size of the PMCCF and the SMCCF.

Pricing. Pricing for eligible corporate bonds will be issuer-specific, informed by market conditions, plus a 100 bps facility fee. Pricing for eligible syndicated loans and bonds will be the same pricing as other syndicate members, plus a 100 bps facility fee on the PMCCF's share of the syndication.

Program Termination. The PMCCF will cease purchasing eligible assets no later than September 30, 2020, unless the PMCCF is extended by the Board and the Department of the Treasury. The Reserve Bank will continue to fund the PMCCF after such date until the PMCCF's holdings either mature or are sold.

Additional information about the PMCCF can be found on the Board's public website at https://www.federalreserve.gov/monetarypolicy/pmccf.htm.

Update. As of April 17, 2020, the PMCCF was not yet operational. Accordingly, there are no transaction data to report.

As described in the Board's initial report to Congress regarding the PMCCF, the PMCCF includes features that are intended to mitigate risk to the Federal Reserve. The Board continues to expect that the PMCCF will not result in losses to the Federal Reserve.

B. Secondary Market Corporate Credit Facility

On March 22, 2020, the Board authorized the FRBNY to establish and operate the SMCCF. The SMCCF is intended to facilitate the provision of credit to a wide range of U.S. companies. On April 9, 2020, the terms of the SMCCF were revised to reflect the following:

Structure and Basic Terms. Under the SMCCF, the FRBNY will lend to an SPV on a recourse basis. The SPV will purchase in the secondary market eligible individual corporate bonds as well as eligible corporate bond portfolios in the form of exchange-traded funds (ETFs). The FRBNY will be secured by all the assets of the SPV. The Department of the Treasury will make a $75 billion equity investment in the SPV to support both the SMCCF and the PMCCF. The initial allocation of the equity will be $50 billion toward the PMCCF and $25 billion toward the SMCCF. The combined size of the SMCCF and the PMCCF will be up to $750 billion.

Eligible Assets. The SMCCF may purchase eligible individual corporate bonds that, at the time of purchase by the SMCCF: (i) were issued by an eligible issuer, (ii) have a remaining maturity of five years or less, and (iii) were sold to the SMCCF by an eligible seller. The SMCCF also may purchase eligible U.S.-listed ETFs whose investment objective is to provide broad exposure to the market for U.S. corporate bonds. The preponderance of ETF holdings will be of ETFs whose primary investment objective is exposure to U.S. investment-grade corporate bonds, and the remainder will be in ETFs whose primary investment objective is exposure to U.S. high-yield corporate bonds.

Eligible Issuers. Eligible issuers must satisfy the following conditions:

1. The issuer is a business that is created or organized in the United States or under the laws of the United States with significant operations in and a majority of its employees based in the United States.
2. The issuer was rated at least BBB-/Baa3 as of March 22, 2020, by a major NRSRO, and, if rated by multiple major NRSROs, the issuer must be rated at least BBB-/Baa3 by two or more NRSROs as of March 22, 2020.
    a. An issuer that was rated at least BBB-/Baa3 as of March 22, 2020, but was subsequently downgraded, must be rated at least BB-/Ba3 as of the date on which the SMCCF makes a purchase, and, if rated by multiple major NRSROs, such an issuer must be rated at least BB-/Ba3 by two or more NRSROs at the time the SMCCF makes a purchase.
3. The issuer is not an insured depository institution or depository institution

holding company, as such terms are defined in the Dodd-Frank Act.
4. The issuer has not received specific support pursuant to the CARES Act or any subsequent federal legislation.
5. The issuer must satisfy the conflicts of interest requirements of section 4019 of the CARES Act.

Leverage. The SMCCF will leverage the Department of the Treasury's equity at 10 to 1 when acquiring corporate bonds from issuers that are investment grade at the time of purchase and when acquiring ETFs whose primary investment objective is exposure to U.S. investment-grade corporate bonds. The SMCCF will leverage its equity at 7 to 1 when acquiring corporate bonds from issuers that are rated below investment grade at the time of purchase and in a range between 3 to 1 and 7 to 1, depending on risk, when acquiring any other type of eligible asset.

Eligible Seller. Each institution from which the SMCCF purchases securities must be a business that is created or organized in the United States or under the laws of the United States with significant U.S. operations and a majority of U.S.-based employees. The institution also must satisfy the conflicts-of-interest requirements of section 4019 of the CARES Act.

Limits per Issuer/ETF. The maximum amount of instruments that the SMCCF and the PMCCF combined will purchase with respect to any eligible issuer is capped at 1.5 percent of the combined potential size of the SMCCF and the PMCCF. The maximum amount of bonds that the SMCCF will purchase in the secondary market of any eligible issuer is also capped at 10 percent of the issuer's maximum bonds outstanding on any day between March 22, 2019, and March 22, 2020. The SMCCF will not purchase shares of a particular ETF if after such purchase the SMCCF would hold more than 20 percent of that ETF's outstanding shares.

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 the SMCCF is extended by the Board and the Department of the Treasury. The Reserve Bank will continue to fund the SMCCF after such date until the SMCCF's holdings either mature or are sold.

Additional information about the SMCCF can be found on the Board's public website at https://www.federalreserve.gov/monetarypolicy/smccf.htm.

Update. As of April 17, 2020, the SMCCF was not yet operational. Accordingly, there are no transaction data to report.

As described in the Board's initial report to Congress regarding the SMCCF, the SMCCF includes features that are intended to mitigate risk to the Federal Reserve. The Board continues to expect that the SMCCF will not result in losses to the Federal Reserve.

C. Term Asset-Backed Securities Loan Facility

On March 22, 2020, the Board authorized the FRBNY to establish and operate the TALF. Under the terms of the TALF, the FRBNY will lend to an SPV, which will make loans to U.S. companies secured by certain AAA-rated asset-backed securities (ABS) backed by recently originated consumer and business loans. The TALF is intended to support the provision of credit to consumers and businesses by enabling the issuance of ABS backed by private student loans, auto loans and leases, consumer and corporate credit card receivables, certain loans guaranteed by the Small Business Administration (SBA), and certain other assets.

On April 9, 2020, the terms of the TALF were revised to reflect the following changes:

Eligible Borrowers. The terms were revised to require that the borrower be a business that is created or organized in the United States or under the laws of the United States and that has significant operations in and a majority of its employees based in the United States.

Eligible Collateral. Eligible collateral was expanded to include (i) the AAA-rated tranches of outstanding commercial mortgage-backed securities (CMBS), and (ii) newly issued, static collateralized loan obligations (CLOs). For CMBS, the underlying credit exposures must be to real property located in the United States or one of its territories, and the CMBS must have been issued before March 23, 2020. Single-asset single-borrower CMBS and commercial real estate CLOs will not be eligible collateral. In addition, the terms were revised to provide that the issuer of eligible collateral be a U.S. company.

Conflicts of Interest. Eligible borrowers and issuers of eligible collateral will be subject to the conflicts of interest requirements of section 4019 of the CARES Act.

Pricing. For CLOs, the interest rate will be 150 basis points over the 30-day average secured overnight financing rate (SOFR). For SBA Pool Certificates (7(a) loans), the interest rate will be the top of the federal funds target range plus 75 basis points. For SBA Development Company Participation Certificates (504 loans), the interest rate will be 75 basis points over the three-year fed funds overnight index swap (OIS) rate. For all other eligible ABS with underlying credit exposures that do not have a government guarantee, the interest rate will be 125 basis points over the two-year OIS rate for securities with a weighted average life less than two years, or 125 basis points over the three-year OIS rate for securities with a weighted average life of two years or greater. The pricing for other eligible ABS will be set forth in the detailed terms and conditions.

Collateral Valuation. The following haircut schedule, which is consistent with the haircut schedule used for the TALF established in 2008, was adopted:

		ABS average life (years)*						
Sector	**Subsector**	**0-<1**	**1-<2**	**2-<3**	**3-<4**	**4-<5**	**5-<6**	**6-<7**
Auto	Prime retail lease	10%	11%	12%	13%	14%		
Auto	Prime retail loan	6%	7%	8%	9%	10%		
Auto	Subprime retail loan	9%	10%	11%	12%	13%		
Auto	Motorcycle/ other recreational vehicles	7%	8%	9%	10%	11%		
Auto	Commercial and government fleets	9%	10%	11%	12%	13%		
Auto	Rental fleets	12%	13%	14%	15%	16%		
Credit card	Prime	5%	5%	6%	7%	8%		
Credit card	Subprime	6%	7%	8%	9%	10%		
Equipment	Loans and leases	5%	6%	7%	8%	9%		
Floorplan	Auto	12%	13%	14%	15%	16%		
Floorplan	Non-auto	11%	12%	13%	14%	15%		
Premium finance	Property and casualty	5%	6%	7%	8%	9%		
Small business	SBA loans	5%	5%	5%	5%	5%	6%	6%
Student loan	Private	8%	9%	10%	11%	12%	13%	14%
Leveraged loans	Static	20%	20%	20%	20%	20%	21%	22%
Commercial mortgages	Legacy, Conduit	15%	15%	15%	15%	15%	16%	17%

* For auto, credit card, equipment, floorplan, and premium finance ABS, the weighted average life must be five years or less. For other new-issue eligible collateral, haircuts will increase by 1 percentage point for each additional year (or portion thereof) of average life beyond five years. For legacy CMBS with average lives beyond five years, base dollar haircuts will increase by 1 percentage point of par for each additional year (or portion thereof) of average life beyond five years. No securitization may have an average life beyond 10 years.

Additional information about the TALF can be found in the report provided to the Committees on March 30, 2020, and on the Board's public website at https://www.federalreserve.gov/monetarypolicy/talf.htm.

Update. As of April 17, 2020, the TALF was not yet operational. Accordingly, there are no transaction data to report.

As described in the Board's initial report to Congress regarding the TALF, the TALF includes features that are intended to mitigate risk to the Federal Reserve. The Board continues to expect that the TALF will not result in losses to the Federal Reserve.