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### Money Market Mutual Fund Liquidity Facility Term Sheet

Federal Reserve System

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## Money Market Mutual Fund Liquidity Facility

Effective July 28, 2020

**Facility:** To provide liquidity to Money Market Mutual Funds (“Funds”), the Federal Reserve Bank of Boston (“Reserve Bank”) will lend to eligible borrowers, taking as collateral certain types of assets purchased by the borrower from Funds.

**Timing:** The Facility will open on March 23, 2020. The Facility will generally take eligible collateral that:

- 1) If purchased after March 23, 2020, is pledged concurrently with the borrowing; or
- 2) 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 variable rate demand notes, a borrower may purchase these assets on or after March 23, 2020, and pledge them on or after March 25, 2020.<sup>1</sup>

**Borrower Eligibility:** All U.S. depository institutions, U.S. bank holding companies (parent companies incorporated in the United States or their U.S. broker-dealer subsidiaries), or U.S. branches and agencies of foreign banks are eligible to borrow under the Facility.

**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 this Facility except in no case will the maturity date of an advance exceed 12 months.

**Eligible Collateral:** Collateral that is eligible for pledge under the Facility must be one of the following types:

- 1) U.S. Treasuries & Fully Guaranteed Agencies;
- 2) Securities issued by U.S. Government Sponsored Entities;
- 3) Asset-backed commercial paper, unsecured commercial paper, or a negotiable certificate of deposit that is issued by a U.S. issuer,<sup>2</sup> and that has a short-term rating at the time purchased from the Fund or pledged to the Reserve Bank in the top rating category (e.g., not lower than A1, F1, or P1, as applicable) from at least two major nationally recognized statistical rating organizations (“NRSRO”) or, if rated by only one major NRSRO, is rated within the top rating category by that NRSRO;
- 4) U.S. municipal short-term debt (excluding variable rate demand notes) that:
  - i. Has a maturity that does not exceed 12 months; and
  - ii. At the time purchased from the Fund or pledged to the Reserve Bank:
    1. 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
    2. 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.
- 5) Variable rate demand note that:

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<sup>1</sup> The Facility will not accept negotiable certificates of deposit or variable rate demand notes until March 25, 2020. Negotiable certificates of deposit or variable rate demand notes purchased on March 23 or 24, 2020, must be pledged expeditiously starting on March 25, 2020.

<sup>2</sup> A U.S. issuer is an entity organized under the laws of the United States or a political subdivision or territory thereof, or is a U.S. branch of a foreign bank.

- 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 Reserve Bank:
  1. 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
  2. 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 facility may accept receivables from certain repurchase agreements. The feasibility of adding these and other asset classes to the facility will be considered in the future.

**Rate:** Advances made under the Facility that are secured by U.S. Treasuries & Fully Guaranteed Agencies or Securities issued by U.S. Government Sponsored Entities will be made at a rate equal to the primary credit rate in effect at the Reserve Bank that is offered to depository institutions at the time the advance is made.

Advances made under the Facility that are secured by U.S. municipal short-term debt, including variable rate demand notes, will be made at a rate equal to the primary credit rate in effect at the Reserve Bank 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 Reserve Bank 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 Facility.

**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 variable rate demand notes, 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.

**Credit Protection by the Department of the Treasury:** The Department of the Treasury, using the Exchange Stabilization Fund, will provide \$10 billion as credit protection to the Reserve Bank.

**Non-Recourse:** Advances made under the Facility are made without recourse to the Borrower, provided the requirements of the Facility are met.

**Regulatory Capital Treatment:** On March 19, 2020, the Board, 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 program on risk-based and leveraged capital ratios. See <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200319a1.pdf>.

**Program Termination:** No new credit extensions will be made after December 31, 2020, unless Board and the Department of the Treasury extend the Facility.