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UPDATED Reference Guide: Federal Reserve Funding Facilities Established in Response to COVID-19 Pandemic

[32436]

May 4, 2020 TO: ICI Members
ICI Global Members SUBJECTS: Exchange-Traded Funds (ETFs)
Fixed Income Securities
Investment Advisers
Money Market Funds
Municipal Securities
Systemic Risk
Trading and Markets RE: UPDATED Reference Guide: Federal Reserve Funding Facilities Established in Response to COVID-19 Pandemic

Over the past six weeks, the Federal Reserve Board (FRB) has established eleven funding facilities to inject liquidity into the US financial system and alleviate the dire market impacts associated with the COVID-19 pandemic. In some cases, the FRB already has expanded the scope of the facility.

This memorandum begins with a brief discussion of the facilities' design, consistent with applicable statutory and regulatory requirements, and the FRB's rationale for establishing them. It then identifies the various funding facilities and provides a link to the FRB landing page for each, where members can find the facility's term sheet, FAQs (if issued), and relevant press releases. For a concise overview of each facility, we suggest that you review the FRB's initial reports to Congress. Each of these reports provides a brief (3-4 page) "plain English" discussion of the purpose and structure of the facility and its basic terms.

Consistent with the FRB's emergency lending authority in Section 13(3) of the Federal Reserve Act and the post-financial crisis limitations on that authority as outlined in Regulation A, each facility is structured as a temporary, broad-based program to provide liquidity to an identifiable market or sector of the financial system, and participation is limited to borrowers that are solvent. Exercise of this authority is limited to "unusual and exigent circumstances," and the FRB had to obtain approval from the Treasury Secretary before establishing any such program. The FRB is required to provide Congress with an initial report regarding each facility and periodic updates at least every 30 days thereafter.

In a public webcast on April 9, FRB Chairman Jerome Powell spoke about the COVID-19 crisis and the various steps the FRB is taking to "build a bridge from the solid economic foundation on which we entered this crisis to a position of regained economic strength on the other side." In describing the FRB's exercise of its emergency lending powers, Powell stated:

[W]e have acted to safeguard financial markets in order to provide stability to the financial system and support the flow of credit in the economy. As a result of the economic dislocations caused by the virus, some essential financial markets had begun to sink into dysfunction, and many channels that households, businesses, and state and local governments rely on for credit had simply stopped working. We acted forcefully to get our markets working again, and, as a result, market conditions have generally improved.[1]

In response to questions, Chairman Powell said the FRB had to develop these programs at "high speed" even if in hindsight "we may see we could have done it differently." He stated that "investors struggled to assess the meaning" of the crisis for the economy, that there was a flight to safety and that lending stopped functioning, adding that "this is what [the emergency lending powers] are intended to address." Powell noted that the programs are targeted to "areas of priority for the economy" and that the FRB will watch and adapt the programs as needed. In his prepared remarks, Powell pledged that the FRB "will continue to use these powers forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery."

Money Market Mutual Fund Liquidity Facility

The Money Market Mutual Fund Liquidity Facility (MMLF) makes funding available to bank entities (US banks and bank holding companies and US branches of foreign banks) to purchase high quality assets from certain registered money market funds. According to the FRB, the MMLF will "help restore liquidity to help [money market funds] meet demands for redemption and to avoid the forced liquidation of commercial paper, municipal bonds, and other short-term obligations into already strained financial markets. These measures are also intended to help restore stability in the markets for assets held by" money market funds.

The FRB's initial report to Congress on the MMLF is available here. The first periodic update is available here.

Commercial Paper Funding Facility

The Commercial Paper Funding Facility (CPFF) will provide a liquidity backstop to US issuers of commercial paper and certain municipal bonds by purchasing three-month unsecured and asset-backed commercial paper directly from eligible issuers.

The FRB's initial report to Congress on the CPFF is available here. The first periodic update is available here.

Primary Market Corporate Credit Facility

The Primary Market Corporate Credit Facility (PMCCF) will provide support for corporate debt markets by purchasing newly issued bonds from, or extending loans to, US companies meeting certain eligibility criteria. It is intended to help facilitate access to credit so that companies are better able to maintain business operations and capacity during the period of dislocations related to the pandemic.

The FRB's initial report to Congress on the PMCCF is available here. The first periodic update is available here.

Secondary Market Corporate Credit Facility

The Secondary Market Corporate Credit Facility (SMCCF) will provide support for corporate debt markets by purchasing outstanding investment grade corporate bonds issued by US companies meeting certain eligibility criteria. The SMCCF also may purchase shares of US-listed exchange-traded funds whose investment objective is to provide broad exposure to the market for US investment grade corporate bonds.

The FRB's initial report to Congress on the SMCCF is available here. The first periodic update is available here.

Primary Dealer Credit Facility

The Primary Dealer Credit Facility (PDCF) will provide funding to primary dealers[2] in exchange for a broad range of collateral and is intended to foster the functioning of financial markets more generally. The facility will allow primary dealers to support smooth market functioning and facilitate the availability of credit to businesses and households.

The FRB's initial report to Congress on the PDCF is available here. The first periodic update is available here.

Term Asset-Backed Securities Loan Fund

The Term Asset-Backed Securities Loan Fund (TALF) will support the provision of credit to consumers and businesses by enabling the issuance of securities backed by private student loans, auto loans and leases, consumer and corporate credit card receivables, certain loans guaranteed by the Small Business Administration, and certain other assets.

The FRB's initial report to Congress on the TALF is available here. The first periodic update is available here

Municipal Liquidity Facility

The Municipal Liquidity Facility (MLF) will purchase up to $500 billion of short-term notes directly from US states and the District of Columbia, US counties with a population of at least two million residents, and US cities with a population of at least one million residents. The MLF is intended to help state and local governments better manage cash flow pressures to continue to serve households and businesses in their communities.

In announcing the program on April 9, the FRB noted that it will continue to closely monitor conditions in the primary and secondary markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments.

The FRB's initial report to Congress on the MLF is available here.

Main Street Lending Program

The Main Street Lending Program (Program) will support lending to small and medium-sized businesses—those with 15,000 or fewer employees, or with 2019 revenues of $5 billion or less—that were in sound financial condition before the onset of the COVID-19 pandemic. Loans issued under the Program would have a four-year maturity, and principal and interest payments on the loans will be deferred for one year.

The Program will operate through three separate facilities. Eligible lenders may originate new loans under the Main Street New Loan Facility (MSNLF) and the Main Street Priority Loan Facility (MSPLF) or increase the size of ("upsize") existing loans made to eligible businesses under the Main Street Expanded Loan Facility (MSELF). All three facilities use the same eligible lender and eligible borrower criteria. Loans extended in connection with each facility share some features (*e.g.*, maturity, interest rate) and differ in others. The loan types also differ in how they interact with the eligible borrower's existing outstanding debt, including with respect to the level of pre-crisis indebtedness an eligible borrower may have incurred.

The FRB's initial report to Congress on the MSNLF is available here.

The FRB's initial report to Congress on the MSELF is available here.

The initial report on the MSPLF, which was announced on April 30, has not yet been issued.

Paycheck Protection Program Liquidity Facility

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) created the Paycheck Protection Program (PPP) to support lending to small businesses that have been affected by the disruption caused by COVID-19. Under the PPP, lenders make loans to small businesses for payroll-related and certain other purposes specified in the CARES Act, and the Small Business Administration guarantees the PPP loans.

The Paycheck Protection Program Liquidity Facility (PPPLF) offers a source of liquidity to the financial institutions that lend to small businesses through the PPP. Under the PPPLF, each Reserve Bank will lend to those institutions on a nonrecourse basis, taking PPP loans as collateral.

The FRB's initial report to Congress on the PPPLF is available here.

Rachel H. Graham
Associate General Counsel

Kathleen Mellody
Senior Government Affairs Officer

endnotes

[1] The full text of Chairman Powell's prepared remarks is available here.

[2] Primary dealers are designated banks and securities broker-dealers that are the trading counterparties for the Federal Reserve Bank of New York in its execution of open market operations to carry out US monetary policy. A list of primary dealers can be found at https://www.newyorkfed.org/markets/primarydealers.