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COVID-19 U.S.: Federal Reserve's measures to help the economy weather COVID-19

April 1, 2020

On March 23, 2020, the Federal Reserve announced that it will use its powers under Section 13(3) of the Federal Reserve Act to launch new liquidity facilities to help provide financing to U.S. businesses, employers, and consumers. The facilities will provide up to US$300 billion in new financing and the U.S. Treasury will support these facilities by making a US$30 billion in equity investment in the respective special purpose vehicle (SPV) using the Exchange Stabilization Fund.

The Term Asset-Backed Securities Lending Facility (TALF)

The TALF is designed to support credit flow to consumers and small businesses by facilitating the issuance of asset-backed securities. Under the TALF, the Federal Reserve Bank of New York will commit to lend to an SPV and the ESF will make an equity investment of US$10 billion in the SPV. Up to US$100 billion of loans, each with a three-year term, will initially be available. The loans will be fully secured by eligible asset-backed securities (ABS). Eligible borrowers include U.S. companies with eligible collateral that maintain an account relationship with a primary dealer. Under TALF, a U.S. company is a U.S. business, organized under the laws of the U.S. (or territory thereof) even if the entity has a non-U.S. parent company. It also includes a U.S. branch or agency of a foreign bank. Eligible collateral includes U.S. dollar denominated ABS that is not synthetic and has 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." Such collateral must be backed by assets such as auto loans, student loans, credit card receivables, SBA-guaranteed loans, and certain other assets. Further information about terms, eligible collateral, and other eligibility requirements is available on the Federal Reserve's term sheet.

The Primary Market Corporate Credit Facility (PMCCF)

The PMCCF is set up for large employers and will provide companies with access to credit to help them maintain business operations and capacity during periods of dislocations related to COVID-19. This facility is open to investment grade companies and will provide bridge financing of four years. Through the PMCCF, the Federal Reserve will provide a funding backstop for corporate debt issued by purchase qualifying bonds from, and providing loans to, eligible issuers. Eligible issuers are defined as U.S. companies with headquarters and material operations in the U.S. but it does not include companies that are expecting to receive direct financial assistance under pending federal legislation. Eligible corporate bonds and loans must have a maturity of four years or less, and must meet the rating requirements set forth in the Federal Reserve's term sheet, including that the Issuer be eligible and "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." Further information about terms, eligible assets, and other eligibility requirements is available on the Federal Reserve's term sheet.

The Secondary Market Corporate Credit Facility (SMCCF)

Under the SMCCF, the Federal Reserve will buy corporate bonds issued by highly rated companies and U.S. listed exchange-traded funds (ETFs) in the investment-grade corporate-bond market. The Federal Reserve will lend to a SPV which will purchase secondary market corporate debt issued by eligible issuers. Treasury will make a US$10 billion equity investment in the SPV. The Federal Reserve has defined eligible issuers as "U.S. businesses with material operations in the U.S." But, similar to the PMCCF facility, eligible issuers do not include "companies that are expected to receive direct financial assistance under pending federal legislation." Eligibility criteria for corporate bonds include having a rating of at least BBB-/Baa3 by a major NRSRO, or by two or more NRSROs (if rated by multiple NRSROs). U.S.-listed ETFs with an investment objective of providing broad exposure to the market for U.S. investment grade corporate bonds may also be purchased by the SMCCF. Find more information about terms and additional eligibility requirements in the Federal Reserve's term sheet.

Days prior to establishing the new facilities, the Federal Reserve announced the expansion of two crisis-era facilities used to push the flow of credit to municipalities:

The Commercial Paper Funding Facility (CPFF)

The CPFF is designed to support the flow of credit to businesses and households by facilitating the issuance of term commercial paper by eligible issuers. The Federal Reserve has expanded the facility to include "high-quality, tax exempt commercial paper as eligible securities" and has reduced the related pricing. Further information is provided in the Federal Reserve's term sheet and related FAQs.

The Money Market Mutual Fund Liquidity Facility (MMLF)

The MMLF is a facility through which the Federal Reserve Bank of Boston can make loans available to eligible financial institutions secured by certain high-quality assets purchased from single state and other tax-exempt municipal money market mutual funds. The aim of the MMLF is to support credit flow to households and businesses. Find more information in the Federal Reserve's term sheet and related FAQs.

The Federal Reserve has also promised the roll-out of a Main Street Business Lending Program which is authorized under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). This program is expected to be available to businesses that are too big for small business loans and too small for capital market-focused efforts. We expect further details about this program in the coming weeks and will provide updates as more information is available.

Our teams of lawyers across the globe are continuing to compile the latest thinking and legal guidance on the coronavirus outbreak. To track our latest updates, which will include more specific discussions of particular contractual concepts, we encourage you to check the Hogan Lovells COVID-19 Topic Center, which covers a wide variety of practice areas across the globe.

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