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Global Policy

A Brief And Easy Summary Of COVID-19 Fed Facilities

- **Below is a list of the COVID-19 facilities that the Fed has announced so far, together with their most important details, to the extent that they are known.**
- **The list will likely grow, and the details will change. We will update this document as new information becomes available.**

US Dollar Liquidity Swaps With Foreign Central Banks

Purpose: To make US dollars available to foreign financial institutions via foreign central banks.

How they work: A foreign central bank requests a certain amount of USD; the Fed lends that amount in exchange for an equal amount of foreign currency based on current exchange rates; the foreign central bank agrees to return the same amount of USD at a future date at the same exchange rate; the foreign central bank lends the USD to institutions in its jurisdiction.

Duration: Standing Facility with BOC, BOE, BOJ, ECB, and SNB; at least six months with other central banks.

Cost: USD OIS + 25 bps.

Counterparties: Bank of Canada, Bank of England, Bank of Japan, European Central Bank, Swiss National Bank, Reserve Bank of Australia, Banco Central do Brasil, Danmarks Nationalbank, Bank of Korea, Banco de Mexico, Norges Bank, Reserve Bank of New Zealand, Monetary Authority of Singapore, and Sverige Riksbank.

Restrictions: Term of swaps variable between overnight and three months.

Size: Unlimited.

Activation date: Already in place with BOC, BOE, BOJ, ECB, and SNB; extended to the remaining central banks on March 19, 2020.

Utilization: $206 billion as of March 25, 2020.

Commercial Paper Funding Facility (CPFF)

Purpose: To ensure the smooth functioning of the commercial paper market and the continued access of corporations to short-term financing.

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How it works: The Federal Reserve Bank of New York lends funds to a special purpose vehicle (SPV). The loans are secured by the assets of the SPV and by $10 billion in credit protection provided by the US Treasury via the Exchange Stabilization Fund. The SPV purchases commercial paper via the New York Fed's primary dealers.

Duration: The SPV will cease purchasing commercial paper on March 17, 2021, unless extended.

Cost: Three-month OIS + 110 bps for A1/P1/F1 paper; three-month OIS + 200 bps for A2/P2/F2 paper. Registration fee of 10 bps of the maximum amount the Facility can own for each issuer.

Counterparties: Primary dealers.

Eligible issuers: Any US issuers of commercial paper, including municipal issuers and U.S. issuers with a foreign parent company.

Restrictions: The Facility will only purchase three-month commercial paper (including asset-backed commercial paper – ABCP) that is rated at least A1/P1/F1. An issuer that, on March 17, 2020, was rated at least A1/P1/F1 and is subsequently downgraded, will be able to make a one-time sale of commercial paper to the SPV so long as the issuer is rated at least A2/P2/F2.

Size: Limited only by per-issuer limits; the limit for each issuer is the maximum amount that issuer had outstanding at any time in the year prior to March 17, 2020; maximum aggregate amount of CP outstanding over the past year was $1.16 trillion.

Activation date: First half of April.

Utilization: $0 – not yet active.

PRIMARY DEALER CREDIT FACILITY (PDCF)

Purpose: To alleviate pressures on primary dealers and allow them to support smooth market functioning.

How it works: The Federal Reserve Bank of NY lends to primary dealers, with recourse to the borrower, against eligible collateral; varying haircuts are applied to the collateral depending on type (haircuts are designed to be similar, to the extent possible, to those applicable to discount window loans).

Duration: At least six months from March 20, 2020, or longer if conditions warrant.

Cost: Primary credit rate (currently 25 bps).

Counterparties: Primary dealers.

Eligible collateral: All collateral eligible for open market operations (Treasuries, agencies, and MBS); Treasury strips; investment-grade corporate debt securities; international agency securities; commercial paper; munis; MBS; ABS; equities.

Maturity of loans: Up to 90 days.

Restrictions: Collateral must be priced by the dealer's clearing bank.

Size: Limited only by the value of collateral pledged, subject to specified haircuts.

Activation date: March 20, 2020.

Utilization: $27.7 billion as of March 25.

MONEY MARKET MUTUAL FUND LIQUIDITY FACILITY (MMLF)

Purpose: To provide liquidity support to money market mutual funds.

How it works: The Federal Reserve Bank of Boston lends funds to counterparties, without recourse to the borrower. Counterparties purchase eligible assets from money market mutual funds and pledge the assets as collateral to the Federal Reserve Bank of Boston.

Duration: No new credit extensions will be made after September 30, 2020, unless extended.

Cost: For loans collateralized by Treasury and agency securities, primary credit rate (currently 0.25 bps); for loans collateralized by short-term munis, primary credit rate + 25 bps; for loans collateralized by any other assets, primary credit rate + 100 bps.

Counterparties: All US depository institutions (banks), US bank holding companies, and US branches and agencies of foreign banks.

Eligible assets: Assets that can be held by money market mutual funds, including short-maturity US Treasuries and agencies, GSE securities, ABCP, CP, CDs, and munis, including variable-rate demand notes.

Maturity of loans: Loans mature when the associated collateral matures.

Restrictions: Securities must be purchased from money market mutual funds (hence short maturities). In addition: ABCP, CP, and CDs must be rated A1/P1/F1; munis must have maturities not in excess of 12 months and must be rated in the top category.

Size: Limited only by the value of the collateral pledged; collateral is valued at fair value except ABC, CP, CDs, and munis are valued at amortized cost.

Activation date: March 23, 2020.

Utilization: $30.6 billion as of March 25.

PRIMARY MARKET CORPORATE CREDIT FACILITY (PMCCF)

Purpose: To ensure that bond issuers have continued access to credit.

How it works: The Federal Reserve Bank of New York lends funds to an SPV on a recourse basis. The SPV will (i) purchase qualifying bonds directly from eligible issuers, and/or (ii) provide loans to eligible issuers. The loans will be secured by the assets of the SPV and by an initial $10 billion in credit protection provided by the US Treasury via the Exchange Stabilization Fund.

Duration: The Facility will cease purchasing new bonds or making new loans after September 30, 2020, unless extended.

Cost: The Facility will purchase bonds and make loans that have interest rates informed by market conditions. At the discretion of the borrower, interest may be payable in kind for 6 months, extendable if conditions warrant. For loans, there is a commitment fee of 100 bps.

Counterparties: U.S. companies headquartered in the United States and with material operations in the United States. Companies that are expected to receive direct financial assistance under pending federal legislation are excluded.

Eligible assets: New corporate bonds issued by, and new loans extended to, any eligible counterparty, with a maturity of four years or less.

Maturity of loans: Loans to the SPV mature when the associated collateral matures (four years or less). Bonds purchased under this Facility are callable by the issuer at any time.

Restrictions: Issuers must be at least BBB-/Baa3 rated, subject to review by the Federal Reserve. The maximum amount of outstanding bonds or loans of any counterparty cannot exceed the following limits relative to the maximum outstanding bonds or loans on any day in the year before March 22, 2020: 140% for AAA/Aaa rated counterparties; 130% for AA/Aa rated counterparties; 120% for A/A rated counterparties; 110% for BBB/Baa rated counterparties.

Size: The announcement suggests the Facility is limited to $100 billion for now (or to $300 billion together with the SMCCF and the TALF). Likely to be expanded now that Congress has enabled Treasury to provide much greater credit protection. Limited also by the per-issuer limits noted above.

Activation date: Unclear – probably first half of April.

Utilization: $0 – Not yet active.

SECONDARY MARKET CORPORATE CREDIT FACILITY (SMCCF)

Purpose: To promote an orderly functioning of the corporate bond market.

How it works: The Federal Reserve Bank of New York lends funds to an SPV on a recourse basis. The SPV purchases qualifying bonds issued by eligible issuers, including corporate bond ETFs, in the secondary market. The loans will be secured by the assets of the SPV and by an initial $10 billion in credit protection provided by the US Treasury via the Exchange Stabilization Fund.

Duration: The Facility will cease purchasing bonds after September 30, 2020, unless extended.

Cost: The Facility will purchase eligible bonds at fair market prices in the secondary market.

Counterparties: Primary dealers.

Eligible issuers: US businesses with material operations in the US.

Eligible assets: Corporate bonds issued by eligible issuers with a maturity of five years or less.

Maturity of loans: Loans to the SPV mature when the associated collateral matures (five years or less).

Restrictions: Issuers must be at least BBB-/Baa3 rated, subject to review by the Federal Reserve. Bond purchases will not exceed 10% of each issuers' maximum outstanding bonds in the year prior to March

22, 2020. The Facility will not purchase more than 20% of the assets of any ETF and will avoid purchasing shares of eligible ETFs when those shares trade materially above net asset value.

Size: Language suggests it's limited to $100 billion for now (or to $300 billion together with the PMCCF and the TALF). Likely to be expanded now that Congress has enabled Treasury to provide much greater credit protection. Limited also by the per-issuer limits noted above.

Activation date: Unclear – probably first half of April.

Utilization: $0 – Not yet active.

TERM ASSET-BACKED SECURITIES LOAN FACILITY (TALF)

Purpose: To help meet the credit needs of small businesses and consumers by facilitating the issuance of asset-backed securities (ABS) and to improve conditions in the ABS market.

How it works: The Federal Reserve Bank of New York lends funds to an SPV on a recourse basis. The SPV will lend on a non-recourse basis to holders of certain newly- or recently originated ABS and will hold those ABS as collateral, after the application of appropriate haircuts (such haircuts are expected to be similar to those applicable to the 2008-09 version of TALF; see Table 3 in this publication). The US Treasury, via the Exchange Stabilization Fund, will provide an initial $10 billion in additional credit protection.

Duration: The Facility will cease providing credit after September 30, 2020, unless extended.

Cost: Loans against eligible ABS that do not have a government guarantee will be the 100 bps above two-year Libor swap rates for securities with a weighted average life of less than two years, and 100 bps above three-year Libor swap rates for securities with a weighted average life of two years or greater. An administrative fee of 10 bps will also be charged.

Counterparties: All US businesses organized under the law of the US (including entities that have non-US parent companies) and US branches or agencies of foreign banks that own eligible collateral and maintain an account with a primary dealer.

Eligible assets: US dollar denominated non-synthetic ABS that are issued on or after March 23, 2020. ABS must be in the following categories: Auto loans, student loans, credit card receivables, equipment loans, floorplan loans, insurance premium finance loans, small business loans guaranteed by the SBA, and eligible servicing advance receivables (eligibility of the latter to be defined later).

Maturity of loans: Three years, pre-payable in part or in full at the option of the borrower.

Restrictions: ABS must be rated in the highest long-term or short-term investment-grade category, depending on the maturity of the security. All or substantially all the credit exposures underlying the ABS must be originated by a US company.

Size: Limited to $100 billion for now. Likely to be expanded now that Congress has enabled Treasury to provide much greater credit protection.

Activation date: Unclear – probably first half of April.

Utilization: $0 – Not yet active.

MAIN STREET BUSINESS LENDING PROGRAM (MSBLP)

Purpose: To support lending to eligible small- and medium-sized businesses, complementing the efforts of the Small Business Administration.

How it works: Unclear – announced only in concept on March 23.

Duration: Unclear.

Cost: Unclear.

Counterparties: Unclear.

Maturity of loans: Unclear.

Restrictions: Unclear.

Size: Unclear.

Activation date: "Soon," according to the initial announcement.

Utilization: $0 – Not yet active.