

# Key CARES Act Provisions and Fed Programs for Corporates

MAY 22, 2020 (UPDATED VERSION FROM APRIL 14, 2020)



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- We have created a separate deck on the Fed’s Main Street programs—the Main Street Expanded Loan Facility (MSELF), Main Street Priority Lending Facility (MSPLF) and Main Street New Loan Facility (MSNLF)—which is available [here](#).
- There is also a [separate Davis Polk deck](#) on the SBA Paycheck Protection Program (PPP) under the CARES Act and the related Fed Paycheck Protection Program Liquidity Facility.

# Davis Polk COVID-19 Resources



# COVID-19 Davis Polk Resources

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## CARES Act Memo for Gig Workers and Others Who Work for Themselves

- Our [Gig Workers memo](#) describes the government's programs for people who work for themselves. This memo helps with navigating these programs and is aimed at a large and diverse audience.

## Government Support for Business

- Our [Government Support for Business](#) page centralizes all of the government materials related to the numerous support programs announced by the Federal Reserve and others enacted as part of the CARES Act in one convenient place.
- You can also contact any of Davis Polk's Government Support for Business Task Force members at [stimulus.taskforce@davispolk.com](mailto:stimulus.taskforce@davispolk.com).

## FinReg Tracker

- Our morning FinReg Tracker email is a simple list, with hyperlinks, of all developments from the day before from Congress and the federal financial agencies. View a [recent FinReg Tracker](#) and [sign up](#) to receive the Tracker at 7:00 a.m. ET Monday-Saturday.

## Coronavirus Updates

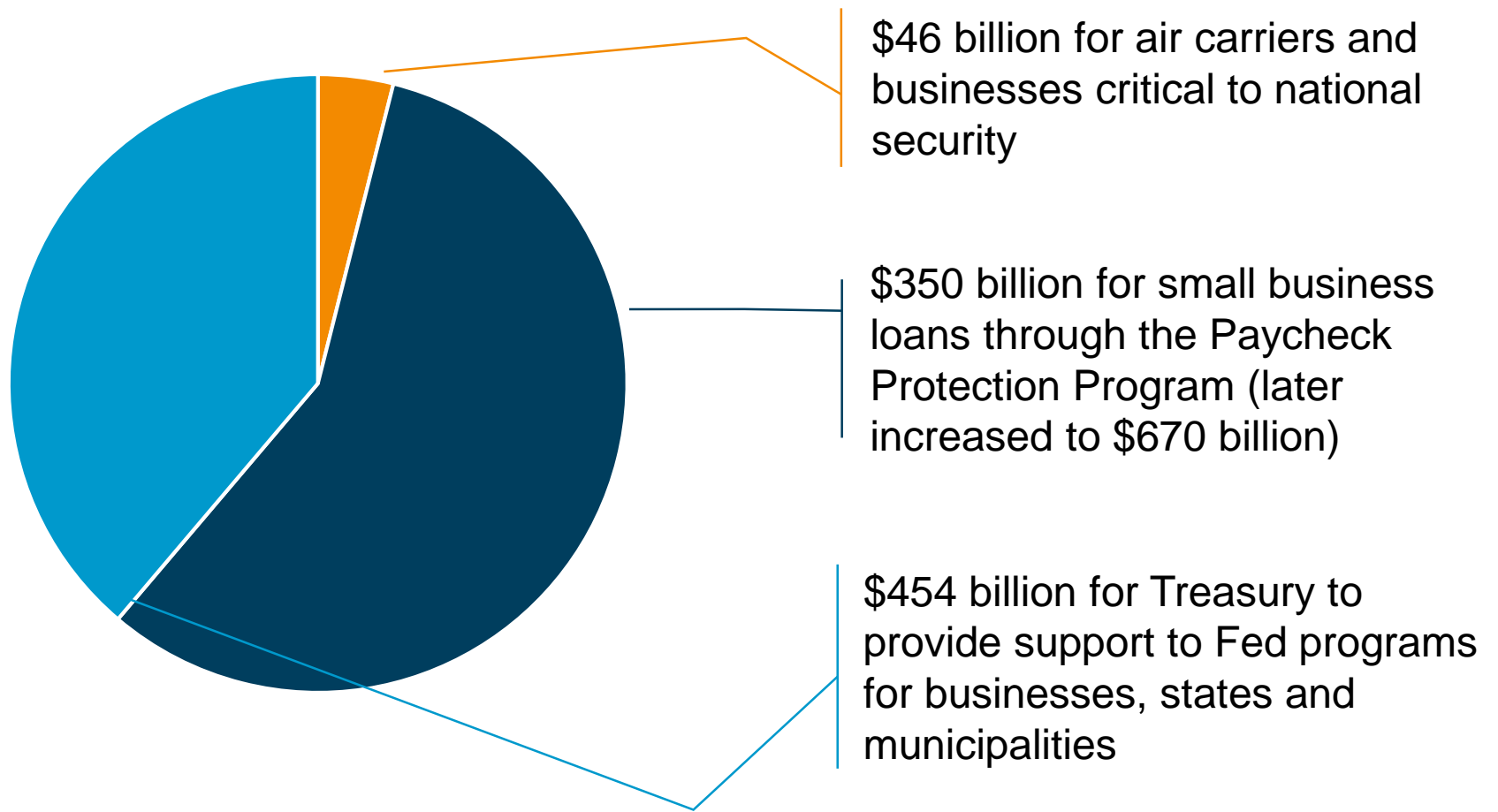
- Our [Coronavirus Updates page](#) contains a compendium of Davis Polk content related to the pandemic's economic fallout and government responses, organized by topic.

# Basic Building Blocks of All Programs



# CARES Act Support for Businesses

The CARES Act authorized funding for a variety of programs to assist businesses, states and municipalities impacted by the coronavirus pandemic





# Program Capacity

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**Treasury is using both CARES Act funds and pre-existing appropriations to provide a first-loss buffer for the Fed programs discussed in this deck, as well as others. The Fed is relying on that first-loss buffer to provide secured loans of up to several times the amount of that first-loss buffer, with the maximum loans-to-equity ratio varying across the Fed programs.**

**Treasury \$454 billion**

**Fed secured loans of up to \$4.54 trillion (assuming 10-to-1 ratio of loans to first-loss buffer across all programs)**

Treasury Secretary Steven Mnuchin: “Working with the Federal Reserve — we’ll have up to \$4 trillion of liquidity that we can use to support the economy”

Fed Chair Jerome Powell: “Effectively one dollar of loss absorption of backstop from Treasury is enough to support \$10 worth of loans”

# Authority to Support Fed-Created Programs and Examples

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**Treasury is given broad authority to provide first-loss support to Federal Reserve programs that support lending to eligible businesses, states and municipalities through:**

- Special purpose vehicles (SPVs) that purchase obligations or other interests, either directly from the issuer or in secondary markets; or
- Making loans, either directly or indirectly through the financial sector.



# 13(3) Conditions

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**Any Fed emergency lending program, including those discussed in this deck, must meet the requirements of Section 13(3) of the Federal Reserve Act. These include:**

- Any program or facility **must be broad based**, i.e., must have at least 5 participants. Cannot be to assist one or more specific companies to avoid bankruptcy
- **The Fed cannot lend to an insolvent company**
  - A company is insolvent for this purpose if:
    - the company is in bankruptcy, resolution under Title II of the Dodd-Frank Act or any other Federal or State insolvency proceeding;
    - the company is generally not paying its undisputed debts as they become due during the 90 days preceding the date of borrowing under the program or facility; or
    - the Federal Reserve Board or Federal Reserve Bank otherwise determines that the company is insolvent
- **The Fed must be fully secured**
  - The Fed can meet this requirement by lending to an SPV and taking the SPV's assets as collateral, even if the SPV's assets include unsecured loans, or lending to an eligible corporate and having the eligible corporate pledge or repledge eligible assets
  - It does not mean that loans to corporates under all programs will be required by the program to be collateralized (e.g., loans made under the Main Street lending facilities may be on an unsecured basis)
- The Fed **must charge an interest rate above** what market rates would be in normal circumstances.

# 13(3) Conditions

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- Section 13(3) of the Federal Reserve Act also requires the Federal Reserve to obtain evidence that each participant in a Federal Reserve program or facility under 13(3) is “**unable to secure adequate credit accommodations from other banking institutions.**”
  - Through FAQs, the Fed has provided color on how it will interpret this requirement in the context of several programs discussed in this deck.
    - For the PMCCF (see slide [16](#)), an issuer must certify that it cannot secure adequate credit accommodations from other banking institutions **and the capital markets**, which expands upon the statutory requirement.
      - In making this certification, issuers may consider economic or market conditions in the market intended to be addressed by the PMCCF as compared to normal conditions, including the availability and price of credit.
      - The PMCCF is the only program that references the issuer’s inability to secure adequate accommodations from the capital markets.
    - For the TALF (see slide [25](#)), an issuer is required to certify that it “is unable to secure adequate credit accommodations from other banking institutions,” and it may base this certification on “**unusual economic conditions** in the market or markets intended to be addressed by the TALF.”
      - The Fed explains that under ordinary circumstances, issuers of ABS would have been able to issue new ABS in the primary market with little disruption, and sellers of ABS would have been able to sell with relative ease. By implication, then, “unusual economic conditions” include times during which the ABS market lacks these characteristics.
    - For the CPFF (see slide [36](#)), an issuer may “consider economic or market conditions in the market intended to be addressed by the CPFF as compared to usual ones, including the availability and price of credit.”
    - Similarly, for the MLF (see slide [39](#)), an issuer may “consider economic or market conditions in the market intended to be addressed by the MLF as compared to normal conditions, including the availability and price of credit.”
  - **In all cases, the Fed has stated explicitly that lack of adequate credit does not mean that no credit is available. Credit may be available, but at prices or on conditions that are inconsistent with a normal, well-functioning market.**
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# America First Provisions

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The CARES Act also requires that certain America First provisions must be met by any Treasury-supported Fed program. The ultimate borrower must meet all three criteria:

- **Be created or organized under U.S. law**

- For these purposes, a U.S. subsidiary or U.S. branch or agency of a foreign bank is considered to be created or organized in the United States or under the laws of the United States

- **Have significant operations in the United States**

- Through the PMCCF/SMCCF and TALF FAQs, the Fed has provided **a non-exhaustive list of examples of significant operations** in the United States. A borrower meets this condition if, as reflected in its most recent financial statements:

- greater than 50% of its consolidated assets were in the United States; or
- greater than 50% of any of the following were generated in the United States:
  - annual consolidated net income;
  - annual consolidated net operating revenues; or
  - annual consolidated operating expenses (excluding interest expense and any other expenses associated with debt service).

- **Have a majority of its employees in the United States**

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# Applicability of CARES Act Payout Restrictions

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- The CARES Act prohibits Treasury from using its \$454 billion appropriation to make a loan, loan guarantee or other investment as part of a Fed program or facility that provides “**direct loans**” unless certain requirements are applied to the ultimate borrower (as opposed to a bank or other financial intermediary) for the life of the loan plus 12 months:
  - No stock buybacks
  - No dividends or other capital distributions on common stock
  - No raises for an employee who made more than \$425,000 in 2019; pay cuts for employees who made more than \$3M in 2019
- A direct loan is:
  - a bilateral loan entered into directly with an eligible business as borrower, and
  - does not include syndicated credit, loans originated by financial institutions in the ordinary course, or securities or capital markets transactions.
- Note: a direct loan does not include an investment in an eligible business’s commercial paper or other debt securities.
- Because the programs described in this deck do not involve the making of “direct loans” as defined under the CARES Act, these statutory requirements do not apply to these programs, and the Fed has not chosen to apply them as a policy matter.

# Disclosure Requirements

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- In the interest of **transparency** and **accountability**, the Fed on April 23<sup>rd</sup> announced that it intends to publicly disclose information on a more timely basis than what is required by the Federal Reserve Act.
- Specifically, the Fed will disclose **monthly** the following information for facilities using CARES Act funding.
  - Names and details of participants in each facility;
  - Amounts borrowed and interest rate charged; and
  - Overall costs, revenues, and fees for each facility.

# Disclosure Requirements

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- Since its April 23<sup>rd</sup> announcement, the Fed has announced specific disclosure details for some of the programs discussed in this deck.
    - PMCCF disclosures will include information during the operation of the facilities, including information regarding participants, transaction amounts, costs, revenues and other fees.
      - Unlike the TALF and MLF FAQs, the PMCCF/SMCCF FAQs do not explicitly state that such disclosures would be monthly, but we assume that this is the case.
    - Monthly TALF disclosures will include information identifying each borrower and other participant in the facility, information identifying each Material Investor of a borrower, the amount borrowed by each borrower, the interest rate paid by each borrower, the types and amounts of ABS collateral pledged by each borrower, and overall costs, revenues, and other fees for the facility.
      - A Material Investor is a person who owns, directly or indirectly, 10 percent or more of any outstanding class of securities of an entity.
    - Monthly MLF disclosures will include information regarding names of participants, amounts borrowed and interest rates charged, and overall costs, revenues and other fees.
      - In terms of disclosure to the market by MLF Eligible Issuers, the Fed has set the expectation that Eligible Issuers offering Eligible Notes in a competitive sale process “should anticipate providing the same level of disclosure normally prepared in connection with a public offering of notes.” Continuing disclosure will also be required under SEC Rule 15c2-12, and additional disclosure obligations may apply, including for non-competitive sale processes.
    - Treasury’s investment in the CPFF facility was funded by the Exchange Stabilization Fund, rather than the CARES Act appropriation, but the Fed has said that it “may disclose information regarding the CPFF during the operation of the facility, including information regarding participants, costs, revenues, and other fees.”
  - For all of these programs, aggregate balance sheet items will be reported separately for each facility on the Fed’s weekly H.4.1 statistical release.
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# Fed Programs for Corporates



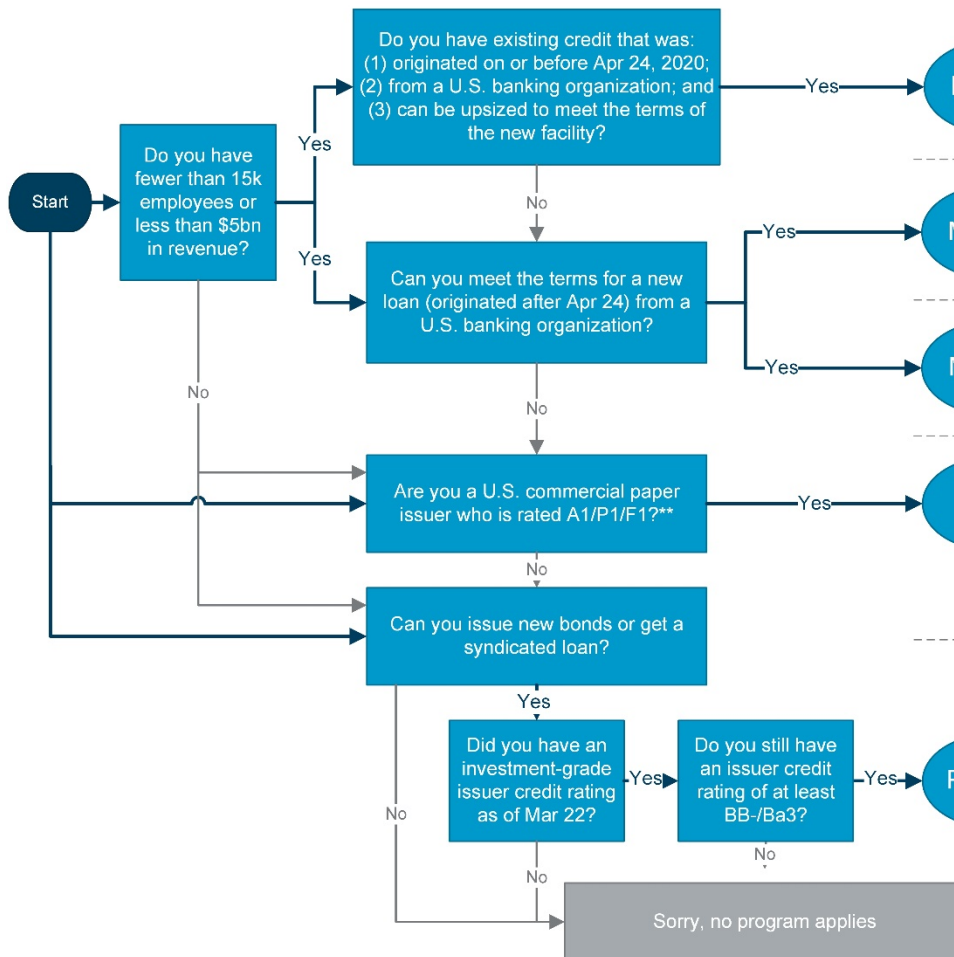
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# Funding Sources for Corporate Issuers

This flowchart shows the Fed facilities that are available to businesses seeking funding.

The chart on the right shows the combination of programs that cannot be accessed simultaneously. A red X indicates that a business cannot double-dip into the facilities listed in that row and column.



## Program Exclusions

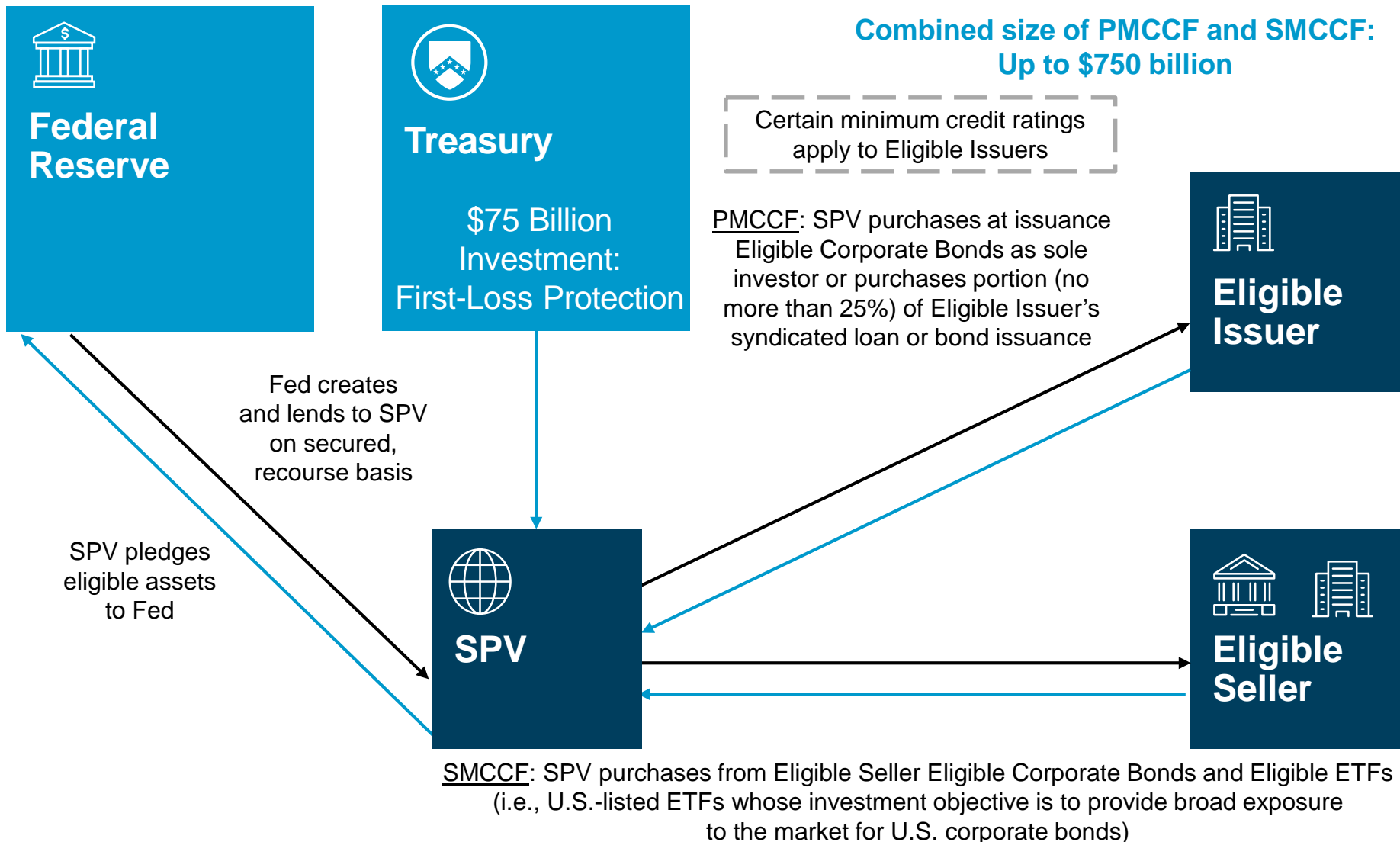
Direct Loans From Treasury\* MSELF MSNLF MSPLF CPFF PMCCF PPP

	Direct Loans From Treasury*	MSELF	MSNLF	MSPLF	CPFF	PMCCF	PPP
MSELF	X		X	X		X	
MSNLF	X	X		X		X	
MSPLF	X	X	X			X	
CPFF							
PMCCF	X	X	X	X			

\* In the CARES Act or subsequent federal legislation. Specifically, this column refers to companies that have received support under section 4003(b)(1)-(3) of the CARES Act, which authorizes Treasury to provide loans or guarantees to air carriers, certain related companies and businesses that are critical to national security. A company may, however, receive assistance through the PPP or the Payroll Support Program for air carriers and remain eligible.

\*\* A one-time sale is permitted for issuers who were rated at least A1/P1/F1 on Mar 17, 2020 and are still rated at least A2/P2/F2.

# Structure of Corporate Credit Facilities



# Corporate Credit Facilities – Key Terms

	Primary Market Corporate Credit Facility	Secondary Market Corporate Credit Facility
<b>Overview</b>	<ul style="list-style-type: none"> <li>Fed-funded SPV buys at issuance Eligible Corporate Bonds as sole investor or portions (no more than 25%) of syndicated loans or bonds (see next slide).</li> </ul>	<ul style="list-style-type: none"> <li>Fed-funded SPV buys, from Eligible Sellers, Eligible Corporate Bonds issued by Eligible Issuers and Eligible ETFs.</li> </ul>
<b>Operational?</b>	<ul style="list-style-type: none"> <li>Not yet operational, expected to begin purchasing Eligible Corporate Bonds soon; will cease purchases no later than September 30, 2020 unless extended.</li> </ul>	<ul style="list-style-type: none"> <li>Began purchasing Eligible ETFs on May 12.</li> <li>Expected to begin purchasing Eligible Corporate Bonds soon; will cease purchases no later than September 30, 2020 unless extended.</li> </ul>
<b>Eligible Issuer</b>	<ul style="list-style-type: none"> <li>A business created or organized in the U.S. or under the laws of the U.S. with significant U.S. operations and a majority of U.S.-based employees (such business, a “U.S. company”) that:               <ul style="list-style-type: none"> <li>is not an IDI or a depository institution holding company,</li> <li>has not received specific support pursuant to the CARES Act or any subsequent federal legislation, and</li> <li>satisfies the conflict of interest requirements in CARES Act section 4019 of the CARES Act, which applies to businesses owned or controlled by a covered U.S. government official.</li> </ul> </li> <li>For the PMCCF only, an Eligible Issuer is not permitted to also participate in a Main Street Facility.</li> </ul>	
<b>Eligible Seller</b>	<ul style="list-style-type: none"> <li>Not applicable.</li> </ul>	<ul style="list-style-type: none"> <li>A U.S. company that satisfies the conflict-of-interest requirements of section 4019 of the CARES Act.</li> </ul>
<b>Eligible Corporate Bonds</b>	<ul style="list-style-type: none"> <li>Maturity of 4 years or less.</li> <li>Must be issued by an Eligible Issuer that was investment grade as of March 22, 2020.</li> <li>If the issuer was investment grade as of March 22, 2020 but is no longer investment grade (a fallen angel), the issuer must be rated at least BB-/Ba3 at the time the Facility makes a purchase.</li> </ul>	<ul style="list-style-type: none"> <li>Remaining maturity of 5 years or less.</li> <li>Otherwise same as for PMCCF.</li> </ul>
<b>Eligible ETFs</b>	<ul style="list-style-type: none"> <li>Not applicable.</li> </ul>	<ul style="list-style-type: none"> <li>Preponderance of the SMCCF’s ETF holdings will be ETFs whose primary investment objective is exposure to U.S. IG corporate bonds; remainder will be ETFs whose primary investment objective is exposure to U.S. HY corporate bonds.</li> </ul>

# Corporate Credit Facilities – Mechanics

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## Mechanics of the PMCCF When PMCCF Acts Alongside Other Investors

- The PMCCF is expected to participate in syndicated bond or loan issuances at the same terms and price as other participants, with an additional 100 bps facility fee.
- Through FAQs, the Fed has suggested that the PMCCF will participate in a deal only if necessary because of lack of market demand, consistent with the lack of adequate credit accommodations standard in section 13(3).
- Specifically:
  - After a transaction is announced and shown to prospective purchasers, in the event of insufficient demand (i.e., demand for less than 100 percent of the offering) and a desire by the issuer to approach the PMCCF for participation to complete the transaction, the issuer and all leads on the syndication may approach the PMCCF via the investment manager and request participation by the PMCCF in up to 25 percent of the offering.
  - Issuers will be required to certify compliance with all eligibility criteria and **provide additional data on the proposed transaction**, including, but not limited to, **tenor, seniority, offering format, transaction size, initial price talk and expected final yield**.
  - The Fed also warns that “market pricing should not be lowered for the purpose of decreasing demand from market participants in order to fill deal capacity via the PMCCF.”

# Corporate Credit Facilities – Investment Management

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## Role of the Investment Manager and SMCCF Investment Guidelines

- The Fed has retained Blackrock to serve as investment manager for the Corporate Credit Facilities and to act as a fiduciary to the SPV.
- The investment manager's activities will be governed by an **investment management agreement** and the investment manager will be required to follow the Fed's investment guidelines, rather than exercising its own discretion.
- The SMCCF investment management agreement, [available here](#), reflects an investment strategy designed to achieve **three objectives**:
  - provision of broad support for secondary credit markets to facilitate orderly repositioning and pricing of risk;
  - supporting primary issuance by issuers at funding costs that reflect more normalized liquidity and market functioning; and
  - reducing the incidence and severity of market dysfunction or fire sales.
- The investment manager will operate the SMCCF in **three phases**: (1) stabilization, (2) ongoing monitoring and (3) reduction in support.
  - The Fed will establish and periodically amend the pace of purchases in the first two phases as a range of percentages of average daily volume in the relevant market based on measures of market functioning and the rate of change of such measures, as well as broader market health and macroeconomic indicators.
- The investment management agreement for the PMCCF is not yet available, but will be made available before the PMCCF launches.

# Corporate Credit Facilities – Eligible ETFs

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## Starting with Eligible ETFs

- The SMCCF's stabilization phase commenced on May 12 with the purchase, through certain Primary Dealers, of a range of Eligible ETFs that have as a primary investment objective either exposure to investment grade bonds or exposure to high yield bonds.
  - The preponderance of purchases are intended to be of ETFs in the former category.
- The Fed decided to start by purchasing Eligible ETFs, rather than Eligible Corporate Bonds, because Eligible Corporate Bonds may not be purchased by the SMCCF until their Eligible Issuers have provided the necessary certifications.
  - This level of operational readiness is expected soon, but in the interim ETF purchases are intended to serve as an efficient mechanism to access the corporate bond market, thereby helping the SMCCF to achieve its objectives.

# Corporate Credit Facilities – Eligible Sellers

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## Eligible Sellers Under the SMCCF

- Eligible Seller is defined as a U.S. company that satisfies the conflict-of-interest requirements of section 4019 of the CARES Act.
  - Eligible Sellers will be required to provide a series of certifications as to their satisfaction of these requirements, as well as the requirements of Section 13(3) of the Federal Reserve Act (e.g., not insolvent). The seller certification materials are available [here](#).
- As an initial matter, to expedite the implementation of the SMCCF, the SMCCF will transact only with **Primary Dealers** that meet the Eligible Seller criteria.
- Additional counterparties will be added later, “subject to adequate due diligence and compliance work.”
- The Fed will also seek to involve additional firms in providing other support services to the PMCCF and SMCCF.



# Corporate Credit Facilities – Per-Issuer and -ETF Limits

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- Both the PMCCF and SMCCF include a number of limitations:
  - The maximum amount of instruments that the PMCCF and SMCCF may purchase with respect to any Eligible Issuer is capped at 1.5 percent of the combined potential size of the PMCCF and SMCCF (currently, \$750 billion).
  - The maximum amount of outstanding bonds or loans of an Eligible Issuer that borrows from the PMCCF is capped at 130 percent of the Eligible Issuer’s maximum outstanding bonds and loans on any day between March 22, 2019 and March 22, 2020.
  - The maximum amount of bonds of any Eligible Issuer that the SMCCF will purchase from the secondary market is capped at 10 percent of the Eligible Issuer’s maximum bonds outstanding on any day between March 22, 2019 and March 22, 2020.
  - The SMCCF may 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.
- For the first three of these, the limits are calculated at the consolidated top-tier parent level.

# Corporate Credit Facilities – Eligibility of Non-Profits

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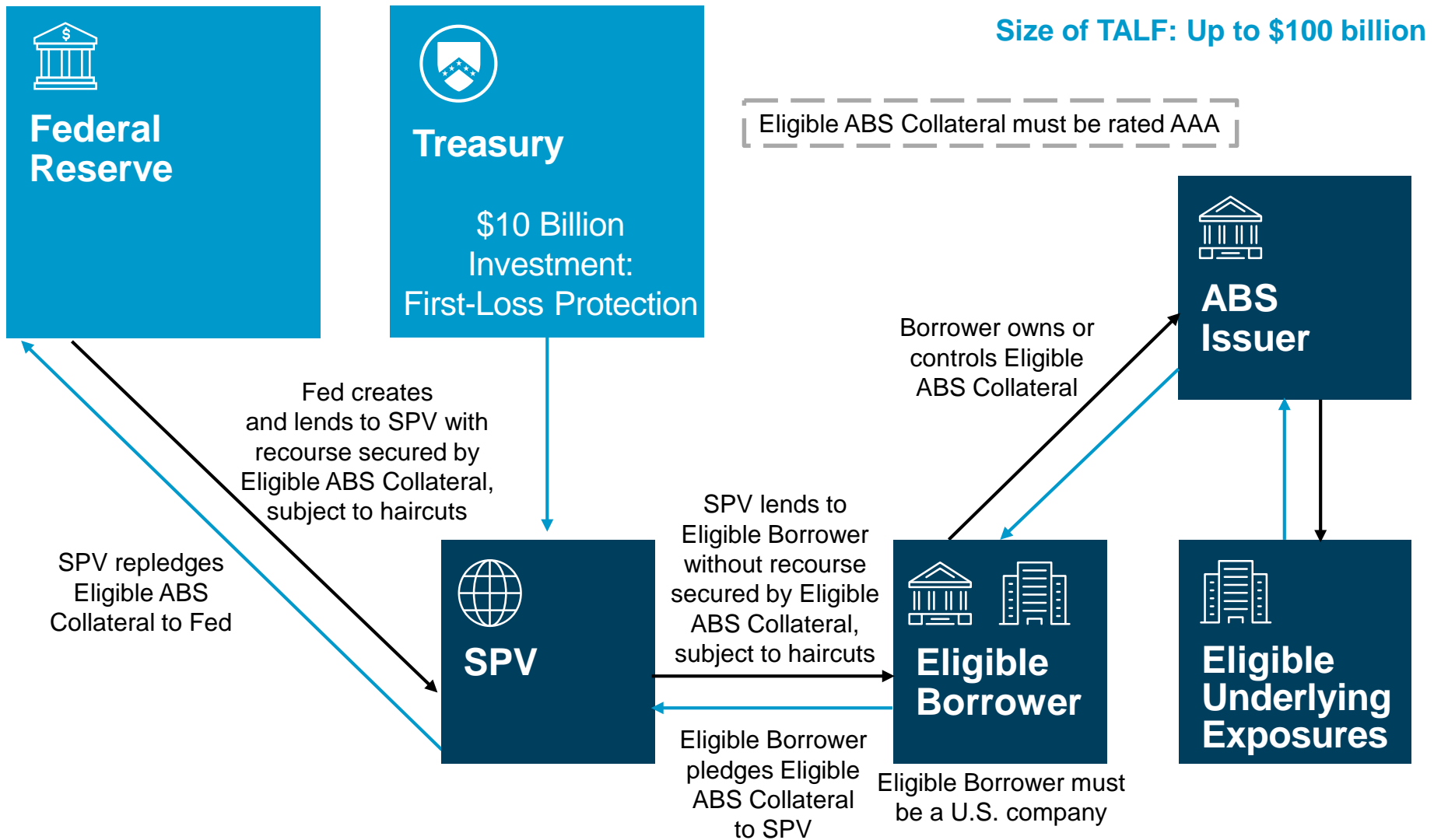
- Unlike certain other Fed facilities which currently exclude non-profit organizations (most notably the Main Street facilities), non-profits may be Eligible Issuers under the PMCCF and SMCCF, provided that they meet the generally applicable eligibility criteria.
- We believe that this implies that the non-profit would need a credit rating but that is not entirely clear.

# Corporate Credit Facilities – Links to Key Documents

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- [PMCCF Term Sheet](#)
- [PMCCF FAQs](#)
- [SMCCF Term Sheet](#)
- [SMCCF FAQs](#)
- [SMCCF Investment Management Agreement](#)
- [Current List of SMCCF Eligible Sellers](#)
- [SMCCF Seller Certification Materials](#)
- [FRBNY SMCCF Page](#)
  - Includes all other SMCCF facility agreements in addition to investment management agreement.

# Structure of Term Asset-Backed Securities Loan Facility (TALF)



# TALF – Key Terms

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<b>Operational?</b>	<ul style="list-style-type: none"><li>• First subscription date will be June 17, 2020 and first loan closing date will be June 25, 2020.</li></ul>
<b>Eligible Borrowers</b>	<ul style="list-style-type: none"><li>• Businesses, including investment funds, that (a) are created or organized in the U.S. or under the laws of the U.S., (b) have significant operations in and a majority of its employees based in the U.S., and (c) maintain an account relationship with a Primary Dealer. U.S. businesses with a material investor that is a foreign government are excluded, even if they satisfy the above criteria. Investment funds must be organized in the U.S. and managed by an investment manager that has its principal place of business in the U.S. to be eligible. See slide <a href="#">32</a>.</li></ul>
<b>Eligible ABS Collateral</b>	<ul style="list-style-type: none"><li>• USD cash ABS issued by a U.S. company (not including any issuers receiving support under Section 4003(b)(1)-(3) CARES Act) and rated AAA by an eligible NRSRO. No synthetic ABS, junior AAA ABS, interest- or principal-only ABS or ABS of ABS.</li><li>• SBA Pool Certificates and Development Company Participant Certificates must be issued on or after January 1, 2019; CMBS must be issued before March 23, 2020; non-CMBS must be issued on or after March 23, 2020.</li></ul>
<b>Eligible Underlying Exposure</b>	<ul style="list-style-type: none"><li>• Auto loans and leases, student loans, credit card receivables (both consumer and corporate), equipment loans and leases, floorplan loans, premium finance loans for property and casualty insurance, certain small business loans guaranteed by the SBA, leveraged loans (including static, non-CRE CLOs) and legacy CMBS (other than single-asset single-borrower CMBS or any CRE CLOs) issued before March 23, 2020.</li><li>• For all ABS except for CLOs, all or substantially all of the exposures on which any Eligible ABS Collateral is based must be newly originated by U.S.-organized entities (including U.S. branches and agencies of foreign banks).</li><li>• For CLOs, all or substantially all of the credit exposures must have a lead or co-lead arranger that is a U.S. organized entity (including U.S. branches and agencies of foreign banks).</li><li>• For all ABS, all or substantially all exposures on which any Eligible ABS Collateral is based must be to U.S. domiciled obligors or with respect to real property located in the U.S. or one of its territories.</li></ul>
<b>Pricing</b>	<ul style="list-style-type: none"><li>• CLOs: 30-day average SOFR + 150 bps.</li><li>• SBA 7(a) Loans: Top of Fed Funds target range + 75 bps.</li><li>• SBA 504 Loans: 3Y OIS rate + 75 bps.</li><li>• Other ABS : 2Y or 3Y OIS rate (depending on weighted average life of ABS) + 125 bps.</li></ul>
<b>Fees</b>	<ul style="list-style-type: none"><li>• For all ABS types: SPV will charge 10 bps administrative fee.</li></ul>
<b>Haircuts</b>	<ul style="list-style-type: none"><li>• Haircuts range from 5% (for, e.g., ABS of SBA loans with up to five years weighted average life) to 22% (for CLOs of leveraged loans with six to seven years weighted average life) and largely mirror the schedule used for the TALF established for the 2008 global financial crisis.</li></ul>
<b>Loan Term</b>	<ul style="list-style-type: none"><li>• Three years.</li></ul>

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# TALF – Breakdown of Eligible and Ineligible ABS Collateral Types

Eligible ABS Types	Ineligible ABS Types
<ul style="list-style-type: none"><li>• Auto loans and leases</li><li>• Student loans</li><li>• Credit card receivables (both consumer and corporate)</li><li>• Equipment loans and leases</li><li>• Floorplan loans</li><li>• Premium finance loans for property and casualty insurance</li><li>• Certain small business loans guaranteed by the SBA, including CARES Act Paycheck Protection Program loans</li><li>• Leveraged loans</li><li>• CMBS</li><li>• Static CLOs collateralized by leveraged loans</li></ul>	<ul style="list-style-type: none"><li>• Residential mortgage-backed securities</li><li>• CLOs backed by commercial real estate (CRE CLOs)</li><li>• Home equity loans</li><li>• Royalty payments (i.e., Bowie bonds)</li><li>• Corporate bonds</li><li>• Other ABS (i.e., re-securitizations, or ABS of ABS)</li></ul>

# TALF – Breakdown of Eligible and Ineligible ABS Collateral Features

Eligible ABS Features	Ineligible ABS Features
<ul style="list-style-type: none"> <li>• USD-denominated cash ABS</li> <li>• Must be rated in the highest short-term investment grade rating category from at least two of S&amp;P, Moody’s and Fitch</li> </ul>	<ul style="list-style-type: none"> <li>• Synthetic ABS</li> <li>• Has any rating below the highest investment-grade rating category from S&amp;P, Moody’s or Fitch</li> <li>• ABS tranches that are junior to any other class of securities backed by the same pool of assets</li> </ul>
<ul style="list-style-type: none"> <li>• Floating-rate ABS referencing LIBOR may be eligible, but generally expected to include adequate fallback language for LIBOR’s anticipated cessation</li> </ul>	<ul style="list-style-type: none"> <li>• ABS that bear interest payments that step up or down to predetermined levels on specified dates</li> <li>• ABS that are interest-only or principal-only</li> </ul>
<ul style="list-style-type: none"> <li>• For CLOs, only static CLOs collateralized by leveraged loans; see slide <a href="#">33</a></li> </ul>	<ul style="list-style-type: none"> <li>• CLOs backed by commercial real estate</li> <li>• Single-asset single-borrower CMBS</li> </ul>
<ul style="list-style-type: none"> <li>• Issued on or after March 23, 2020, except:             <ul style="list-style-type: none"> <li>• CMBS must be issued before March 23, 2020</li> <li>• SBA Pool Certificates and Development Company Participation Certificates must be issued on or after January 1, 2019</li> </ul> </li> <li>• Underlying credit exposures must meet specified criteria; see slide <a href="#">29</a></li> </ul>	<ul style="list-style-type: none"> <li>• ABS issued by or sponsored by (or, in the case of CLOs, with collateral managers which are) U.S. entities that have received specific support under Section 4003(b)(1)-(3) of the CARES Act (e.g., certain air carriers and related businesses and businesses critical to maintaining national security)</li> <li>• Any ABS the New York Fed rejects, in its sole discretion, for any reason, even if that ABS otherwise would be eligible, including:             <ul style="list-style-type: none"> <li>• ABS for which the potential borrower is motivated by a direct or indirect economic interest in the underlying exposures</li> <li>• ABS for which the New York Fed has concerns related to credit quality, transparency or simplicity of structure</li> </ul> </li> </ul>



# TALF – Detail on Eligible Underlying Exposures

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**For ABS to be eligible collateral, the credit exposures underlying eligible ABS must meet the following criteria:**

- The underlying credit exposures must fall into one of the following categories:
  - Auto loans and leases; student loans; credit card receivables (both consumer and corporate); equipment loans and leases; floorplan loans; premium finance loans for property and casualty insurance; certain small business loans guaranteed by the SBA, including CARES Act Paycheck Protection Program loans; leveraged loans; and commercial mortgages.
- The underlying credit exposures must not themselves be cash or synthetic ABS.
- Other than for CMBS, all or substantially all (i.e., 95 percent or more, by principal balance) of the underlying credit exposures must be newly originated, based on the following dates:
  - For student loans, SBA loans, equipment receivables and leveraged loans, all or substantially all of the underlying credit exposures must have been originated (or, in the case of student loans, disbursed) on or after January 1, 2019.
  - For auto loans and leases, credit card receivables, floorplan receivables and premium finance receivables for property and casualty insurance, all or substantially all of the underlying credit exposures must have been originated on or after January 1, 2020.
- For CLOs, the underlying leveraged loans must meet several additional requirements, which are described on slide [33](#).

# TALF – Mechanics

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## Mechanics of the TALF and Role of TALF Agents

- TALF is not designed to provide loans directly to corporates. Instead, TALF is intended to increase credit availability for corporates by facilitating the issuance of ABS at more normal interest rate spreads.
- On scheduled dates each month (each a subscription date), Eligible Borrowers will be able to request one or more three-year TALF loans. The minimum loan size is \$5 million.
- A Master Loan and Security Agreement (MLSA) supplements the TALF term sheet and FAQs. See next slide for details.
- Under the MLSA, **TALF Agents** will act as agent for the borrowers. Among other roles, a TALF Agent will:
  - Collect from its customers the amount of each borrower’s loan requests, the CUSIPs of the ABS the borrower expects to deliver and pledge against the loan and the prospectuses and/or offering documents of the newly issued ABS expected to be pledged;
  - Submit aggregate loan request amounts on behalf of its customers in the form and manner specified by the New York Fed; and
  - Periodically receive from the custodian the portion of the distributions on the collateral that are to be paid to its customers and disburse such payments in accordance with the instruction of its customers and provide any applicable tax report to its customers
- In the interest of expediting the implementation of TALF, TALF Agents will initially be **Primary Dealers**. The Fed may later increase the number of TALF Agents, subject to adequate due diligence and compliance work.
- The mechanics of the TALF are substantially the same as when the Fed originally established this facility during the 2008 financial crisis.

# TALF – The MLSA

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- To participate in TALF, an Eligible Borrower must be a customer of a TALF Agent and must have executed an agreement authorizing the TALF Agent to enter into the MLSA as agent for the Eligible Borrower.
- Under the MLSA, each Eligible Borrower **must make a continuous representation** that such borrower is an Eligible Borrower, requiring the borrower to at all times meet the TALF eligibility requirements.
- Because, as explained on the next slide, a borrower may be rendered ineligible based on its investors, a TALF borrower is expected to have a mechanism for continuously monitoring its direct and indirect investors as long as the TALF loan is outstanding.
  - If any entity’s direct or indirect ownership interest in the borrower reaches the Material Investor threshold (see next slide), the borrower must escalate such Material Investor to its TALF Agent for due diligence review.
- Other representations, warranties and covenants are also included in the MLSA.

# TALF – Limitations on Certain Foreign Investors

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- Under the TALF, a **Material Investor** is a person who owns, directly or indirectly, 10 percent or more of any outstanding class of securities of an entity.
- A U.S. business with **any Material Investor that is a foreign government is not eligible** to borrow under the TALF.
- In addition, if the borrower is an investment fund, the investment manager of that investment fund must not have any Material Investors that are foreign governments.
  - For these purposes, the definition of investment fund includes (1) any type of pooled investment vehicle that is organized as a business entity or institution, including without limitation a hedge fund, a private equity fund, and a mutual fund, and (2) any type of single-investor vehicle that is organized as a business entity or institution.

# TALF – Limitations on CLOs as Eligible Collateral

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- **Static CLOs** collateralized by leveraged loans may be eligible collateral under TALF. The TALF FAQs provide additional color on what counts as a static CLO:
  - A static CLO is a CLO that does not include a period of reinvestment of collateral proceeds, including principal or interest proceeds and proceeds on the sale of defaulted underlying leveraged loans, unless such period of reinvestment begins at least three years after the disbursement date of any TALF loan secured by the pledge of such CLO.
  - A static CLO must also prohibit reinvestment of proceeds at any time when the senior-most tranche in priority of payment (or, if the CLO structure includes multiple senior tranches that are pari passu in priority of payment, one or more of such senior tranches) is owned by the New York Fed or the TALF SPV.
  - Sales of underlying loans that have defaulted in payment of principal and interest are permissible, but proceeds of such sales may not be reinvested and must be used to amortize the CLO.
- Through FAQs, the Fed has imposed **additional requirements for static CLOs**.
  - Loans underlying the static CLOs must be broadly syndicated loans to large corporate borrowers and/or middle market loans.
  - All or substantially all of the leveraged loans underlying the static CLO must have been originated on or after January 1, 2019.
  - The underlying leveraged loans must be current on principal and interest, senior secured, and subject to the following additional portfolio limitations as of the subscription date:
    - Maximum second lien loan concentration of 10 percent.
    - Maximum debtor in possession (DIP) loan concentration of 7.5 percent.
    - Maximum covenant lite loan concentration of 65 percent for broadly syndicated CLOs and 10 percent for middle market CLOs.
    - Maximum single underlying obligor concentration of 4 percent.
- The FAQs provide additional details on the meanings of broadly syndicated, middle market and covenant lite.

# TALF – Prepayment and Certifications

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## Prepayment

- TALF loans are pre-payable in whole or in part, but collateral substitution is not permitted.

## Certifications

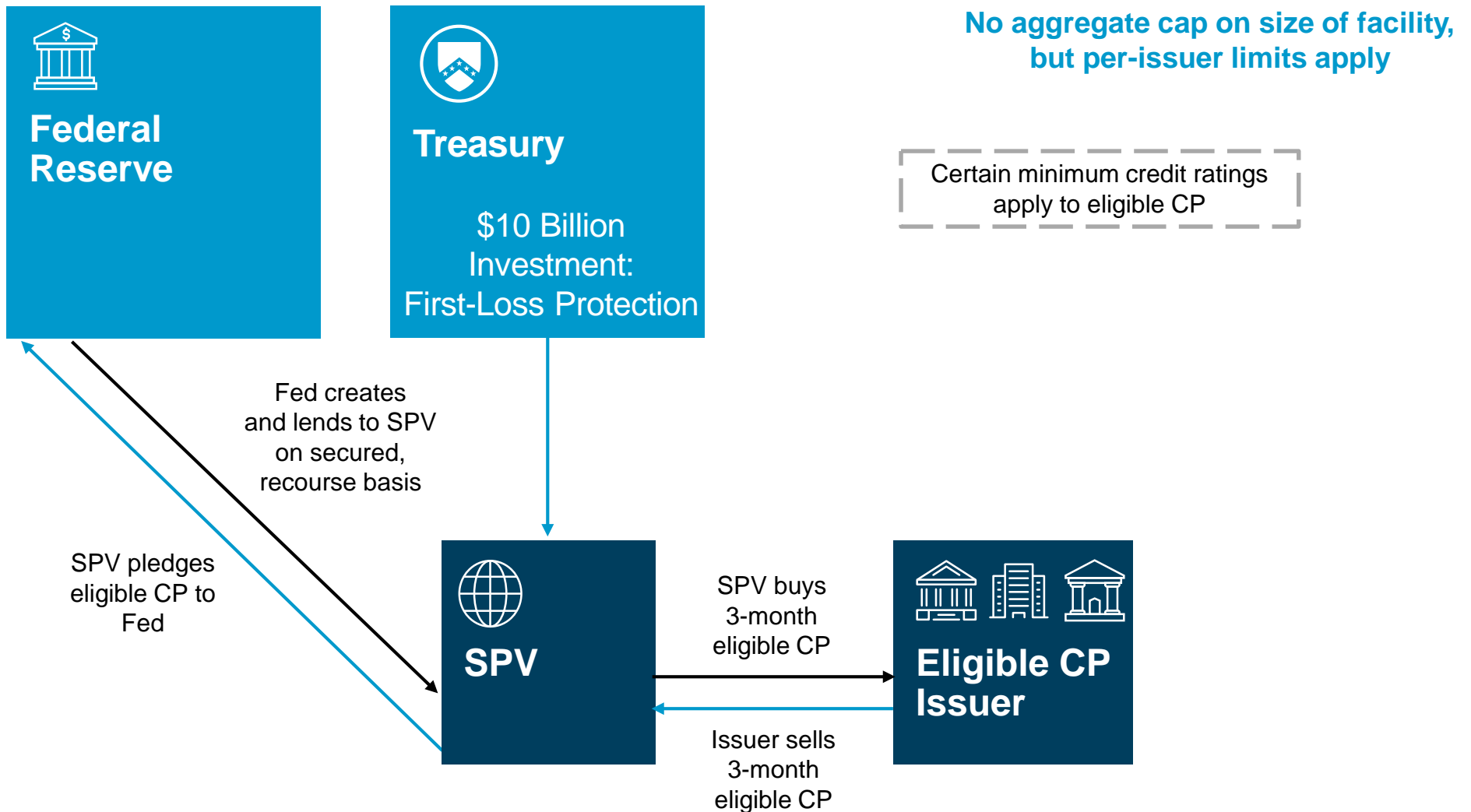
- In addition to the certifications required by Section 13(3) of the Federal Reserve Act (see slide [9](#)):
  - Eligible borrowers will be subject to the CARES Act Section 4019 conflicts of interest requirements and will be required to certify as to these requirements.
  - Both the issuer of the ABS and the sponsor of the ABS issuance must certify that (i) the ABS is “eligible collateral” and (ii) the sponsor (or, if the sponsor is an SPV, the sponsor’s direct and ultimate parent) has executed and delivered an indemnity undertaking to the TALF SPV and the New York Fed indemnifying them from any losses they may suffer if such certifications are untrue.

# TALF – Links to Key Documents

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- [TALF Term Sheet](#)
- [TALF MLSA](#)
- [Other TALF Documents and Forms](#)
- [TALF FAQs](#)
  - Note: The TALF FAQs include more detail on several other key definitional and interpretational issues beyond those discussed on the previous slides.
- [FRBNY TALF Page](#)

# Structure of Commercial Paper Funding Facility (CPFF)





# Commercial Paper Funding Facility (CPFF)

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<b>Operational?</b>	<ul style="list-style-type: none"><li>• Began purchasing commercial paper on April 14, 2020.</li></ul>
<b>Eligible CP Issuers</b>	<ul style="list-style-type: none"><li>• U.S. issuers of commercial paper, including municipal issuers and U.S. issuers with a foreign parent company. Includes U.S. branches of foreign banks.</li><li>• The SPV will not purchase asset-backed CP (ABCP) from issuers that have not issued ABCP (excluding issuance to the sponsoring institution) for any consecutive three-month period between March 16, 2019 and March 16, 2020.</li></ul>
<b>Per-issuer limit</b>	<ul style="list-style-type: none"><li>• The maximum amount of the SPV's holdings of a particular issuer's CP at any point in time will be equal to the maximum amount of that issuer's outstanding USD-denominated CP on any day between March 16, 2019 and March 16, 2020.</li></ul>
<b>Eligible CP</b>	<ul style="list-style-type: none"><li>• 3-month USD-denominated commercial paper only.</li><li>• 3-month CP must be rated at least A1/P1/F1 if rated by a major NRSRO and must be rated at least A1/P1/F1 by two or more major NRSROs if rated by multiple major NRSROs.</li><li>• An Eligible Issuer whose CP (1) as of March 17, 2020, was rated at least A1/P1/F1 and (2) is subsequently downgraded, is permitted to make a one-time sale of CP to the SPV so long as the issuer is rated at least A2/P2/F2 by a major NRSRO or rated at least A2/P2/F2 by two or more major NRSROs if rated by multiple major NRSROs.</li><li>• For an issuer whose CP is downgraded, the SPV may purchase CP only up to the issuer's outstanding USD-denominated CP on the day before it was downgraded.</li></ul>
<b>Pricing</b>	<ul style="list-style-type: none"><li>• 110 bps over the 3-month overnight index swap (OIS) rate for CP rated A1/P1/F1.</li><li>• 200 bps over the 3-month OIS rate for CP rated A2/P2/F2.</li></ul>

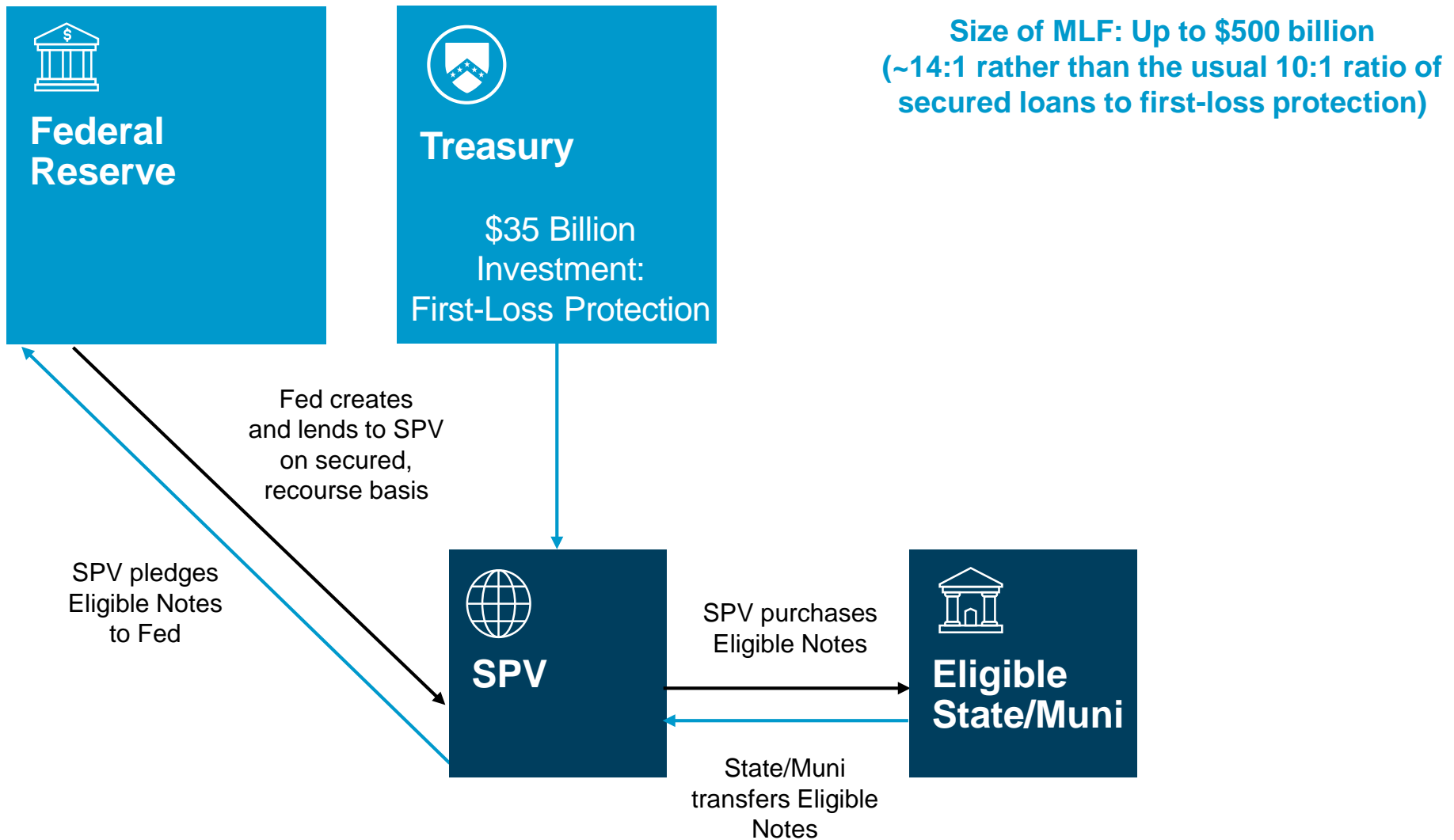
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# CPFF – Links to Key Documents

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- [CPFF Term Sheet](#)
- [CFPF FAQs](#)
- [CPFF Registration Materials](#)
- [FRBNY CPFF Page](#)
  - Includes Facility Agreements

# Structure of Municipal Liquidity Facility (MLF)



# Municipal Liquidity Facility (MLF)

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## Operational?

- Not yet operational.

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## Eligible Issuers

- U.S. states (defined to include D.C.), cities with > 250,000 residents, counties with > 500,000 residents, multi-state entities, and, at Fed discretion, entities that issue on behalf of such states, cities and counties to manage their cash flow.
- In general, subject to Fed exceptions, only one issuer is eligible for each state, city, county or multi-state entity.
- The issuer must be investment grade and rated by two or more major NRSROs as of April 8, 2020. If the issuer was investment grade as of April 8, 2020 but is no longer (a fallen angel), it must be rated at least BB-/Ba3 at the time of issuance to the SPV. If the issuer was rated by only one major NRSRO as of April 8, 2020, it is nonetheless eligible if it was investment grade at that time, it is rated by at least two major NRSROs at the time of issuance to the SPV and all such ratings at the time of issuance are at least BB-/Ba3.
  - Multi-state entities are subject to more stringent ratings criteria.

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## Limit Per Eligible Issuer

- For states, cities and counties, SPV will purchase Eligible Notes only up to an aggregate amount of 20% of the general revenue from own sources and utility revenue of the state, city or county for fiscal year 2017.
  - States may request that the SPV purchase Eligible Notes in excess of this limit in order to assist political subdivisions and instrumentalities that are ineligible to access the MLF.
- For multi-state entities, SPV will purchase Eligible Notes only up to an aggregate amount of 20% of the gross revenue of the multi-state entity as reported in its 2019 audited financial statements.

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## Eligible Notes

- Tax anticipation notes (TANs), tax and revenue anticipation notes (TRANS), bond anticipation notes (BANs) and other similar short-term notes, subject to Fed review and approval of the source of repayment and security.
- Maturity is limited to up to 36 months from date of issuance.
- Eligible Notes purchased by the SPV are prepayable at par (or, if the Eligible Notes are purchased at a premium, par plus unamortized premium) plus accrued interest by the issuer with SPV approval.

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## Pricing

- Pricing is based on a methodology set forth in the MLF's Pricing Appendix. For tax-exempt Eligible Notes, the fixed interest rate will be the OIS rate plus a predetermined spread (from 150 to 590 bp) based on the long-term rating of the security for the notes. Taxable notes will have equivalent pricing, but then divided by .65 as a gross-up. Split ratings generally will be addressed using an average rating.
- The MLF imposes an origination fee of 10 bps of the principal amount of an Eligible Issuer's Eligible Notes purchased by the SPV.

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## Use of Proceeds

- Proceeds may be used to manage cash flow impact of income tax deferrals due to filing deadline extensions; deferrals or reductions in tax revenue or increases in expenses due to the COVID-19 pandemic; and principal and interest payments on obligations of the Eligible Issuer or its political subdivisions or other governmental entities.
  - States, cities and counties may also use the proceeds to purchase similar notes issued by, or otherwise to assist, political subdivisions and other governmental entities for these purposes.
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# MLF – Links to Key Documents

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- [MLF Term Sheet, including Pricing Appendix](#)
- [MLF FAQs](#)
- [List of Eligible Issuers](#)
- [Application Materials](#)

# Summary Chart of All Fed Programs



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Throughout the table, there are [links in blue font](#) to the primary materials on the Fed’s website.

**Discount Window and Intraday Credit**

<i>Action</i>	<b>Discount Window</b>	<b>Intraday Credit</b>
<i>Fed Release</i>	<b>March 15</b>	<b>April 23</b>
<i>Description</i>	Primary credit rate reduced to 25 bps, term extended to up to 90 days. Fed, FDIC, OCC issued statements encouraging discount window borrowing. <sup>1</sup>	Temporary suspension of net debit caps that normally limit the amount of a depository institution’s uncollateralized daylight overdrafts; waiver of fees for daylight overdrafts. Streamlined process to allow secondary credit institutions to request collateralized daylight overdraft capacity under the max cap program.
<i>Eligible Borrowers</i>	Depository institutions.	Uncollateralized daylight overdrafts: Depository institutions eligible for primary credit program. Collateralized daylight overdrafts: Depository institutions that are not eligible for the primary credit program, subject to certain determinations by the Fed.
<i>Eligible Collateral</i>	List of eligible collateral, subject to haircuts, set forth in the <a href="#">Margins and Collateral Guidelines</a> .	Uncollateralized daylight overdrafts: Not applicable. Collateralized daylight overdrafts: List of eligible collateral, subject to haircuts, set forth in the <a href="#">Margins and Collateral Guidelines</a> .
<i>Rate and Fees</i>	Primary credit: 25 bps. Secondary credit: 75 bps. Seasonal credit: 120 bps.	Primary credit institutions: All fees waived. Secondary credit institutions: No change.
<i>Term</i>	Up to 90 days.	Intraday (during the Fedwire operating day, which is currently the 21.5 hour period each business day from 9:00 p.m. ET on the previous calendar day until 6:30 p.m. ET on such business day).

<sup>1</sup> At the same time, the Fed also encouraged banks to use its intraday credit facilities. On [March 19](#), the Fed stated that it “is encouraged by the notable increase in discount window borrowing this week with banks demonstrating a willingness to use the discount window.”



**Regulatory Actions**

Action	Reserve Requirement	Capital and Liquidity Buffers	SLR Modifications	Elimination of Savings Deposit Convenient Transfer Limits	Capital and LCR Modifications for MMLF and PPPLF Loans
<i>Fed Release</i>	March 15	March 15	April 1; May 15	April 24	March 19, April 9, May 5
<i>Effective Date</i>	March 26	March 15	April 1 (holding companies); April 1 (electing depository institutions)	April 24	March 19, April 9, May 5
<i>Description</i>	<p>Reserve requirement cut to zero percent.</p> <p>The reserve requirement is the amount of dollars that a depository institution must have standing to the credit of its account at a Federal Reserve Bank, as a percentage of its deposit liabilities.</p> <p>Reducing the requirement to zero frees these funds to support more lending.</p>	<p>Fed, FDIC, OCC issued statements encouraging firms to use their capital and liquidity buffers to respond to the crisis.</p> <p>Interim final rule provides a more gradual phase-in of automatic restrictions on distributions as firms dip into their capital and liquidity buffers and approach minimum requirements.</p>	<p>Fed interim final rule requires all regulated holding companies subject to the supplementary leverage ratio (<b>SLR</b>) to temporarily exclude on-balance sheet U.S. Treasury securities and FRB reserves from the denominator of the SLR. The purpose of this temporary relief is to allow larger banking organizations to more easily expand their balance sheets to continue financial intermediation, but not to allow an increase in capital distributions, and will be administered that way.</p> <p>Separately, a joint Fed/FDIC/OCC interim final rule allows, but does not require, depository institutions subject to the SLR to temporarily exclude on-balance sheet U.S. Treasury securities and FRB reserves from the denominator of the SLR. A depository institution must opt in to this approach within 30 days of the interim final rule’s publication in Federal Register. If a depository institution opts in, starting in Q3 2020 that depository institution must receive prior approval from its Federal banking regulator before it may make a capital distribution, or create an obligation to make such a distribution.</p>	<p>Fed interim final rule amending reserve requirements rule (Reg. D) to delete the six-per-month limit on certain kinds of transfers and withdrawals that may be made from “savings deposits.” The amendments are intended to allow depository institution customers more convenient access to their funds and to simplify account administration for depository institutions.</p>	<p>Fed, FDIC, OCC interim final rule modifying the regulatory capital and Liquidity Coverage Ratio (<b>LCR</b>) rules to neutralize the regulatory capital and LCR impacts, respectively, associated with banking organizations’ participation in the non-recourse funding provided under the Money Market Mutual Fund Liquidity Facility (<b>MMLF</b>) and Paycheck Protection Program Liquidity Facility (<b>PPPLF</b>). These facilities are summarized in Part 4 of this summary.</p>
<i>Expiration</i>	Not stated.	Not stated.	Exclusions are in effect through March 31, 2021.	Not stated.	Not stated.

**Monetary Policy Actions**

Action	Repo Operations	Fed Funds Rate	Quantitative Easing	Swap Lines	FIMA Repo Facility
Fed Release	March 12	March 15	March 15	March 15, March 19, March 20	March 31
<b>Description</b>	FRBNY boosted the volume of its 3-month and 1-month repo operations, each with a separate cap of \$500 billion.	FOMC cut the target range for the federal funds rate to 0 to 0.25%. <i>FOMC statement: The effects of the coronavirus will weigh on economic activity in the near term and pose risks to the economic outlook. . . The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.</i>	FOMC commits to increase the Fed’s holdings of Treasury securities and agency MBS “in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions,” without an explicit quantitative limit.  FOMC also expands OMO purchases to include agency CMBS.	For currency swap lines with non-US central banks: <sup>2</sup>  increased frequency, now daily with ECB, BoE, and others; reduced rate to OIS + 25 bps; term extended to 84 days.	Allows non-U.S. central banks and other monetary authorities to enter into overnight repos of U.S. Treasury securities with the Fed’s Open Market Account.  <i>This facility should help support the smooth functioning of the U.S. Treasury market by providing an alternative temporary source of U.S. dollars other than sales of securities in the open market.</i>
<b>Eligible Borrowers</b>	Primary dealers.			14 non-U.S. central banks in major economies.	Most non-U.S. central banks / monetary authorities with accounts at the FRBNY.
<b>Eligible Collateral</b>	Collateral eligible for OMO, i.e. U.S. Treasuries, fully-guaranteed Agency securities, and GSE securities.			Foreign currency of each counterparty.	U.S. Treasury securities.
<b>Rate</b>	Set based on dealers’ bids, subject to a <b>minimum bid rate</b> .	0 to 0.25%	Not applicable.	OIS + 25 bps.	IOER rate (currently 0.10%) + 25 bps.
<b>Term</b>	1 month or 3 months.	Not applicable.	Not applicable.	Up to 84 days.	Overnight.

<sup>2</sup> The Fed first announced coordinated action with five central banks (ECB, BoE, and central banks of Canada, Japan, Switzerland), and on **March 19** with nine more. On **March 20**, it announced that swaps with the first group of central banks would be conducted daily rather than weekly.

Federal Reserve Liquidity Facilities for the Financial Sector

<i>Action</i>	<b>Primary Dealer Credit Facility (PDCF)</b>	<b>Term Asset-Backed Securities Loan Facility (TALF)</b>
<i>Fed Release</i>	March 17	March 23, April 9, May 12, May 20
<i>Operational</i>	March 20	First subscription date will be June 17.
<i>DPW Memo</i>	March 19	—
<i>Description</i>	Loans from the FRBNY to primary dealers, with full recourse, secured by eligible collateral.  Size: Not stated.	Non-recourse loans from an SPV to eligible borrowers secured by eligible ABS collateral and pledged to the SPV, subject to haircuts. <sup>3</sup>  FRBNY lends to the SPV with recourse, secured by all assets of SPV including eligible ABS collateral.  Size: Up to \$100 billion, with \$10 billion of first-loss support from Treasury.
<i>Eligible Borrowers</i>	Primary dealers.	Businesses that (a) are created or organized in the United States or under the laws of the United States (including U.S. subsidiaries or U.S. branches or agencies of a foreign bank), (b) have significant operations in and a majority of their employees based in the United States and (c) maintain an account relationship with a primary dealer.  Businesses with a material investor (a person who owns, directly or indirectly, 10% or more of any outstanding class of securities of an entity) that is a foreign government are not eligible.
<i>Eligible Collateral</i>	Wide range, many types of investment-grade debt and equities.	Eligible Collateral: USD cash senior ABS issued by a U.S. company and rated AAA by an eligible NRSRO; no synthetic ABS, ABS of ABS, junior AAA-rated ABS or interest- or principal-only ABS; SBA Pool Certificates and Development Company Participant Certificates must be issued on or after January 1, 2019; CMBS must be issued before March 23, 2020; other ABS must be issued on or after March 23, 2020. The FRBNY reserves the discretion to reject an ABS as collateral for any reason, even if it meets the eligibility criteria.  Eligible Underlying Exposures: Specified exposure types; <sup>4</sup> and all or substantially all of the exposures must (a) for all ABS except CLOs, be newly originated by U.S. organized entities (including U.S. branches and agencies of foreign banks), (b) for CLOs, have a lead or co-lead arranger that is a U.S. organized entity (including U.S. branches and agencies of foreign banks) and (c) for all ABS, be to U.S. domiciled obligors or with respect to real property located in the U.S. or one of its territories.
<i>Pricing, Rates and Fees</i>	Primary credit rate.	Eligible CLOs: 30-day average SOFR + 150 bps; SBA 7(a) Loans: Top of Fed Funds target range + 75 bps; SBA 504 Loans: 3Y OIS rate + 75 bps; Other ABS: 2Y/3Y OIS rate + 125 bps. All ABS: SPV will charge a 10 bps administrative fee.
<i>Term<sup>5</sup></i>	Up to 90 days.	3 years.

<sup>3</sup> Haircuts range from 5% (for, e.g., ABS of SBA loans with up to 5 years weighted average life) to 22% (for CLOs of leveraged loans with 6 to 7 years weighted average life) and largely mirror the schedule used for the TALF established for the 2008 global financial crisis.

<sup>4</sup> Eligible underlying exposures are auto loans and leases, student loans, credit card receivables (both consumer and corporate), equipment loans and leases, floorplan loans, premium finance loans for property and casualty insurance, certain small business loans guaranteed by the SBA, leveraged loans and commercial mortgages. For CLOs, only static, non-CRE CLOs will be eligible collateral. CRE CLOs and single-asset single-borrower CMBS are not eligible collateral. For additional criteria for eligible underlying exposures, see the TALF slides earlier in this deck, starting on slide 25.

<sup>5</sup> Term of secured loan from Federal Reserve Bank to SPV or eligible borrower, as applicable.

**Federal Reserve Liquidity Facilities for the Financial Sector**

<i>Action</i>	<b>Money Market Mutual Fund Liquidity Facility (MMLF)</b>	<b>Paycheck Protection Program Liquidity Facility (PPPLF)</b>
<i>Fed Release</i>	March 18, March 20, March 23	April 9, April 30
<i>Operational</i>	March 23	April 16
<i>DPW Memo</i>	March 23	April 14
<i>Description</i>	<p>Non-recourse loans from FRB Boston to eligible borrowers, secured by eligible collateral that was purchased by eligible borrowers from eligible MMFs and pledged to FRB Boston at market value at time of purchase, without further haircuts.</p> <p><b>Interim final rule</b> neutralizes the regulatory capital impact on eligible borrowers of holding eligible collateral.</p> <p>Size: Not stated.</p> <p>\$10 billion of first-loss support from Treasury.</p>	<p>A Federal Reserve Bank makes nonrecourse loans to eligible intermediary lenders, secured by PPP loans guaranteed by SBA, without haircuts.</p> <p><b>Interim final rule</b> neutralizes the regulatory capital impact of PPP loans pledged to a Federal Reserve bank under the PPPLF.</p> <p>Size: Not stated. \$659 billion expanded statutory limit on PPP loans.</p>
<i>Eligible Borrowers</i>	<p>U.S. banks/thrifts, U.S. BHCs,<sup>6</sup> U.S. branches and agencies of FBOs.</p> <p>Eligible MMFs: Prime and municipal MMFs.</p>	<p>All lenders that are eligible to originate PPP loans.<sup>7</sup></p> <p>See our <a href="#">memo</a> on the PPP program.</p>
<i>Eligible Collateral</i>	<p>U.S. Treasuries and fully guaranteed agency securities; GSE-guaranteed securities; ABCP, unsecured CP; CDs issued by U.S. issuers and rated at least A1 / F1 / P1; U.S. muni short-term debt (excluding VRDNs) rated in top two categories; VRDNs puttable at option of holder and rated in top two categories; potentially certain repo receivables.</p>	<p>PPP loans made through SBA program and guaranteed by the SBA, whether originated or purchased by the intermediary lender.</p>
<i>Pricing, Rates and Fees</i>	<p>Primary rate for U.S. Treasuries and Agencies and GSE-guaranteed securities collateral;</p> <p>Primary + 25 bps for muni collateral;</p> <p>Primary + 100 bps for other collateral.</p>	<p>Interest Rate: 35 bps.</p> <p>No fees associated with the PPPLF.</p>
<i>Term<sup>5</sup></i>	<p>Equal to maturity of collateral pledged, must be ≤12 mos.</p>	<p>Same as PPP loans purchased.<sup>8</sup></p>

<sup>6</sup> Although SLHCs were not expressly listed, it appears that they may also be eligible borrowers because they are covered by the associated regulatory capital relief in the interim final rule.

<sup>7</sup> Includes IDIs, credit unions, community development financial institutions, members of the Farm Credit System, small business lending companies and certain fintech companies.

<sup>8</sup> The maturity date of the Fed’s extension of credit is accelerated if the lender realizes on the SBA guarantee or receives reimbursement from the SBA for loan forgiveness.

# The Federal Reserve's Actions to Address the Coronavirus Crisis

## Federal Reserve Liquidity Facilities for Larger Companies – Investment Grade or Recent Fallen Angels

Action	Primary Market Commercial Credit Facility (PMCCF)	Secondary Market Commercial Credit Facility (SMCCF)	Commercial Paper Funding Facility (CPFF)
<b>Fed Release</b>	March 23, April 9	March 23, April 9	March 17, March 23
<b>Operational</b>	Not yet operational.	Began purchasing eligible ETFs on May 12.	April 14
<b>DPW Memo</b>	March 26	March 26	March 23
<b>Description</b>	SPV buys at issuance eligible corporate bonds as sole investor or portions (no more than 25%) of syndicated corporate loans or bonds.	SPV buys on secondary market from eligible sellers eligible corporate bonds issued by eligible issuers and eligible ETFs.	SPV buys commercial paper from U.S. issuers, including financial and commercial companies and munis.
	FRBNY lends to single, common SPV for both PMCCF and SMCCF with recourse, secured by all assets of SPV including eligible bond and ETF collateral, without haircuts. Combined size of PMCCF and SMCCF: Up to \$750 billion, with \$75 billion of first-loss support from Treasury, with \$50 billion earmarked for PMCCF and \$25 billion earmarked for SMCCF.		FRBNY lends to the SPV, with recourse, secured by all assets of the SPV including purchased CP, without haircuts. Size: Not stated. \$10 billion of first-loss support from Treasury.
<b>Eligible Issuers / Sellers / Borrowers</b>	Eligible Issuers: U.S. companies, <sup>9</sup> other than IDIs or depository institution holding companies, that were investment grade as of March 22, 2020. If the issuer was investment grade as of March 22, 2020 but is no longer investment grade (a fallen angel), the issuer must be rated at least BB-/Ba3 at the time the Facility makes a purchase. Must not have received specific support pursuant to the CARES Act or any subsequent federal legislation and that satisfy the conflict of interest requirements in CARES Act section 4019, which apply to businesses owned or controlled by a covered U.S. government official.		Eligible Issuers: U.S. CP issuers (including U.S. subsidiaries of foreign parents).
	Issuer cannot participate in Main Street facilities.	Eligible Sellers to the Facility: U.S. companies. <sup>9</sup> Businesses must also satisfy the conflicts-of-interest requirements of section 4019 of the CARES Act.	
<b>Eligible Assets to Purchase</b>	Corporate bonds or syndicated corporate loans or bonds issued by an eligible issuer with a maturity of 4 years or less.	Corporate bonds issued by an eligible issuer with a remaining maturity of 5 years or less. Not applicable to syndicated loans. Preponderance of the SMCCF's ETF holdings will be ETFs whose primary investment objective is exposure to U.S. IG corporate bonds; remainder will be ETFs whose primary investment objective is exposure to U.S. HY corporate bonds.	3-month CP (incl. tax-exempt CP) rated A1 / P1 / F1 by an NRSRO. A one-time sale of collateral rated A2 / P2 / F2 is permitted in the event of a ratings downgrade.
<b>Pricing, Rates and Fees</b>	Corporate bonds: Issuer-specific pricing "informed by market conditions," plus a 100 bps facility fee Syndicated loans and bonds: Same pricing as other syndicate members, plus a 100 bps facility fee on the PMCCF's share of the syndication	Purchase price = fair market value on secondary market. Facility will avoid purchasing ETFs trading at prices that materially exceed estimated NAV.	Purchase price of CP based on 3-month OIS + 110 bps for A1/P1/F1-rated collateral; 3-month OIS + 200 bps for A2/P2/F2 rated collateral.
<b>Term<sup>5</sup></b>	Same as assets purchased by SPV.		Same as CP purchased by SPV.

<sup>9</sup> For purposes of PMCCF and SMCCF, a "U.S. company" means 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.



Federal Reserve Liquidity Facilities for Main Street Business Entities

Action	Main Street New Loan Facility (MSNLF)	Main Street Priority Loan Facility (MSPLF)	Main Street Expanded Loan Facility (MSELF)
<b>Fed Release</b>	April 9, April 30	April 30	April 9, April 30
<b>Operational</b>	Not yet operational.	Not yet operational.	Not yet operational.
<b>DPW Memo</b>	May 3, May 4		
<b>Description</b>	SPV buys 95% participations in eligible loans from eligible lenders.	SPV buys 85% participations in eligible loans from eligible lenders.	SPV buys 95% participations in upsized tranches of eligible loans from eligible lenders, upsized on or after April 24, 2020.
	FRB Boston lends to a single, common SPV for all Main Street facilities, with recourse, secured by all assets of SPV including participations in eligible loans or upsized tranches of eligible loans, without haircuts. SPV and eligible lender share risk in eligible loans on a pari passu basis, with the lender retaining its interest until the loan matures or the SPV sells its interest.  Combined size of Main Street facilities: Up to \$600 billion, with combined first-loss support from Treasury of \$75 billion.		
<b>Eligible Borrowers</b>	For-profit business entities, subject to certain exceptions, <sup>10</sup> created or organized in the United States before March 13, 2020, with up to 15,000 employees <b>or</b> up to \$5 billion in 2019 annual revenues. <sup>11</sup> Must have significant operations and a majority of employees based in the United States.  Borrowers may participate in only one of MSNLF, MSELF, MSPLF and PMCCF and must not have received specific support under Subtitle A of Title IV of the CARES Act. <sup>12</sup> Eligible borrowers are permitted to participate in both a Main Street program and the PPP.		
<b>Eligible Loans</b>	Eligible Loans: Secured or unsecured term loans originated by eligible lenders to eligible borrowers after April 24, 2020, subject to various conditions including priority requirements, a 4-year maturity, a 1-year payment deferral, a prescribed amortization schedule, and an interest rate of LIBOR + 300 bps.		Eligible Loans: Secured or unsecured upsized tranche of term loans or revolving credit facilities originated on or before April 24, 2020 by eligible lenders to eligible borrowers and with a remaining maturity of at least 18 months. Upsized tranche must satisfy various conditions including priority requirements, a 4-year maturity, a 1-year payment deferral, a prescribed amortization schedule, and an interest rate of LIBOR + 300 bps.
	Minimum and Maximum Loan Sizes: \$500,000 to lesser of (1) \$25 million or (2) the amount that, together with existing outstanding and undrawn available debt, does not exceed 4x adjusted 2019 EBITDA.	Minimum and Maximum Loan Sizes: \$500,000 to the lesser of (1) \$25 million or (2) the amount that, together with existing outstanding and undrawn available debt, does not exceed 6x adjusted 2019 EBITDA.	
<b>Eligible Lenders</b>	U.S. IDIs, U.S. branches and agencies of foreign banks, U.S. BHCs, U.S. SLHCs, U.S. IHCs of foreign banking organizations, and U.S. subsidiaries of any of the foregoing. The Fed is considering options to expand the list of eligible lenders.		
<b>Eligible Assets to Purchase</b>	95% participations in eligible loans purchased by SPV from eligible lenders.	85% participations in eligible loans purchased by SPV from eligible lenders.	95% participations in upsized tranches of eligible loans purchased by SPV from eligible lenders. <sup>13</sup>
<b>Pricing, Rates and Fees</b>	SPV will purchase participations at par value.		
	Transaction Fee: Eligible lender pays SPV a transaction fee of 100 bps of the principal amount of the eligible loan. May require the eligible borrower to pay this fee.  Origination Fee: Eligible borrower pays eligible lender an origination fee of up to 100 bps of the principal amount of the eligible loan.		Transaction Fee: Eligible lenders pay the SPV a transaction fee of 75 bps of the principal amount of the upsized tranche. May require the eligible borrower to pay this fee.  Upsizing Fee: Eligible borrowers pay eligible lenders an origination fee of up to 75 bps of the principal amount of the upsized tranche.
	Servicing Fee: SPV pays eligible lenders 25 bps per annum for loan servicing.		
<b>Term<sup>5</sup></b>	Same as assets purchased by SPV.		

<sup>10</sup> An ineligible business is any type of business listed in 13 C.F.R. § 120.110(b)-(j) and (m)-(s). See our [memo](#) for details.

<sup>11</sup> For purposes of the employee and revenue thresholds, an eligible borrower is aggregated with its affiliates using the framework set out in SBA regulations. The PPP affiliation exceptions do not apply.

<sup>12</sup> A company is not eligible for a Main Street loan if it has received support under section 4003(b)(1)-(3) of the CARES Act, which authorizes Treasury to provide loans or guarantees to air carriers, certain related companies and businesses that are critical to national security.

<sup>13</sup> If an eligible loan is secured at the time of upsizing or on any subsequent date, the corresponding upsized tranche must be secured on a pro rata basis by the same collateral.

Federal Reserve Liquidity Facilities for Municipalities

<i>Action</i>	<b>Municipal Liquidity Facility (MLF)</b>
<i>Fed Release</i>	April 9, April 27, May 11
<i>Operational</i>	Not yet operational.
<i>DPW Memo</i>	May 12
<i>Description</i>	<p>SPV buys newly-issued short-term notes issued by and directly from eligible issuers. FRBNY lends with recourse to the SPV.</p> <p>Proceeds may be used to manage cash flow impact associated with (a) income tax deferrals, (b) deferrals or reductions in tax revenues or increases in expenses due to COVID-19 pandemic, and (c) principal and interest payments on obligations of the eligible issuer or its political subdivisions or other governmental entities.</p> <p>Size: Up to \$500 billion, with \$35 billion in first-loss support from Treasury.</p>
<i>Eligible Issuers</i>	<p>U.S. states (defined to include D.C.), U.S. cities with &gt; 250,000 residents, U.S. counties with &gt; 500,000 residents, multi-state entities, and at Fed discretion, governmental entities that issue on behalf of such states, cities and counties.</p> <p>Must be rated investment grade by two or more major NRSROs as of April 8, 2020. If the issuer was investment grade as of April 8, 2020 but subsequently downgraded (a fallen angel), the issuer must be rated at least BB-/Ba3 by at least two NRSROs at the time of its issuance of notes to the SPV.</p> <p>If the issuer was rated by only one major NRSRO as of April 8, 2020, it is nonetheless eligible if it was investment grade at that time, it is rated by at least two major NRSROs at the time of its issuance of notes to the SPV and such ratings at the time of the issuance are at least BB-/Ba3.</p> <p>Multi-state entities are subject to more stringent ratings criteria.</p>
<i>Eligible Assets to Purchase</i>	<p>Tax anticipation notes (<b>TANs</b>), tax and revenue anticipation notes (<b>TRANS</b>), bond anticipation notes (<b>BANs</b>) and other similar short-term notes issued by an eligible issuer, subject to Federal Reserve review and approval of the source of repayment and security, in all cases with a maturity of not more than 36 months, plus prepayable at par (or, if the Eligible Notes are purchased at a premium, par plus unamortized premium) plus accrued interest by the issuer with SPV approval.</p>
<i>Pricing, Rates and Fees</i>	<p>Pricing is based on a methodology set forth in the MLF’s Pricing Appendix at the end of the term sheet. For tax-exempt eligible notes, the fixed interest rate will be the OIS rate plus a predetermined spread based on the long-term rating of the security for the notes. Taxable eligible notes have the pricing of tax-exempt eligible notes, divided by 0.65. Split credit ratings generally will be addressed using an average rating.</p> <p>10 bps origination fee.</p>
<i>Term<sup>5</sup></i>	Same as assets purchased by SPV.

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