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Federal Reserve Liquidity Programs

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The Fed continues to provide more details of its credit programs. We have updated information regarding the Fed's Main Street Lending programs for small and mid-sized businesses. We briefly outline the decision to use Libor in this program and describe the Alternative Reference Rate Committee's (ARRC) recommended fallback language in Figure 9. We have also included a table of the borrower restrictions created under the CARES Act.

As more details become available and we get more information on program usage, we will continue updating our summary sheet.

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Fed 'Adjusts' Main Street Lending Facilities to include more leveraged finance issuers, April 30, 2020.

FIGURE 1
Eligible central banks (by country)

UK
Japan
Canada
ECB
Switzerland
Australia
Brazil
Denmark
Korea
Mexico
New Zealand
Singapore
Sweden

Source: Federal Reserve

FIGURE 2
Primary Dealers

Amherst Pierpont Securities LLC
Bank of Nova Scotia, New York Agency
BMO Capital Markets Corp.
BNP Paribas Securities Corp.
Barclays Capital Inc.
BofA Securities, Inc.
Cantor Fitzgerald & Co.
Citigroup Global Markets Inc.
Credit Suisse AG, New York Branch
Daiwa Capital Markets America Inc.
Deutsche Bank Securities Inc.
Goldman Sachs & Co. LLC
HSBC Securities (USA) Inc.
Jefferies LLC
J.P. Morgan Securities LLC
Mizuho Securities USA LLC
Morgan Stanley & Co. LLC
NatWest Markets Securities Inc.
Nomura Securities International, Inc.
RBC Capital Markets, LLC
Societe Generale, New York Branch
TD Securities (USA) LLC
UBS Securities LLC.
Wells Fargo Securities, LLC

Source: Federal Reserve

FIGURE 3

Federal Reserve liquidity programs

Program	Rate (bp)	Operation Frequency	Term	Size	Counterparty	Collateral	Termination	Outstandings ($bn)	Description
Central bank swap lines	OIS+25	Daily and weekly	1w or 84d	Depends on the central bank	Central banks[1]	Local currency collateral and loans	None [2]	$410 (Apr 22)	Non-US banks can source $ funding from their local central bank, which in turn gets it from the Fed
Discount window	Primary credit rate (25bp)	Daily	o/n to 90d	Depends on how much collateral is pledged	Banks	a) Loans and investment grade securities b) No equities	None [2]	$32(Apr 22)	Traditional lender of last resort program for banks
CP funding facility (CPFF)	a) 3m OIS +110 b) 10bp one time registration fee	Daily	3m	Issuer is limited to the maximum of its outstandings between March 2019 and March 2020	A1/P1 issuers[3]	None	17-Mar-21	$3bn (Apr 22)	a) Fed buys the issuer's CP and holds it to maturity; issuer receives cash b) Treasury is providing $10bn equity investment in the CPFF SPV for loss protection to the Fed
Primary dealer credit facility (PDCF)	25	Daily	o/n to 90d Prepayments allowed	Depends on how much acceptable collateral the dealer pledges	Primary dealers[4]	IG corporate debt CP (A2/P2) Munis ABS, MBS Equities	At least 6m and possibly longer if conditions warrant	$32 (Apr 22)	a) Dealers pledge illiquid collateral in return for cash b) Recourse loan (beyond collateral value) to the primary dealer
Money market liquidity facility (MMLF)	a) primary credit +100bp for assets from prime funds b) primary credit+25bp for assets from muni funds	Daily	Maturity matches the maturity of the pledged paper	Depends on how much acceptable collateral the bank pledges	Banks	a) Prime MMF assets Including A1/P1 CP and AB-CP, along with certain non-TSY/AGY repo	30-Sep-20	$49 (Apr 22)	a) Banks buy prime fund assets, which they pledge to the Fed in return for cash that they give to the prime fund b) Non-recourse loan to banks, so these assets are excluded from the leverage and RWA capital ratios
FIMA Repo facility	IOER+25bp	as needed	overnight	Depends on how much acceptable collateral the central bank pledges	Central banks and monetary authorities	Treasuries only	at least 6m	$0 (Apr 22)	Foreign central banks can repo Treasuries to the Fed in return for dollar funding

Program	Rate (bp)	Operation Frequency	Term	Size	Counterparty	Collateral	Termination	Outstandings ($bn)	Description
Open market operations	variable	Multiple times per day	overnight 1w, 2w, 1m, 3m	Depends on how much acceptable collateral the dealer pledges	Primary dealers	Treasuries and MBS	As long as necessary, although weakening demand may lead to some program trimming	$157 (Apr 27)	Temporary financing of collateral and reserve expansion

[1] See Figure 1.
[2] No termination for the regular operations of these programs
[3] Issuers that were rated A1/P1 on March 17, 2020, but are subsequently downgraded will be able to sell their paper (once) to the Fed. These issuers will pay a higher rate of OIS+200.
[4] See Figure 2.
Source: Federal Reserve, Barclays Research

FIGURE 4

Credit market programs

Program	Rate (bp)	Operation Frequency	Term	Fees	Size	Counterparty	Collateral	Term-ination	Description
Main Street lending programs	Libor+300bp	as needed	4y loan	a) Eligible lender pays a transaction fee to the Fed on the principal amount of the loan (this can be passed to the borrower); b) The Fed will pay the lender a 25bp servicing fee on the amount of its participation	600bn	US banks and bank holding companies	See Table 8	30-Sep-20	Fed will provide funding to banks so that they can make small business loans
Paycheck Protection Program Liquidity Facility (PPPLF)	35bp	as needed	a) Fed loan matches the maturity of the bank's PPP loans, which are 2y; b) PPP loans have a 0 risk weighting and no effect on the bank's leverage ratio; c) there is no haircut; the Fed will lend the bank the full amount of the PPP loan	None	600bn	a) US Banks, non-depository institutions and financial technology firms	Paycheck Protection Program loans guaranteed by the Small Business Administration		Fed will provide funding collateralized with PPP loans that are backstopped by the SBA.
Term Asset-backed Lending Facility (TALF)	2y Libor swap+100bp1 3y Libor swap+100bp2	as needed	3y loan	a) 10bp administration fee; b) Published collateral haircut schedule	100bn	All US companies with eligible ABS collateral	a) New ABS issued after March 23, except for legacy CMBs b) CLOs, CMBs have been added; c) Credit exposures underlying the ABS must be originated all (or substantially) by US companies; d) SBA pool certificates and development company participation certificates	30-Sep-20	a) US companies will be able to borrow 3y money from the Fed collateralized with newly issued ABS; b) Loans provided are non-recourse to the borrower; c) Treasury will make a $10bn equity investment in the TALF SPV
Primary Market Corporate Credit Facility (PMCCF)4	Fed will purchase paper from the issuer at a market rate	as needed	up to 4y	100bp facility fee	500bn	US companies	a) New issue corporate debt rated BBB-/Baa3 or higher; b) Lower rated debt (to BB-) is eligible if the borrower is subsequently downgraded; c) Syndicated loans and bonds are eligible; d) the Fed will not buy more than 25% of any syndicated bond or loan e) insured depository institution debt is excluded	30-Sep-20	a) The Fed will buy newly issued corp bond directly from the issuer; b) Recourse to the issuer; c) Treasury will make a $50bn equity investment in the PMCCF SPV d) Treasury's investment will be leveraged 10:1 for IG debt and 7:1 for <IG

Program	Rate (bp)	Operation Frequency	Term	Fees	Size	Counterparty	Collateral	Term-ination	Description
Secondary Market Corporate Credit Facility (SMCCF)4	market price	Initially purchases will be through primary dealers	up to 5y	None	250	US companies	a) Investment grade corporate bonds with remaining maturities of less than 5y; b) US listed ETFs with exposure to investment grade and high yield corporates; c) insured depository debt is excluded	30-Sep-20	a) The Fed will buy eligible corporate bonds and ETFs from the secondary market; b) Treasury will make a $25bn equity investment in the SMCCF SPV; c) Treasury's investment will be leveraged 10:1 for IG, 7:1 for <IG, and between 3-7:1 for ETFs, depending on the risk
Municipal Liquidity Facility	a) Fed will purchase paper from the issuer; b) no details yet on program rate	as needed	up to 36m	10bp origination fee based on the principal amount	500bn	a)States and counties with at least 500,000 residents, Cities with at least 250,0000 residents; b) Counterparty size limit set at 20% of general revenue from own sources as of FY 2017	a) Tax anticipation notes, tax and revenue anticipation notes, bond anticipation notes, as well as other short-term debt; b) debt must be BBB-/Baa3 as of April 8. The Fed will buy subsequently downgraded issuers' paper provided it is at least BB-/Ba3	30-Sep-20	a) Fed will buy short-term municipal debt from issuers; b) the Treasury will provide a $35bn equity investment into the Municipal Liquidity Facility SPV

1 If the WAL of the ABS is less than 2y
2 If the WAL of the ABS is greater than 2y
3 See Figure 6
4 For more details see Figure 7
5 The Fed will add eligible counterparties over time. Counterparties must US based companies with a majority of US employees.

Source: Federal Reserve, Barclays Research

FIGURE 5

Eligible asset-backed paper

Auto loans and leases.

Student loans.

Credit card receivables (both consumer and corporate).

Equipment loans.

Floorplan loans.

Insurance premium finance loans.

Certain small business loans that are guaranteed by the Small Business Administration.

Eligible servicing advance receivables.

Source: Federal Reserve

FIGURE 6

Maximum program size, Treasury contribution, and disclosure rules ($bn)

	Potential	Treasury			
Program	**Max size**	**Contribution**	**Launched**	**Termination**	**30d disclosure[1]**
PMCCF	500	50	-	9/30/2020	yes
SMCCF	250	25	-	9/30/2020	yes
TALF	100	10	-	9/30/2020	yes
Muni Liquidity	500	35	-	12/31/2020	yes
Main Street programs	600	75	-	9/30/2020	yes
PPPLF[3]	600	600	16-Apr	9/30/2020	yes
CPFF	200	10	14-Apr	3/17/2021	yes[2]
MMLF	50	10	20-Mar	9/30/2020	yes[2]
Discount window	None[4]	0	16-Mar	none	no
PDCF	None[4]	0	30-Mar	"at least 6m"/ Sep 2020	no
CB swap lines	None[4]	0	16-Mar	none	no

[1] The Fed will provide a report every 30d on the 13(3) program's balance, interest and fees collected, and expected losses. It recently announced that it will provide additional details for programs created through the CARES Act. This additional information will include the names and details of program participants, along with the amounts borrowed and the respective interest rate.

[2] The initial 30d report, published on April 23, did not contain detailed information on program participants and borrowers.

[3] The Paycheck Protection Plan was created under Sec 1102 of the CARES Act.

[4] Maximum size is determined by the amount of collateral pledged by the counterparty

Source: Federal Reserve, Barclays Research

FIGURE 7

Additional PMCCF and SMCCF details

PMCCF:

- The Fed will buy qualifying bonds or loans as a single investor or as part of a syndicate.
- The debt must be investment grade as of March 22, 2020, and rated by at least two NRSROs, if available.
- Issuer must satisfy Section 4019 of the CAREs Act on conflicts of interest (no Congressmembers or the immediate family and in-laws of the president and vice president).

- PMCCF debt sold to the Fed can be used to refinance existing debt up to 3m ahead of that debt's maturity. Subject to approval from the Fed.
- PMCCF will only buy fixed rate debt if the Fed is the sole buyer. If the Fed is participating in a syndicate, it can buy floating rate debt. Libor instruments must have adequate fallbacks.
- If the Fed is participating in a syndicated loan or bond as part of the PMCCF, it will pay the same price as the other members. The facility fee applies to the amount the Fed purchases.
- The maximum amount of bonds an issuer can have from the PMCCF cannot exceed 130% of the maximum amount outstanding at any time between March 22, 2019, and March 22, 2020.
- The Fed has a single name concentration limit across the PMCCF and the SMCCF of 1.5% of the SPV capacity.

SMCCF:

- The Fed will not buy more than 10% of the issuer's maximum outstanding amount on any day between March 22, 2019, and March 22, 2020.
- The ETF purchases will be limited; it will not buy shares if after the purchase it would hold more than 20% of the outstanding shares.
- The Fed will buy shares from high yield ETFs. However, the "preponderance" of its ETF purchases will be from investment grade funds.
- The SMCCF will buy floating rate debt, including Libor instruments. Given the maturity of eligible SMCCF paper (up to 5y), we assume Libor-based debt will require adequate fallback language (see Figure 8 for a description of the recommended language).
- The Fed plans publicly to disclose PMCCF and SMCCF data during the life of the program. This will include: participants, transactions, costs, revenues and fees. This makes both programs somewhat different than the CPFF.

FIGURE 8
Main Street Lending Program details

- The Fed has created three loan programs designed to help small and medium-sized business. As these programs are loans, they are not forgivable; they must be paid back
- The three programs: Main Street New Loan Facility (MSNLF), Main Street Priority Loan Facility (MSPLF), and the Main Street Expanded Loan Facility (MSELF). The MSNLF and the MSPLF are for new loans. The MSELF allows a borrower to increase an existing term loan or revolving credit facility.
- The MSNLF and the MSPLF charge the lender a 100bp transaction fee. The lender can pass this onto the borrower. The lender has discretion over when and whether to do so.
- The MELF charges the lender a 75bp fee for the upsized amount of the loan. The lender has similar discretion with respect to when and whether to pass this fee on to the borrower
- Common features across all 3 programs
  - Loans can be secured or unsecured
  - Loans are for 4y and can be pre-payed without penalty

- All program rates are Libor+300bp. The Fed shifted this to Libor from SOFR for expediency, as requiring banks to issue loans off of the new benchmark might be cumbersome and delay getting cash to small and mid-sized businesses. The Libor terms in these loans, however, must include the ARRC recommended fall-back language, as the loans will still be outstanding after Libor publication ceases at the end of 2021.
  - Loans must have trigger clauses that allow for the permanent cessation of Libor publication, as well as pre-cessation clauses based on Libor "un-representativeness"
  - The replacement rate waterfall uses forward term SOFR if it is available; otherwise, it rolls down to compounded SOFR in arrears
  - The spread adjustment recommended by ARRC is the 5y median spread between Libor and SOFR
  - Business loans can be hardwired or amended. Hardwiring sets the replacement rate and spread adjustment in advance. In the amendment approach, both are left to a future date, with a borrower objection right
- All payments are deferred for the first year of the loan
- Eligible firms may have up to 15,000 employees or $5bn in annual 2019 revenue. Employees and revenue apply across all affiliates
  - Financial and insurance companies are excluded. Non-US companies are also excluded, as well as any company participating in the PMCCF
- Borrowing from the Treasury's PPP does not exclude the firm from participating in any of the three Main Street programs
- Lenders will apply their own underwriting standards on these loans. As a result, an eligible borrower may receive less (or no) money than the maximum allowable
- The retained portion of these loans are subject to 100% risk weighting for a corporate exposure.
- All Main Street Loan participants are subject to the CARES Act restrictions 4003(c)(3)(A)ii (see Table 9)

	Min. loan Size	Max. Loan Size (lesser of)	Payment Amortization (%) (Years 2-4)	Bank Retention (%)
MSNLF	$500,000	25m or 4x 2019 EBITDA	33.3% each year	5
MSPLF	$500,000	25m or 6x 2019 EBITDA	15, 15, 70	15
MSELF	$10m	200m or 35% of undrawn available debt or 6x 2019 EBITDA	15, 15, 70	5

FIGURE 9

CARES Act 4003(c)(3)(A)(ii) Limits on Borrower activity

1. Eligible businesses are those for whom credit is not reasonably available
2. The loan is sufficiently secured or made at a rate that reflects the risk of the loan
3. Loans are made at the shortest maturities possible – up to 5y
4. The eligible business and its affiliates may not buy back shares (of the business or its parent) for the length of the loan plus 12m
5. The eligible business cannot pay dividends or make capital distributions for the length of the loan plus 12m
6. Must maintain its employment levels as of March 24, 2020, through September 30, 2020. And it cannot reduce them by more than 10% on September 30, 2020
7. Mid-sized businesses have similar restrictions

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