Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act May 28, 2020

Overview

The Board of Governors of the Federal Reserve System (Board) is providing the following updates concerning certain lending facilities established by the Board under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343). Pursuant to section 13(3)(C) of the Federal Reserve Act, the Board must provide the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives (the Committees) an initial report regarding each facility established under section 13(3) and periodic updates at least every 30 days thereafter. This report provides the second periodic update for the

(1) Primary Market Corporate Credit Facility (PMCCF),
(2) Secondary Market Corporate Credit Facility (SMCCF), and
(3) Term Asset-Backed Securities Loan Facility (TALF).

In addition to the PMCCF, SMCCF, and TALF, the Board also has authorized the establishment of the following credit facilities under section 13(3) of the Federal Reserve Act: the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, the Money Market Mutual Fund Liquidity Facility, the Municipal Liquidity Facility, the Paycheck Protection Program Liquidity Facility, the Main Street New Loan Facility, the Main Street Expanded Loan Facility, and the Main Street Priority Loan Facility. Periodic updates concerning these facilities will be provided at least every 30 days, in accordance with section 13(3) of the Federal Reserve Act.

A. Primary Market Corporate Credit Facility

On March 22, 2020, the Board authorized the Federal Reserve Bank of New York (FRBNY) to establish and operate the PMCCF. The PMCCF is intended to facilitate the provision of credit to a wide range of U.S. companies. Additional information about the PMCCF can be found on the Board's public website at https://www.federalreserve.gov/monetarypolicy/pmccf.htm.

Update. As of May 19, 2020, the PMCCF was not yet operational.

Accordingly, there are no transaction data to report.

As described in the Board's initial report to Congress regarding the PMCCF, the PMCCF includes features that are intended to mitigate risk to the Federal Reserve. The Board continues to expect that the PMCCF will not result in losses to the Federal Reserve.

B. Secondary Market Corporate Credit Facility

On March 22, 2020, the Board authorized the FRBNY to establish and operate the SMCCF. The SMCCF is intended to facilitate the provision of credit to a wide range of U.S. companies. Additional information about the SMCCF can be found on the Board's public website at https://www.federalreserve.gov/monetarypolicy/smccf.htm.

Update. As of May 19, 2020:

- The total outstanding amount of the FRBNY's loans under the SMCCF was $1,294,544,258.[1]
- Total value of the collateral pledged to secure the FRBNY's loans to the special purpose vehicle (SPV) was $38,807,042,826.[2]
- Total amount of interest, fees, and other revenue received by the SPV with respect to SMCCF, reported on an accrual basis, was $0.
- The amount of interest, fees, and other revenue or items of value received by the FRBNY, reported on an accrual basis, was $8,721.
- As described in the Board's initial report to Congress regarding the SMCCF, the SMCCF includes features that are intended to mitigate risk to the Federal Reserve. The Board continues to expect that the SMCCF will not result in losses to the Federal Reserve.

Additional aggregate and transaction-specific disclosures regarding the SMCCF may be found in the attached spreadsheet.

[1] Loans are extended to the special purpose vehicle (SPV) by the FRBNY on the basis of settled securities purchase transactions.

[2] Includes the market value of securities purchase transactions in the amount of $1,307,027,514, which is the recorded value of all transactions that have reached their contractual settlement date as of May 19, 2020. For purposes of this report, total securities trades have been reduced by the total purchase amount of trades that have not reached contractual settlement date ($286,910,808); see also, supra, n.1. Also includes equity investment from the Department of the Treasury of $37,500,000,000 and miscellaneous receivables of $15,312.

C. <u>Term Asset-Backed Securities Loan Facility</u>

On March 22, 2020, the Board authorized the FRBNY to establish and operate the TALF. Under the terms of the TALF, the FRBNY will lend to an SPV, which will make loans to U.S. companies secured by certain AAA-rated asset-backed securities (ABS) backed by recently originated consumer and business loans. The TALF is intended to support the provision of credit to consumers and businesses by enabling the issuance of ABS backed by private student loans, auto loans and leases, consumer and corporate credit card receivables, certain loans guaranteed by the Small Business Administration (SBA), and certain other assets.

On May 12, 2020, the Board adopted a revised term sheet for TALF, reflecting changes to the following terms:

Funding. Funding provided by the Department of the Treasury will be a $10 billion equity investment in the special purpose vehicle using funds appropriated to the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

Eligible Borrowers. Under the revised term sheet, eligible borrowers include businesses that (a) are created or organized in the United States or under the laws of the United States, (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.

Eligible Collateral. Under the revised term sheet, eligible collateral includes U.S. dollar denominated cash (that is, not synthetic) ABS that have a credit rating in the highest long-term or, if no long-term rating is available, the highest short-term investment-grade rating category from at least two eligible nationally recognized statistical rating organizations (NRSROs) and do not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. With the exception of commercial mortgage-backed securities (CMBS), SBA Pool Certificates, and Development Company Participation Certificates, eligible ABS must be issued on or after March 23, 2020. CMBS issued on or after March 23, 2020, will not be eligible. SBA Pool Certificates or Development Company Participation Certificates must be issued on or after January 1, 2019.

To be eligible collateral, all or substantially all of the underlying credit exposures must be newly issued, except for CMBS.

All or substantially all of the credit exposures underlying the eligible ABS must (1) for newly issued ABS, except for collateralized loan obligations (CLOs), be originated by U.S.-organized entities (including U.S. branches or agencies of foreign banks); (2) for CLOs, have a lead or a co-lead arranger that is a U.S.-organized entity (including a U.S. branch or agency of a foreign bank); and (3) for all ABS (including CLOs and CMBS), be to U.S.-domiciled obligors or with respect to real property located in the United States or one of its territories.

Eligible collateral must be ABS where the underlying credit exposures are one of the following:

(1) Auto loans and leases;
(2) Student loans;
(3) Credit card receivables (both consumer and corporate);
(4) Equipment loans and leases;
(5) Floorplan loans;
(6) Premium finance loans for property and casualty insurance;
(7) Certain small business loans that are guaranteed by the SBA;
(8) Leveraged loans; or
(9) Commercial mortgages.

Eligible collateral will not include ABS that bear interest payments that step up or step down to predetermined levels on specific dates. In addition, the underlying credit exposures of eligible collateral must not include exposures that are themselves cash ABS or synthetic ABS.

The feasibility of adding other asset classes to the TALF or expanding the scope of existing asset classes will be considered in the future.

Conflicts of Interest. Under the revised term sheet, eligible borrowers will be subject to the conflicts of interest requirements of section 4019 of the CARES Act.

Pricing. Under the revised term sheet, for CLOs, the interest rate will be 150 basis points over the 30-day average secured overnight financing rate

(SOFR). For SBA Pool Certificates (7(a) loans), the interest rate will be the top of the federal funds target range plus 75 basis points. For SBA Development Company Participation Certificates (504 loans), the interest rate will be 75 basis points over the three-year federal funds overnight index swap (OIS) rate.

For all other eligible ABS, the interest rate will be 125 basis points over the two-year OIS rate for securities with a weighted average life less than two years, or 125 basis points over the three-year OIS rate for securities with a weighted average life of two years or greater.

Additional information about the TALF can be found on the Board's public website at https://www.federalreserve.gov/monetarypolicy/talf.htm.

Update. As of May 19, 2020, the TALF was not yet operational. Accordingly, there are no transaction data to report.

As described in the Board's initial report to Congress regarding the TALF, the TALF includes features that are intended to mitigate risk to the Federal Reserve. The Board continues to expect that the TALF will not result in losses to the Federal Reserve.