Report to Congress Pursuant to Section 13(3) of the Federal Reserve Act: Primary Market Corporate Credit Facility

Overview

On March 22, 2020, the Board of Governors of the Federal Reserve System (the Board), by the unanimous vote of its five members and with the approval of the Secretary of the Treasury, authorized the Federal Reserve Bank of New York (Reserve Bank) to establish and operate the Primary Market Corporate Credit Facility (PMCCF) under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343(3)). Under the PMCCF, the Reserve Bank will lend to a special purpose vehicle (SPV), which will (i) purchase qualifying bonds directly from eligible issuers and (ii) provide loans to eligible issuers. The PMCCF is intended to facilitate the provision of credit to a wide range of U.S. companies.

Background on the PMCCF

Recent events have significantly and adversely impacted global financial markets. The spread of the coronavirus disease 2019 (COVID-19) has halted economic activity in many countries, including the United States. The disruption has impacted many different sectors of the financial system. In general, the availability of credit has contracted for issuers of debt, while, at the same time, the disruptions to economic activity have heightened the needs for companies to obtain financing in order to pay off maturing debt and sustain themselves until economic conditions normalize. These disruptions have extended to even highly rated companies, who have seen a significant drop-off in demand for new debt issuance.

In these circumstances, the Board determined that unusual and exigent circumstances existed and approved the establishment of the PMCCF to help facilitate access to credit so that companies are better able to maintain business operations and capacity during the period of dislocations related to the pandemic. The Department of the Treasury, using the Exchange Stabilization Fund, will make an initial $10 billion equity investment in the SPV.

Structure and Basic Terms

Under the PMCCF, the Reserve Bank will lend, on a recourse basis, to an SPV that will (i) purchase qualifying bonds directly from eligible issuers and

(ii) provide loans to eligible issuers. The Reserve Bank will be secured by all of the assets of the SPV. The PMCCF is not yet operational.

The term sheet for the PMCFF is available to the public on the Board's website, and the more detailed terms and conditions will be available when finalized. The discussion below summarizes these terms and conditions. The Board and Reserve Bank continue to monitor the affected financial markets and to consult with market participants and, accordingly, the terms and conditions governing the PMCCF may be modified in the future as appropriate.

Eligible Assets. The PMCCF will purchase eligible corporate bonds directly from eligible issuers and will make eligible loans to eligible issuers. Eligible corporate bonds and loans must meet each of the following criteria at the time of bond purchase or loan origination: (i) issued by an eligible issuer; (ii) issued by an issuer that is rated at least BBB-/Baa3 by a major nationally recognized statistical rating organization (NRSRO) and, if rated by multiple major NRSROs, rated at least BBB-/Baa3 by two or more NRSROs, in each case subject to review by the Federal Reserve; and (iii) have a maturity of four years or less.

Eligible Issuers. Eligible issuers are U.S. companies headquartered in the United States and with material operations in the United States. Eligible issuers do not include companies that are expected to receive direct financial assistance under pending federal legislation.

Limits per Issuer. The maximum amount of outstanding bonds or loans of an eligible issuer that borrows from the PMCCF may not exceed the applicable percentage of the issuer's maximum outstanding bonds and loans on any day between March 22, 2019, and March 22, 2020. The applicable percentage is: (i) 140 percent for eligible assets/eligible issuers with a AAA/Aaa rating from a major NRSRO; (ii) 130 percent for eligible assets/eligible issuers with a AA/Aa rating from a major NRSRO; (iii) 120 percent for eligible assets/eligible issuers with a A/A rating from a major NRSRO; and (iv) 110 percent for eligible assets/eligible issuers with a BBB/Baa rating from a major NRSRO.

Interest Rate. The PMCCF will purchase bonds and make loans that have interest rates informed by market conditions. At the borrower's election, all or a portion of the interest due and payable on each interest payment date may be payable in kind for six months, extendable at the discretion of the Board of Governors of the Federal Reserve System. Such interest amount will be added to, and made part of, the outstanding principal amount of the bond or loan.

Commitment Fee. The commitment fee will be set at 100 bps.

Call Right. Bonds purchased and loans made by the SPV under the PMCCF are callable by the eligible issuer at any time at par.

Termination Date. The PMCCF will cease purchasing eligible corporate bonds or extending loans on September 30, 2020, unless it is extended by the Board. The Reserve Bank will continue to fund the PMCCF after such date until its underlying assets mature.

Requirements Imposed on Recipients. Under the PMCCF, a borrower that elects to pay interest in kind as described above may not pay dividends or make stock buybacks during the period it is not paying interest.

Expected Costs to Taxpayers. The Federal Reserve and the Department of the Treasury, through its equity investment, will bear the risk of loss on the bonds purchased and loans extended by the PMCCF. To mitigate this risk, the program is limited to issuers that are rated at least BBB-/Baa3 by a major NRSRO and, if rated by multiple major NRSROs, rated at least BBB-/Baa3 by two or more NRSROs, in each case subject to review by the Federal Reserve. In addition, the PMCCF will receive interest payments and commitment fees from eligible issuers. As a result, the Board does not expect at this time that the PMCCF will result in losses in excess of the Department of the Treasury's equity investment. Accordingly, the PMCCF is not expected to result in losses to the Federal Reserve or the taxpayer.