Federal Reserve Announces $2.3 trillion Lending Package

By Aidan Lawson and Greg Feldberg

Original post here.

The Federal Reserve announced on April 9 a series of programs totaling $2.3 trillion with significant equity participation from the Treasury, including unprecedented direct financing to businesses. The programs include new facilities and expansions of existing programs. By including both riskier securities and issuers, they signal the Fed’s willingness to take risks it did not take during the Global Financial Crisis.

The Fed’s announcement lays out its plans for using some of the $454 billion Emergency Fund that Congress allocated to the Treasury in the CARES Act. For all of these programs, the Fed will use its authority under Section 13(3) of the Federal Reserve Act to lend to nonbank institutions, with equity support from the Treasury. Section 4003(C)(3)(B) of the CARES Act specifies that, in order for the Fed to use the Treasury’s equity support, it must meet all Section 13(3) requirements “relating to loan collateralization, taxpayer protection, and borrower solvency.”

The programs include:

- Up to $600 billion from the Fed, matched by $75 billion from the Treasury, for the **Main Street Lending Program**.
- Up to $500 billion from the Fed, matched by $35 billion from the Treasury, for the **Municipal Liquidity Facility**.
- Creation of the **Paycheck Protection Program Lending Facility** to support banks issuing Small Business Administration-guaranteed loans under another CARES Act program.

The Fed also announced expansions to existing programs.

- The **Term Asset-Backed Securities Loan Facility (TALF)** will now accept commercial mortgage-backed securities (CMBS) and collateralized loan obligations (CLOs) as collateral.
- The size of the Treasury equity investment in the **Primary Market Corporate Credit Facility (PMCCF)** has been increased from $10 billion to $50 billion, and portions of newly issued syndicated loans and bonds are now eligible for purchase.
- The size of the Treasury equity investment in the **Secondary Market Corporate Credit Facility (SMCCF)** has been increased from $10 billion to $25 billion and exchange-traded funds (ETFs) exposed to high-yield bonds are now eligible for purchase.

The Main Street Lending Program was originally announced on March 23 as part of a separate relief package. Until now, the Fed has created programs that provide liquidity to key funding markets, such as those for treasuries, commercial paper, and corporate bonds. In contrast, the
Main Street Lending Program provides funding to small and medium-sized businesses that have up to 10,000 employees or yearly revenue of up to $2.5 billion.

The program will use a special purpose vehicle (SPV) financed through recourse Fed loans and the Treasury’s equity investment to purchase 95% interests in loans made by eligible lenders, which include banks, bank holding companies, and savings and loans companies. Those lenders will retain 5%. These loans can be newly issued or already existing.

Loans purchased by the SPV will be priced at a floating rate above the Secured Overnight Financing Rate. They must have a four-year term, with a one-year deferral of principal and interest payments. For more information on the Main Street Lending Program see the following YPFS blog.

The Fed also unveiled a Municipal Liquidity Facility (MLF), which will directly purchase up to $500 billion in short-term (less than 2 year) municipal debt. As in the Main Street Lending Program, the Fed will lend on a recourse basis to an SPV, with Treasury providing a $35 billion equity investment. The SPV is limited to purchasing notes totaling 20% of the aggregate amount of general revenue (as of 2017) of the state, city, or county issuing them. Pricing will vary based on the credit rating of the issuer, and all debt issued to the SPV is callable, which means that it can be repurchased at any time by the issuer.

The Fed has provided relief to municipalities in a number of other ways, such as making them eligible for the Commercial Paper Funding Facility (CPFF) and using municipal debt as collateral for loans under the Money Market Mutual Fund Liquidity Facility (MMLF). Both of these programs were present in the Fed’s crisis fighting efforts during the GFC, but did not include municipal debt. For more information on the MLF see the following YPFS blog.

To support the Small Business Administration’s (SBA) Paycheck Protection Program under the CARES Act, which provides SBA-guaranteed loans to businesses through partnered financial institutions, the Fed established the Paycheck Protection Program Lending Facility (PPPLF). Financial institutions originating PPP loans are eligible to obtain non-recourse loans from the Facility, which uses the PPP loans as collateral and charges a modest rate of 35 basis points. For more information on the PPPLF see the following YPFS blog.

In addition to these new programs, the Fed dramatically expanded the scope of several existing facilities. The TALF, which was reactivated on March 23 to facilitate the issuance of asset-backed securities (ABS), uses an SPV to provide three-year secured loans to issuers of ABS. Under the April 9 guidance, the TALF now allows highly rated tranches of outstanding commercial mortgage-backed securities (CMBS), as well as newly issued collateralized loan obligations (CLOs), to be used as collateral. The size of the program remains at $100 billion. For more information on the TALF see the following YPFS blog.

The Fed substantially expanded the size and scope of the PMCCF and SMCCF, which were first announced on March 23. The facilities each use Treasury and Fed-funded SPVs to purchase both newly issued (for the PMCCF) and outstanding (for the SMCCF) corporate-debt securities.
The PMCCF received an increase in its Treasury equity investment from $10 billion to $50 billion, had its issuance limits changed from risk-based to flat, and is now able to purchase portions of newly issued syndicated loans and bonds.

The SMCCF received an increase in its Treasury equity investment from $10 billion to $25 billion and is now able to purchase ETFs that are primarily exposed to high-yield U.S. corporate bonds, though the majority of ETF holdings still must be of those that are exposed to investment grade corporations.

Both facilities now allow issuers that were recently downgraded from the minimally allowed BBB-/Baa3 rating to BB-/Ba3 to participate if the downgrade occurred after March 22.

Any businesses that participate in the Main Street Lending Program are not eligible for either of these facilities. For more information on the PMCCF and SMCCF see the following YPFS blog.

These new programs and changes are just the latest in the Fed’s efforts to provide support to a struggling economy. In addition to those mentioned above, the Fed has already announced unlimited purchases of both Treasuries and agency mortgage-backed securities, rolled out programs aimed at supporting commercial paper markets, primary dealers, and money market mutual funds, and provided dollar liquidity globally via the increased use of swap lines and a central bank-only repo facility. Chairman Powell has reiterated that the Fed will continue to use its lending powers “forcefully, proactively, and aggressively until we are confident that we are on the road to recovery.”