

The Federal Reserve's COVID-19 Economic Relief Programs

The Federal Reserve recently created, proposed and expanded several programs to relieve the economic impact of COVID-19 by providing liquidity to support credit markets. In general, the programs extend credit through special purpose vehicles capitalized with equity from the Department of the Treasury and debt from the Federal Reserve. Some programs provide credit to financial institutions to increase their lending capability, while others provide credit directly to businesses and municipalities. With the exception of the Commercial Paper Funding Facility, these programs will extend credit or make purchases until September 30, 2020, unless extended.

We expect publication of additional guidance on these programs as they are implemented. Businesses that believe they may be eligible for a loan supported by the Main Street Business Lending Program should consider inquiring with their lenders and banks now as to whether they will participate in the program.

[Paycheck Protection Program Liquidity Facility \(PPPLF\)](#)

- Provides nonrecourse financing to financial institutions secured by loans (PPP Loans) made under the [Coronavirus Aid, Relief, and Economic Security Act's](#) (CARES Act's) [Paycheck Protection Program](#).
- Credit extended at face value of PPP Loan collateral, at a rate of 35 basis points.

[Main Street Business Lending Program – Main Street New Loan Facility \(MSNLF\) and Main Street Expanded Loan Facility \(MSELF\)](#)

- MSNLF purchases 95% participations in loans by financial institutions to businesses originated on or after April 8, 2020.
- MSELF purchases 95% participations in upsized tranches originated on or after April 8, 2020 with respect to loans by financial institutions to businesses originated before April 8, 2020.
- Loans must be made to US businesses with up to 10,000 employees or up to \$2.5 billion of 2019 revenue.
- Loans or upsized tranches must have a 4-year term, 1 year of payment deferral and an adjustable rate equal to the secured overnight financing rate + 250-400 basis points.
- For MSNLF, loan size must be between \$1 million and the lesser of (i) \$25 million and (ii) an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed four times the borrower's 2019 earnings before interest, taxes, depreciation, and amortization.
- For MSELF, the upsized tranche size must be between \$1 million and the lesser of (i) \$150 million, (ii) 30% of the borrower's existing outstanding and committed but undrawn bank debt, and (iii) an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed six times the borrower's 2019 earnings before interest, taxes, depreciation, and amortization.
- Combined size for MSNLF and MSELF of up to \$600 billion.
- Borrowers cannot participate in both MSELF and MSNLF, or participate in either and also in the PMCCF (described below).
- Businesses with PPP Loans are eligible.

- Loans cannot be used to repay certain debts or replace certain credit facilities.
- Borrowers must commit to make reasonable efforts to maintain payroll and retain workers, and must also follow compensation, stock repurchase and dividend restrictions that apply to direct loan programs under the CARES Act.
- Availability of the programs to nonprofits is not yet clear. Additional guidance may provide clarification, and nonprofits may wish to ask lenders directly.

Primary Market Corporate Credit Facility (PMCCF)

- Makes loans directly to businesses, and buys bonds directly from businesses.
- US businesses are eligible if they are not insured depository institutions or depository institution holding companies, and have not received support under the CARES Act or subsequent legislation.
- Loans will have terms of up to 4 years, with up to 6 months of payment deferrals, subject to potential extension.
- Borrower must have investment grade rating (at least BBB-/Baa3).
- Loans are limited such that the total outstanding debt of the borrower does not exceed 130% of the maximum amount of debt the borrower had outstanding at any time between March 22, 2019 and March 22, 2020.
- The PMCCF, combined with the SMCCF, will have a size of up to \$750 billion.

Secondary Market Corporate Credit Facility (SMCCF)

- Purchases bonds and US bond exchange traded funds (ETFs) from US institutions.
- Bonds must have 5 years or less remaining to maturity.
- Bonds must be issued by US businesses (other than certain depository institutions), with a rating of at least BBB-/Baa3 as of March 22, 2020 that have not received support under the CARES Act or subsequent legislation.
- Purchases of bonds capped at 10% of issuer's maximum bonds outstanding between March 22, 2019 and March 22, 2020.
- Purchases of ETFs capped at 20% of outstanding shares of ETF.
- The SMCCF, combined with the PMCCF, will have a size of up to \$750 billion.

Municipal Liquidity Facility (MLF)

- Purchases tax anticipation notes, tax and revenue anticipation notes, bond anticipation notes and other similar short-term notes (up to 24 month maturity) from US states, cities and counties, and instrumentalities thereof.
- Purchases capped at 20% of issuer's 2017 general revenue.
- Proceeds to be used to manage cash flow issues resulting from tax deferrals from income tax filing extensions, COVID-19 related revenue reductions or increased expenses and required payments on outstanding obligations, or to finance or otherwise assist subdivisions or instrumentalities of the applicable state, city or county for similar purposes.
- Facility size up to \$500 billion.

Term Asset-Backed Securities Loan Facility (TALF)

- Makes nonrecourse 3-year loans to US borrowers collateralized by such borrowers' holdings of asset-backed securities (ABS).
- Borrowers must maintain an account relationship with a primary dealer (a financial institution that trades directly with the Federal Reserve).
- ABSs must be based on certain underlying assets (enumerated consumer and commercial loans originated by US companies).
- ABSs must have highest long-term (or, for non-mortgage ABSs, short-term) investment-grade rating.
- ABSs (other than commercial mortgage-backed securities (CMBS)) must be issued by US companies on or after March 23, 2020, and substantially all of the underlying credit exposure must be newly issued.
- CMBSs must be issued before March 23, 2020, and must be based on exposure to US real property.
- Single-asset single-borrower CMBSs and commercial real estate collateralized loan obligations are not eligible.
- Interest rates and haircuts vary depending on type of ABS.
- Facility size up to \$100 billion.

Commercial Paper Funding Facility (CPFF)

- Purchases 3-month commercial paper from US issuers.
- Commercial paper must have the highest rating for commercial paper (A-1/P-1/F-1).
- Purchases capped such that an issuer's total commercial paper outstanding does not exceed the greatest amount it had outstanding between March 15, 2019 and March 16, 2020.
- Purchases will be made until March 17, 2021.

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