Federal Reserve's programs to support credit availability during the disruption caused by COVID-19

The **Primary Market Credit Facility** and the **Secondary Market Credit Facility** (PMCCF and SMCCF respectively, together the CCFs) were established by the Federal Reserve to support credit to employers through bond and loan issuances and by providing liquidity to the market for outstanding corporate bonds and Exchange-Traded Funds (ETFs).

How can these programs benefit companies?

The PMCCF can provide funding backstop for corporate debt issuers so that they are better able to maintain business operations and capacity. Such debt would be priced at market rate plus a 100bps facility fee for portions financed under the facility. The SMCCF also supports market liquidity for existing corporate debt by purchasing individual corporate bonds and ETFs at market rate from the secondary market.

How would the Fed help?

The PMCCFs would purchase bonds as the sole investor or portions of up to 25% in a syndicated loan or bond at issuance. These debt issuances are required to have a fixed rate and maturities of four years or less. Bonds purchased on the secondary market are required to have maturities of five years or less. The SMCCF may also purchase US listed ETFs that provide broad exposure to the market for US investment-grade corporate bonds or high-yield corporate bonds. Beneficiaries may approach the PMCCF to refinance existing bonds and issue new bonds, subject to conditions and limitations. The programs also specify the limits that each of the programs may invest per issuer and also on a combined basis.

Are there any caveats?

Beneficiaries of the programs need to be created or organized in, or under the laws of, the US with significant operations in and a majority of its employees based in the US. These should also not be a depository institution or a depository institution holding company, as such terms are defined in the Dodd-Frank Act. Beneficiaries and debt to be purchased need to be rated investment grade as of March 22, 2020 and at least BB-/Ba3 thereafter.

Are there any compliance requirements?

Beneficiaries should not have already received any assistance under the CARES act and must also comply with the conflicts-of-interest requirements and other taxpayer protections included in the CARES act. Issuers will be required to certify compliance with all eligibility criteria and provide additional data on the proposed transactions at issuance and on an ongoing basis.

How can we help our clients navigate through challenges in accessing credit markets during the COVID-19 crisis?

1. Research programs and identify potential funding facilities based upon client requirements and characteristics

2. Understand impact and potential tradeoffs, such as greater compliance requirements and limits to executive compensation and dividends

3. Test existing covenants and provide recommendations on working with existing lenders if covenant compliance is in jeopardy

4. Assist in accessing relevant support programs from a project management perspective

Assisting clients in their efforts to address treasury challenges during a crisis

Our Treasury Advisory practice collaborates with our Accounting & Reporting and Tax Advisory practices to provide services to organizations as they work to overcome operational, technical, and resource challenges. Our deep experience, vast network of relationships with banks, rating agencies and vendors, and demonstrated performance positions us to help your organization navigate these challenging times.

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