

Primary and Secondary Market Corporate Credit Facilities and the Term Asset-Backed Securities Loan Facility

PRIMARY MARKET CORPORATE CREDIT FACILITY

Read the updated [PMCCF term sheet](#). Key details are as follows:

- » The PMCCF is intended to provide businesses with access to credit in order for them to maintain business operations during the period of dislocation related to the COVID-19 pandemic. The PMCCF serves as a backstop for corporate debt.
- » The PMCCF will purchase, directly from eligible issuers, corporate bonds having a maturity of four years or less and at least a BBB-/Baa3 credit rating (i.e., the facility is open to investment grade companies only). The PMCCF will also purchase portions of syndicated loans or bonds at issuance (not to exceed 25 percent of the issuance).
- » To qualify as an eligible issuer, the issuer must be a business "created or organized in the United States or under the laws of the United States with significant operations in and a majority of its employees based in the United States."
- » There is a double-dipping prohibition: participation in the PMCCF means that the issuer cannot participate in any of the CARES Act programs, nor any "subsequent federal legislation."
- » The issuer must satisfy the conflict of interest requirements contained in Section 4019 of the CARES Act.

FAQ on PMCCF:

- » How will the PMCCF price the corporate bonds?
 - Pricing will be issuer-specific (market condition dependent), with a fee set at 100 basis points.
- » What are the relevant dates the Federal Reserve will use to determine maximum amount of outstanding bonds or loans of an eligible borrower?
 - The maximum amount of outstanding bonds or loans of an eligible issuer that borrows from the PMCCF may not exceed 130 percent of the issuer's maximum outstanding bonds or loans on any day between March 22, 2019, and March 22, 2020.

SECONDARY MARKET CORPORATE CREDIT FACILITY

Read the updated [SMCCF term sheet](#). Key details are as follows:

- » The SMCCF will purchase from eligible sellers in the secondary market corporate bonds that were issued by eligible issuers, as well as eligible corporate bond portfolios in the form of exchange-traded funds (ETFs) that broadly invest in U.S.-based investment grade corporate

bonds. The program will support approximately \$250 billion in purchases (see "Amount Available") and will continue purchases through Sept. 30, 2020.

- » Unlike previous iterations of this program, the bonds do not need to be investment grade, but the issuer must have been rated BBB-/Baa3 or better as of March 22, 2020 (but have not fallen below a BB-/Ba3 at the time of the transaction with the Fed).
- » The SMCCF will purchase bonds that were 1) issued by an eligible issuer, 2) have a remaining maturity of five years or less, and 3) were sold by an eligible seller.
- » The SMCCF will purchase U.S.-listed ETFs that have broad exposures to the U.S. market. Unlike previous iterations of the program, "[t]he preponderance of ETF holdings will be of ETFs whose primary investment objective is exposure to U.S. investment-grade corporate bonds, and the remainder will be in ETFs whose primary investment objective is exposure to U.S. high-yield corporate bonds."
- » The issuer must be U.S.-based, and rated BBB-/Baa3 as of March 22, 2020. If an issuer is downgraded, it may not fall below BB-/Ba3 as of the date of the transaction. The issuer may **not** be an insured depository institution (IDI), nor an IDI holding company.
- » The maximum amount of bonds that the SMCCF will purchase is limited to no more than 10 percent of any issuers' outstanding corporate bonds, as measured by the maximum amount outstanding at any time between March 22, 2019, and March 22, 2020. The SMCCF also will not purchase more than 20 percent of a particular ETF. Further, the maximum amount of instruments that the SMCCF and PMCCF combined will purchase from any single issuer is capped at 1.5 percent of the combined potential size of the SMCCF and the PMCCF (roughly 1.5 percent of \$750 billion, so \$11.25 billion).
- » The SMCCF contains the same double-dipping prohibition as the PMCCF: participation in the SMCCF means that corporations cannot participate in any of the CARES Act programs, nor any "subsequent federal legislation."
- » The issuer and the seller must satisfy the conflict of interest requirements contained in Section 4019 of the CARES Act.
- » The SMCCF will purchase eligible corporate bonds at fair market value in the secondary market. Any ETF shares that trade above the net asset value of the underlying portfolio will not be eligible for purchase.
- » The SMCCF will leverage the Treasury Department equity in varying levels based on the risk of the underlying bonds, as determined by the investment rating. Investment grade bonds will be leveraged at a 10-to-1 ratio. Everything else will be less, based on the risk.

FAQ on SMCCF:

- » Will the SMCCF purchase non-investment grade bonds?
 - Yes, within limits. According to the term sheet, the issuer needs to maintain a rating, subject to several qualifications:

The issuer [is eligible if it] was rated at least BBB-/Baa3 as of March 22, 2020, by a major nationally recognized statistical rating organization (NRSRO). If rated by multiple major NRSROs, the issuer must be rated at least BBB-/Baa3 by two or more NRSROs as of March 22, 2020. An issuer that was rated at least BBB-/Baa3 as of March 22, 2020, but was subsequently downgraded, must be rated at least BB-/Ba3 as of the date on which the [SMCCF] makes a purchase. If rated by multiple major NRSROs, such an issuer must be rated at least BB-/Ba3 by two or more NRSROs at the time the [SMCCF] makes a purchase.

TERM ASSET-BACKED SECURITIES LOAN FACILITY

The TALF is a reprisal of a program from the Great Recession. It provides liquidity by facilitating the issuance of asset-backed securities (ABS). The Federal Reserve originally revived the program in March, but made significant changes in light of increased support from the Treasury Department, thanks to the CARES Act.

As expanded, the program will support \$100 billion in ABS purchased by a special purpose vehicle, which in turn will be used to collateralize cash advances by the ultimate borrowers. Importantly, this latest version of TALF will now purchase ABS and collateralized loan obligations (CLOs) issued on or after March 23, 2020, and the AAA-rated piece of commercial mortgage-backed securities (CMBS) issued before March 23, 2020, for real property in the United States.

Read the updated [TALF term sheet](#). Key details are as follows:

- » Eligible borrowers will have three-year term loans, be nonrecourse to the borrower, fully collateralized by the eligible ABS, and subject to a haircut (discussed below).
- » Prepayment is permitted, but loan substitution is not.
- » Any U.S. company owning collateral that has an account with one of the primary dealers is eligible to be a borrower.
- » Eligible collateral is short-term investment grade ABS for which the underlying exposures are from only U.S.-based companies, where the issuer is also U.S.-based. For CLOs and all ABS (other than CMBS), the issue date must be on or after March 23, 2020. For CMBS, only issuances dated before March 23, 2020, are eligible. No ABS may have variable interest payments that step up or down on specified dates. The permitted underlying credit exposures for the ABS include:
 - Auto loans and leases
 - Student loans (private)
 - Credit card receivables (both consumer and corporate)
 - Equipment loans and leases
 - Floorplan loans
 - Insurance premium finance loans
 - Certain small business loans that are guaranteed by the Small Business Administration
 - Leveraged loans (only static CLOs), or
 - Commercial mortgages (single-asset, single-borrower CMBS and commercial real estate (CRE) CLOs are not eligible)
- » Securities with a duration of two years or less will be priced at 100 basis points over the two-year London Inter-bank Offered Rate (Libor) swap rate. Securities with a longer duration will be priced at 100 basis points over the three-year Libor swap rate.
- » The special purchase vehicle will collect an administrative fee on the loan amount, equal to 10 basis points.
- » The haircut schedule is "consistent" with the 2008 TALF and is roughly 17 percent to 22 percent:

Haircut Schedule:

Sector	Subsector	ABS Average Life (years)*						
		0-<1	1-<2	2-<3	3-<4	4-<5	5-<6	6-<7
Auto	Prime retail lease	10%	11%	12%	13%	14%		
Auto	Prime retail loan	6%	7%	8%	9%	10%		
Auto	Subprime retail loan	9%	10%	11%	12%	13%		
Auto	Motorcycle/ other recreational vehicles	7%	8%	9%	10%	11%		
Auto	Commercial and government fleets	9%	10%	11%	12%	13%		
Auto	Rental fleets	12%	13%	14%	15%	16%		
Credit Card	Prime	5%	5%	6%	7%	8%		
Credit Card	Subprime	6%	7%	8%	9%	10%		
Equipment	Loans and Leases	5%	6%	7%	8%	9%		
Floorplan	Auto	12%	13%	14%	15%	16%		
Floorplan	Non-Auto	11%	12%	13%	14%	15%		
Premium Finance	Property and casualty	5%	6%	7%	8%	9%		
Small Business	SBA Loans	5%	5%	5%	5%	5%	6%	6%
Student Loan	Private	8%	9%	10%	11%	12%	13%	14%
Leveraged Loans	Static	20%	20%	20%	20%	20%	21%	22%
Commercial Mortgages	Legacy, Conduit	15%	15%	15%	15%	15%	16%	17%

* For auto, credit card, equipment, floorplan, and premium finance ABS, the weighted average life must be five years or less. For other new-issue eligible collateral, haircuts will increase by one percentage point for each additional year (or portion thereof) of average life beyond five years. For legacy CMBS with average lives beyond five years, base dollar haircuts will increase by one percentage point of par for each additional year (or portion thereof) of average life beyond five years. No securitization may have an average life beyond ten years.

Figure 1: TALF Term Sheet Haircut Schedule (April 9, 2020)

FAQ on TALF:

- » Are servicing advance receivables eligible?
 - Not anymore, but maybe again. The March 23, 2020, term sheet explicitly included servicing advance receivables, but that item was struck in the April 9, 2020, release. The Federal Reserve and the Treasury Department may agree to add other assets in the future.
- » What is the reference to the conflict of interest provision point to in the CARES Act?
 - This program is subject to the prohibition on any company in which the president, vice president, an executive department head, member of Congress, or any of such individual's spouse, child, son-in-law or daughter-in-law own more than 20 percent of the outstanding voting stock shall not be eligible for loans, loan guarantees or other investments.
- » How is a "U.S. company" defined?
 - A U.S. company is defined as "a business that is created or organized in the United States or under the laws of the United States and that has significant operations in and a majority of its employees based in the United States."

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