Federal Reserve Action (April 9, 2020)

This morning the Federal Reserve announced $2.3 trillion in loans and other actions that ICSC views as positive and a step in the right direction. Find more information here.

We are still working through the details, but here are the highlights:

PPPLF

Establishes a Paycheck Protection Program Liquidity Facility (PPPLF) to extend credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value. This complements the Paycheck Protection Program, which primarily provides loans to small businesses so that they can keep their workers on the payroll.

Main Street Lending Program

Puts parameters around the Main Street Lending Program to assist small and mid-sized businesses with the purchase of up to $600 billion in loans. The Department of the Treasury, using funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) will provide $75 billion in equity to the facility.

The Main Street Lending Program will enhance support for small and mid-sized businesses that were in good financial standing before the crisis. The program:

- Offers 4-year loans to companies employing up to 10,000 workers or with revenues of less than $2.5 billion in 2019 annual revenues.
- Principal and interest payments will be deferred for one year.
- Eligible banks may originate new Main Street loans or use Main Street loans to increase the size of existing loans to businesses.
- Banks will retain a 5 percent share, selling the remaining 95 percent to the Main Street facility, which will purchase up to $600 billion of loans.
- Minimum loan size of $1m.
- Maximum loan size that is the lesser of (i) $150 million, (ii) 30% of the Eligible Borrower's existing outstanding and committed but undrawn bank debt, or (iii) an amount that, when added to the Eligible Borrower's existing outstanding and committed but undrawn debt, does not exceed six times the Eligible Borrower's 2019 earnings before interest, taxes, depreciation, and amortization ("EBITDA");
- Firms seeking Main Street loans must commit to make reasonable efforts to maintain payroll and retain workers.
- Borrowers must also follow compensation, stock repurchase, and dividend restrictions that apply to direct loan programs under the CARES Act.
- Firms that have taken advantage of the PPP may also take out Main Street loans.

- 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.
- Eligible Borrowers that participate in the Facility may not also participate in the MSNLF or the Primary Market Corporate Credit Facility.
- Prepayment permitted without penalty.

Public comments on the Main Street Lending program feedback form may be provided until April 16.

TALF

TALF is expanded to CMBS Triple AAAs, both existing and newly issued, as the Fed announced it will increase the flow of credit to households and businesses through capital markets, by enlarging the size and scope of the Primary and Secondary Market Corporate Credit Facilities (PMCCF and SMCCF) as well as the Term Asset-Backed Securities Loan Facility (TALF). These three programs will now support up to $850 billion in credit backed by $85 billion in credit protection provided by the Treasury.

- Under the TALF, the Federal Reserve Bank of New York ("Reserve Bank") will commit to lend to a special purpose vehicle (SPV) on a recourse basis. The Department of the Treasury will make an equity investment of $10 billion in the SPV, as described below.
- The TALF SPV initially will make up to $100 billion of loans available.
- The loans will have a term of three years, will be nonrecourse to the borrower, and will be fully secured by eligible ABS.
- Eligible Borrowers: All U.S. companies that own eligible collateral and maintain an account relationship with a primary dealer are eligible to borrow under the TALF.
- For the purpose of this document, 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.
- With the exception of commercial mortgage-backed securities (CMBS), eligible ABS must be issued on or after March 23, 2020. CMBS issued on or after March 23, 2020, will not be eligible. For CMBS, the underlying credit exposures must be to real property located in the United States or one of its territories.
- Eligible collateral must be ABS where the underlying credit exposures are one of the following: 1) Auto loans and leases; 2) Student loans; 3) Credit card receivables (both consumer and corporate); 4) Equipment loans and leases; 5) Floorplan loans; 6) Insurance premium finance loans; 7) Certain small business loans that are guaranteed by the Small Business Administration; 8) Leveraged loans; or 9) Commercial mortgages.

- To be eligible collateral, all, or substantially all, of the underlying credit exposures must be newly issued, except for legacy CMBS. The feasibility of adding other asset classes to the facility or expanding the scope of existing asset classes will be considered in the future.
- Each loan provided under this facility will have a maturity of three years. Investment by the Department of the Treasury: The Department of the Treasury, using the Exchange Stabilization Fund, will make an equity investment of $10 billion in the SPV.
- Non-Recourse: Loans made under the TALF are made without recourse to the borrower, provided the requirements of the TALF are met.
- Prepayment: Loans made under the TALF will be pre-payable in whole or in part at the option of the borrower, but substitution of collateral during the term of the loan generally will not be allowed.
- Program Termination: No new credit extensions will be made after September 30, 2020, unless the TALF is extended by the Board of Governors of the Federal Reserve System and the Department of the Treasury.
- Other Terms and Conditions: More detailed terms and conditions will be provided at a later date, primarily based off of the terms and conditions used for the 2008 TALF. In addition, the Federal Reserve reserves the right to review and make adjustments to these terms and conditions – including size of program, pricing, loan maturity, collateral haircuts, and asset and borrower eligibility requirements – consistent with the policy objectives of the TALF.

Municipal Liquidity Facility

Establishes a Municipal Liquidity Facility that will offer up to $500 billion in lending to states and municipalities to help manage cash flow stresses from the coronavirus pandemic. Treasury will provide $35 billion of credit protection to the Federal Reserve for the Municipal Liquidity Facility using funds appropriated by the CARES Act.