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Fed Expands Commercial Paper Funding Facility to Cover Municipal Issuers and Decrease Pricing

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The Federal Reserve **announced** an expansion of the Commercial Paper Funding Facility (**CPFF**), originally **announced** on March 17, 2020 as part of its response to the coronavirus crisis. Under the expanded CPFF, "eligible issuers" now include municipal issuers—which had been excluded in the 2008 version of the CPFF—and pricing has decreased. The March 23, 2020 term sheet also revises the Department of the Treasury's role and provides additional information regarding access to the CPFF for paper that is downgraded.

For more information on the CPFF, please see our **memorandum** dated March 17, 2020 and the updated **term sheet released** by the Federal Reserve on March 23, 2020. This post highlights some of the key changes associated with the expansion of the CPFF.

Under a CPFF transaction, the Federal Reserve Bank of New York would provide a recourse loan to a special purpose vehicle (**SPV**), supported by the Department of the Treasury and collateralized by all assets of the SPV. The SPV would purchase 90-day U.S. dollar-denominated commercial paper (**CP**) from certain **eligible issuers**. The SPV would be limited in how much CP it could purchase from a particular issuer.

Key features relative to the March 17, 2020 version of the CPFF include:

– Eligible issuers now include municipal issuers.

– The term sheet now specifies that the SPV will not purchase asset-backed CP (**ABCP**) from issuers that have not issued ABCP (excluding issuance to the sponsoring institution) for any consecutive three-month period between March 16, 2019 and March 16, 2020.

– The support provided by the Department of the Treasury now will be in the form of an equity investment rather than credit protection.

– The term sheet now clarifies that an issuer that (1) as of March 17, 2020, was rated at least A1/P1/F1 and (2) is subsequently downgraded, is permitted to make a one-time sale of CP to the SPV so long as the issuer is rated at least A2/P2/F2 by a major NRSRO or rated at least A2/P2/F2 by two or more major NRSROs if rated by multiple major NRSROs.
    - For a downgraded issuer, the SPV may purchase CP only up to the issuer's outstanding USD-denominated CP on the day before it was downgraded.

– Pricing is now 110 bps over the 3-month overnight index swap (**OIS**) rate for commercial paper rated A1/P1/F1. Pricing is 200 bps over the 3-month OIS rate for commercial paper rated A2/P2/F2.

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If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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