

Fed Establishes the Primary Market Corporate Credit Facility to Support Credit to Employers

By [John Banes](#), [Luigi L. De Ghenghi](#), [Randall D. Guynn](#), [Margaret E. Tahyar](#), [Ledina Gocaj](#), [Carol Rodrigues](#) & [Andrew Samuel](#) on March 26, 2020

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The Federal Reserve **announced** on March 23, 2020 further action in response to the coronavirus crisis: the creation of the **Primary Market Corporate Credit Facility (PMCCF)**, along with the **Secondary Market Corporate Credit Facility (SMCCF)** and the **Term Asset-Backed Securities Loan Facility (TALF)**. We discuss the SMCCF and TALF in separate blog posts (link to [SMCCF post](#); link to [TALF post](#)). This announcement follows that of the creation of the [Money Market Mutual Fund Liquidity Facility \(MMLF\)](#), the [Commercial Paper Funding Facility](#) and the [Primary Dealer Credit Facility](#). All of these facilities are covered in our [two-page overview](#) of the Federal Reserve's actions to date, which includes hyperlinks to the primary materials on the Federal Reserve's website.

The facility will take the form of a special purpose vehicle (**SPV**) to which the Federal Reserve Bank of New York (**FRBNY**) will lend on a recourse basis. The SPV will (1) purchase qualifying bonds directly from eligible issuers and (2) provide loans to eligible issuers. The FRBNY will be secured by the entirety of the assets of the SPV. The U.S. Department of the Treasury will make a \$10 billion equity investment in the SPV using the Exchange Stabilization Fund.

Key features of the PMCCF are described below. Additional details can be found in the [PMCCF term sheet](#).

- The PMCCF will purchase eligible corporate bonds directly from eligible issuers and will make eligible loans to eligible issuers.
 - **Eligible corporate bonds and loans** must meet each of the following criteria at the time of bond purchase or loan origination:
 - issued by an eligible issuer (defined below);

- issuer is rated at least BBB-/Baa3 by a major nationally recognized statistical rating organization (**NRSRO**)¹ subject to review by the Federal Reserve; and
- have a maturity of four years or less.
- **Eligible issuers** are U.S. companies headquartered in the United States that have material operations in the United States.
 - Companies that are expected to receive direct financial assistance under pending federal legislation are excluded from participation in the PMCCF. A draft of the CARES Act fiscal stimulus package (which, as of the time of this writing, remains subject to Congressional negotiations) provided financial assistance to companies affected by the coronavirus pandemic. Davis Polk's rush summary of the CARES Act's economic stabilization and small business assistance provisions will be available on our [Coronavirus Updates Blog](#).
 - Purchases and loans will be subject to a 100 basis point **commitment fee**.
- The PMCCF sets borrowing **limits per issuer** based on a sliding scale. The maximum amount of outstanding bonds or loans of an eligible issuer that borrows from the PMCCF may not exceed the following percentages of the issuer's daily maximum outstanding bonds and loans:

Percent	Rating for eligible assets/issuers from a major NRSRO
140 %	AAA/Aaa
130 %	AA/Aa
120 %	A/A
110 %	BBB/Baa

¹ Corporate bonds that are rated by two or more NRSROs must be rated BBB-/Baa3 or more by at least two NRSROs.

- The PMCCF will purchase bonds and make loans at **interest rates informed by market conditions**.
- **PIK option for coupon payments:** At the borrower's election, all or a portion of the interest due and payable on each interest payment date may be **payable in kind** for 6 months. Such interest amounts would be added to the outstanding principal amount of the bond or loan. The 6-month deferral period is extendable at the discretion of the Federal Reserve.
 - A borrower that makes this election **may not pay dividends or make stock buybacks** during the period it is not paying interest.
- Bonds and loans under are **callable** by the eligible issuer at any time at par.
- **Procedural considerations:**
 - The program will open on March 23, 2020.
 - The PMCCF will stop purchasing eligible corporate bonds or extending loans on September 30, 2020, unless the PMCCF is extended by the Federal Reserve. The FRBNY will continue to fund the PMCCF after that date until the PMCCF's underlying assets mature.

Law Clerk Brooke Zheng contributed to this blog post