Federal Reserve Announces Six New Funding Facilities Based on CARES Act Authorizations

Earlier today the Federal Reserve announced it would establish six new funding facilities supported by Treasury funding authorized by Section 4003(b)(4) of the CARES Act. The Federal Reserve also announced an expansion of the existing Term Asset-Backed Securities Loan Facility, which we will describe in a separate client alert. The Press Release announcing the six new facilities is available at this link: https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm.

The six new facilities are:

1. The "Main Street New Loan Facility," which will purchase 95% participation interests in loans originated on or after April 8, 2020, by banks and savings and loans (including their holding companies) to US borrowers.

2. The "Main Street Expanded Loan Facility," which will also purchase 95% participation interests in loans originated by banks and savings and loans (including their holding companies), but it is limited to the "upsized tranche" (i.e., increased funding) provided for loans outstanding on April 8, 2020.

3. The "Paycheck Protection Program Lending Facility," which will purchase from banks, savings and loans, and credit unions (i.e., "depositories")[1] loans they originated under the "Paycheck Protection Program" described in our April 1, 2020, Client Alert *Small Business Administration: The Paycheck Protection Program under the CARES Act*.

4. The "Primary Market Corporate Credit Facility," which will purchase from US issuers or borrowers corporate bonds tailored for this facility, as "sole investor, or up to a 25% interest in a syndicated bank loan or bond issuance.

5. The "Secondary Market Corporate Credit Facility," which will purchase from US holders outstanding US bonds or ETFs for the US investment grade or high yield bond market.

6. The "Municipal Liquidity Facility," which will purchase tax, revenue, and bond "anticipation" securities from States, counties with more than 2 million inhabitants, and cities with more than 1 million inhabitants.

We will issue separate Client Alerts describing in more detail these six new facilities. For now, some of our first thoughts are:

Main Street New Loan Facility

The term sheet for this facility is attached as Attachment I.

Loan participations acquired by Federal Reserve Banks. This program provides for the individual district Federal Reserve Banks to purchase, through an SPV, 95% participations in loans originated on or after April 8, 2020 by US "depository institutions" and their holding companies (e.g., banks and bank holding companies) to US borrowers. The originating US bank or other eligible lender would be required to retain a 5% interest, which is a *pro rata* risk sharing.

Borrowers must be US companies and can have up to 10,000 employees or $2.5 billion in 2019 revenues. Each borrower must be a business that is 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. It can have up to 10,000 employees or $2.5 billion in 2019 revenues.

Debt up to 4x EBITDA. Each loan is a minimum of $1 million and a maximum of $25 million, but the borrower's total outstanding debt, and committed but undrawn credit commitments, after the loan can not exceed 4x EBITDA.

1 The press release notes that: "The Board is working to expand eligibility to other lenders that originate PPP Loans in the near future." That would include bank and savings and loan holding companies.

New money with no reduction in other available credit. Because the loans are intended to support a borrower's continuing liquidity, they must not be used to pay other debt, and the borrower must commit not to reduce any other credit availability, except for mandatory payments on outstanding debt.

No dividends or buybacks and compensation limits for borrowers. Because this is a "direct loan" facility, the CARES Act requires that each borrower certify:

(a) *No dividends or buybacks:* until one year after the loan is repaid, it will not pay dividends, or make any other capital distribution, on its common stock or repurchase any of its or its parent's equity securities, except under an agreement in effect on the date of the CARES Act.

(b) *Restrictions on employee compensation and severance.* from the date the loan agreement is executed until one year after the loan is fully repaid, no employee or officer (A) who received total compensation of more than $425,000 in 2019 (other than an employee paid under a collective bargaining agreement) can receive annual total compensation more than such person's 2019 total compensation, and (B) who received total compensation of more than $3 million in 2019 can receive annual total compensation greater than $3 million plus 50% of the amount of total compensation above $3 million received in 2019.

Also, no such employee or officer receiving 2019 total compensation over $425,000 (other than under a collective bargaining agreement) will be paid severance or other termination benefits greater than twice the amount of such 2019 total compensation.

No participation in Main Street Expanded Loan Facility or Primary Market Corporate Credit Facility: A borrower under this facility can not participate in either of those facilities described in this Alert.

Main Street Expanded Loan Facility

The term sheet for this facility is attached as Attachment II.

Larger "upsized" outstanding loans and greater EBITDA borrowing capacity. The terms are the same as for the Main Street New Loan Facility, except this facility covers increases in loans originated before April 8, 2020, that are "upsized" on or after April 8, 2020, the maximum loan amount is increased to $150 million, the loan can not exceed 30% of the borrower's outstanding and committed but undrawn bank debt, and the limit for loans under the limit on total borrowings and unused commitments is increased to 6x EBITDA.

This facility, therefore, supports increased funding under loan facilities that were outstanding before April 8, 2020, while the Main Street New Loan Facility supports new loan facilities established on or after April 8, 2020.

No participation in Main Street New Loan Facility or Primary Market Corporate Credit Facility: A borrower under this facility can not participate in either of those facilities described in this Alert.

Paycheck Protection Program Lending Facility

The term sheet for this facility is attached as Attachment III.

Non-recourse loans to lenders under PPP facility. Any bank, savings and loan, or credit union that has lent under the Payroll Protection Program can refinance the full amount of each such loan through a non-recourse loan from its local district Federal Reserve Bank.

Removal of refinanced loan from leverage limit. The CARES Act specified that PPP loans would be risk-weighted at 0%. Any Federal Reserve Bank loan under this new facility will also permit the borrower to remove the PPP loan from its leverage ratio under an interim final rule issued by the three banking agencies today. The interim final rule is available at this link.

https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200409a1.pdf

Primary Market Corporate Credit Facility

The term sheet for this facility is attached as Attachment IV.

FRBNY purchases of customized bond issuances or up to 30% of loan syndications and non-customized bond issuances. The Federal Reserve Bank of New York will use an SPV to purchase the full amount of customized (i.e, SPV as sole purchaser) bonds or up to 30% of loan syndications or non-customized bond issuances.

Rated US issuer requirement. Issuer's must meet the same US borrower requirement as in Main Street Lending Program and be rated. The rating must have been investment grade as of March 22, 2020, and must be no lower than BB-/Ba3 at the time the SPV makes the purchase.

No bank or bank holding company issuers. An issuer can not be an insured depository institution or depository institution holding company.

Maximum issuer amounts: For each issuer total bond and loan funding under this facility and all other outstanding bonds and loans is limited to 130% of the issuer's maximum outstanding bonds and loans on any day between March 22, 2019 and March 22, 2020, and is also limited to no more than $11.25 billion (i.e., 1.5% of the maximum $750 billion facility) when combined with holdings by the SPV of securities of that issuer under the Secondary Market Corporate Credit Facility.

Prohibitions on Conflicts of interest and other CARES funding: The term sheets for this and the Secondary Market Corporate Credit Facility specify that the issuer "must satisfy the conflicts of interest requirements of section 4019 of the CARES Act." This will also be true for the borrowers under the two Main Street programs. Section 4019 prohibits any Section 4003 program from funding an entity "controlled" by the President, Vice President, head of an Executive Department, or Member of Congress or by any of their immediate family (including son or daughter in-law). The term sheets for this and the Secondary Market Corporate Credit Facility also require that the "issuer has not received specific support pursuant to the CARES Act or any subsequent federal legislation."

Secondary Market Corporate Credit Facility

The term sheet for this facility is attached as Attachment V.

FRBNY purchases from US holders US corporate bonds and ETFs covering US investment grade or high yield bond markets. The Federal Reserve Bank of New York will use the same SPV as in the Primary Market Corporate Credit Facility to purchase from US holders corporate bonds of rated US issuers or ETFs that provide "broad coverage" to the US investment grade or high yield bond markets.

Individual issuers must be rated. As with the Primary Market Corporate Credit Facility, an issuer must be rated and the rating must have been investment grade as of March 22, 2020, and no lower than BB-/Ba3 at the time the SPV makes the purchase.

ETFs purchased will primarily be investment grade, but some high yield. The "preponderance of ETF holdings will be of ETFs whose primary investment objective is exposure to U.S. investment-grade corporate bonds," but there will also be purchases of ETFs "whose primary investment objective is exposure to U.S. high-yield corporate bonds."

Maximum amounts: Aside from the combined $11.25 billion issuer limit mentioned in the above description of the Primary Market Corporate Credit Facility, the "maximum amount of bonds that the Facility will purchase from the secondary market of any eligible issuer is also capped at 10 percent of the issuer's maximum bonds outstanding on any day between March 22, 2019 and March 22, 2020. The Facility will not purchase shares of a particular ETF if after such purchase the Facility would hold more than 20 percent of that ETF's outstanding shares."

Municipal Liquidity Facility

The term sheet for this facility is attached as Attachment VI.

Through a single SPV local district Federal Reserve Banks purchase "tax anticipation" and other similar short-term notes: An SPV will be established to purchase such notes funded by loans from the district Federal Reserve Banks.

States and large counties and cities as permitted issuers: Any State, including the District of Columbia, and any city with a population of more than 1 million or county with a population of more than 2 million can sell securities to the SPV, subject to Federal Reserve review. Each such State, county, or city can issue the securities directly or through an "instrumentality," but each such State, county, or city can sell securities under this facility from only one issuer.

Each State, county, and city limited to 20% of its 2017 general revenue own sources and utility revenue: Through its selected "single issuer" each eligible State, county, or city can sell an aggregate amount of securities up to an amount equal to 20% of the general revenue from own sources and utility revenue of the applicable State, City, or County government for fiscal year 2017.

States can exceed limit if approved by Federal Reserve: The term sheet notes: "States may request that the SPV purchase Eligible Notes in excess of the applicable limit in order to assist political subdivisions and instrumentalities that are not eligible for the Facility."

Proceeds to be used for COVID-19 related delays in or losses of revenue and increases in expenses, including requirements for the payment of principal and interest on obligations of the relevant State, City, or County: The term sheet explains this under "**Eligible Use of Proceeds.**"

Purchase of securities from ineligible local governments as permitted use of proceeds: The last sentence of the term sheet's **Eligible Use of Proceeds** section explains that an "Eligible Issuer may use the proceeds of the notes purchased by the SPV to purchase similar notes issued by, or otherwise to assist, political subdivisions and instrumentalities of the relevant State, City, or County for the purposes enumerated" above in the **Eligible Use of Proceeds** section.

Maximum Program Amounts and Treasury Support

A. **Two Main Street Facilities capped at $600 billion and supported by $75 billion in equity from Treasury.** Because the two facilities are linked, the SPV will be supported by the same $75 billion for both facilities and will limit its loans to $600 billion in total for both programs.

B. **Two Corporate Credit Facilities capped at $750 billion and supported by $75 billion in equity from Treasury.** Although the same SPV makes purchases under both of these programs and the aggregate limit is $750 billion for both combined, the Federal Reserve specified an "initial allocation" of $50 billion in equity to the "primary" and $25 billion in equity to the "secondary" facility.

C. **PPP Support Facility only capped by amount of underlying PPP facility (currently $349 billion).** The CARES Act directly established the PPP program, which is currently limited to $349 billion, but Congress is considering increasing that amount.

D. **Municipal Liquidity Facility capped at $500 billion and supported by "initial" Treasury equity of $35 billion.** The term sheet seems to contemplate increases in the amount of equity provided by Treasury. Presumably, that will depend upon the Federal Reserve's analysis of the creditworthiness of the applicants for funding under this facility.

E. **Treasury retains $254 billion in equity to expand these or support further Federal Reserve lending programs.** This means that, for now, Treasury has allocated $185 billion to the five programs described above established under Section 4003(b)(4) of the CARES Act. Today the Treasury also allocated $15 billion of the CARES Act funding for Section 4003(b)(4) programs to an expanded TALF program described in our Client Alert issued today, *Expanded Term Asset-Backed Loan Facility* 2020 (updating a March 24, 2020 Client Alert). That leaves at least $254 billion in equity for additional programs or expansions of these programs, based on the minimum $454 billion in minimum funding available to Treasury to support Federal Reserve programs under Section 4003(b)(4).

For More Information

If you would like further information concerning the matters discussed in this article, please contact the Chapman attorney with whom you regularly work.

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Main Street New Loan Facility

Effective April 9, 2020[1]

Program: The Main Street New Loan Facility ("Facility"), which has been authorized under section 13(3) of the Federal Reserve Act, is intended to facilitate lending to small and medium-sized businesses by Eligible Lenders. Under the Facility and the Main Street Expanded Loan Facility ("MSELF"), a Federal Reserve Bank ("Reserve Bank") will commit to lend to a single common special purpose vehicle ("SPV") on a recourse basis. The SPV will purchase 95% participations in Eligible Loans from Eligible Lenders. Eligible Lenders would retain 5% of each Eligible Loan. The Department of the Treasury, using funds appropriated to the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), will make a $75 billion equity investment in the single common SPV in connection with the Facility and the MSELF. The combined size of the Facility and the MSELF will be up to $600 billion.

Eligible Lenders: Eligible Lenders are U.S. insured depository institutions, U.S. bank holding companies, and U.S. savings and loan holding companies.

Eligible Borrowers: Eligible Borrowers are businesses with up to 10,000 employees or up to $2.5 billion in 2019 annual revenues. Each Eligible Borrower must be a business that is 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 MSELF or the Primary Market Corporate Credit Facility.

Eligible Loans: An Eligible Loan is an unsecured term loan made by an Eligible Lender(s) to an Eligible Borrower that was originated on or after April 8, 2020, provided that the loan has the following features:

1. 4 year maturity;
2. Amortization of principal and interest deferred for one year;
3. Adjustable rate of SOFR + 250-400 basis points;
4. Minimum loan size of $1 million;
5. Maximum loan size that is the lesser of (i) $25 million or (ii) an amount that, when added to the Eligible Borrower's existing outstanding and committed but undrawn debt, does not exceed four times the Eligible Borrower's 2019 earnings before interest, taxes, depreciation, and amortization ("EBITDA"); and
6. Prepayment permitted without penalty.

Loan Participations: The SPV will purchase a 95% participation in an Eligible Loan at par value, and the Eligible Lender will retain 5% of the Eligible Loan. The SPV and the Eligible Lender will share risk on a pari passu basis.

Required Attestations: In addition to certifications required by applicable statutes and regulations, the following attestations will be required with respect to each Eligible Loan:

- The Eligible Lender must attest that the proceeds of the Eligible Loan will not be used to repay or refinance pre-existing loans or lines of credit made by the Eligible Lender to the Eligible Borrower.

- The Eligible Borrower must commit to refrain from using the proceeds of the Eligible Loan to repay other loan balances. The Eligible Borrower must commit to refrain from repaying other debt of equal or lower priority, with the exception of mandatory principal payments, unless the Eligible Borrower has first repaid the Eligible Loan in full.

[1] The Board of Governors of the Federal Reserve System ("Board") and Secretary of the Treasury may make adjustments to the terms and conditions described in this term sheet. Any changes will be announced on the Board's website.

- The Eligible Lender must attest that it will not cancel or reduce any existing lines of credit outstanding to the Eligible Borrower. The Eligible Borrower must attest that it will not seek to cancel or reduce any of its outstanding lines of credit with the Eligible Lender or any other lender.
- The Eligible Borrower must attest that it requires financing due to the exigent circumstances presented by the coronavirus disease 2019 ("COVID-19") pandemic, and that, using the proceeds of the Eligible Loan, it will make reasonable efforts to maintain its payroll and retain its employees during the term of the Eligible Loan.
- The Eligible Borrower must attest that it meets the EBITDA leverage condition stated in section 5(ii) of the paragraph above specifying required features of Eligible Loans.
- The Eligible Borrower must attest that it will follow compensation, stock repurchase, and capital distribution restrictions that apply to direct loan programs under section 4003(c)(3)(A)(ii) of the CARES Act.
- Eligible Lenders and Eligible Borrowers will each be required to certify that the entity is eligible to participate in the Facility, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act.

Facility Fee: An Eligible Lender will pay the SPV a facility fee of 100 basis points of the principal amount of the loan participation purchased by the SPV. The Eligible Lender may require the Eligible Borrower to pay this fee.

Loan Origination and Servicing: An Eligible Borrower will pay an Eligible Lender an origination fee of 100 basis points of the principal amount of the Eligible Loan. The SPV will pay an Eligible Lender 25 basis points of the principal amount of its participation in the Eligible Loan per annum for loan servicing.

Facility Termination: The SPV will cease purchasing participations in Eligible Loans on September 30, 2020, unless the Board and the Treasury Department extend the Facility. The Reserve Bank will continue to fund the SPV after such date until the SPV's underlying assets mature or are sold.

Main Street Expanded Loan Facility

Effective April 9, 2020[1]

Program: The Main Street Expanded Loan Facility ("Facility"), which has been authorized under section 13(3) of the Federal Reserve Act, is intended to facilitate lending to small and medium-sized businesses by Eligible Lenders. Under the Facility and the Main Street New Loan Facility ("MSNLF"), a Federal Reserve Bank ("Reserve Bank") will commit to lend to a single common special purpose vehicle ("SPV") on a recourse basis. The SPV will purchase 95% participations in the upsized tranche of Eligible Loans from Eligible Lenders. Eligible Lenders would retain 5% of the upsized tranche of each Eligible Loan. The Department of the Treasury, using funds appropriated to the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), will make a $75 billion equity investment in the single common SPV in connection with the Facility and the MSNLF. The combined size of the Facility and the MSNLF will be up to $600 billion.

Eligible Lenders: Eligible Lenders are U.S. insured depository institutions, U.S. bank holding companies, and U.S. savings and loan holding companies.

Eligible Borrowers: Eligible Borrowers are businesses with up to 10,000 employees or up to $2.5 billion in 2019 annual revenues. Each Eligible Borrower must be a business that is 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.

Eligible Loans: An Eligible Loan is a term loan made by an Eligible Lender(s) to an Eligible Borrower that was originated before April 8, 2020, provided that the upsized tranche of the loan has the following features:

1. 4 year maturity;
2. Amortization of principal and interest deferred for one year;
3. Adjustable rate of SOFR + 250-400 basis points;
4. Minimum loan size of $1 million;
5. 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"); and
6. Prepayment permitted without penalty.

Loan Participations: The SPV will purchase a 95% participation in the upsized tranche of the Eligible Loan, provided that it is upsized on or after April 8, 2020, at par value. The SPV and the Eligible Lender will share risk in the upsized tranche on a pari passu basis. Any collateral securing an Eligible Loan, whether such collateral was pledged under the original terms of the Eligible Loan or at the time of upsizing, will secure the loan participation on a pro rata basis.

Required Attestations: In addition to certifications required by applicable statutes and regulations, the following attestations will be required with respect to the upsized tranche of each Eligible Loan:

- The Eligible Lender must attest that the proceeds of the upsized tranche of the Eligible Loan will not be used to repay or refinance pre-existing loans or lines of credit made by the Eligible Lender to the Eligible Borrower, including the pre-existing portion of the Eligible Loan.

[1] The Board of Governors of the Federal Reserve System ("Board") and Secretary of the Treasury may make adjustments to the terms and conditions described in this term sheet. Any changes will be announced on the Board's website.

- The Eligible Borrower must commit to refrain from using the proceeds of the upsized tranche of the Eligible Loan to repay other loan balances. The Eligible Borrower must commit to refrain from repaying other debt of equal or lower priority, with the exception of mandatory principal payments, unless the Eligible Borrower has first repaid the Eligible Loan in full.
- The Eligible Lender must attest that it will not cancel or reduce any existing lines of credit outstanding to the Eligible Borrower. The Eligible Borrower must attest that it will not seek to cancel or reduce any of its outstanding lines of credit with the Eligible Lender or any other lender.
- The Eligible Borrower must attest that it requires financing due to the exigent circumstances presented by the coronavirus disease 2019 ("COVID-19") pandemic, and that, using the proceeds of the upsized tranche of the Eligible Loan, it will make reasonable efforts to maintain its payroll and retain its employees during the term of the upsized tranche of the Eligible Loan.
- The Eligible Borrower must attest that it meets the EBITDA leverage condition stated in section 5(iii) of the paragraph above specifying required features of Eligible Loans.
- The Eligible Borrower must attest that it will follow compensation, stock repurchase, and capital distribution restrictions that apply to direct loan programs under section 4003(c)(3)(A)(ii) of the CARES Act.
- Eligible Lenders and Eligible Borrowers will each be required to certify that the entity is eligible to participate in the Facility, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act.

Loan Upsizing and Servicing: An Eligible Borrower will pay an Eligible Lender a fee of 100 basis points of the principal amount of the upsized tranche of the Eligible Loan at the time of upsizing. The SPV will pay an Eligible Lender 25 basis points of the principal amount of its participation in the upsized tranche of the Eligible Loan per annum for loan servicing.

Facility Termination: The SPV will cease purchasing participations in Eligible Loans on September 30, 2020, unless the Board and the Treasury Department extend the Facility. The Reserve Bank will continue to fund the SPV after such date until the SPV's underlying assets mature or are sold.

Paycheck Protection Program Lending Facility Term Sheet

Effective Date of Term Sheet: April 9, 2020.[1]

Facility: The Paycheck Protection Program Lending Facility ("Facility"), authorized under section 13(3) of the Federal Reserve Act, is intended to facilitate lending by eligible borrowers to small businesses under the Paycheck Protection Program ("PPP Loans") of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). Under the Facility, the Federal Reserve Banks ("Reserve Banks") will lend to eligible borrowers on a non-recourse basis, taking PPP Loans as collateral.

Eligible Borrowers: All depository institutions that originate PPP Loans are eligible to borrow under the Facility. The Board is working to expand eligibility to other lenders that originate PPP Loans in the near future.

Lending Reserve Bank: Eligible borrowers participate in the Facility through the Reserve Bank in whose District the eligible borrower is located. For depository institutions, see Regulation D, 12 CFR 204.3(g)(1)–(2), for determining location.

Eligible Collateral: Only PPP Loans guaranteed by the Small Business Administration ("SBA") are eligible to serve as collateral for the Facility.

Maturity and Acceleration of Maturity: The maturity date of an extension of credit under the Facility will equal the maturity date of the PPP Loan pledged to secure the extension of credit. The maturity date of the Facility's extension of credit will be accelerated if the underlying PPP Loan goes into default and the eligible borrower sells the PPP Loan to the SBA to realize on the SBA guarantee. The maturity date of the Facility's extension of credit also will be accelerated to the extent of any loan forgiveness reimbursement received by the eligible borrower from the SBA.

Rate: Extensions of credit under the Facility will be made at a rate of 35 basis points.

Fees: There are no fees associated with the Facility.

Collateral Valuation: PPP Loans pledged as collateral to secure extensions of credit under the Facility will be valued at the principal amount of the PPP Loan.

Principal Amount: The principal amount of an extension of credit under the Facility will be equal to the principal amount of the PPP Loan pledged as collateral to secure the extension of credit.

Non-Recourse: Extensions of credit under the Facility are made without recourse to the borrower.

Regulatory Capital Treatment: Under section 1102 of the CARES Act, a PPP Loan will be assigned a risk weight of zero percent under the risk-based capital rules of the federal banking agencies. On April 9, 2020, the Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation issued an interim final rule to allow banking organizations to neutralize the effect of PPP Loans financed under the Facility on leverage capital ratios.

Facility Termination Date: No new extensions of credit will be made under the Facility after September 30, 2020, unless the Board and the Department of the Treasury determine to extend the Facility.

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[1] The Board of Governors of the Federal Reserve System ("Board") and Secretary of the Treasury may make adjustments to the terms and conditions described in this term sheet. Any changes will be announced on the Board's website.

Primary Market Corporate Credit Facility

Effective April 9, 2020[1]

Facility: The Primary Market Corporate Credit Facility ("Facility") will serve as a funding backstop for corporate debt issued by eligible issuers. Under the Facility, the Federal Reserve Bank of New York ("Reserve Bank") will commit to lend to a special purpose vehicle ("SPV") on a recourse basis. The SPV will (i) purchase qualifying bonds as the sole investor in a bond issuance; and (ii) purchase portions of syndicated loans or bonds at issuance. The Reserve Bank will be secured by all the assets of the SPV. The Department of the Treasury will make a $75 billion equity investment in the SPV to support both the Facility and the Secondary Market Corporate Credit Facility ("SMCCF"). The initial allocation of the equity will be $50 billion toward the Facility and $25 billion toward the SMCCF. The combined size of the Facility and the SMCCF will be up to $750 billion.

Eligible Assets:

Eligible corporate bonds as sole investor. The Facility may purchase eligible corporate bonds as the sole investor in a bond issuance. Eligible corporate bonds must meet each of the following criteria at the time of bond purchase by the Facility: (i) issued by an eligible issuer; and (ii) have a maturity of 4 years or less.

Eligible syndicated loans and bonds purchased at issuance. The Facility also may purchase portions of syndicated loans or bonds of eligible issuers at issuance. Eligible syndicated loans and bonds must meet each of the following criteria at the time of purchase by the Facility: (i) issued by an eligible issuer; and (ii) have a maturity of 4 years or less. The Facility may purchase no more than 25 percent of any loan syndication or bond issuance.

Eligible Issuers: To qualify as an eligible issuer, the issuer must satisfy the following conditions:

1. The issuer is a business that is 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.
2. The issuer 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.
    a. Issuers that were rated at least BBB-/Baa3 as of March 22, 2020, but are subsequently downgraded, must be rated at least BB-/Ba3 at the time the Facility makes a purchase. If rated by multiple major NRSROs, such issuers must be rated at least BB-/Ba3 by two or more NRSROs at the time the Facility makes a purchase.
    b. In every case, issuer ratings are subject to review by the Federal Reserve.
3. The issuer is not an insured depository institution or depository institution holding company, as such terms are defined in the Dodd-Frank Act.
4. The issuer has not received specific support pursuant to the CARES Act or any subsequent federal legislation.
5. The issuer must satisfy the conflicts-of-interest requirements of section 4019 of the CARES Act.

[1] The Board of Governors of the Federal Reserve System ("Board") and Secretary of the Treasury may make adjustments to the terms and conditions described in this term sheet. Any changes will be announced on the Board's website.

Leverage: The Facility will leverage the Treasury equity at 10 to 1 when acquiring corporate bonds or syndicated loans from issuers that are investment grade at the time of purchase. The Facility will leverage its equity at 7 to 1 when acquiring any other type of eligible asset.

Limits per Issuer: Issuers may approach the Facility to refinance outstanding debt, from the period of three months ahead of the maturity date of such outstanding debt. Issuers may additionally approach the Facility at any time to issue additional debt, provided their rating is reaffirmed at BB-/Ba3 or above with the additional debt by each major NRSRO with a rating of the issuer. The maximum amount of outstanding bonds or loans of an eligible issuer that borrows from the Facility may not exceed 130 percent of the issuer's maximum outstanding bonds and loans on any day between March 22, 2019 and March 22, 2020.

The maximum amount of instruments that the Facility and the SMCCF combined will purchase with respect to any eligible issuer is capped at 1.5 percent of the combined potential size of the Facility and the SMCCF.

Pricing:

Eligible corporate bonds: Pricing will be issuer-specific, informed by market conditions, plus a 100 bps facility fee.

Eligible syndicated loans and bonds: The Facility will receive the same pricing as other syndicate members, plus a 100 bps facility fee on the Facility's share of the syndication.

Program Termination: The Facility will cease purchasing eligible assets no later than September 30, 2020, unless the Facility is extended by the Board of Governors of the Federal Reserve System and the Treasury Department. The Reserve Bank will continue to fund the Facility after such date until the Facility's holdings either mature or are sold.

Secondary Market Corporate Credit Facility

Effective April 9, 2020[1]

Facility: Under the Secondary Market Corporate Credit Facility ("Facility"), the Federal Reserve Bank of New York ("Reserve Bank") will lend, on a recourse basis, to a special purpose vehicle ("SPV") that will purchase in the secondary market corporate debt issued by eligible issuers. The SPV will purchase in the secondary market eligible individual corporate bonds as well as eligible corporate bond portfolios in the form of exchange-traded funds ("ETFs"). The Reserve Bank will be secured by all the assets of the SPV. The Department of the Treasury will make a $75 billion equity investment in the SPV to support both the Facility and the Primary Market Corporate Credit Facility ("PMCCF"). The initial allocation of the equity will be $50 billion toward the PMCCF and $25 billion toward the Facility. The combined size of the Facility and the PMCCF will be up to $750 billion.

Eligible Assets:

<u>Eligible Individual Corporate Bonds</u>. The Facility may purchase corporate bonds that, at the time of purchase by the Facility: (i) were issued by an eligible issuer; (ii) have a remaining maturity of 5 years or less; and (iii) were sold to the Facility by an eligible seller.

<u>Eligible ETFs</u>. The Facility also may purchase U.S.-listed ETFs whose investment objective is to provide broad exposure to the market for U.S. corporate bonds. The 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.

Eligible Issuers for Individual Corporate Bonds: To qualify as an eligible issuer, the issuer must satisfy the following conditions:

1. The issuer is a business that is 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.
2. The issuer 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.
    a. 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 Facility 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 Facility makes a purchase.
3. The issuer is not an insured depository institution or depository institution holding company, as such terms are defined in the Dodd-Frank Act.
4. The issuer has not received specific support pursuant to the CARES Act or any subsequent federal legislation.
5. The issuer must satisfy the conflicts of interest requirements of section 4019 of the CARES Act.

Leverage: The Facility will leverage the Treasury equity at 10 to 1 when acquiring corporate bonds from issuers that are investment grade at the time of purchase and when acquiring ETFs whose primary investment objective is exposure to U.S. investment-grade corporate bonds. The Facility will leverage its

[1] The Board of Governors of the Federal Reserve System ("Board") and Secretary of the Treasury may make adjustments to the terms and conditions described in this term sheet. Any changes will be announced on the Board's website.

equity at 7 to 1 when acquiring corporate bonds from issuers that are rated below investment grade at the time of purchase and in a range between 3 to 1 and 7 to 1, depending on risk, when acquiring any other type of eligible asset.

Eligible Seller: Each institution from which the Facility purchases securities must be a business that is created or organized in the United States or under the laws of the United States with significant U.S. operations and a majority of U.S.-based employees. The institution also must satisfy the conflicts-of-interest requirements of section 4019 of the CARES Act.

Limits per Issuer/ETF: The maximum amount of instruments that the Facility and the PMCCF combined will purchase with respect to any eligible issuer is capped at 1.5 percent of the combined potential size of the Facility and the PMCCF. The maximum amount of bonds that the Facility will purchase from the secondary market of any eligible issuer is also capped at 10 percent of the issuer's maximum bonds outstanding on any day between March 22, 2019 and March 22, 2020. The Facility will not purchase shares of a particular ETF if after such purchase the Facility would hold more than 20 percent of that ETF's outstanding shares.

Pricing: The Facility will purchase eligible corporate bonds at fair market value in the secondary market. The Facility will avoid purchasing shares of eligible ETFs when they trade at prices that materially exceed the estimated net asset value of the underlying portfolio.

Program Termination: The Facility will cease purchasing eligible corporate bonds and eligible ETFs no later than September 30, 2020, unless the Facility is extended by the Board of Governors of the Federal Reserve System and the Treasury Department. The Reserve Bank will continue to fund the Facility after such date until the Facility's holdings either mature or are sold.

Municipal Liquidity Facility

Effective April 9, 2020[1]

Facility: The Municipal Liquidity Facility ("Facility"), which has been authorized under Section 13(3) of the Federal Reserve Act, will support lending to U.S. states and the District of Columbia (together, "States"), U.S. cities with a population exceeding one million residents[2] ("Cities"), and U.S. counties with a population exceeding two million residents[3] ("Counties"). Under the Facility, a Federal Reserve Bank ("Reserve Bank") will commit to lend to a special purpose vehicle ("SPV") on a recourse basis. The SPV will purchase Eligible Notes directly from Eligible Issuers at the time of issuance. The Reserve Bank will be secured by all the assets of the SPV. The Department of the Treasury, using funds appropriated to the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act, will make an initial equity investment of $35 billion in the SPV in connection with the Facility. The SPV will have the ability to purchase up to $500 billion of Eligible Notes.

Eligible Notes: Eligible Notes are tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), and other similar short-term notes issued by Eligible Issuers, provided that such notes mature no later than 24 months from the date of issuance. In each case, a note's eligibility is subject to review by the Federal Reserve. Relevant legal opinions and disclosures will be required as determined by the Federal Reserve prior to purchase.

Eligible Issuer: An Eligible Issuer is a State, City, or County (or an instrumentality thereof that issues on behalf of the State, City, or County for the purpose of managing its cash flows), in each case subject to review and approval by the Federal Reserve. Only one issuer per State, City, or County is eligible.

Limit per State, City, and County: The SPV may purchase Eligible Notes issued by or on behalf of a State, City, or County in one or more issuances of up to an aggregate amount of 20% of the general revenue from own sources and utility revenue of the applicable State, City, or County government for fiscal year 2017.[4] States may request that the SPV purchase Eligible Notes in excess of the applicable limit in order to assist political subdivisions and instrumentalities that are not eligible for the Facility.

Pricing: Pricing will be based on an Eligible Issuer's rating at the time of purchase with details to be provided later.

Origination Fee: Each Eligible Issuer that participates in the Facility must pay an origination fee equal to 10 basis points of the principal amount of the Eligible Issuer's notes purchased by the SPV. The origination fee may be paid from the proceeds of the issuance.

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[1] The Board of Governors of the Federal Reserve System ("Board") and Secretary of the Treasury may make adjustments to the terms and conditions described in this term sheet. Any changes will be announced on the Board's website.

[2] Source: U.S. Census Bureau, Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2018, as of April 6, 2020 (https://www.census.gov/data/tables/time-series/demo/popest/2010s-total-cities-and-towns.html).

[3] Source: U.S. Census Bureau, "Population, Population Change, and Estimated Components of Population Change: April 1, 2010 to July 1, 2019 (CO-EST2019-alldata)" dataset as of April 6, 2020 (https://www.census.gov/data/datasets/time-series/demo/popest/2010s-counties-total.html#par_textimage_739801612.)

[4] Source: U.S. Census Bureau, 2017 State & Local Government Historical Datasets and Tables, as of April 6, 2020 (https://www.census.gov/data/datasets/2017/econ/local/public-use-datasets.html).

Call Right: Eligible Notes purchased by the SPV are callable by the Eligible Issuer at any time at par.

Eligible Use of Proceeds: An Eligible Issuer may use the proceeds of Eligible Notes purchased by the SPV to help manage the cash flow impact of income tax deferrals resulting from an extension of an income tax filing deadline; potential reductions of tax and other revenues or increases in expenses related to or resulting from the COVID-19 pandemic; and requirements for the payment of principal and interest on obligations of the relevant State, City, or County. An Eligible Issuer may use the proceeds of the notes purchased by the SPV to purchase similar notes issued by, or otherwise to assist, political subdivisions and instrumentalities of the relevant State, City, or County for the purposes enumerated in the prior sentence.

Termination Date: The SPV will cease purchasing Eligible Notes on September 30, 2020, unless the Board and the Treasury Department extend the Facility. The Reserve Bank will continue to fund the SPV after such date until the SPV's underlying assets mature or are sold.