The Fed's Primary Market Corporate Credit Facility, explained

America needs a bridge — a bridge that will get households, communities, and businesses over the unanticipated challenges created by the COVID-19 shutdown. In helping to build that bridge, the Federal Reserve, with authorization from Congress, has created and revived a number of rare lending programs, each providing targeted assistance to the needs of those impacted.

The challenge Under normal economic conditions, larger businesses can raise funds by issuing corporate bonds. Investors buy the bonds, lending businesses the cash they need, and, over a period of time, the businesses pay back the investors plus interest. Given the current pandemic and resulting economic shutdowns, investors' appetite for corporate bonds is down because they are unsure how businesses will perform and if the businesses will repay. That has caused the availability of credit to contract for corporations and other issuers of corporate bonds at the same time that companies have a heightened need for financing.

The response The Fed is buying corporate bonds. Companies can use the money they borrow through these bonds for a variety of purposes such as paying down debt and sustaining operations until the economy returns to pre-COVID-19 conditions. When such businesses can sustain operations, they preserve jobs and continue to buy goods and services from other companies.

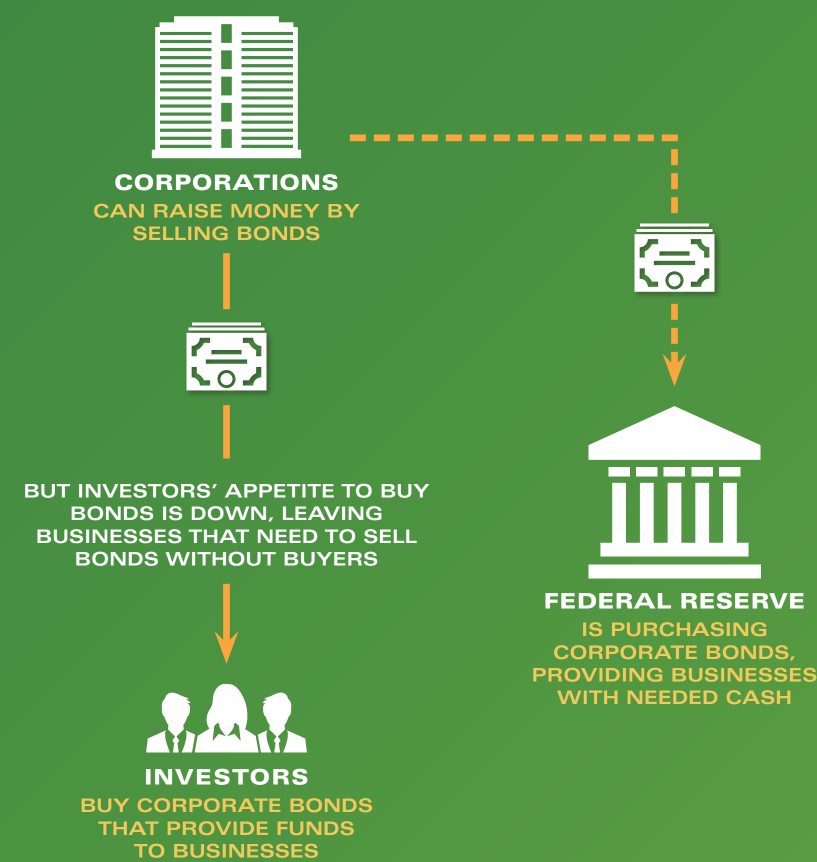
The details Companies must pay back bonds that the Fed buys in four years or less, and they pay a fee to borrow from the Fed. The pricing the Fed charges is based on a number of factors, including the creditworthiness of the business issuing the bond. Businesses that seek to issue bonds involving the Fed must

- have a certain credit standing,
- not be banks, and
- have significant operations, including a majority of their employees, in the United States.

The Fed intends to collect interest payments and ultimately be repaid all of the money it lends. However, should losses occur, the US Treasury has invested $50 billion to cover losses arising from this lending.

The goal? To enable larger businesses to raise the money they need to maintain business operations during the COVID-19 pandemic.

The Fed is committed to transparency and makes periodic reports and updates related to this lending available.



For more information: *www.newyorkfed.org/markets/primary-market-corporate-credit-facility*

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