The Fed Announces a Primary Dealer Credit Facility

March 19, 2020

The Federal Reserve's **creation** of a Primary Dealer Credit Facility (**PDCF**) follows the **announcement** of a Commercial Paper Funding Facility, which **we discussed** earlier this week, and represents a continuation of the Federal Reserve's use of its "unusual and exigent" powers to help during the current crisis. The current 2020 PDCF announced by the Federal Reserve on March 17, 2020 is generally similar to the PDCF established in September 2008,[1] although differences exist.

- The 2020 PDCF permits primary dealers to borrow cash from the Federal Reserve by pledging "eligible collateral," which includes (i) all collateral eligible for pledge under open market operations (**OMO**) (currently used to secure overnight securities lending to dealers to ensure effective conduct of OMO) and (ii) other specific types of collateral that are priced by the clearing bank that stands between the primary dealers and the Federal Reserve. Eligible collateral under the 2020 PDCF is substantially similar to that permitted under the 2008 PDCF although "eligible collateral" is defined slightly differently.
  - In addition to collateral eligible under OMO such as Treasury securities/strips and U.S. agency securities, the 2020 PDCF permits participants to pledge:
    - Investment grade corporate debt securities;
    - International agency securities;
    - Commercial paper;
    - Municipal securities;
    - Mortgage-backed securities;
    - Asset-backed securities;[2] and
    - Equity securities (excluding ETFs, unit investment trusts, mutual funds, rights and warrants).
  - The 2008 PDCF defined "eligible collateral" as all collateral eligible for pledge under tri-party repurchase agreements with the major clearing banks as of September 12, 2008, which included a substantially similar range of collateral to that permitted under the 2020 PDCF.
- Borrowers under the 2020 PDCF may obtain credit for up to a 90-day term, making it consistent with the Federal Reserve's recently announced change to the Discount Window, which allows banks the option to obtain secured liquidity for up to 90 days in addition to overnight. By contrast, the 2008 PDCF only provided borrowers with credit on an overnight basis.

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[1] Changes were made to the 2008 financial crisis-era PDCF over the course of its existence. Here, our references to the financial crisis-era facility refer to the facility effective beginning September 15, 2008; prior to that date, eligible collateral under the PDCF program was more limited.

[2] For commercial mortgage-backed securities, collateralized loan obligations, and collateralized debt obligations, the securities must be AAA-rated. Other debt securities would be eligible collateral if rated investment grade (*i.e.*, securities rated BBB- and above). This includes investment grade commercial paper rated both A1/P1 and A2/P2.

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

John Banes	+1 212 450 4116	john.banes@davispolk.com
Luigi L. De Ghenghi	+1 212 450 4296	luigi.deghenghi@davispolk.com
Randall D. Guynn	+1 212 450 4239	randall.guynn@davispolk.com
Margaret E. Tahyar	+1 212 450 4379	margaret.tahyar@davispolk.com
Christopher M. Paridon	+1 202 962 7135	chris.paridon@davispolk.com
Eric B. Lewin	+1 212 450 3701	eric.lewin@davispolk.com