

Secondary Market Corporate Credit Facility

Effective April 9, 2020¹

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:

Eligible Individual Corporate Bonds. 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.

Eligible ETFs. 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.