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US Federal Banking Agencies Introduce Measures to Protect US Financial System Against COVID-19-Related Risks and Assist Consumers Affected by COVID-19.

The three US federal banking agencies have taken steps to enable the financial system to continue functioning during the pandemic.

During the course of this week, the three US federal banking agencies — the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) — have taken a series of actions intended to enable the US financial system to continue functioning in the midst of COVID-19 and to encourage banks to meet the financial services needs of their customers who are affected by the pandemic.

These actions include the following measures:

- **Decreasing Interest Rates:** In recognition of the near-term disruption to economic activity and the risks to the economic outlook posed by COVID-19, the Federal Open Market Committee of the Federal Reserve lowered the target range for the federal funds rate to 0.0% – 0.25% on March 15, 2020.
- **Reduction in Reserve Requirements:** The reserve requirements for thousands of depository institutions will be eliminated when the Federal Reserve's reduction in the reserve requirement ratio to 0% becomes effective on March 26, 2020. This liquidity-promoting measure is intended to help support the flow of credit to households and businesses by enabling depository institutions to more readily engage in lending.
- **Availability of Intraday Credit:** To support the liquidity needs of households and businesses as well as the continued functioning of the payment systems, the Federal Reserve has encouraged the use by depository institutions of intraday credit extended by Reserve Banks on both a collateralized and uncollateralized basis.
- **Use of Federal Reserve Discount Window:** The discount window enables the Federal Reserve to provide depository institutions with ready access to funding to allow such institutions to manage their liquidity risks and protect their customers, particularly during times of market stress. To assist with meeting the demands for credit from households and businesses that are struggling during the current economic climate, the Federal Reserve has encouraged more active use of the discount window by depository institutions by lowering the primary credit rate to 0.25% as of March 16, 2020, and permitting borrowing from the discount window for up to 90 days, prepayable and renewable by the borrower on a daily basis. The Federal Reserve also announced that it would continue to accept the same broad range of collateral for discount window loans, including securities and loans that meet certain eligibility criteria. The FDIC and the OCC have also encouraged banks subject to their respective supervision to use the discount window.
- **Reliance on Capital and Liquidity Buffers:** The federal banking agencies have encouraged banks to provide assistance to households and businesses whose credit needs are being adversely impacted by COVID-19 by using their capital and liquidity buffers to lend and take other supportive actions in a manner that promotes the safety and soundness of the financial system. Any automatic

limitations on capital distributions that may be triggered as a result of a bank falling below certain capital levels will be phased in gradually in order to promote continued lending by banks.
- **Establishment of Commercial Paper Funding Facility (CPFF):** The Federal Reserve is establishing the CPFF to alleviate the strain caused by the pandemic on the commercial paper market, which directly finances a variety of economic activities. The CPFF will be structured as a credit facility to a special purpose vehicle (SPV), and the SPV will support the flow of credit to households and businesses by serving as a liquidity backstop to facilitate the issuance of term commercial paper by eligible US issuers. As of March 17, 2020, the SPV will purchase unsecured and asset-backed commercial paper rated A1/P1 directly from eligible companies. The Federal Reserve Bank of New York (FRBNY) has committed to lend to the SPV on a recourse basis, and the Treasury Department's Exchange Stabilization Fund (ESF) will provide US$10 billion of credit protection to the FRBNY. The SPV will cease purchasing commercial paper on March 17, 2021, unless the Federal Reserve extends the CPFF.
- **Establishment of Primary Dealer Credit Facility (PDCF):** Beginning March 20, 2020, the PDCF will offer overnight and term funding with maturities up to 90 days for at least six months, subject to further extension if necessary. The PDCF will support the Federal Reserve's goal of supporting households and businesses affected by the pandemic by allowing primary dealers to promote smooth market functioning and facilitate the availability of credit. Credit extended to primary dealers under the PDCF may be collateralized by a broad range of investment grade debt securities, including commercial paper and municipal bonds, and a broad range of equity securities. The interest rate charged will be the primary credit rate, or discount rate, at the FRBNY.
- **Establishment of Money Market Mutual Fund Liquidity Facility (MMLF):** In recognition of the crucial role that money market funds serve as a common investment tool for families, businesses, and a variety of companies, the Federal Reserve has established the MMLF program to enhance the liquidity and functioning of the money markets. Through the establishment of a MMLF, the Federal Reserve Bank of Boston will make loans available to eligible financial institutions secured by high-quality assets purchased by such financial institution from money market mutual funds. The Treasury Department, through the ESF, will provide US$10 billion of credit protection to the Federal Reserve in connection with the MMLF. On March 19, 2020, the federal banking agencies released an interim final rule and request for comment to ensure the effective use of the MMLF by financial institutions. Among other things, the interim final rule accounts for the fact that financial institutions will not be taking any credit or market risk in association with MMFL activities by modifying the federal banking agencies' capital rules to enable such institutions to receive credit for the low risk of their MMLF activities. The interim final rule is currently effective, and the period to receive comments will close within 45 days following publication in the Federal Register.
- **US Dollar Liquidity Arrangements With Other Central Banks:** The Federal Reserve is establishing temporary US dollar liquidity arrangements (swap lines) with the central banks of Australia, Brazil, Denmark, Korea, Mexico, Norway, New Zealand, Singapore, and Sweden. As with swap lines already established between the Federal Reserve and other central banks, these new facilities are intended to ease the strains in global US dollar funding markets in order to mitigate the impact of such strains on credit supply to households and businesses, both within the US and abroad. Such arrangements will be in place for at least six months, and the new facilities will support the provision of US dollar liquidity in amounts that will vary depending on the particular central bank.
- **Community Reinvestment Act (CRA) Consideration:** The federal banking agencies released a joint statement on March 19, 2020, regarding CRA consideration for activities engaged in by financial institutions in response to COVID-19. Among other things, the joint statement clarifies that financial institutions will receive CRA consideration for community development activities in response to the COVID-19 national emergency, including those that (i) help to revitalize or stabilize

low- or moderate-income geographies as well as distressed or underserved non-metropolitan middle-income geographies, and (ii) support community services targeted to low- or moderate-income individuals. The statement will be effective through the six-month period after the national emergency declaration is lifted, unless extended by the federal banking agencies.

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