Financial Institutions

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Federal Reserve Establishes Money Market Investor Funding Facility

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Today, the Federal Reserve announced the creation of a money market investor funding facility (MMIFF) that will purchase, through a series of special purpose vehicles established by the private sector (PSPVs), eligible money market instruments from eligible investors using financing from the MMIFF and from the issuance of asset-backed commercial paper (ABCP). The facility is aimed at improving the liquidity position of money market investors by increasing their ability to meet redemption requests and willingness to invest in money market instruments.

The following is a summary of the MMIFF's key elements:

- Eligible investors include U.S. money market mutual funds. The Federal Reserve has reserved authority to include other investors in the MMIFF over time.

- Eligible assets include U.S. dollar-denominated certificates of deposit, bank notes, and commercial paper with a remaining maturity of 90 days or less. Each PSPV will only purchase debt instruments issued by ten financial institutions designated in its operational documents. Each of these financial institutions will have a short-term debt rating of at least A-1/P-1/F1 from two or more major nationally recognized statistical rating organizations (NRSROs). At the time of a PSPV's purchase of a debt instrument issued by a financial institution, the debt instruments of that financial institution may not constitute more than 15 percent of the assets of the PSPV.

- Each PSPV will finance its purchase of an eligible asset by selling ABCP and by borrowing under the MMIFF. The PSPV will issue to the seller of the eligible asset an amount of ABCP equal to 10 percent of the asset's purchase price. The ABCP will have a maturity equal to the maturity of the asset and will be rated at least A-1/P-1/F1 by two or more major NRSROs. The Federal Reserve Bank of New York will lend to each PSPV the other 90 percent of the purchase price of each eligible asset. The Federal Reserve loans will be on an overnight basis, at the primary credit rate, and will mature at the same time as the debt instrument. The loans will be senior to the ABCP, with recourse to the PSPV, and secured by all the assets of the PSPV.

- If the debt instruments of a financial institution held by a PSPV are downgraded below the ratings for eligible assets, the PSPV must cease all asset purchases until all of the PSPV's assets issued by that financial institution have matured. If any of a PSPV's assets default, the PSPV must cease all asset purchases and repayments on outstanding ABCP. Proceeds from maturation of the PSPV's assets will be used to repay the Federal Reserve and, upon maturation of all assets in the PSPV, any remaining available cash will be used to repay principal and interest on the ABCP.

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- A PSPV will cease purchasing assets and will enter the wind-down process on April 30, 2009, unless this date is extended by the Federal Reserve. PSPVs will wind down by using proceeds from the maturation of its assets to first repay principal and interest on the Federal Reserve loans and then to repay principal and interest on the ABCP that matures on that day. A small fixed amount of any excess spread remaining in the PSPV after completion of the wind-down process will be allocated proportionately among investors holding ABCP, with the Federal Reserve receiving any excess spread.

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Attorneys in Covington's Financial Institutions Group have advised many clients on recent financial services and banking developments. The Financial Institutions Group's expertise derives from advising clients on the impact of such developments over the course of the past three decades. Please do not hesitate to contact any member of our Financial Institutions Group, including the undersigned, should you have any questions.

If you have any questions concerning the material discussed in this client alert, please contact the following members of our financial institutions practice group:

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