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Economic Impact of COVID-19

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COVID-19: The Fed's Response So Far

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The coronavirus and its associated illness COVID-19 have made their way around the world with unrelenting efficiency. As localities enact "stay-at-home" orders and other restrictions, the contraction in economic activity has hit small businesses and low-income, low-wealth communities the hardest.

To keep credit flowing and combat the liquidity pressures caused by the pandemic, the Federal Reserve has moved swiftly, revisiting the actions taken during the 2008 financial crisis and more. In addition to cutting interest rates to zero, the Fed has enacted six lending facilities to help ensure that financial markets are functioning and cash continues to be available to support the increased credit needs of businesses and households. Taken together, the programs are intended to inhibit the rapidly growing health crisis from morphing into a financial crisis.

To assist with the continued flow of short-term credit to businesses, on March 17 the Fed established a Commercial Paper Funding Facility (CPFF) to provide a backstop for the $1 trillion commercial paper market. Commercial paper is short-term debt issued by banks, manufacturers, and other firms to finance things like payrolls and inventories. The CPFF will help business continue to borrow and finance their operations during the crisis.

Also on March 17, the Fed established the Primary Dealer Credit Facility (PDCF) to support the smooth functioning of the Treasury market. This facility provides short-term loans to the 24 large financial institutions, known as "primary dealers," that buy and sell Treasury securities. Investors had warned that primary dealers were concerned about serving their traditional role as "middlemen" in markets amid the intense volatility that had been experienced since late February, when coronavirus cases in the United States began to climb. The PDCF provides loans to primary dealers to support liquidity across financial markets. Ultimately, the PDCF is designed to unclog pipelines that keep credit flowing around the world.

The Fed announced its third emergency credit program, the Money Market Mutual Fund Liquidity Facility (MMLF), on March 18. (Outflows from institutional prime funds totaled $53 billion, or 16 percent, of assets the week of March 14.) Money market funds make up a $3.8 trillion industry and are common investment tools for families, businesses, and a range of companies. The MMLF assists money market funds in meeting demands for redemptions by households and other investors, enhancing overall market functioning and credit provision to the broader economy.

In order to provide funding to investment-grade companies so they can continue business operations and pay employees and suppliers, the Fed established the Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF) on March 23. The PMCCF provides loans for up to four years, and companies may request deferral of interest and principal payments during the first six months of the loan. The SMCCF will purchase in the secondary market corporate bonds issued by investment-grade U.S. companies and U.S.-listed exchange-traded funds whose investment objective is to provide broad exposure to the market for U.S. investment-grade corporate bonds.

Along with the PMCCF and the SMCCF, the Fed initiated the Term Asset-Backed Securities Loan Facility (TALF). Under TALF, the Fed will lend to borrowers that pledge securities backed by newly and recently originated consumer and small-business loans. The TALF will enable the issuance of asset-backed securities (ABS) backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (SBA), and certain other assets.

On April 9, the Fed announced additional programs to provide up to $2.3 trillion in loans to support the economy, including expanding the size and scope of the PMCCF, the SMCCF, and TALF. The Fed will also support the SBA's Paycheck Protection Program by extending credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value. In addition, the Fed will purchase up to $600 billion in loans through the Main Street Lending Program to help ensure credit flows for small and mid-sized businesses. Finally, the Fed established a Municipal Liquidity Facility, which will offer up to $500 billion in lending, to help state and local governments manage current cash flow stresses.

"Our country's highest priority must be to address this public health crisis, providing care for the ill and limiting the further spread of the virus," said Federal Reserve Board Chair Jerome H. Powell when the newest programs were announced. "The Fed's role is to provide as much relief and stability as we can during this period of constrained economic activity, and our actions today will help ensure that the eventual recovery is as vigorous as possible."

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