

REMARKS FOR FAR MEETING

Policy response to COVID-19 crisis

Til Schuermann
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APPROPRIATENESS OF POLICY RESPONSE DEPENDS ON WHAT YOU BELIEVE ABOUT DURATION OF THE CRISIS AND STATE OF AC (AFTER COVID) VS BC

If **short** duration and AC **largely same** as BC...

- Quick recovery
- Keep employees in place
- Finance through employers
- Liquidity concerns
- Short term financing
- Avoid bankruptcy

Better suited for debt financing
(Central Bank)

If **long** duration and AC **quite different** than BC...

- Slow, choppy recovery
- Provide flexibility for labor reallocation
- Finance through unemployment insurance
- Solvency concerns
- Longer term financing
- Make bankruptcy / restructuring easier

Better suited for equity financing
(Fiscal authority)

FED PROGRAMS COVER MUCH OF THE CREDIT SPECTRUM AND SOURCES OF CREDIT DEMAND

	Corporate	Money Market	Tri-party Repo	Muni	SMEs	Consumer Debt +
<i>Facilities:</i>	P(S)CCF, CPFF	MMLF	PDCF	MLF	MSLP, PPPLF	TALF

Facilities cover provision of both short & long-term credit support

Shorter-term Facilities

- PDCF
- CPFF
- MMLF

Longer-term Facilities

- P(S)CCF
- MSLP
- PPPLF
- MLF
- TALF

What's (maybe) missing?

- TAF
- DIPFF

WHAT IS A LOT OF CAPITAL? WHAT IS A LOT OF LEVERAGE?

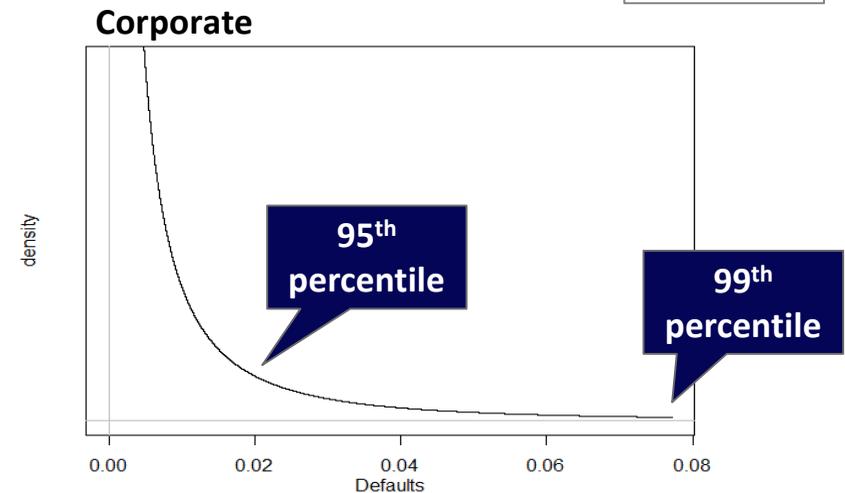
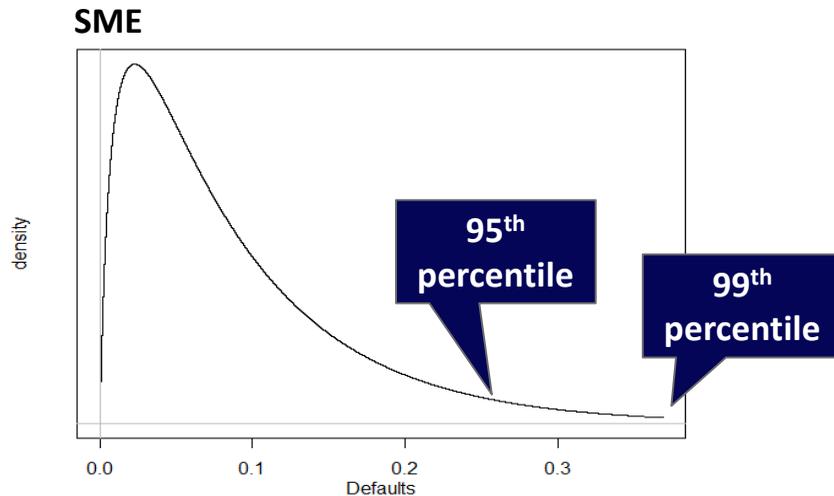
Facility	Treasury Capital	Size	Implied Leverage
CPFF	\$10B	Not stated	N/A
P(S)CCF	\$75B (50/25)	\$750B	9:1
MMLF	\$10B	Not stated	N/A
TALF	\$10B	\$100B	9:1
MSLP	\$75B	\$600B	7:1
MLF	\$35B	\$500B	13:1



- Differences in leverage reflect differences in risk, especially tail risk
- Here, implication is a risk difference of ~2x across facilities (and thus asset classes)

Loss distributions can vary significantly across different asset classes and with that, the required capital for a given level of risk tolerance

Illustrative



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