

**The Twelfth Report of the Congressional Oversight
Commission**

April 30, 2021

**Commission Members
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INTRODUCTION

This is the twelfth report of the Congressional Oversight Commission (“Commission”) created by the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”).¹ The Commission’s role is to conduct oversight of the implementation of Division A, Title IV, Subtitle A of the CARES Act (“Subtitle A”) by the U.S. Department of the Treasury (“Treasury”) and the Board of Governors of the Federal Reserve System (“Federal Reserve”). Subtitle A provided \$500 billion to the Treasury for lending and other investments “to provide liquidity to eligible businesses, States, and municipalities related to losses incurred as a result of coronavirus.”²

Of this amount, \$46 billion was set aside for the Treasury to provide loans or loan guarantees to certain types of companies. Up to \$25 billion was available for passenger air carriers, eligible businesses certified to inspect, repair, replace, or overhaul services, and ticket agents. Up to \$4 billion was available for cargo air carriers, and \$17 billion was available for businesses “critical to maintaining national security.”³

The CARES Act charges the Commission with submitting regular reports to Congress on:

- The Federal Reserve’s use of its authority under Subtitle A, including the use of contracting authority and administration of the provisions of Subtitle A.
- The impact of loans, loan guarantees, and investments made under Subtitle A on the financial well-being of the U.S. economy.
- The extent to which the information made available on transactions under Subtitle A has contributed to market transparency.
- The effectiveness of loans, loan guarantees, and investments made under Subtitle A in minimizing long-term costs to the taxpayers and maximizing the benefits for taxpayers.⁴

In its first report to Congress on May 18, 2020, the Commission stated that it is responsible for answering two basic questions:

- What are the Treasury and the Federal Reserve doing with \$500 billion of taxpayer money?
- Who is that money helping?⁵

¹ CARES Act, Pub. L. No. 116-136, § 4020, 134 Stat. 281 (2020).

² *Id.* § 4003(a).

³ *Id.* § 4003(b). In addition, Division A, Title IV, Subtitle B of the CARES Act (“Subtitle B”) authorized the Treasury to provide up to \$32 billion in financial assistance to passenger air carriers, cargo air carriers, and certain airline industry contractors that must be exclusively used for the continuation of payment of employee wages, salaries, and benefits. Subtitle B is not within the jurisdiction of the Commission.

⁴ *Id.* § 4020.

⁵ Congressional Oversight Commission, *Questions About the CARES Act’s \$500 Billion Emergency Economic*

The emergency lending facilities established by the Federal Reserve that received CARES Act funds are:

Primary Market Corporate Credit Facility (“PMCCF”) and Secondary Market Corporate Credit Facility (“SMCCF”): Through a special purpose vehicle (“SPV”), the PMCCF enabled the Federal Reserve to purchase newly issued corporate bonds and portions of syndicated loans, and the SMCCF enabled the Federal Reserve to purchase previously issued corporate bonds and exchange-traded funds (“ETFs”) that invest in corporate bonds.⁶ The PMCCF never made any purchases during the period it was operational.⁷ As of April 28, 2021, the SMCCF had an outstanding amount of bond ETF and individual corporate bond purchases of \$13.8 billion.⁸

Main Street Lending Program (“MSLP”): The MSLP is comprised of five facilities—three dedicated to for-profit businesses and two dedicated to non-profit organizations. The Federal Reserve, through an SPV, acquired loans issued by lenders to small and medium-sized businesses and non-profit organizations with up to 15,000 employees or 2019 revenues of \$5 billion or less. As of April 28, 2021, the Federal Reserve held \$16.4 billion in loan participations purchased under the MSLP.⁹

Municipal Liquidity Facility (“MLF”): The MLF enabled the Federal Reserve, through a SPV, to purchase short-term notes issued by state and local governments. As of April 28, 2021, the MLF had \$5.8 billion in outstanding purchases of municipal notes.¹⁰

Term Asset-Backed Securities Loan Facility (“TALF”): The TALF enabled the Federal Reserve, through an SPV, to make loans to U.S. companies secured by asset-backed securities (“ABS”) backed by student loans, auto loans, credit card loans, commercial mortgages, leveraged loans, loans guaranteed by the Small Business

Stabilization Funds, May 18, 2020, at 5, https://coc.senate.gov/sites/default/files/2020-08/20200518_Congressional_Oversight_Committee_1st_Report.pdf.

⁶ Board of Governors of the Federal Reserve System, *Primary Market Corporate Credit Facility Term Sheet*, July 28, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a9.pdf>; Board of Governors of the Federal Reserve System, *Secondary Market Corporate Credit Facility Term Sheet*, July 28, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a1.pdf>.

⁷ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act*, Apr. 9, 2021, <https://www.federalreserve.gov/publications/files/pdcf-mmlf-cpff-pmccf-smccf-talf-mlf-ppplf-msnlf-mself-msplf-nonlf-noelf-04-12-21.pdf>.

⁸ Board of Governors of the Federal Reserve System, *Statistical Release H.4.1: Factors Affecting Reserve Balances of the Depository Institutions and Condition Statement of Federal Reserve Banks*, Apr. 29, 2021, at n.4, <https://www.federalreserve.gov/releases/h41/>. The SPV for the SMCCF is the Corporate Credit Facilities LLC. The SPV for the MSLP is MS Facilities LLC. The SPV for the MLF is Municipal Liquidity Facility LLC.

⁹ *Id.*

¹⁰ *Id.*

Administration, and certain other assets.¹¹ TALF had a total outstanding amount of \$2.3 billion in loans as of April 28, 2021.¹²

The direct lending programs managed by the Treasury that received CARES Act funds are:

Treasury Loans for National Security Businesses: The Treasury had \$17 billion available to make loans to businesses critical to maintaining national security under Subtitle A. The Treasury provided national security loans to eleven businesses, totaling \$735.9 million.¹³ One business, Yellow Corporation (“Yellow”), which was formerly known as YRC Worldwide, Inc. (“YRC”), accounted for 95% of the total outstanding loans.¹⁴

Treasury Loans for the Airline Industry: In addition, the Treasury had \$29 billion available to make loans to the airline industry under Subtitle A, with \$25 billion available for passenger air carriers, including related businesses, and \$4 billion available for cargo air carriers.¹⁵ The Treasury lent \$21.2 billion across twenty-four such loans to companies the Treasury characterized as airlines, ticket agents, a repair station, and a cargo air carrier.¹⁶

In this report, we provide an in-depth look at the national security loan to Yellow. We also provide updates regarding recent key actions taken by the Treasury and the Federal Reserve regarding each of the above lending programs and facilities under Subtitle A, as well as updates regarding the Commission’s oversight activities.

¹¹ Board of Governors of the Federal Reserve, *Term Asset-Backed Securities Loan Facility Term Sheet*, July 28, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a6.pdf>.

¹² Board of Governors of the Federal Reserve System, *Statistical Release H.4.1, Factors Affecting Reserve Balances of the Depository Institutions and Condition Statement of Federal Reserve Banks*, Apr. 29, 2021, at table 4, <https://www.federalreserve.gov/releases/h41/>.

¹³ U.S. Department of the Treasury, *Loans to Air Carriers, Eligible Businesses, and National Security Businesses*, last visited Apr. 29, 2021, <https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses>.

¹⁴ Yellow Corporation, *YRC Worldwide Inc. is Renamed Yellow Corporation*, Feb. 4, 2021, <https://investors.myyellow.com/news-releases/news-release-details/ycr-worldwide-inc-renamed-yellow-corporation> (Yellow is the new corporate name for “YRC” as used in prior reports. Yellow begun trading under the NASDAQ index ticker symbol “YELL”, effective February 8, 2021).

¹⁵ CARES Act § 4003. Related businesses are eligible businesses that are certified under part 145 of title 14, Code of Federal Regulations, and approved to perform inspection, repair, replace, or overhaul services, and ticket agents (as defined in Section 40102 of Title 49 of the United States Code).

¹⁶ U.S. Department of the Treasury, *Loans to Air Carriers, Eligible Businesses, and National Security Businesses*, last visited Apr. 29, 2021, <https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses> (see “Transaction Summary” of each transaction for more details).

DISCUSSION OF NATIONAL SECURITY LOAN TO YELLOW

The Commission's eleven previous reports have tracked the actions that the Treasury and the Federal Reserve took to implement Subtitle A of the CARES Act, including the Treasury's direct loan to Yellow that was executed on July 7, 2020.¹⁷ The seventh report of the Commission focused on the Treasury and the Department of Defense's ("DOD") \$700 million loan to Yellow, which was made under the loan program "for businesses critical to maintaining national security." The Commission's eighth report focused on the national security loan program as a whole. Under the program, the Treasury determined the rates and conditions of the loans, while DOD or the Director of National Intelligence determined whether a business was critical to maintaining national security. The Commission expressed concerns regarding the Treasury's process for certifying Yellow as "critical to maintaining national security" and questioned whether Yellow's precarious financial position at the time of the loan exposed taxpayers to a significant risk of loss.

Following a series of correspondence between the Commission, the Treasury, and DOD, the Commission was better able to understand the decision-making process behind the critical to maintaining national security designation and the rationale for the Treasury loan to Yellow. This included a hearing with Treasury Secretary Steven Mnuchin, on December 10, 2020, and a briefing with Undersecretary of Defense Ellen Lord, on December 18, 2020.

Letter to U.S. Transportation Command ("TRANSCOM")

Based on the findings outlined above, the Commission sent a letter to TRANSCOM inquiring about Crowley Logistics' ("Crowley") work as a prime contractor for DOD and its relationship with Crowley's subcontractor, Yellow. TRANSCOM provided a response to the Commission's letter on March 3, 2021, which is attached as Appendix A.

As TRANSCOM outlined in its response to the Commission's letter, the Commission determined that TRANSCOM never directly asked Crowley whether Yellow should be designated as critical to national security. Further, TRANSCOM reported to the Commission that, in a downside scenario, the termination of Yellow's less-than-truckload ("LTL") services and the related losses in volume in the LTL space could be readily absorbed by the LTL market, based on an analysis provided by Crowley. Crowley based this conclusion on the trucking industry's capacity, the ability of the motor freight industry to adapt to supply and demand changes, and "the overall limited depth and level of utilization of [Yellow]."

The information provided by TRANSCOM raises a few questions. For example, if Crowley never asserted and confirmed that Yellow was critical to national security, who made the determination in the chain of command at DOD that they were, in fact, critically important? Also, if Crowley thought that the services Yellow provided would be absorbed by another company, does not this further minimize Yellow's impact on national security? And lastly, the Commission has been unable to substantiate the assertion Treasury and DOD made indicating that Yellow provides 68% of LTL services to DOD, based on facts provided in TRANSCOM's

¹⁷ Treasury, *UST Tranche A and B Term Loan Agreement with YRC Worldwide Inc.*, July 7, 2020, <https://home.treasury.gov/system/files/136/YRC-Documentation.pdf>.

confidential correspondence with Crowley, and other materials received to date. These questions are analyzed in more detail below.

Treasury and DOD both stated that Yellow provides 68% of DOD's LTL services. For example, the figure is quoted in Treasury's letter from September 4, 2020¹⁸ and in a DOD letter on October 2, 2020¹⁹ in response to the Commission's request for information about the execution of Yellow's loan. This figure was also provided in confidential information Treasury provided the Commission and was used frequently to justify why Yellow was deemed critical to national security (and hence, and received the designation).

The Commission, however, was unable to substantiate the 68% figure based on a review of materials provided to the Commission. The Commission did follow up and specifically ask TRANSCOM for a breakdown for freight revenue and prices for 2018 to 2020 for all LTL shipments that Crowley subcontracts with, but was told that TRANSCOM has no contractual authority or means to obtain this information since they do not have privity of contract with subcontractors. The Commission's review estimated that Yellow constituted a range of 20% to 40% of DOD's LTL shipments from 2018 to 2020 based on a total amount of LTL Defense Freight Transportation Services ("DFTS") of \$59.98 million. The DFTS is the contractual relationship that Crowley has with DOD to manage all DOD surface transportation.

The DOD has previously told the Commission that 68% is just a snapshot in time, and when that number was determined, it was plausible that Yellow could have just been on the high end of their shipment services. However, Undersecretary Lord outlined in a briefing with the Commission on December 18, 2020, that even though 68% was representative of a snapshot at a specific time, TRANSCOM provided data in 2019 and 2020 showing that usage "continues to remain high."²⁰ However, the 20% to 40% range is significantly lower than 68%. The Commission finds these discrepancies concerning. The Commission has worked to obtain cooperation and assess these figures from DOD, TRANSCOM and Crowley, but the DOD has yet to produce support for the 68% figure. The Commission has requested additional information from DOD to substantiate the 68% number and is continuing to look into this matter.

The Commission believes that part of the reason for these unsubstantiated numbers, or inconsistencies, is due to the complexity associated with the seven-layer chain of command at DOD implemented to designate a company as critical to national security. Appendix B outlines the chain of command as the Commission understands it.

With so many layers, information is bound to get lost in translation. The Commission and its staff have had difficulty navigating the DOD and its many facets. The staff had difficulty locating the right personnel within the agency to discuss the Yellow loan and, even after determining the proper track, DOD was often slow to respond to the Commission. The

¹⁸ Letter from U.S. Department of the Treasury to Congressional Oversight Commission, dated Sept. 4, 2020.

¹⁹ Letter from Department of Defense to Members of Congressional Oversight Commission, dated Oct. 22, 2020.

²⁰ Congressional Oversight Commission, *Examination of National Security Loans and Loan Guarantees Authorized by the CARES Act*, Dec. 18, 2020, at 4, <https://coc.senate.gov/sites/default/files/2021-01/COMMISSION%20December%20Report%2012-31%20FINAL%2C%20appendix.pdf>.

Commission recommends that DOD provide more transparency about its operations and the chain of command for how national security designations were determined. This is imperative for understanding this Treasury loan program and for the administration of any future loan program that Congress may authorize the Treasury to create that involves input from the DOD.

Lastly, the Commission calls attention to Yellow's increased lobbying efforts in 2020. Yellow spent \$570,000 on lobbying efforts in 2020 compared to zero in 2019, \$80,000 in 2018 and \$75,000 in 2017.²¹ The Commission makes note of the correlation between lobbying the government and Yellow's ability to secure a \$700 million loan. The Treasury confirmed that several Senators and members of Congress sent letters²² to Treasury urging them to underwrite Yellow's loans.

Yellow has previously engaged in these types of activities. In 2009 during the financial crisis, Yellow also was on the verge of bankruptcy, and Yellow had planned on applying for a \$1 billion federal government bailout²³ before entering into a debt swap arrangement with a group of banks.²⁴ Yellow's lobbying efforts, in conjunction with intensive political contacts by organized labor, totaled \$800,000 for that year. The following year in 2010, Yellow spent approximately \$150,000 less on lobbying and the spending decline trended until 2020, as outlined in the table below.

²¹ United States Senate Lobbying Disclosure, *Registrations & Quarterly Activity*, last visited Apr. 29, 2021, <https://lda.senate.gov/system/public/>.

²² Letter from Representative Sharice Davids (D-KS), U.S. House of Representatives, to Secretary Mnuchin, Apr. 2, 2020; Letter from the Chairman Peter A. DeFazio (D-OR) and Ranking Member Sam Graves (R-MO), Committee on Transportation and Infrastructure, U.S. House of Representatives, to Secretary Mnuchin, Apr. 17, 2020; Letter from Senators Ron Wyden (D-OR) and Pat Roberts (R-KS), United States Senate, to Secretary Mnuchin, Apr. 22, 2020; Letter from Representative Albio Sires (D-NJ), U.S. House of Representatives, to Secretary Mnuchin, Apr. 22, 2020; Letter from Rep. Bill Pascrell, Jr. (D-NJ), U.S. House of Representatives, to Secretary Mnuchin, May 5, 2020; *see also* Letter from Rep. Donald M. Payne, Jr. (D-NJ), U.S. House of Representatives, to Secretary Mnuchin, Apr. 20, 2020.

²³ Reuters, *YRC decides not to apply for federal bailout funds*, Jun. 12, 2009, <https://www.reuters.com/article/ycr/ycr-decides-not-to-apply-for-federal-bailout-funds-idUSN126982620090613>.

²⁴ Pierre Paulden & John Detrixhe, *Goldman Sachs Helps YRC Avert Bankruptcy Following Hoffa's Plea*, Jan. 1, 2010, <https://www.bloomberg.com/news/articles/2010-01-01/goldman-sachs-helps-ycr-avert-bankruptcy-following-hoffa-s-plea>.

Yellow Lobbying Spending 2009-2020²⁵	
Year	Amount
2020	\$570,000
2019	\$0
2018	\$80,000
2017	\$75,000
2016	\$210,000
2015	\$130,000
2014	\$320,000
2013	\$620,000
2012	\$500,000
2011	\$637,500
2010	\$645,000
2009	\$800,000

Overall, the Commission continues to believe that Treasury and DOD made missteps in deeming Yellow as critical to national security and executing the loan, as well as with other national security loans as outlined in the Commission's eighth report. The Commission hopes to get clarity regarding its questions surrounding the national security designation given to Yellow, as well as information substantiating the 68% figure discussed above. Further, the Commission recommends close monitoring of the Treasury loan to Yellow and proper scrutiny with regard to loan repayment.

²⁵ United States Senate Lobbying Disclosure, *Registrations & Quarterly Activity*, last visited Apr. 29, 2021, <https://lda.senate.gov/system/public/>.

TREASURY AND FEDERAL RESERVE RECENT DEVELOPMENTS

As of January 8, 2021, all emergency lending programs created by the Treasury and the Federal Reserve under Section 4003 of the CARES Act have ceased operations. On December 21, 2020, Congress passed new COVID-relief legislation in the Consolidated Appropriations Act, 2021, Pub. L. No. 115-260. In that legislation, Congress prohibited these Federal Reserve's CARES Act lending facilities from being restarted or replicated without congressional approval and rescinded the remaining unobligated balance of the \$500 billion previously made available under Section 4003 of the CARES Act for emergency lending programs.²⁶

We summarize below the outstanding amounts of credit extended by each facility and other key developments.

Primary Market Corporate Credit Facility

The PMCCF ceased operations on December 31, 2020. The PMCCF did not engage in any transactions during the period in which it was operational.²⁷

Secondary Market Corporate Credit Facility

The SMCCF ceased operations on December 31, 2020. As of its closure, the SMCCF had purchased individual corporate bonds from 557 different issuers, with the amortized cost of outstanding individual bond holdings totaling \$5.5 billion.²⁸ As of March 31, 2021, the SMCCF held \$5.3 billion in individual bond purchases.²⁹ The chart below summarizes the SMCCF's ten largest individual bond holdings which make up 15.7% of SMCCF's holdings.³⁰ As of March 31, the SMCCF also owns 16 bond ETFs with a market value of \$8.5 billion, including 7 high-yield bond ETFs with a market value of \$1.2 billion.³¹

²⁶ Consolidated Appropriations Act, 2021, Pub. L. No. 115-260, Division N, Title X, § 1003, 134 Stat. 1182.

²⁷ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act*, Apr. 9, 2021, <https://www.federalreserve.gov/publications/files/pdcf-mmlf-cpff-pmccf-smccf-talf-mlf-ppplf-msnlf-mself-msplf-nonlf-noelf-04-12-21.pdf>.

²⁸ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Jan. 11 2021, <https://www.federalreserve.gov/publications/files/smccf-transaction-specific-disclosures-01-11-21.xlsx>.

²⁹ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Apr. 9 2021, <https://www.federalreserve.gov/publications/files/smccf-transaction-specific-disclosures-04-12-21.xlsx>.

³⁰ *Id.*

³¹ *Id.*

Issuer	Sector	Amortized Cost (\$ Millions)	Percentage SMCCF Individual Bond Holdings
AT&T Inc.	Communications	97.8	1.85%
Toyota Motor Credit Corp.	Consumer Cyclical	93.6	1.77%
Verizon Communications Inc.	Communications	91.6	1.74%
Volkswagen Group of America Finance LLC	Consumer Cyclical	89.3	1.69%
Apple Inc.	Technology	85.2	1.61%
Daimler Finance North America LLC	Consumer Cyclical	84.6	1.60%
Comcast Corp.	Communications	84.1	1.59%
BMW US Capital LLC	Consumer Cyclical	69.3	1.31%
Microsoft Corp.	Technology	67.1	1.27%
General Electric Co.	Capital Goods	65.7	1.24%

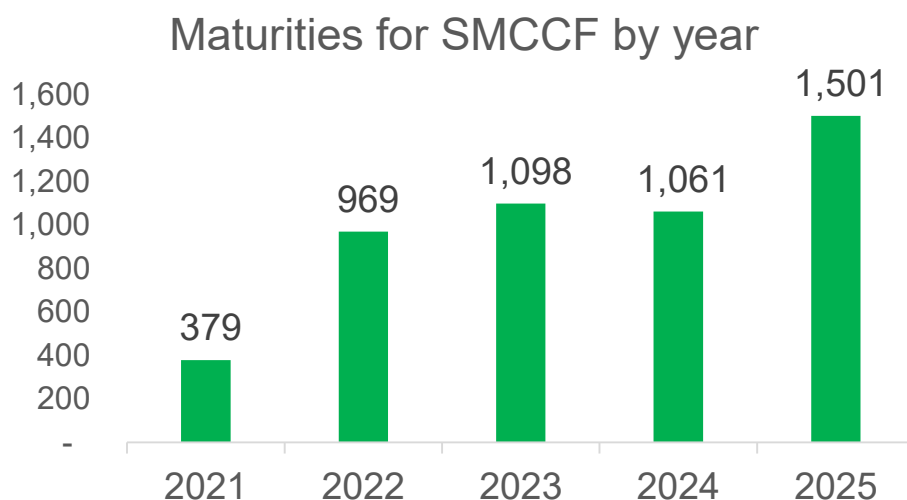
The Federal Reserve has indicated that it will unwind positions based on the prevailing facts and circumstances as economic and financial conditions evolve. Federal Reserve Chair Jerome Powell has testified that “[w]e are generally a hold to maturity [investor]. It may be that we sell some back into the secondary market down the road, but ultimately we’re [a] buy-and-hold type buyer.”³² Maturities and early redemptions in the bond portfolio are reflected in the SMCCF periodic reports to Congress.³³ As of March 31, 2021, there have been 70 such bonds and 1,223 bonds remain outstanding.

In regards to SMCCF bond maturities, half of the bond investments will mature by the end of 2023.³⁴ As seen in the below graph, while most bonds will mature in 2025, bond maturities are spread out fairly evenly among the five years that bonds are due. This reduces risk to the taxpayer as the SMCCF will not be dependent on market conditions in any given year.

³² House Financial Services Committee Hearing on Economic with Federal Reserve Chair Jerome Powell, 116th Cong. (June 17, 2020) (Testimony of Chair Jerome Powell), <https://www.rev.com/blog/transcripts/house-financial-committee-hearing-transcript-on-economy-with-jerome-powell>.

³³ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act*, Apr. 12, 2021, <https://www.federalreserve.gov/monetarypolicy/smccf.htm>.

³⁴ *Id.*



The Federal Reserve has indicated to the Commission that SMCCF's corporate bond investments are subject to review each quarterly reporting period to identify and evaluate investments that have indications of possible credit impairment. In addition, analysis related to portfolio performance includes an evaluation of dividend and interest income, prepayments, and losses under a range of possible future conditions. As of December 31, 2020, the Federal Reserve determined there were no corporate bonds with permanent impairments.

Main Street Lending Program

The MSLP ceased operations on January 8, 2021. The total loan participations purchased by the MSLP while it was operational totaled \$16.6 billion,³⁵ representing 2.8% of its original \$600 billion lending capacity.³⁶ As of March 31, 2021, the MSLP had a balance of \$16.6 billion in loan participations with an estimated loan loss allowance in the amount of \$2.4 billion, equivalent to 14.5% of the loan participations' balance.³⁷ For context, the Small Business Administration's 7(a) Loan program that targets small businesses has experienced cumulative defaults of 10% to 28% throughout the life of the loans, with loans originated in the lead-up to the 2007 financial crisis experiencing 30% to 40% of defaults.³⁸

³⁵ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Feb. 8 2021, <https://www.federalreserve.gov/publications/files/mslp-transaction-specific-disclosures-02-09-21.xlsx>.

³⁶ Board of Governors of the Federal Reserve, *Federal Reserve takes additional actions to provide up to \$2.3 trillion in loans to support the economy*, Apr. 9, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm>.

³⁷ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Apr. 9 2021, <https://www.federalreserve.gov/publications/files/mslp-transaction-specific-disclosures-04-12-21.xlsx>.

³⁸ S&P Global, *Small Business ABS Credit Quality Hinges on Pandemic Duration and Stimulus Efficacy*, Apr. 28, 2020, <https://www.spglobal.com/ratings/en/research/articles/200428-small-business-abs-credit-quality-hinges-on-pandemic-duration-and-stimulus-efficacy-11467182>.

The majority of MSLP loans were provided through the two private sector new term loan facilities: the Main Street Priority Loan Facility (“MSPLF”) and the Main Street New Loan Facility (“MSNLF”). At \$4.37 million, the average loan size for the MSNLF is smaller than the overall average, due in part because these loans were available on an unsecured basis, and these companies are generally smaller than the borrowers who participated in the MSPLF. Only a marginal amount of loans, 0.82% of total, were provided through the two nonprofit facilities.

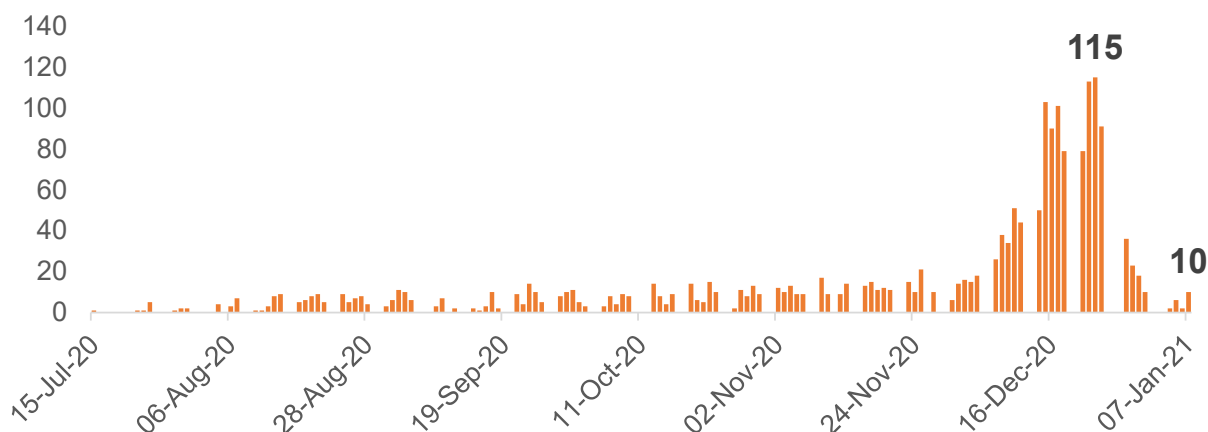
Facility	Loan Amount (in \$ million)	Federal Reserve Participation (in \$ million)	Number of Loans	Average Loan Size (in \$ million)
Main Street Priority Loan Facility (MSPLF)	\$12,917	\$12,272	1,173	\$11.01
Main Street New Loan Facility (MSNLF)	2,695	2,560	616	4.37
Main Street Expanded Loan Facility (MSELF)	1,805	1,714	26	69.41
Nonprofit Organization New Loan Facility (NONLF)	42.0	39.9	15	2.80
Nonprofit Organization Expanded Loan Facility (NOELF)	<u>0.0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>
Total	\$17,459	\$16,586	1,830	\$9.54

The MSLP saw an increase in loan activity in the month before the program ended. As seen in the chart below, nearly two-thirds of the MSLP’s \$16.6 billion in loan participations were transactions after November 30, 2020.³⁹ Federal Reserve Bank of Boston (“Boston Fed”) President Eric Rosengren attributed this December surge to both the announcement of the program’s impending closure and to “the stresses many medium-sized businesses were experiencing at the end of 2020 as a result of the resurgence of COVID infections.”⁴⁰

³⁹ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Apr. 9 2021, <https://www.federalreserve.gov/publications/files/mslp-transaction-specific-disclosures-04-12-21.xlsx>.

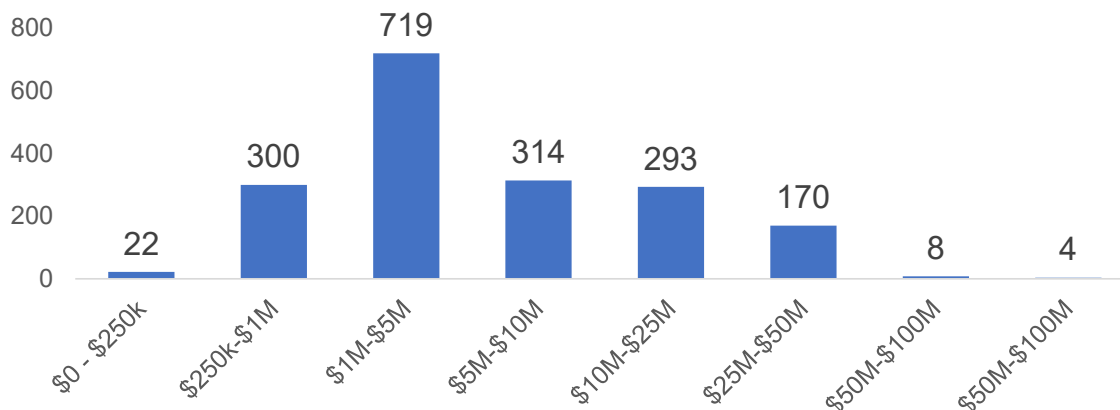
⁴⁰ *Id.*

Count of MSLP loans by date



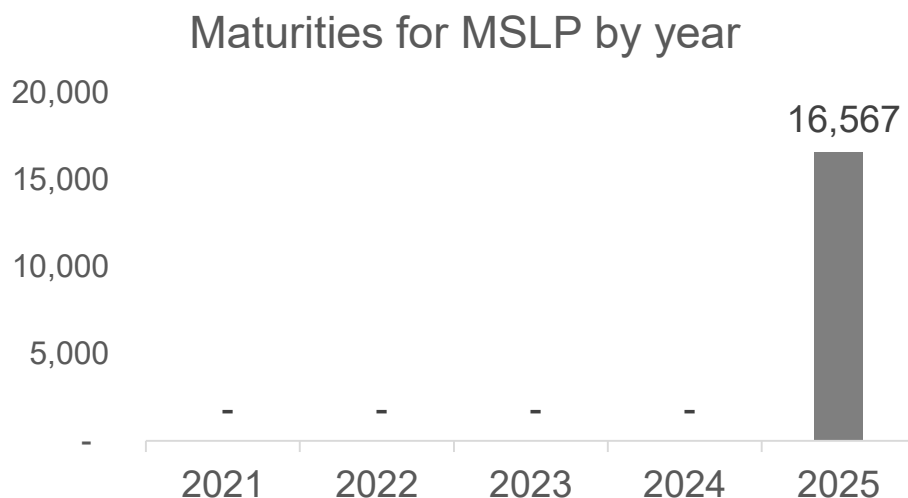
The majority of the 1,830 loans originated and purchased through the MSLP were for smaller-sized loans. The average size of a MSLP loan was \$9.5 million, while the median loan size was \$4.0 million. This shows the program was reaching its intended target audience of companies that were too small to access the capital markets. The below chart shows the distribution of the 1,830 loans by size of principal amount.

Distribution of loan amounts by size (in \$ million)



In regards to when MSLP loans are scheduled to be repaid, as seen in the below graph, every MSLP loan matures in 2025.⁴¹ This introduces considerable risk to the taxpayer as the MSLP will be dependent on market conditions in 2025.

⁴¹ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Apr. 9 2021, <https://www.federalreserve.gov/publications/files/mslp-transaction-specific-disclosures-04-12-21.xlsx>.



To mitigate the above risk, the Federal Reserve monitors credit quality based on borrower information provided to the SPV. The terms of the Main Street Participation Agreement require the borrower to provide certain financial information quarterly and annually as well as any material developments to the SPV. The information is reviewed by the Federal Reserve credit team, with the assistance of a third-party vendor, where an internal credit score is developed that informs how the portfolio is categorized and analyzed within the Federal Reserve. As of March 31, 2021, the evaluation of loan participations purchased by the MSLP resulted in a loan loss allowance in the amount of \$2.4 billion, equivalent to 14.5% of the \$16.6 billion loan participation's balance.⁴²

Municipal Liquidity Facility

The MLF ceased operations on December 31, 2020. During its period of operation, the MLF purchased a total of four notes from just two borrowers—the State of Illinois and New York City's Metropolitan Transportation Authority ("MTA"). These notes totaled \$6.6 billion, representing 1% of the MLF's original \$500 billion lending capacity.⁴³ As of March 31, 2021, the Federal Reserve held \$6.1 billion of outstanding asset purchases.⁴⁴

In regards to MLF municipal note maturities, the majority of municipal note investments mature in 2023. As seen in the below graph, while most notes mature in 2023, 12% of the notes mature in June 2021 and this amount is net the \$500 million the State of Illinois has voluntarily prepaid.⁴⁵ However, the concentration of notes due in 2023 exposes the taxpayer to the risk of

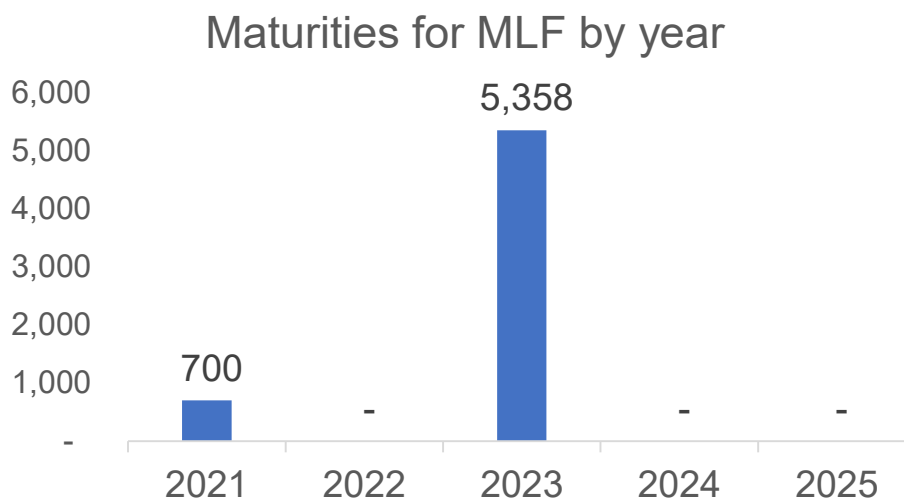
⁴² *Id.*

⁴³ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Jan. 11 2021, <https://www.federalreserve.gov/publications/files/mlf-transaction-specific-disclosures-01-11-21.xlsx>.

⁴⁴ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Apr. 9 2021, <https://www.federalreserve.gov/publications/files/mlf-transaction-specific-disclosures-04-12-21.xlsx>.

⁴⁵ *Id.*

market conditions in 2023.



To mitigate this risk, the Federal Reserve reviews the MLF municipal note investments on a quarterly basis to identify investments that have indications of possible credit impairment. In addition, modeling of portfolio performance includes an evaluation of the municipal note portfolio performance under stress conditions. As of December 31, 2020, the Federal Reserve determined there were no municipal notes with permanent impairments.

Term Asset-Backed Securities Loan Facility

The TALF ceased operations on December 31, 2020. During its period of operation, the TALF made 224 loans totaling \$4.4 billion to 20 investment funds.⁴⁶ More than half of the investors in these investment funds were foreign-based companies.⁴⁷ Many TALF borrowers have elected to prepay their TALF loans, causing the size of the TALF loan program to contract by 60% to a total outstanding amount of \$2.1 billion in loans as of March 31, 2021.⁴⁸ The following chart shows the three investment funds with the most TALF loans outstanding which add up to 94.7% of the TALF program's remaining loans outstanding.

⁴⁶ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Jan. 11 2021, <https://www.federalreserve.gov/publications/files/talf-transaction-specific-disclosures-01-11-21.xlsx>.

⁴⁷ *Id.*

⁴⁸ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Apr. 9 2021, <https://www.federalreserve.gov/publications/files/talf-transaction-specific-disclosures-04-12-21.xlsx>.

Investment Fund	Loan Amount Outstanding (in \$ million)	Percentage of Total Program
Alta Fundamental Advisers SP LLC - Belstar-Alta Series 1	\$1,531.4	71.7%
MacKay Shields TALF 2.0 Opportunities Master Fund LP	327.4	15.3%
Alta Fundamental Advisers SP LLC - Belstar-Alta Series 2	163.4	7.7%

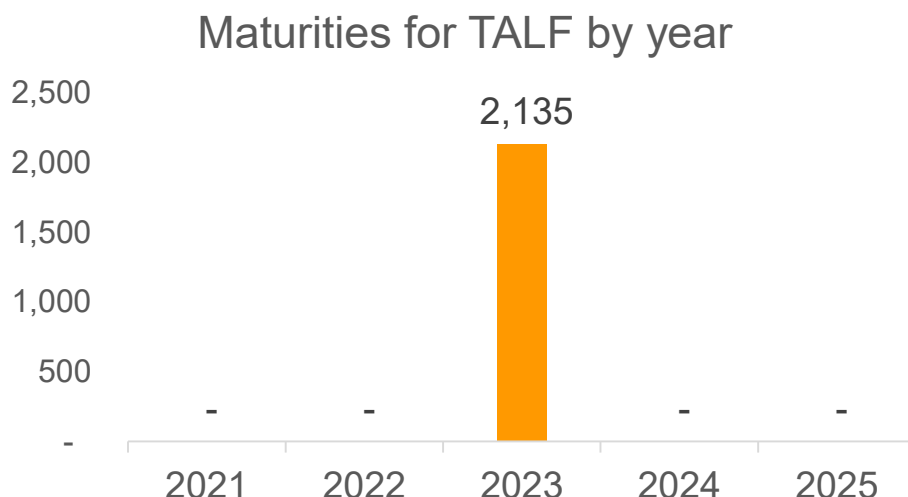
The investment funds use TALF loans to purchase securities backed by certain types of consumer and business loans. The chart below illustrates the collateral sector breakdown of the underlying loans that were purchased by investor funds using TALF loan proceeds.

Collateral Sector	Loan Amount Outstanding (in \$ million)	Percentage of Total Program
Small Business Administration Loans	\$1,362.1	63.8%
Commercial Mortgage	450.3	21.1%
Leveraged Loan	232.4	10.9%
Private Student Loans	89.9	4.2%
Premium Finance	<u>0.0</u>	<u>0.0%</u>
Total	\$2,135	

The following chart shows the five ABS issuers with the most TALF-funded purchases.

Issuer	Sector	Loan Amount Outstanding (in \$ million)	Percentage of Total Program
Small Business Administration Pools SBA-7(a) program	Small Business	\$1,224.9	57.4%
Golub Capital Partners TALF 2020-1 LLC	Leveraged Loan	298.3	14.0%
Golub Capital Partners TALF 2020-2 LLC	Small Business	152.0	7.1%
Small Business Administration SBA-504 program	Leveraged Loan	137.3	5.2%
Navient Private Education Refi Loan Trust 2020-F	Private Student Loans	58.9	2.8%

In regards to when TALF loans are scheduled to be repaid, as seen in the below graph, every TALF loan matures in 2023.⁴⁹ This introduces considerable risk to the taxpayer as the TALF will be dependent on market conditions in 2023. Although, as noted above, many TALF borrowers elected to prepay TALF loans totaling \$2.3 billion, which were also due in 2023, and further prepayments would reduce risk to the taxpayer.⁵⁰



To further mitigate taxpayer risk, TALF’s recourse against borrowers is limited to the ABS collateral securing the loan. Relative to the \$2.1 billion in loans outstanding, the total value of collateral pledged to secure the TALF loans was \$5.8 billion as of March 31, 2021.⁵¹ The Federal Reserve has indicated that TALF loans are evaluated on a quarterly basis for impairment to determine if the fair value of the collateral is sufficient to repay each loan. Based on evaluations performed as of December 31, 2020, there are no credit impairments in the TALF’s holdings.

Treasury Loans for National Security Businesses

The national security loan program made 11 loans totaling \$735.9 million.⁵² The \$700 million loan to Yellow made up a substantial portion of the program. The Treasury’s loan to Yellow contains two parts (i.e., tranches) that mature on September 30, 2024. The first tranche of \$300 million (“tranche A”) has an interest rate of London Inter-bank Offered Rate (“LIBOR”)

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act*, Apr. 9, 2021, <https://www.federalreserve.gov/publications/files/pdfc-mmlf-cpff-pmccf-smccf-talf-mlf-ppplf-msnlf-mself-msplf-nonlf-noelf-04-12-21.pdf>.

⁵² U.S. Department of the Treasury, *Loans to Air Carriers, Eligible Businesses, and National Security Businesses*, last visited Apr. 29, 2021, <https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses>.

+3.50%. Yellow will use these funds to cover, among other things, healthcare and pension liabilities, real estate and equipment leases, and interest payments on debt. The second tranche of \$400 million (“tranche B”) also has an interest rate of LIBOR +3.50%. Yellow will use these funds to finance the purchase of tractors and trailers in accordance with the company’s capital expenditures plan that must be submitted to, and approved by, the Treasury.

The full \$300 million of tranche A of the loan was disbursed during 2020 and \$251 million of the \$400 million tranche B has been disbursed as of January 2021.⁵³ Yellow used \$274 million of the tranche A loan proceeds in 2020 and expected to use the remaining \$26 million in the first quarter of 2021. Yellow used \$72 million of the tranche B proceeds to purchase 300 tractors and 1,200 trailers, but has not announced timing for using the rest of tranche B loan proceeds. Yellow anticipates the rest of tranche B of the loan being disbursed during the first half of 2021.⁵⁴ For more information on the underwriting of these loans and the Commission’s concerns regarding their security, please see the Commission’s December report, dated December 31, 2020.

As additional security for the Treasury’s loan to Yellow, the Treasury received 15.9 million shares of Yellow’s common stock as consideration.⁵⁵ Based on Yellow’s stock price on March 31, 2021, the value of Treasury’s position is approximately \$140.1 million.

The Commission recently sent a letter to TRANSCOM, a DOD functional combatant command responsible for providing air, land, and sea transportation to meet national security needs. The letter inquired about Crowley’s work as a prime contractor for the DOD and Crowley’s relationship with its subcontractor, Yellow. We have received responses to this letter and this report provides an update on the Commission’s views towards the Treasury’s loan to Yellow.

Treasury Loans for the Airline Industry

The Treasury’s airline industry loan program made 24 loans totaling \$21.2 billion.⁵⁶ The Commission submitted written questions to the Treasury regarding the airline loan program on November 30, 2020 and the Commission received the Treasury’s written responses on January 15, 2021. The Commission’s eleventh report featured an in-depth analysis on the program and offered recommendations related to the program.

⁵³ Yellow Corporation, *Fourth Quarter 2020 Earnings Call*, Feb. 4, 2021, <https://investors.myyellow.com/events/event-details/ycrc-worldwide-4th-quarter-2020-earnings-call>.

⁵⁴ *Id.*

⁵⁵ Yellow Corporation, *2020 Annual Report*, Feb. 11, 2021, <https://investors.myyellow.com/static-files/c7b4a86d-ddd4-444b-80e6-0603b6b5876b> (see “U.S. Treasury Loan”).

⁵⁶ U.S. Department of the Treasury, *Loans to Air Carriers, Eligible Businesses, and National Security Businesses*, last visited Apr. 29, 2021, <https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses>.

Appendix A:
U.S. Transportation Command Letter to Commission
Regarding National Security Loan Program and Crowley
Logistics



UNITED STATES TRANSPORTATION COMMAND

OFFICE OF THE COMMANDER
508 SCOTT DRIVE
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

03 March 2021

Congressional Oversight Commission
ST-76
Capitol Building
Washington, DC 205150

Dear Representative Hill, Commissioner Shalala, and Senator Toomey,

Thank you for your correspondence (dated 25 January 2021) requesting information regarding the Department of Defense's (DOD) determination that YRC Worldwide, Inc. (YRC) is critical to national security.


The DOD's ability to project and sustain military forces at a time and place of our Nation's choosing is inextricably linked to commercial industry. TRANSCOM has daily interactions with industry partners who are committed to contributing to the Defense Transportation System (DTS) in peace and war, many of whom are consequential to national security.

The DOD spends approximately \$7 billion annually in transportation and transportation-related services to support global DOD requirements, of which approximately \$594 million is spent on domestic motor freight transportation. TRANSCOM's Defense Freight Transportation Service (DFTS) contract is one of the mechanisms utilized to provide domestic transportation. Crowley is the prime contractor under the DFTS contract and YRC is one of Crowley's DFTS subcontractors. YRC is also a transportation service provider (TSP) for the Tender of Service (ToS) freight program. In 2020, the DOD spent approximately \$24.9 million for YRC's services.

TRANSCOM intentionally approaches acquisition to produce a resilient DTS, such that the loss of a single carrier does not equal mission failure. The DOD has access to hundreds of motor carriers offering an estimated 1.5 million trucks of capacity, of which TRANSCOM employs an average of 1,500 trucks per day.

Concurrently with this response, we are providing complete documentation requested in your letter to include: (1) correspondence with Crowley, (2) Crowley's impact assessment of ceasing YRC's services, (3) performance metrics submitted by Crowley to TRANSCOM, and (4) freight costs for LTL shipments. Please contact Mr. Kurt LaFrance, Legislative Affairs Office at 618-220-1169 if you have further questions. Thank you for your continued support to our National Defense.

Sincerely


Stephen R. Lyons
General, U.S. Army
Commanding

SUBJECT: CARES Act Congressional Oversight Commission (COC) Request for Information

PURPOSE: Respond to COC inquiries regarding Crowley and Yellow Roadway Corporation (YRC) as they relate to USTRANSCOM and the CARES Act.

QUESTION 1a. Correspondence between USTRANSCOM and Crowley concerning YRC ceasing less-than-truckload (LTL) services. Please summarize the extent of that [the] correspondence [with Crowley] and provide any documentation of that correspondence including, but not limited to, email correspondence with Crowley and the DOD.

USTRANSCOM RESPONSE: Crowley is the prime contractor under USTRANSCOM's Defense Freight Transportation Service (DFTS) contract, and YRC is one of Crowley's subcontractors under the DFTS contract. In line with the contract, Crowley provides USTRANSCOM a monthly summation of performance data. The data is cumulative and not segmented by individual subcontractor metrics. Barring inquiries, this monthly data submission by Crowley to USTRANSCOM is the historical extent and context of correspondence.

Specific communication with Crowley concerning YRC is attached to this letter.

QUESTION 1b. Additionally, in USTRANSCOM's correspondence with Crowley, what did they say would be the anticipated effect of ceasing YRC's LTL services?

USTRANSCOM RESPONSE: Per analysis from Crowley, the anticipated impact of YRC terminating of LTL services would be minimal and the volume readily consumed by the market. This conclusion is due to the robustness of trucking capacity available to DOD, the resiliency of the motor freight industry to deftly respond to variations of supply and demand, and the overall limited depth and level of utilization YRC.

QUESTION 1c. Did USTRANSCOM ask Crowley if YRC should be designated as critical to national security? If so, please provide the justification Crowley provided.

USTRANSCOM RESPONSE: No, USTRANSCOM did not ask Crowley whether it believed YRC should be designated as critical to national security.

QUESTION 2a. As outlined, the PWS requires timely reporting of key metrics for each contractor and requires each contractor to "supply a scorecard of all required performance data to the government program manager, the contracting officer (CO), and the CO representative."

Please provide copies of the metrics reported by Crowley for all subcontracted LTL carriers, not just YRC, for 2018, 2019, and 2020. The reports should include, but not be limited to, on time response, on time pick up, on time delivery, and any loss and damage claims.

USTRANSCOM RESPONSE: The following table summarizes on-time response, on-time pickup, on-time delivery, and claims data for 2018-2020 for DFTS LTL shipments. Complete data is provided in an attachment to this letter.

DFTS LTL Ontime Response Metric			
	2018	2019	2020
Total	99.1%	99.6%	99.3%
DFTS LTL Ontime Pickup Metric			
	2018	2019	2020
Total	98.5%	98.3%	99.3%
DFTS LTL Ontime Delivery Metric			
	2018	2019	2020
Total	95.4%	96.6%	99.1%
DFTS LTL Claims			
	Total LTL Claims	% LTL Orders w/ Claims	Total YRC Claims
Total	518	0.02%	131

QUESTION 2b. Please also provide information related to the freight prices paid monthly for 2018, 2019, and 2020, including total freight prices and average freight calls for all LTL shipments, not just YRC. Please present the data as cost per mile, cost per hundredweight, cost per pound, as appropriate.

USTRANSCOM RESPONSE: The following table summarizes freight prices by cost-per-mile and cost-per-shipment for 2018-2020. Complete data is provided in an attachment to this letter.

2018 DFTS LTL Government Spend					
	Total Orders	Total Distance (mi)	Freight Charge w/o TWCF	Avg Cost P/Mile	Avg Cost P/Shipment
Total	171,703	191,302,854	\$ 49,963,698.59	\$ 0.26	\$ 290.99
2019 DFTS LTL Government Spend					
	Total Orders	Total Distance (mi)	Freight Charge w/o TWCF	Avg Cost P/Mile	Avg Cost P/Shipment
Total	235302	250,397,434	\$ 66,889,752.48	\$ 0.27	\$ 284.27
2020 DFTS LTL Government Spend					
	Total Orders	Total Distance (mi)	Freight Charge w/o TWCF	Avg Cost P/mile	Avg Cost P/Shipment
Total	221,685	195,675,485	\$ 59,980,884.04	\$ 0.31	\$ 270.57

Attachment 1 – USTRANSCOM-Crowley Correspondence Part I

Attachment 2 – USTRANSCOM-Crowley Correspondence Part II

Attachment 3 – DFTS LTL Metrics and Spend Data

Appendix B:
DOD Flow Chart for Designating National Security Loan
Program Borrowers “Critical to Maintaining National
Security”

