The Tenth Report of the Congressional Oversight Commission

February 26, 2021

Commission Members
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INTRODUCTION

This is the tenth 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 itself 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 up to $17 billion was available for businesses “critical to maintaining national security.”3 Any unused portions of this $46 billion, and the remaining $454 billion, may be used to support emergency lending facilities established by the Federal Reserve.

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?

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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. Of this amount, up to $25 billion is available for passenger air carriers; up to $4 billion is available for cargo air carriers; and up to $3 billion is available for certain airline industry contractors. Subtitle B is not within the jurisdiction of the Commission.
4 Id. § 4020.
• Who is that money helping?5

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 February 17, 2021, the SMCCF had an outstanding amount of bond ETFs and individual corporate bond purchases of $14.1 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 February 17, 2021, the Federal Reserve held $16.5 billion in loan participations purchased under the MSLP.9

Municipal Liquidity Facility (“MLF”): Announced on April 9, 2020, the MLF enabled the Federal Reserve, through a SPV, to purchase short-term notes issued by state and local governments. As of February 17, 2021, the MLF had $6.2 billion in outstanding purchases of municipal notes.10

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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 Administration, and certain other assets. 11 TALF had a total outstanding amount of $3.4 billion in loans as of February 17, 2021. 12

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

The Treasury’s Loans for National Security Businesses: The Treasury also had $17 billion available to make loans to businesses critical to maintaining national security under Subtitle A through December 31, 2020. The Treasury provided national security loans to eleven businesses, totaling $735.9 million. 13 One business, YRC Worldwide, Inc. (“YRC”), accounted for 95% of the total outstanding. 14

The Treasury’s Loans for the Airline Industry: In addition, the Treasury had available $29 billion to make loans to the airline industry under Subtitle A until December 31, 2020, with $25 billion was available to passenger air carriers, including related businesses, and $4 billion available to cargo air carriers. 15 The Treasury provided twenty-four such loans to companies the Treasury characterizes as airlines, ticket agents, a repair station, and a cargo air carrier. 16 Those loans total $21.2 billion. 17

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In this report, we provide an in-depth look at the MSLP. 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.

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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).
17 Id.
MAIN STREET LENDING PROGRAM

The total loan participations purchased by the MSLP while it was operational totaled $16.6 billion,\(^\text{18}\) representing 2.8% of its original $600 billion lending capacity.\(^\text{19}\) As noted below, the majority of transactions were participated via the two private sector new term loan facilities: 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. At 0.82% of total loans, only a marginal amount of loans were participated through the Nonprofit Organization New Loan Facility (NONLF) and zero loans were originated with the Nonprofit Organization Expanded Loan Facility (NOELF).

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

The MSLP saw an increase in loan activity leading to the program’s termination. As seen in the chart below, nearly two-thirds of the $16.6 billion were transactions after November 30, 2020.\(^\text{20}\) President Rosengren attributed the December surge to both the announcement of the


\(^{19}\) 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](https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm).

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.”\textsuperscript{21} He further stated that, in his view, “were certain tweaks permitted, [the MSLP] could have been more impactful.”\textsuperscript{22}

The majority of the 1,830 loans originated and purchased through the MSLP program were for smaller-sized loans. While the average loan for the MSLP added to $9.5 million, the median loan size was smaller at $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.

\textsuperscript{21} Id.
\textsuperscript{22} Id. at 11.
Lenders from 48 states, the District of Columbia, and Puerto Rico, originated loans through the MSLP. As seen below, the concentration of MSLP loans, in both total loan amount and in number of loans, was highest among the biggest lenders to the program. Of the 317 lenders that participated, the top ten lenders, in terms of loan amount, accounted for 33% of the total amount. These lenders also made up 34% of the number of loans originated. Conversely, over 200 lenders originated three or fewer MSLP loans.

<table>
<thead>
<tr>
<th>Lender Name</th>
<th>Total Loan Amount (in $ million)</th>
<th>Total Loan Amount % of Total</th>
<th>Number of Loans</th>
<th>Number of Loans % of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>City National Bank of Florida</td>
<td>$2,007.52</td>
<td>11.5%</td>
<td>371</td>
<td>20.3%</td>
</tr>
<tr>
<td>Vista Bank</td>
<td>775.7</td>
<td>4.4%</td>
<td>80</td>
<td>4.4%</td>
</tr>
<tr>
<td>Bank Of America, National Association</td>
<td>734.0</td>
<td>4.2%</td>
<td>12</td>
<td>0.7%</td>
</tr>
<tr>
<td>Spirit Of Texas Bank, SSB</td>
<td>432.4</td>
<td>2.5%</td>
<td>26</td>
<td>1.4%</td>
</tr>
<tr>
<td>CommerceWest Bank</td>
<td>389.7</td>
<td>2.2%</td>
<td>34</td>
<td>1.9%</td>
</tr>
<tr>
<td>B1BANK</td>
<td>327.8</td>
<td>1.9%</td>
<td>45</td>
<td>2.5%</td>
</tr>
<tr>
<td>Equity Bank</td>
<td>282.0</td>
<td>1.6%</td>
<td>18</td>
<td>1.0%</td>
</tr>
<tr>
<td>Wells Fargo Bank, National Association</td>
<td>279.8</td>
<td>1.6%</td>
<td>23</td>
<td>1.3%</td>
</tr>
<tr>
<td>Farmers &amp; Merchants Bank, The</td>
<td>273.2</td>
<td>1.6%</td>
<td>16</td>
<td>0.9%</td>
</tr>
<tr>
<td>Enterprise Bank &amp; Trust</td>
<td>255.8</td>
<td>1.5%</td>
<td>11</td>
<td>0.6%</td>
</tr>
<tr>
<td>Remaining 307 lenders</td>
<td>11,701.1</td>
<td>67%</td>
<td>1,194</td>
<td>65%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$17,459</strong></td>
<td></td>
<td><strong>1,830</strong></td>
<td></td>
</tr>
</tbody>
</table>

Borrowers for the MSLP came from 48 states, the District of Columbia, Puerto Rico, and U.S. Virgin Islands. Borrowers were concentrated in certain states with about 50% of loan
proceeds going to the top five states and 41.8% going to the top three states. As seen below, the biggest state based on total borrower loan size was Texas at 17.8%, followed by California at 12.1%, and Florida at 12.0%. Conversely, the bottom ten states only amounted to 1.1% of the MSLP loan proceeds and 2.5% of the total by loan count. This list consists of Montana, Vermont, Alaska, South Carolina, Wyoming, North Dakota, Hawaii, New Mexico, Idaho, and South Dakota. This list includes states that have suffered from drops in tourism and the energy sectors, such as Hawaii, Alaska, and North Dakota. The Commission believes these states could have benefited from the program, yet they combined for only 10 loans total.

<table>
<thead>
<tr>
<th>Borrower State</th>
<th>Total Loan Amount (in $ million)</th>
<th>Total Loan Amount % of Total</th>
<th>Number of Loans</th>
<th>Number of Loans % of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>$3,106.8</td>
<td>17.8%</td>
<td>247</td>
<td>13.5%</td>
</tr>
<tr>
<td>California</td>
<td>2,106.4</td>
<td>12.1%</td>
<td>218</td>
<td>11.9%</td>
</tr>
<tr>
<td>Florida</td>
<td>2,093.1</td>
<td>12.0%</td>
<td>375</td>
<td>20.5%</td>
</tr>
<tr>
<td>New York</td>
<td>697.5</td>
<td>4.0%</td>
<td>56</td>
<td>3.1%</td>
</tr>
<tr>
<td>Missouri</td>
<td>653.4</td>
<td>3.7%</td>
<td>38</td>
<td>2.1%</td>
</tr>
<tr>
<td>Georgia</td>
<td>593.2</td>
<td>3.4%</td>
<td>29</td>
<td>1.6%</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>539.4</td>
<td>3.1%</td>
<td>64</td>
<td>3.5%</td>
</tr>
<tr>
<td>Illinois</td>
<td>526.8</td>
<td>3.0%</td>
<td>46</td>
<td>2.5%</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>478.5</td>
<td>2.7%</td>
<td>41</td>
<td>2.2%</td>
</tr>
<tr>
<td>Ohio</td>
<td>439.9</td>
<td>2.5%</td>
<td>36</td>
<td>2.0%</td>
</tr>
<tr>
<td>Remaining states, D.C.,</td>
<td>6,224.1</td>
<td>36%</td>
<td>680</td>
<td>37%</td>
</tr>
<tr>
<td>Puerto Rico, and U.S. Virgin Islands</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$17,459</strong></td>
<td></td>
<td><strong>1,830</strong></td>
<td></td>
</tr>
</tbody>
</table>

On January 26, 2021, the Commission sent a letter to the Federal Reserve requesting additional information for the recently completed MSLP. The letter is attached as Appendix A. The Commission followed up the letter with a staff-level conversation on February 5, 2021 to ensure the Federal Reserve properly understood the nature of the Commission’s request. In response, the Federal Reserve provided answers on February 16, 2021 which are summarized below. Part of the response is confidential; however, the public information is attached as Appendix B.
The Federal Reserve answered questions related to how it is monitoring credit quality for purchased loan participations and the criteria under which the Federal Reserve determines how to purchase loan participations from borrowers.

To monitor credit quality, the Federal Reserve Bank of Boston (“Boston Fed”) relies heavily on borrower information provided to the Main Street Special Purpose Vehicle (“Main Street 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 Main Street SPV. The information is reviewed by the Boston Fed 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. Furthermore, this information is publicly disclosed weekly as part of the Federal Reserve’s Statistical Release H.4.1 and periodic reports submitted to Congress.

As it relates to how the Federal Reserve determined which participations to purchase, the Federal Reserve continually emphasized they did not perform any underwriting role or exercise any substantive discretion over which loans should be accepted or rejected. If they passed the Federal Reserve’s compliance review, the loan was accepted for purchase. To determine proper compliance, the Federal Reserve relied on a thorough document review. The reviews were conducted using two standard confidential loan review checklists. Over the life of the MSLP, the Boston Fed adapted the review process to improve efficiency and processing time. As outlined above, the volume of loans purchased increased significantly toward the end of the program. To be able to review everything, the Boston Fed increased the resources and time devoted to processing the loans. They also streamlined part of the process where applicable.

To conduct a full oversight analysis, the Commission requested copies of loan files from a sample of loans purchased by the Federal Reserve. As an alternative to the actual sample loans, the Federal Reserve provided a confidential distribution of the internal credit ratings given to the entire MSLP portfolio as of December 31, 2020 and related credit checklists.

Overall, the Commission finds the Federal Reserve’s process for purchasing and monitoring the MSLP portfolio sufficient. The Commission appreciates both the Federal Reserve and the Boston Fed’s commitment to thorough due diligence and ensuring appropriate protocols were in place to properly process the loans, especially towards the end of the program given the uptick in loan volume. The Commission looks forward to working with the Federal Reserve to evaluate the portfolio’s performance throughout the life of the loans and evaluating any credit concerns or changes that may occur.
TREASURY AND FEDERAL RESERVE RECENT DEVELOPMENTS

As of January 8, 2021, the 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.23

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.24

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.25 As of February 8, 2021, the SMCCF held $5.5 billion in purchases.26 The chart below summarizes the SMCCF’s 15 largest individual bond holdings.27 As of February 8, the SMCCF also owns 16 bond ETFs with a market value of $8.7 billion, including 7 high-yield bond ETFs with a market value of $1.2 billion.28

27 Id. As reflected in the transaction-level disclosure, a number of the corporate bonds held by the Federal Reserve have matured, been redeemed, or been exchanged.
28 Id.
<table>
<thead>
<tr>
<th>Issuer</th>
<th>Sector</th>
<th>Amortized Cost ($ Millions)</th>
<th>Percentage SMCCF Individual Bond Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT&amp;T Inc.</td>
<td>Communications</td>
<td>98.0</td>
<td>1.79%</td>
</tr>
<tr>
<td>Toyota Motor Credit Corp.</td>
<td>Consumer Cyclical</td>
<td>93.8</td>
<td>1.71%</td>
</tr>
<tr>
<td>Daimler Finance North America LLC</td>
<td>Consumer Cyclical</td>
<td>92.8</td>
<td>1.69%</td>
</tr>
<tr>
<td>Verizon Communications Inc.</td>
<td>Communications</td>
<td>92.0</td>
<td>1.68%</td>
</tr>
<tr>
<td>Volkswagen Group of America Finance LLC</td>
<td>Consumer Cyclical</td>
<td>89.5</td>
<td>1.63%</td>
</tr>
<tr>
<td>Apple Inc.</td>
<td>Technology</td>
<td>85.4</td>
<td>1.56%</td>
</tr>
<tr>
<td>Comcast Corp.</td>
<td>Communications</td>
<td>84.4</td>
<td>1.54%</td>
</tr>
<tr>
<td>BMW US Capital LLC</td>
<td>Consumer Cyclical</td>
<td>69.6</td>
<td>1.27%</td>
</tr>
<tr>
<td>Microsoft Corp.</td>
<td>Technology</td>
<td>67.3</td>
<td>1.23%</td>
</tr>
<tr>
<td>General Electric Co.</td>
<td>Capital Goods</td>
<td>65.9</td>
<td>1.20%</td>
</tr>
<tr>
<td>Ford Motor Credit Co. LLC</td>
<td>Consumer Cyclical</td>
<td>65.2</td>
<td>1.19%</td>
</tr>
<tr>
<td>AbbVie Inc.</td>
<td>Consumer Non-Cyclical</td>
<td>58.3</td>
<td>1.06%</td>
</tr>
<tr>
<td>CVS Health Corp.</td>
<td>Consumer Non-Cyclical</td>
<td>53.3</td>
<td>0.97%</td>
</tr>
<tr>
<td>BP Capital Markets America Inc.</td>
<td>Energy</td>
<td>53.1</td>
<td>0.97%</td>
</tr>
<tr>
<td>General Motors Financial Co. Inc.</td>
<td>Consumer Cyclical</td>
<td>50.2</td>
<td>0.91%</td>
</tr>
</tbody>
</table>

It is unclear whether and when the Federal Reserve will unwind its corporate bond investments, particularly with respect to the ETFs. Chair 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.”29

Main Street Lending Program

The total loan participations purchased by the MSLP totaled $16.6 billion,30 representing 2.8% of its original $600 billion lending capacity.31 This report provides an in-depth look at the MSLP.

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—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.32 As of February 17, 2021, the Federal Reserve holds $6.2 billion of outstanding asset purchases.33

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.34 More than half of the investors in these investment funds are foreign-based companies.35 TALF had a total outstanding amount of $2.9 billion in loans as of February 17, 2021.36 The following chart shows the five investment funds with the most in TALF outstanding.

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31 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.
34 Id.
<table>
<thead>
<tr>
<th>Investment Fund</th>
<th>Loan Amount (in $ million)</th>
<th>Percentage of Total Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alta Fundamental Advisers SP LLC - Belstar-Alta Series 1</td>
<td>$1,967.3</td>
<td>67.1%</td>
</tr>
<tr>
<td>MacKay Shields TALF 2.0 Opportunities Master Fund LP</td>
<td>545.4</td>
<td>18.6%</td>
</tr>
<tr>
<td>Alta Fundamental Advisers SP LLC - Belstar-Alta Series 2</td>
<td>238.4</td>
<td>8.1%</td>
</tr>
<tr>
<td>Barings Paragon LLC</td>
<td>53.9</td>
<td>1.8%</td>
</tr>
<tr>
<td>Tortoise TALF Opportunities Fund, LP</td>
<td>50.8</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Collateral Sector</th>
<th>Loan Amount Outstanding (in $ million)</th>
<th>Percentage of Total Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Business Administration Loans</td>
<td>$1,829.8</td>
<td>62.4%</td>
</tr>
<tr>
<td>Commercial Mortgage</td>
<td>486.6</td>
<td>16.6%</td>
</tr>
<tr>
<td>Leveraged Loan</td>
<td>450.3</td>
<td>15.4%</td>
</tr>
<tr>
<td>Private Student Loans</td>
<td>165.7</td>
<td>5.7%</td>
</tr>
<tr>
<td>Premium Finance</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,932.4</strong></td>
<td></td>
</tr>
</tbody>
</table>
The following chart shows the five ABS issuers with the most TALF-funded purchases.

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Sector</th>
<th>TALF Loan Amount (in $ million)</th>
<th>Percentage of Total TALF Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Business Administration Pools SBA–7(a) program</td>
<td>Small Business</td>
<td>$1,619.6</td>
<td>55.2%</td>
</tr>
<tr>
<td>Golub Capital Partners TALF 2020-1 LLC</td>
<td>Leveraged Loan</td>
<td>298.3</td>
<td>10.2%</td>
</tr>
<tr>
<td>Small Business Administration SBA–504 program</td>
<td>Small Business</td>
<td>210.1</td>
<td>7.2%</td>
</tr>
<tr>
<td>Golub Capital Partners TALF 2020-2 LLC</td>
<td>Leveraged Loan</td>
<td>152.0</td>
<td>5.2%</td>
</tr>
<tr>
<td>Navient Private Education Refi Loan Trust 2020-F</td>
<td>Private Student Loans</td>
<td>132.6</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

**Treasury Loans for National Security Businesses**

The national security loan program made 11 loans totaling $735.9 million. The Commission recently sent a letter to the U.S. Transportation Command, a DOD functional combatant command responsible for providing air, land, and sea transportation to meet national security needs. The letter inquired about Crowley Logistics’ work as a prime contractor for the DOD and Crowley’s relationship with their subcontractor, YRC. The letter is attached as Appendix C.

**Treasury Loans for the Airline Industry**

The Treasury’s airline loan program made 24 loans totaling $12.4 billion. 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. We will provide details on the response in a future report.

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38 Id.
Appendix A:
Commission Letter to Federal Reserve Regarding the Main Street Lending Program Loans
January 26, 2021

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Eric S. Rosengren
President & Chief Executive Officer
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210

Dear Chairman Powell and President Rosengren:

Section 4020(b) of the CARES Act charges the Congressional Oversight Commission with the duty to conduct oversight of both the Treasury Department and the Federal Reserve with respect to Subtitle A, Division A programs.

Pursuant to Section 4020(e)(1), (4) of the Act, the Congressional Oversight Commission requests that you provide copies of a sample of loan files related to the recently completed Main Street Lending Program as outlined below. This sample represents a few of the program’s smallest loans, biggest loans, median-sized loans, and loans from the program’s most frequent lender, National City Bank of Florida. In addition, we would like you to discuss what your plan is for monitoring the performance of loans in the Main Street Lending Program now that the program has completed.

Sample of Loans Requested by Borrower:

- Red Rooster of Ridgefield, LLC, (Lender ABA# 221172241)
- Tres Hombres Restaurants, Inc., (Lender ABA# 26009593)
- Marquez Farms LLC (Lender ABA# 066004367)
- Newport Property Construction, LTD. (Lender ABA# 075910921)
- Fitness International, LLC (Lender ABA# 26009593)
- BCD Travel USA LLC (Lender ABA# 26009593)
- SB Investment Group, Inc. (Lender ABA# 066004367)
- DeMayo Restaurant Group, Inc. (Lender ABA# 066004367)
- Venevision Continental LLC (Lender ABA# 066004367)

The Commission is willing to accept the information on a confidential basis. The Commission kindly asks that this information be provided by February 16, 2021 in order for it to be able to conduct proper oversight in anticipation of the February report. Thank you for your attention to this matter.

Sincerely,

/s/
French Hill
Member of Congress

/s/
Donna Shalala
Commissioner

/s/
Pat Toomey
U.S. Senator
Appendix B:
Federal Reserve’s Response to Commission Letter Regarding the Main Street Lending Program Loans
Response to Request by Commission Staff for Information on Loan Monitoring

Request from Commission Staff: Provide information on how the Federal Reserve performs ongoing monitoring of the credit quality of loan participations purchased as part of the Main Street Lending Program ("Main Street" or "Program") by the Main Street special purpose vehicle ("Main Street SPV") established by the Federal Reserve Bank of Boston ("FRBB").

The FRBB monitors the ongoing credit quality of loan participations purchased by the Main Street SPV through the receipt and review of borrower financial information provided by Program lenders on a periodic basis and from time to time in the event of material developments affecting the borrower. Such information is reviewed and evaluated by staff of the FRBB and Main Street SPV vendors with expertise in credit risk and valuations, and is used to generate views on expected portfolio performance and loss estimates necessary to inform financial reporting in accordance with generally accepted accounting principles ("GAAP").

1. Periodic Reporting of Borrower Financial Information

The FRBB’s ongoing credit monitoring program relies on periodic reporting by borrowers of financial information throughout the life of each Main Street loan. During the active phase of the Program, the Main Street SPV purchased 95% participation interests in over 1,800 loans that were originated by banking organizations and credit unions using the lenders’ customary underwriting practices. While lenders were expected to use their customary loan documentation, Main Street loan agreements were required to incorporate a limited number of Main Street-specific contractual provisions, including a financial reporting covenant obligating the borrower to deliver to the lender certain financial information and calculations on an annual and quarterly basis.

Under the terms of the Main Street Participation Agreement, pursuant to which the Main Street SPV has purchased each loan participation, a lender is obligated to pass on the Main Street SPV borrower financial information provided by the borrower to the lender. In addition, under the terms of the Main Street Servicing Agreement, the lender is obligated to input into the Main Street portal required borrower financial data on a quarterly and annual basis, and to

1 For Main Street loans made under the Main Street Expanded Loan Facility and Nonprofit Organization Expanded Loan Facility that are part of multi-lender credit facilities, the loan documentation must include such a financial reporting covenant, unless it has a financial reporting covenant that was negotiated in good faith prior to April 24, 2020.
2 All Main Street borrowers are required to provide specified data elements on a quarterly and annual basis during the life of the loan. Please refer to Appendix B (Required Covenants in Loan Documentation) and Appendix C (Required Financial Reporting) of the Main Street For-Profit Business FAQs (last version available here) and the Main Street Non-Profit Organization FAQs (last version available here) for more detail on each required financial data element.
3 The Main Street Participation Agreement consists of Standard Terms and conditions (last version available here) and Transaction Specific Terms (last version available here)
4 The last version Main Street Servicing Agreement is available here.
make available copies of the credit agreement and related documents, including waivers, amendments, modifications, supplements, and forbearances at the request of the Main Street SPV.

2. Information Received Related to Material Developments

In addition to the required periodic submission of required financial information, the Main Street SPV may become aware of information concerning the financial condition of a borrower in the event of material changes. Examples include information the lender has received from the borrower under the Main Street loan concerning the credit documents and rights in the loan transferred to the Main Street SPV (e.g., default notices, prepayment notices, financial, compliance and collateral reporting) or in instances where the lender is seeking the authorization of the Main Street SPV to take certain actions concerning the loan (e.g., actions that may materially change the rights of the SPV, including reduction in principal/interest, delay of payments, change of pro rata sharing provisions, release of all or substantially all of the collateral). Such information can further inform the FRBB’s ongoing credit monitoring.

3. Ongoing Evaluation of Financial Information

To monitor the Main Street portfolio on an ongoing basis, the financial information received by the Main Street SPV is reviewed by a dedicated FRBB credit team, with the assistance of a third-party vendor engaged to provide certain credit administration services. Among other responsibilities, the credit administrator updates internal risk ratings assigned to each loan to reflect the changing financial condition of the borrowers, using an internal credit-scoring model approved by the FRBB’s Credit Committee for Main Street. This internal credit-scoring model seeks to generate a credit rating for each borrower, taking into account the characteristics of the borrower such as industry, profitability, and financial leverage. These scores are generally calculated on a quarterly basis based upon collected borrower financial information and, when relevant, information on principal and interest payment collections.5

The Main Street SPV utilizes these ratings, among other inputs, to produce a quarterly analysis of the Allowance for Loan and Lease Losses (“ALLL”) on the portfolio. The allowance considers relevant estimates of probability of default (“PD”), loss given default (“LGD”) and exposure at default factors in light of credit ratings, and other loan characteristics (e.g. collateral positions). Qualitative factors (including changes in economic and business conditions) are also assessed so that loss rates (product of PD and LGD) appropriately reflect risks within the then-current environment. This is reviewed, vetted, and approved by FRBB senior management and the FRBB’s Executive Oversight Committee for Main Street, including a first level review by the Credit Sub-committee for Main Street. Quarterly processes also include developing valuations

5 Under Main Street, principal payments are deferred for two years and interest payments are deferred for one year (unpaid interest is capitalized).
based upon expected cash flows, with key inputs including credit ratings and estimated discount factors.

4. Publication of Financial Information Concerning the Main Street SPV Loan Participation Portfolio

Information on the aggregate amount of loan participations held by the Main Street SPV is disclosed on the weekly Federal Reserve Statistical Release H.4.1., Factors Affecting Reserve Balances, which is published weekly here. In particular, the table of “Maturity Distribution of Securities, Loans, and Selected Other Assets and Liabilities” of the Reserve Banks (table 2) shows the book value of loan participations held by the Main Street SPV, and the table of “Principal Accounts of Credit Facilities LLCs” (table 4) shows the outstanding principal amount of loans extended to the Main Street SPV and the outstanding amount of facility asset purchases by the Main Street SPV, net of ALLL. This is in alignment with generally accepted accounting principles and the inclusion of losses estimated based upon the Main Street holdings, and does not indicate actual losses experienced by the Program. The Program has no realized losses as of the time of this memo.

The estimated ALLL is updated on a quarterly basis and is reflected in the H.4.1 and the periodic reports submitted by the Board to Congress regarding emergency facilities authorized under section 13(3) of the Federal Reserve Act. As reported to Congress, the evaluation of loan participations purchased by the Main Street SPV resulted in recording an ALLL in the amount of $96 million as of September 30, 2020. This figure was estimated based upon the Main Street SPV’s holdings as of September 30, 2020, and utilized a loss forecasting approach focused primarily on those loans most likely to experience losses. The ALLL estimates do not indicate actual losses experienced by the Program. The estimated ALLL for the Main Street SPV will be updated on a quarterly basis going forward, using the processes described above.
Response to Request by Commission Staff for Information on Loan Monitoring

**Request from Commission Staff:** Provide information on the intake and review process used by the Federal Reserve in making a determination as to whether the special purpose vehicle ("SPV") established by the Federal Reserve Bank of Boston ("FRBB") would purchase a participation interest in a loan submitted by an eligible lender to the Main Street Lending Program ("Main Street" or "Program").

As discussed, the Main Street Program relied – as a matter of its fundamental design – on banking organizations and credit unions to originate and underwrite loans to Main Street borrowers. Accordingly, the role performed by the SPV in accepting Program loans for purchase was not an underwriting role and did not involve the exercise of any substantive discretion over which loans should be accepted and which loans should be rejected. Rather, the role performed by the SPV in reviewing submitted loans for acceptance was limited to ensuring that such loans complied with publicly specified Program terms. All submitted loans that passed that compliance check were accepted by the SPV for purchase.

Main Street lenders were instructed to use their customary underwriting practices when evaluating eligible borrowers, and their customary loan documentation—adjusted only as appropriate to reflect the requirements of the Program—to create a credit agreement between the lender and borrower. In addition, borrowers and lenders were required to enter into a series of Main Street-specific agreements and provide Program-specific certifications. As part of the process of submitting each already underwritten loan for final SPV review to confirm compliance with Program terms, lenders were required to submit the following documents, completed and signed:

- the credit agreement between the lender and the borrower that documented the loan and evidenced key terms, like payment schedule, interest rate, and events of default;
- Borrower Certifications and Covenants for each loan;
- an Assignment and Assumption and Co-Lender agreement, which would enable the Main Street SPV to elevate its status from a participant to an assignee;
- any financial information that the borrower provided to the lender, in the format in which the borrower provided it; and
- if the loan was secured or guaranteed, the related security agreement or guaranty.

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1 See Main Street for-profit and nonprofit frequently asked questions ("FAQs"), question I.4 and Appx A.
2 See Main Street for-profit and nonprofit FAQ L.9.
3 The credit agreement was required to reflect the terms set out in Appendix A of the Main Street for-profit and nonprofit FAQs.
4 The Main Street Borrower Certifications and Covenants varied by facility, and can be found here.
5 The template Assignment and Assumption and Co-Lender Agreements can be found here.
6 See Main Street for-profit and nonprofit FAQ L.8.
In addition to the above documents, lenders completed and executed Lender Certifications and Covenants, a Loan Participation Agreement, and a Servicing Agreement through the Main Street Lender Portal for each loan.\(^7\)

FAQ L.7 indicated that the Main Street SPV intended to purchase 95% participations in any loan submitted to the SPV for purchase, provided that two conditions were met:

- the required documentation is complete and properly executed; and
- the required documentation evidences that the loan is consistent with the relevant Main Street facility’s requirements.\(^8\)

Accordingly, the screening process for Main Street loans focused on a review of the loan documentation received to determine if it was (i) complete and properly executed and (ii) consistent with the core Program requirements, as published in the relevant facility term sheet and FAQs. The standard loan review process is described below, followed by a description of the adjustments made during the course of the Program to improve its efficiency.

1. **Document Review Process**

Lenders were instructed to submit all of the specified loan paperwork, completed and signed, through the Main Street Lender Portal.\(^9\) These reviews were conducted using two standard loan review checklists:

- The Main Street Lending Program Document Diligence Checklist, a copy of which is attached as Confidential Exhibit A, was completed by outside counsel or other legal resources during the course of their review of each package of specified documents.
- The “CA Ops Test Plan,” a copy of which is attached as Confidential Exhibit B, was completed for each loan by the Credit Administrator, Guidehouse/PwC.

The completed checklists were then provided to FRBB staff for review before any return communications were made to the lender. FRBB staff met on a daily basis during the loan intake period to discuss the results of these reviews and any findings that required the judgment of the FRBB. Among the items reviewed were:

- whether the interest rate, maturity date, and payment schedule contained in the loan documentation complied with Program terms;
- whether the limited number of Main Street-specific contractual provisions (e.g., required financial reporting covenants) were incorporated into the lender’s loan documentation; and

\(^7\) The Main Street Lender Certifications and Covenants, which vary by facility, and the template Participation and Servicing Agreements, can be found [here](#).  
\(^8\) See Main Street [for-profit](#) and [nonprofit](#) FAQ L.7.  
\(^9\) See Main Street [for-profit](#) and [nonprofit](#) FAQ L.4.
• if the loan contained a cash collateral or reserve account, and whether such account conformed with Program requirements.

After this SPV review of each loan submission, if problems were found in the loan review, the lender was provided with a detailed e-mail, reviewed by FRBB Legal and operations staff, identifying any exception matters and was permitted to resubmit the loan to address the issues identified in the exception. The SPV did not reject any loans due to the borrower’s financial condition or credit risk because the SPV’s review did not include any evaluation or judgment on matters of underwriting. To underscore, those items were not reviewed by the SPV before purchasing the loan, because as a matter of fundamental program design:

• the borrower’s credit risk would have been evaluated during the underwriting process by the lender retaining 5% of the loan;
• lenders were required to submit completed certifications stating that the loan was in compliance with Program requirements, including the debt-to-EBITDA test for maximum loan size; and
• the Main Street portal conducted an automated check on whether the loan size was permissible, under publicly stated Program terms, given the borrower’s outstanding debt and EBITDA, as input by the lender.

2. Adaptations to the Review Process

During the course of the loan intake period, which commenced on July 6, 2020, and ended on January 8, 2021, the FRBB took a series of steps to improve the efficiency of the loan review process and, thereby reduce the loan review processing time, in cases where the FRBB determined it was prudent to do so.

a. Demonstrated Track Record of Good Quality Documentation

In Fall 2020, the FRBB adopted an expedited and streamlined process for reviewing certain loan submissions made by lenders that had demonstrated track records of submitting loan documentation that was complete and properly executed, and evidenced that the loan is consistent with the relevant Main Street facility’s requirements. This process was applied to (i) single borrower loans (ii) for a principal amount of under $5 million (iii) submitted by lenders that had consistently submitted loans for which no problems or exception matters were identified in the loan review process.

The use of this process, including the triggers or thresholds for its use and the types of loans to which it was applied, were approved by the FRBB’s Executive Oversight Committee for Main Street. Prior to acceptance by the Main Street SPV, the loans subject to this process were screened by the Credit Administrator to determine if they met the criteria for expedited review. After being accepted, these loans were reviewed by the Credit Administrator in more detail using a streamlined version of the CA Ops Test Plan. In light of the limited nature of the loan
document review process (i.e., ensuring that loans complied with publicly specified Program terms) and the demonstrated track records of lenders, the streamlined test plan focused on whether the Main Street-specific agreements and Program-specific certifications for borrowers had been properly completed and executed, with exceptions escalated to FRBB staff to determine what course of action, if any, should be taken to address such issues.

b. Meeting Increasing Loan Demand near Program Termination

By the end of November, Main Street had purchased 646 loan participations. In the time period between December 1, 2020, and the Program’s termination on January 8, 2021, Main Street purchased an additional 1,184 of loan participations, for a total of 1,830 purchased by the Program overall.

To be in a position to be able to process the increased volume of submissions to Main Street in this period, the FRBB increased staffing by bringing in additional trained legal and risk/compliance professionals from the Board, the FRBB, and the FRBNY, and the Main Street vendors also expanded the sizes of their teams considerably. The internal and external teams increased their capacity by working evenings and weekends to meet demand.

In addition, the FRBB took several actions during the month of December to streamline its loan review process in targeted ways presenting minimal additional risk. Under this streamlined process, the review of certain items in the Document Diligence checklist (e.g., the completion of certain non-signature fields in the template documents) was deferred until after the acceptance of a loan. The FRBB first utilized the streamlined approach for loans less than $5 million, and as loan submissions increased, the FRBB expanded its use of a streamlined process to loans up to $50 million (excluding loans submitted under the Main Street Expanded Loan Facility). The use of the streamlined approaches, including the triggers or thresholds for when to use them, the types of loans to which they were applied, and the extent of the streamlining to undertake, were approved by the FRBB’s Executive Oversight Committee for Main Street.

Since the termination of the facility on January 8, 2021, the Credit Administrator and FRBB staff have undertaken a review of deferred items and are in the process of working with lenders to make necessary corrections to any errors. The deferred items were generally those that could be easily addressed on an ex-post basis, such as the completion of certain non-signature fields in the Main Street form documentation.
Exhibits

Confidential Exhibit A - Main Street Lending Program Document Diligence Checklist

This document was used by legal vendors and Federal Reserve legal staff to evaluate a loan’s compliance with Program terms. The Federal Reserve System requests confidential treatment for this submission.

Confidential Exhibit B – CA Ops Test Plan

This document was completed by the Credit Administrator, Guidehouse/PwC to evaluate a loan’s compliance with Program terms. Tab “3. Test Results” contains the key issues being evaluated under the test plan, while Tabs 1-2 contain input fields and Tabs 5-6 were used to organize feedback. The Federal Reserve System requests confidential treatment for this submission.
Response to Request by Commission Staff for Loan Files

Request from Commission Staff: Pursuant to Section 4020(e)(1), (4) of the Act, the Congressional Oversight Commission ["Commission"] requests that you provide copies of a sample of loan files related to the recently completed Main Street Lending Program ["Main Street"] as outlined below. This sample represents a few of the program’s smallest loans, biggest loans, median-sized loans, and loans from the program’s most frequent lender, National City Bank of Florida.

During a discussion with Commission staff on February 5, 2021, Federal Reserve System staff explained that Main Street relied upon the customary underwriting standards of the participating lenders and may not maintain all records of the type the Commission was seeking. Further, it was conveyed that the sample of loans selected, which represented less than 4% of total Main Street loan balances and less than 1% of loan volume, may not be indicative of the broad range of credit quality seen in the portfolio.

Two separate memos have been provided to Commission staff to explain the process for the loan submission and review process and regular credit monitoring, including the internal process undertaken by the SPV to assign credit ratings to the loans, which are generally not subject to rating by external credit rating agencies. This note supplements the latter memo by providing the distribution of those internally assigned credit ratings across those loans that the SPV held or had committed to purchase as of December 31, 2020.

Redacted
Appendix C:
Commission Letter to U.S. Transportation Command and Department of Defense Regarding National Security Loan Program and Crowley Logistics
General Stephen R. Lyons  
Commander  
U.S. Transportation Command  
Scott Air Force Base  
Illinois, 62225

Dear General Lyons:

This letter continues the Congressional Oversight Commission’s (the “Commission”) review of the U.S. Department of Treasury (the “Treasury”) loan provided to YRC Worldwide, Inc. (“YRC”). As you may know, the Commission has been tasked with overseeing the $454 billion provided to the Treasury’s Exchange Stabilization Fund per the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Of those funds, $17 billion was designated to businesses critical to maintaining national security of which YRC received $700 million. The Department of Defense (the “DOD”) determined that YRC is critical to national security.

The Commission has been doing extensive oversight of the YRC loan as it believes the loan may be hurtful to taxpayers. As part of that work, the Commission conducted a hearing with Treasury and a teleconference briefing with DOD. It has also sent multiple letters and questions to both agencies. As part of the DOD teleconference briefing with Undersecretary Ellen M. Lord, the Commission received additional documentation including a copy of the Crowley Logistics (“Crowley”) contract dated November 22, 2016 and a copy of the contract modification dated August 1, 2020. These were accompanied by a performance work statement (“PWS”) for Department of Defense Freight Transportation Services (“DFTS”) dated August 1, 2020. The Commission acknowledges that these documents are for internal use only and not for public dissemination.

In response to this additional documentation, the Commission has additional questions and information it would like answered or provided as it relates to the work Crowley does as a prime contractor for the DOD. Please note, the Commission has addressed this letter to USTRANSCOM as it believes you are in the best position to provide the necessary information, however, please consult with DOD as warranted to ensure the Commission receives the most complete answers possible.

1. **Correspondence between USTRANSCOM and Crowley**

Undersecretary Lord told the Commission during her teleconference that DOD does not oversee subcontractors and leaves that responsibility to the prime contractor. That same sentiment is echoed in the PWS stating that “the Contractor shall manage its human and physical resources, including its sub-contractors, to partner with DOD and its stakeholders.” Additionally, Undersecretary Lord stated in her follow-up materials that USTRANSCOM contacted Crowley regarding the anticipated effect of YRC ceasing LTL services.
Please summarize the extent of that correspondence and provide any documentation of that correspondence including, but not limited, email correspondence with Crowley and the DOD, memoranda, summary of all meetings and phone calls USTRANSCOM had with Crowley and DOD and any corresponding documentation.

Additionally, in USTRANSCOM’s correspondence with Crowley, what did they say would be the anticipated effect of ceasing YRC’s LTL services? Did USTRANSCOM ask Crowley if YRC should be designated as critical to national security? If so, please provide the justification Crowley provided.

2. Additional Documentation

As outlined, the PWS requires timely reporting of key metrics for each contractor and requires contractor to “supply a scorecard of all required performance data to the government program manager and the contracting officer and the contracting officer 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.

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 show present the data as cost per mile, cost per hundredweight, cost per pound, as appropriate.

Thank you for your willingness to help the Congressional Oversight Commission. We have appreciated the work and cooperation of the DOD with the Commission thus far and look forward to a continued positive relationship.

Sincerely,

/s/
French Hill
Member of Congress

/s/
Donna Shalala
Commissioner

/s/
Pat Toomey
U.S. Senator

CC:  Lloyd J. Austin III, Secretary of Defense