

## **Report to Congress Pursuant to Section 13(3) of the Federal Reserve Act: Paycheck Protection Program Lending Facility**

### **Overview**

On April 8, 2020, the Board of Governors of the Federal Reserve System (the Board), by the unanimous vote of its five members and with the approval of the Secretary of the Treasury, authorized each of the 12 Federal Reserve Banks to establish and operate the Paycheck Protection Program Lending Facility (PPPLF) under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343(3)). The PPPLF offers a source of liquidity to the financial institution lenders who lend to small businesses through the Small Business Administration's (SBA) Paycheck Protection Program (PPP).

Under the PPPLF, each Reserve Bank will lend to eligible borrowers on a nonrecourse basis, taking PPP loans as collateral. The PPP is a program administered by the SBA to facilitate lending to small businesses by eligible private sector financial institutions.

### **Background on the PPPLF**

The spread of the coronavirus disease 2019 (COVID-19) has halted economic activity in the United States. The disruption has impacted many different sectors of the economy, including small businesses. In general, the availability of credit has contracted for small businesses while, at the same time, the disruptions to economic activity have heightened the needs for small businesses to obtain credit in order to sustain themselves and meet their payroll and other expenses until economic conditions normalize.

In these circumstances, the Board determined that unusual and exigent circumstances existed and approved the establishment of the PPPLF to help facilitate access to credit by PPP lenders so that they can lend to small businesses, enabling them better to manage the economic dislocations related to the pandemic.

### **Structure and Basic Terms**

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) created the PPP to support lending to small businesses that have been affected by the disruption caused by COVID-19. Under the PPP, lenders make loans to small businesses for payroll-related and certain other purposes specified in the CARES Act, and the SBA guarantees the PPP loans.

Under the PPPLF, each Reserve Bank will lend, on a nonrecourse basis, to eligible borrowers that have made PPP loans, taking the PPP loans as collateral.

As of April 14, 2020, the PPPLF was not yet operational. At the Board's request, the Federal Reserve Bank of Minneapolis is assisting in managing operational issues for the PPPLF.

The term sheet for the PPPLF is available to the public on the Board's website.<sup>1</sup> The discussion below summarizes the terms and conditions of the PPPLF. The Board and Reserve Banks continue to monitor the affected financial markets and to consult with market participants and, accordingly, the terms and conditions governing the PPPLF may be modified in the future as appropriate.

***Eligible Borrowers.*** All depository institutions that originate PPP loans are eligible to participate in the PPPLF. The Board is working to expand eligibility to other lenders that originate PPP loans in the near future.

***Lending Reserve Bank.*** Eligible borrowers participate in the PPPLF through the Reserve Bank in whose District the eligible borrower is located. For depository institutions, see Regulation D, 12 CFR 204.3(g)(1)–(2), for determining location.

***Eligible Collateral.*** Only PPP loans guaranteed by the SBA are eligible to serve as collateral for the PPPLF.

***Maturity Date and Acceleration of Maturity.*** The maturity date of an extension of credit under the PPPLF will equal the maturity date of the PPP loan pledged to secure the extension of credit. The maturity date of the PPPLF's extension of credit will be accelerated if the underlying PPP loan goes into default and the eligible borrower sells the PPP loan to the SBA to realize on the SBA guarantee. The maturity date of the PPPLF's extension of credit also will be accelerated to the extent of any loan forgiveness reimbursement received by the eligible borrower from the SBA.

***Rate.*** Extensions of credit under the PPPLF will be made at a rate of 35 basis points.

***Fees.*** There are no fees associated with the PPPLF.

***Collateral Valuation.*** PPP loans pledged as collateral to secure extensions of credit under the PPPLF will be valued at the principal amount of the PPP loan.

***Principal Amount.*** The principal amount of an extension of credit under the PPPLF will be equal to the principal amount of the PPP loan pledged as collateral to secure the extension of credit.

***Termination Date.*** No new credit extensions will be made under the PPPLF after September 30, 2020, unless it is extended by the Board and the Department

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<sup>1</sup> For term sheets for all facilities, see the Federal Reserve's website at <https://www.federalreserve.gov/funding-credit-liquidity-and-loan-facilities.htm>.

of the Treasury.

***Requirements Imposed on Recipients.*** The PPPLF will not impose any new requirements on borrowers with respect to employee compensation, distribution of dividends, or any other corporate decision in exchange for accessing this facility.

***Expected Costs to Taxpayers.*** PPP loans under the PPP are fully guaranteed as to principal and interest by the SBA, and these guaranteed loans will fully collateralize extensions of credit under the PPPLF. As a result, the Board does not expect that the PPPLF will result in losses to the Federal Reserve.