April 10, 2020

Overview of Federal Reserve Lending and Liquidity Facilities

The Federal Reserve has announced several new programs to provide up to $2.3 trillion in loans, intended to support the economy during the coronavirus pandemic. A link to the Federal Reserve's press release can be found here. These actions include a Paycheck Protection Program Liquidity Facility, two Main Street Lending Facilities, and a Municipal Liquidity Facility. These programs are intended to provide lending and liquidity assistance to financial institutions, U.S. corporations, small to mid-sized businesses, and states and municipalities. Below is a brief overview of each facility.

The Federal Reserve also announced updates to three previously established capital markets facilities: the Primary and Secondary Market Corporate Credit Facilities (PMCCF and SMCCF) and the Term Asset-Backed Securities Loan Facility (TALF). Through these programs, the Federal Reserve plans to support up to $850 billion in credit backed by $85 billion in credit protection provided by the Treasury. Some of this funding may come from the Exchange Stabilization Fund, while some may come from the CARES Act. Banking Committee Staff is reviewing the changes to the terms and funding of these facilities.

Paycheck Protection Program Lending Facility

Purpose: The Paycheck Protection Program Lending Facility is intended to provide liquidity to participating financial institutions through term financing backed by SBA Paycheck Protection Program (PPP) loans to small businesses. This facility will extend credit to eligible financial institutions that originate PPP loans and pledge those loans to the Facility as collateral.

Who can borrow under the Facility: U.S. depository institutions that originate PPP loans to small businesses.

Available funding: Loans to depository institutions will be the same amount as the principal amount of the PPP loans pledged as collateral to secure the extension of credit. Currently, the CARES Act authorizes up to $349 billion in loans to small businesses, fully guaranteed as to principal and accrued interest by the SBA.

Main Street New Loan Facility and Expanded Loan Facility

Purpose: The Main Street New Loan Facility and the Main Street Expanded Loan Facility are intended to support small and mid-sized businesses that were in good financial standing before the crisis by offering 4-year loans. Eligible banks may originate new Main Street loans or use Main Street loans to increase the size of existing loans to businesses. Banks will keep a 5% share and sell a 95% participation in a new loan or in the increased amount of a restructured existing loan to the Facility.

Who can lend under the Facilities: U.S. insured depository institutions, U.S. bank holding companies, U.S. savings and loan holding companies.

Who can borrow under the Facilities: Businesses–

- With up to 10,000 employees or up to $2.5 billion in 2019 revenue, and
- Which are created or organized in the U.S. or under U.S. law with significant operations and employees in the United States.

*Borrowers may not participate in more than one of the Main Street New Loan Facility, Main Street Expanded Loan Facility, or the Primary Market Corporate Credit Facility.

Requirements for the loans purchased by the Facilities: The facility can purchase loans with a four year maturity and principal and interest deferred for one year, among other requirements. For the New Loan Facility, loans must be originated on or after April 8, 2020 and are generally capped at $25 million. For the Expanded Loan Facility, loans must be originated before April 8, 2020 and are generally capped at $150 million. A borrower will also be required to attest that it meets certain requirements regarding its need and eligibility for the loan and will abide by certain restrictions during the term of the loan.

Available funding: Eligible funds are distributed between the Main Street New Loan Facility Main Street Expanded Loan Facility for a total of $600 billion.

Municipal Liquidity Facility

Purpose: The Municipal Liquidity Facility is intended to support lending to U.S. states and the District of Columbia (States), U.S. cities with over one million residents (Cities), and U.S. counties with over two million residents (Counties). Eligible state-level issuers may use a portion of the proceeds to support additional counties and cities. The Federal Reserve will lend to the facility, and the facility will purchase notes issued by states and municipalities.

Who can borrow under the Facility: A State, City, or County (or an instrumentality thereof that issues on behalf of the State, City, or County for the purpose of managing its cash flows) is eligible to participate, in each case subject to review and approval by the Federal Reserve. Only one issuer per State, City, or County is eligible.

Requirements for the notes purchased by the Facility: The facility can purchase tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), and other similar short-term notes issued by eligible issuers, provided that such notes mature no later than 24 months from the date of issuance, subject to determination of eligibility by the Federal Reserve and acceptable legal opinions and disclosures.

Available funding: The facility will have the ability to purchase up to $500 billion in eligible notes.