Operational Details on the Paycheck Protection Program Liquidity Facility

(PPPLF)

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The Paycheck Protection Program Liquidity Facility (PPPLF) is a Federal Reserve facility

- This presentation is about the Federal Reserve’s PPPLF.
- The PPPLF provides term funding to depository institutions (DIs) that originate loans to small businesses (under PPP).
- While the PPPLF supports the Small Business Administration’s Paycheck Protection Program (PPP) by providing funding to DIs that are PPP lenders – the PPPLF and PPP are distinct programs and are run by different agencies.
- This presentation focuses on PPPLF.
The Paycheck Protection Program (PPP) is run by the Small Business Administration.

Additional information about the PPP can be found at

- [https://home.treasury.gov/coronavirus](https://home.treasury.gov/coronavirus)

and

The April 10, 2020, Ask the Fed session is available and provides a high-level overview of the PPPLF

- A recorded archive of the PPPLF Ask the Fed session from April 10, 2020, is available on the Ask the Fed® site.
- [www.askthefed.org](http://www.askthefed.org)
The PPPLF Term Sheet covers the main features of this facility

- The PPPLF Term Sheet is available on the Board of Governor’s website: https://www.federalreserve.gov/monetarypolicy/ppplf.htm and

- On the Discount Window website: https://www.frbdiscountwindow.org/generalpages/emergency%20credit%202020

- The facility’s parameters include:
  - All depository institutions that originate PPP loans are eligible to borrow under the facility.
  - Advances under the facility will be made at a rate of 35 basis points.
For depository institutions that are qualified to borrow from the discount window, PPP Loans may be pledged as collateral

• Loans guaranteed by the SBA—including Paycheck Protection Program (PPP) loans authorized in the “CARES Act” of 2020—may be pledged as collateral for the discount window, as described in the Federal Reserve collateral guidelines.
  – The SBA-guaranteed portions of such loans receive margins in the “US Agency Guaranteed Loans” category of the Federal Reserve discount window collateral margins table. In addition, any unguaranteed portions of SBA-guaranteed loans receive margins according to the loan type.
  – Visit https://www.frbdiscountwindow.org/Pages/General-Information/faq#list-item-2 for more details about the discount window.

• The discount window and PPPLF are distinct Federal Reserve programs that differ in several important ways, including:
  – Only PPP loans guaranteed by the SBA are eligible to serve as collateral for the PPPLF.
  – Extensions of credit under the PPPLF are made at a rate of 35 basis points.
  – Extensions of credit under the PPPLF are made without recourse, while discount window loans have full recourse.
  – For the discount window a borrower can pledge collateral without having to take out an advance. For the PPPLF, a borrower must request an advance in the amount of collateral pledged.
Treatment of PPPLF extensions of credit for regulatory capital purposes

• PPPLF extensions of credit are excluded from total leverage exposure, average total consolidated assets, advanced approaches total risk-weighted assets, and standardized total risk-weighted assets, as applicable.

• On April 9, 2020, the Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation issued an interim final rule ("IFR") to allow banking organizations to exclude from regulatory capital measures any exposures pledged as collateral for a non-recourse loan from the Federal Reserve. Because PPPLF extensions of credit are non-recourse, they qualify for exclusion under the IFR.
Treatment of PPPLF extensions of credit for regulatory capital purposes (cont.)

- Consistent with the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), all PPP loans receive a zero percent risk weight for purposes of the Federal banking agencies’ risk-based capital rules.

- However, only PPP loans that are pledged to secure PPPLF extensions of credit may be excluded from leverage ratio calculations. PPP loans that are pledged to secure primary credit funding at the discount window will not be excluded from leverage ratio calculations.
A depository institution does not need to have a master account at a Federal Reserve Bank in order to borrow under the PPPLF

- A depository institution that is a PPP lender does not have to have a master account at a Federal Reserve Bank in order to obtain an extension of credit under the PPPLF.
- If a depository institution does not have a master account, however, the depository institution needs to have a correspondent relationship with an institution that does have a master account into which the proceeds of PPPLF extensions of credit are credited and repaid.
A depository institution does not need to have a master account at a Federal Reserve Bank in order to borrow under the PPPLF (cont.)

• A non-accountholder borrower (that has not already designated a correspondent for discount window purposes) and its correspondent will need to execute the relevant documentation required by the Reserve Bank extending PPPLF credit to the borrower.

• If a depository institution has an existing correspondent relationship for discount window purposes, the depository institution must use that same correspondent relationship for extensions of credit extended under the PPPLF.
PPPLF information can be accessed easily from https://www.frbdiscountwindow.org/
To obtain an extension of credit under the PPPLF, depository institutions will need to fill out necessary documentation.

Paycheck Protection Program Liquidity Facility (PPPLF)

Term Sheet
- Term Sheet - PPPLF

PPPLF Borrowing Documentation
- Letter of Agreement - PPPLF
- Borrower Certification - PPPLF
- PPPLF Borrowing Documentation Guide
- Sample - Letter of Agreement - PPPLF
- Sample - Borrower Certification - PPPLF

For Dis without access to the discount window, an additional document is required:
- Authorizing Resolutions for Borrowers

Please Note: If your institution was chartered by the State of Wisconsin, please complete the Authorizing Resolution for Borrowers Chartered by the State of Wisconsin.

PPPLF Operational Documentation
- Transmittal Form to Pledge Collateral and Request Advance - PPPLF
- Paycheck Protection Program Individual Loan Reporting Table - PPPLF
- PPPLF Operational Documentation Guide
- Sample - Transmittal Form to Pledge Collateral and Request Advance - PPPLF
- Sample - Paycheck Protection Program Individual Loan Reporting Table - PPPLF

Additional information can be found on the Frequently Asked Questions page. Institutions should submit completed PPPLF documentation by email to the PPPLF mailbox at its local Reserve Bank.

https://www.frbdiscountwindow.org/generalpages/emergency%20credit%202020
PPPLF borrowers are required to certify that they are not insolvent and that they cannot obtain adequate credit accommodations from other banking institutions

**Not Insolvent:**
- For a PPPLF participant to comply with the requirement for certifying that it is not insolvent, the PPPLF participant may certify that it is not (1) in bankruptcy, resolution under Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or any other Federal or State insolvency proceeding, and that it is not (2) generally failing to pay undisputed debts as they become due during the 90 days preceding the date of borrowing under PPPLF. This certification of non-insolvency is required under section 13(3) of the Federal Reserve Act, which is the authority under which the PPPLF was authorized.

**Lack of Adequate Credit Accommodations:**
- For a PPPLF participant to comply with the requirement for certifying that it lacks adequate credit accommodations from other banking institutions, the PPPLF participant may rely on current economic or market conditions, including conditions related to the availability and price of credit available to small businesses in light of the COVID-19 pandemic. A PPPLF participant is not required to certify that credit is unavailable. Rather, the PPPLF participant can rely on the fact that credit is not available at prices or on conditions that are consistent with the purposes of the PPPLF or with normal market conditions. In particular, a PPPLF participant may rely on the fact that the Board of Governors authorized the establishment of the PPPLF to improve the ability of PPP lenders to obtain reasonably priced long-term financing for PPP Loans.
To pledge collateral and request an advance, a PPPLF borrower must submit operational documentation.

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https://www.frbdiscountwindow.org/generalpages/emergency%20credit%202020
Additional details about submitting documents and requesting advances

• A Reserve Bank will make a single extension of credit to a PPPLF borrower secured by all PPP loans submitted that mature on a single date. For this reason, a PPPLF borrower should ensure that it pledges all PPP loans with the same maturity date.

• The collateral transmittal form and individual loan listing must be submitted by an individual authorized to pledge PPPLF collateral and request PPPLF extensions of credit on behalf of the PPPLF borrower, as specified in the PPPLF Letter of Agreement that is part of the required documentation.

• A separate collateral transmittal form and individual loan listing must be submitted in a separate email for each request for a PPPLF extension of credit and pool of PPPLF collateral.
SAMPLE: Transmittal Form

TRANSMITTAL FORM FOR PLEDGE OF SMALL BUSINESS ADMINISTRATION PAYCHECK PROTECTION PROGRAM LOANS (SBA PPP)
FOR THE PAYCHECK PROTECTION PROGRAM LIQUIDITY FACILITY (PPPLF)
AND REQUEST FOR PPPLF ADVANCE

TO: Federal Reserve Bank of Boston
FROM: Jane Smith, Vice President
       (Name and Title) – print

ABC Bank
       (Name of Depository Institution, “Borrower”) 0101-2222-3
       (ABA #)

123 Main Street
       (Address) Boston, MA 02210
       (City & State)

I, an individual authorized to pledge collateral and request PPPLF advances pursuant to Borrower’s board resolution list or the Borrower’s PPPLF Letter of Agreement (“Authorized Individual”), am pledging the SBA PPP pool below as collateral to secure an advance that the Borrower hereby requests be made pursuant to the PPPLF under the terms and conditions of the PPPLF; as modified from time to time. The PPPLF Letter of Agreement articulates how advances are structured, including advance amount, rate and term.

I further certify that:

a) All loans included in the pledge are owned by and are in the custody of Borrower and maintained free of any adverse claim;

b) A new collateral listing will be submitted to report reductions in current outstanding principal at a frequency determined by the Federal Reserve Bank; and

c) All individual loans in the total below are listed in the accompanying individual loan file.

SBA PPP Loans must be pooled by maturity date. Only one maturity pool may be submitted per form. Once a maturity pool has been submitted, no additions to the pool will be accepted.

<table>
<thead>
<tr>
<th>Paycheck Protection Program Loan</th>
<th>Paycheck Protection Program Loan</th>
<th>Loans Pledged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Origination Date</td>
<td>Maturity Date</td>
<td></td>
</tr>
<tr>
<td>(origination date should be 2 years before maturity date</td>
<td>maturity date should be 2 years after origination date</td>
<td>Total Number of Loans</td>
</tr>
<tr>
<td>4/13/2022</td>
<td>4/15/2022</td>
<td>3</td>
</tr>
</tbody>
</table>

Request for PPPLF Advance**

(Amount must equal Aggregate Current Outstanding Principal Balance above)

$6,200,000.00

** An advance will typically be processed on the day following receipt of a request, with notification provided the day after the advance has been processed.

Submission:
Each Transmittal Form and accompanying individual loan file must be e-mailed to the Federal Reserve Bank by an Authorized Individual. A separate e-mail is required for each PPPLF request.

(date 4/16/2020)
SAMPLE: Individual Loan Reporting Template

Paycheck Protection Program Individual Loan Reporting Template

<table>
<thead>
<tr>
<th>Obligation / Loan Number</th>
<th>SBA Loan Number</th>
<th>Borrower Name</th>
<th>Original Par Amount</th>
<th>Current Outstanding Principal Balance</th>
<th>Maturity Date</th>
<th>Interest Next Due Date</th>
<th>Principal Next Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>001</td>
<td>123456</td>
<td>Roger Smith</td>
<td>$3,000,000.00</td>
<td>$3,000,000.00</td>
<td>4/13/2022</td>
<td></td>
<td></td>
</tr>
<tr>
<td>002</td>
<td>123457</td>
<td>Jimmy Roberts</td>
<td>$2,000,000.00</td>
<td>$2,000,000.00</td>
<td>4/13/2022</td>
<td></td>
<td></td>
</tr>
<tr>
<td>003</td>
<td>123458</td>
<td>Sally Grimm</td>
<td>$1,200,000.00</td>
<td>$1,200,000.00</td>
<td>4/13/2022</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Summary Information

$6,200,000.00 $6,200,000.00

:: All fields are required.
:: Interest Next Due and Principal Next Due Date (Columns G and I) must be populated once loan(s) are eligible for payments under the terms of the PPP program. If payments include both interest and principal, only one next payment due date column is necessary.
:: The summary information items are shown with applicable formulas.
:: DO NOT alter the form in any way other than to add more rows for individual loan information

(rev 4/16/2020)
Additional information on the PPPLF available in FAQs

Paycheck Protection Program Liquidity Facility (PPPLF)

To bolster the effectiveness of the Small Business Administration’s Paycheck Protection Program (PPP), the Federal Reserve is supplying liquidity to participating financial institutions through term financing backed by PPP loans to small businesses. The PPP provides loans to small businesses so that they can keep their workers on the payroll. The Paycheck Protection Program Liquidity Facility (PPPLF) will extend credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value.

- Term Sheet (April 9, 2020) (PDF)
- FAQs [here](#)

Please address additional questions to: PPPLF@CHI.FRB.ORG
Thank you for submitting questions

• Can a borrower obtain an extension of credit under the PPPLF before it originates the PPP loan that secures it?

• May a PPPLF borrower pledge a PPP loan as PPPLF collateral that the PPPLF borrower has already pledged to another party?

• How soon after submission of the PPPLF request for an extension of credit will the proceeds of the PPPLF extension of credit be available to the PPPLF borrower?

• Can a borrower pledge PPP loans to the PPPLF for the purpose of requesting an extension of credit at a later date?
References

• https://www.federalreserve.gov/monetarypolicy/ppplf.htm
• https://www.frbdiscountwindow.org/generalpages/emergency%20credit%202020
• https://www.frbdiscountwindow.org/pages/general-information/faq#list-item-1
• https://home.treasury.gov/policy-issues/top-priorities/cares-act/assistance-for-small-businesses
• https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program-ppp
• https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200409a1.pdf
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- Use the “Ask a Question” feature on the Ask the Fed® website: www.askthefed.org
Thanks for joining us.

www.askthefed.org