<u>NEW Paycheck Protection Program Liquidity Facility (PPPLF) FAQs</u>

Why did the Federal Reserve establish the PPPLF?

The Federal Reserve established the Paycheck Protection Program Liquidity Facility, or PPPLF, under section 13(3) of the Federal Reserve Act to bolster the effectiveness of the Small Business Administration's Paycheck Protection Program ("PPP"), which provides relief to American workers and businesses. Under the PPPLF, the Federal Reserve will supply liquidity to participating financial institutions through term financing backed by PPP loans.

How will the PPPLF work?

To facilitate the extension of PPP loans to small businesses and other eligible borrowers ("PPP borrowers"), the Federal Reserve will provide non-recourse loans to eligible depository institutions that originate PPP loans ("PPP lenders"). PPP lenders that obtain PPPLF extensions of credit will pledge the PPP loans as collateral to the Federal Reserve to secure the PPPLF extensions of credit. The PPPLF will take the PPP loans as collateral at face value.

Does the PPPLF lend directly to small businesses that are eligible borrowers under the PPP?

No.

How is the PPPLF different from the PPP?

The PPP is the program administered by the Small Business Administration (SBA), under which PPP lenders make loans to eligible small businesses and the SBA guarantees the payment of principal and interest on those loans. The PPPLF is a facility established by the Federal Reserve to provide support for the PPP program by making non-recourse loans to PPP lenders secured by PPP loans.

How is the PPPLF different from primary credit, the main discount window lending program for depository institutions?

The PPPLF differs from primary credit lending in a number of ways. The primary credit program accepts a wide range of collateral—including PPP Loans—but the PPPLF only accepts PPP loans as collateral. In addition, primary credit loans are made with full recourse to the borrowing institution, while extensions of credit under the PPPLF are non-recourse. PPPLF extensions of credit are extended at a slightly higher rate than primary credit loans (35 basis points rather than 25 basis points), are for a longer term (PPPLF loans are for two years while primary credit is available for up to 90 days), and the amount of the PPPLF extension of credit is determined based on the principal amount of the underlying PPP loan. For additional information on the primary credit facility, visit: https://www.frbdiscountwindow.org/.

When will the PPPLF be operational?

Federal Reserve Banks will begin making PPPLF loans to eligible depository institutions during the week of April 13, 2020. PPP loans are already eligible collateral at the discount window. For additional information on the primary credit facility, visit: https://www.frbdiscountwindow.org/.

How long will the PPPLF be in effect?

No new extensions of credit will be made under the PPPLF after September 30, 2020, unless the Board and the Department of the Treasury determine to extend the PPPLF.

Who is initially eligible to participate in the PPPLF?

Initially, all depository institutions that originate PPP loans are eligible to borrow under the PPPLF. An eligible depository institution must complete the necessary documentation before borrowing under the PPPLF.

Will non-depository institutions be eligible to participate in the PPPLF?

The Federal Reserve is working to expand eligibility to PPP lenders that are not depository institutions in the near future.

How does a PPP lender sign up to participate in PPPLF?

In order to obtain an extension of credit under the PPPLF, depository institutions must execute the PPPLF Letter of Agreement and a certification specific to section 13(3) facilities. Depository institutions that have not already established access to the discount window by executing the standard Letter of Agreement to the Federal Reserve Bank's Operating Circular No 10 (Lending) will agree to the terms of the OC 10 by executing the PPPLF Letter of Agreement. In addition, depository institutions that have not already established access to the discount window must deliver certified copies of the Authorizing Resolutions for Borrowers in the applicable form attached to OC 10.

Depository institutions are not required to establish ongoing access to the discount window to participate in the PPPLF. However, if a depository institution desires to establish ongoing access to the discount window at the same time it seeks an extension of credit under the PPPLF, it must submit the other standard documents required by OC 10: a Letter of Agreement and a Certificate attaching copies of the institution's organizational documents. Please refer to the appendices to OC 10.

How does a PPPLF borrower pledge collateral and request an advance under the PPPLF?

A PPPLF borrower must assemble all PPP loans that it intends to pledge as PPPLF collateral into separate pools grouped by maturity date (as described above). For each such pool, the PPPLF borrower must:

a. *prepare a collateral transmittal form, that*
    i. *lists the total value of the PPP loans being pledged as PPPLF collateral;*
    ii. *contains several important certifications that the PPPLF borrower must make; and*
    iii. *contains the loan request for the total value of the PPP loans being submitted as collateral.*
b. *prepare a listing of the individual PPP loans that are being pledged. The information that must be included in this individual PPP loan listing is shown in the "Paycheck Protection Program Individual Loan Reporting Table". This Loan Reporting Table must be used as a template in preparing the individual loan listing.*

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. The borrower then must send these submissions by email to [the PPPLF contact at its administrative reserve bank].

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.

Does a depository institution that is a PPP lender have to have a master account at a Federal Reserve Bank in order to borrow under the PPPLF?

No, 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 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, can it establish a separate correspondent relationship to borrow under the PPPLF?

No. 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 under the PPPLF.

How do depository institutions initiate an extension of credit under the PPPLF?

A depository institution should contact the Reserve Bank in whose District it is located to request an extension of credit under the PPPLF. See [Regulation D, 12 CFR 204.3(g)(1)–(2)], for information on determining the District in which the depository institution is located.

At what rate will credit under the PPPLF be extended?

PPPLF extensions of credit will be extended at 35 basis points.

Is the rate fixed for the life of a PPPLF extension of credit?

Yes.

Are there any fees to participate in the PPPLF?

No.

What will be the maturity of PPPLF extensions of credit?

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, generally two years. The maturity date of a PPPLF extension of credit will be accelerated (1) if the underlying PPP Loan goes into default and the eligible PPPLF borrower sells the PPP Loan to the SBA to realize the SBA guarantee; (2) if the PPP lender receives reimbursement from the SBA for any loan forgiveness amounts (to the extent of the amount of the PPP loan forgiven); or if (3) the PPP lender has misrepresented the underlying PPP loan or otherwise commits an Event of Default under the PPPLF documentation.

Is there a limit on the total amount of credit that can be extended through the PPPLF?

No, there is no limit to the amount of credit that can be extended under the PPPLF.

Is there a limit on the total amount of PPPLF extensions of credit that an individual eligible depository institution may obtain?

No. An individual depository institution will be allowed to borrow up to the principal amount of PPP loan collateral that it can pledge to the Federal Reserve. (PPP loans to individual small businesses are subject to size limitations and cannot be greater than $10 million. Visit https://home.treasury.gov/policy-issues/top-priorities/cares-act/assistance-for-small-businesses for more details on PPP loans.)

Can a PPPLF borrower voluntarily prepay an extension of credit under the PPPLF?

Yes. Voluntary prepayments must be accompanied by withdrawals of PPPLF collateral pledged to secure the PPPLF extension of credit. The amount of the prepayment must correspond to the total balance of the withdrawn PPP loans that have been pledged as PPPLF collateral. Accrued interest will be charged at prepayment, based on the amount of prepayment.

Can a PPPLF borrower be required to repay a PPPLF extension of credit prior to the maturity date?

Yes. A PPPLF borrower is required to repay a PPPLF extension of credit when any of the following happens:

- *The PPPLF borrower has been reimbursed by the SBA for a loan forgiveness (to the extent of the forgiveness);*
- *The PPPLF borrower has received payment from the SBA representing exercise of the loan guarantee;*
- *The PPPLF borrower has received payment from the PPP borrower of the underlying PPP loan (to the extent of the payment received).*

Any payments on pledged PPP loans (e.g., forgiveness or default payments from the SBA, or payments from the PPP borrower) must be promptly reported to the lending Reserve Bank so that the PPPLF extension of credit can be adjusted accordingly. Procedures for reporting payments on PPP loans for prepayment of the PPPLF extension of credit will be posted soon.

Depository institutions should contact the Federal Reserve Bank in whose District they are located with additional questions about the documentation requirements.

Are there any penalties associated with prepayment of a PPPLF loan?

No.

Will Reserve Banks accept PPP loans that have electronic rather than "wet ink" signatures as collateral to the PPPLF? If so, what types of electronic signatures are acceptable?

Yes. The Reserve Banks expect that most, if not all, PPP loans will have electronic signatures, given the conditions in which the lending is occurring. Reserve Banks will accept PPP loans with electronic signatures (i.e., loans that are electronically originated or loans that have electronic copies of "wet ink" signatures, such as faxed or scanned copies of "wet ink" signed documents).

How are PPP loans that are pledged as collateral to the PPPLF valued?

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

Some depository institutions are using their standard promissory notes to document PPP loans, but other depository institutions are waiting until a standard PPP promissory note form is officially made available by the SBA. Can a depository institution that uses its own standard promissory note to document a PPP loan pledge that loan as collateral for the PPPLF, or does the depository institution have to wait until an official SBA promissory note form is available?

A depository institution that uses its standard promissory note form to document a PPP loan can pledge that loan as collateral for the PPPLF so long as the depository institution has executed SBA Form 2484 (the Lender Application Form for the Paycheck Protection Program) to issue PPP loans and also has received an SBA loan number for the PPP loan.

Will extensions of credit under the PPPLF be disclosed to the public?

Yes. Information on PPPLF extensions of credit will be disclosed to the public as required by section 13(3) of the Federal Reserve Act and the Board's Regulation A. See 12 U.S.C. 343(3)(C), 12 CFR 201.4(d)(3).

How will the Federal Reserve publish data on extensions of credit under the PPPLF?

Each week, the Board will report total borrowing under the PPPLF on an aggregated basis nationwide.

PPPLF borrowers are required to certify that they are not insolvent and that they cannot obtain adequate credit accommodations from other banking institutions. Upon what information may PPPLF borrowers rely when making these certifications?

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.

Where should questions regarding the PPPLF be directed?

Questions regarding the PPPLF should be directed to the institution's local Reserve Bank or to PPPLF@chi.frb.org.

Where is there more information about the PPP?

To learn more about the PPP, visit https://home.treasury.gov/policy-issues/top-priorities/cares-act/assistance-for-small-businesses.

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

No, a PPPLF borrower may not pledge any PPP loan as PPPLF collateral that has been pledged to another party without obtaining the consent of the lending Reserve Bank.

May a borrower pledge a PPP loan as PPPLF collateral if the borrower funded the PPP loan using secured funding from a warehouse lender?

No. A depository institution may only pledge a PPP loan to the PPPLF if there are no other claims on that loan.

Are extensions of credit under the PPPLF made with recourse to the PPPLF borrower?

No. Extensions of credit under the PPPLF are made without recourse to the PPPLF borrower. The non-recourse status of the PPPLF extension of credit may change, however, if the PPPLF borrower has breached any of the representations, warranties, or covenants in the PPPLF documentation; or has engaged in fraud or made a misrepresentation in connection with participation in the PPPLF.

How are PPPLF extensions of credit treated 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.*

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.

If a depository institution purchases an interest in a PPP loan in the secondary market, can the depository institution pledge that interest as collateral for an extension of credit under the PPPLF?

No. The PPPLF extends credit to eligible financial institutions that originate PPP loans, and was not authorized to support the secondary market for such loans. Only the depository institution that originated the PPP loan may pledge it to the PPPLF.

May a borrower under the PPPLF pledge PPP loans with the same maturity date for different PPPLF extensions of credit?

No. 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 example, a PPPLF borrower may have a group of PPP loans that it has originated and that all have a maturity date of April 30, 2022. The Reserve Bank will make one extension of credit to that PPPLF borrower secured by the pool of PPP loans having the April 30, 2022, maturity date. For this reason, a PPPLF borrower should ensure that it simultaneously pledges all PPP loans with the same maturity date. A PPPLF borrower will be required to obtain a separate extension of PPPLF credit for each maturity date of PPP loans that are pledged as collateral. The amount of the PPPLF extension of credit will be the aggregate amount of the PPP loans that are pledged to secure that extension of credit, and the maturity date of the PPPLF extension of credit will be the maturity date of the PPP loans that are pledged to secure it.

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?

Proceeds of a PPPLF extension of credit will generally be available on the business day following the date of the submission of the request. In periods of very high demand for PPPLF extensions of credit, such as is expected at the start of the facility, additional time may be needed for proceeds to be available to the PPPLF borrower.

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

No. A borrower must first make the PPP loan that it intends to pledge as PPPLF collateral, and then submit a request for a PPPLF extension of credit secured by that PPP loan.

Can a borrower pledge PPP loans as PPPLF collateral for an extension of PPPLF credit in an amount that is less than the aggregate principal amount of the PPP loans that have been pledged?

No. PPPLF credit will be extended in the amount equal to the aggregate principal amount of the PPP loans that have been pledged.

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

No.

Are depository institutions that are eligible for secondary credit eligible to participate in the PPPLF?

Yes.

What should a PPPLF borrower do if it has pledged a PPP loan as collateral for a PPPLF extension of credit, but later decides that it wants to sell that PPP loan in the secondary market?

The PPPLF borrower must both notify the lending Reserve Bank that it is requesting to prepay a PPPLF extension of credit, and must pay the lending Reserve Bank the full amount of the outstanding balance of the PPP Loan that the PPPLF borrower wishes to sell into the secondary market. The PPPLF borrower should contact the lending Reserve Bank for information on submitting its request and on completing any necessary documentation.

Are there any restrictions on what a PPPLF borrower does with the proceeds of a PPPLF extension of credit?

No. The PPPLF provides liquidity against PPP loan collateral to bolster the effectiveness of the PPP. There are no restrictions on what a depository institution does with the proceeds of a PPPLF advance.