

Federal Reserve Introduces Paycheck Protection Program Liquidity Facility

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Original post [here](#).

On April 9, the Federal Reserve released the details of its new [Paycheck Protection Program Liquidity Facility](#) (PPPLF), through which financial institutions can use eligible loans made to small businesses as collateral when borrowing from the Fed. The purpose of the program, authorized under [Section 13\(3\) of the Federal Reserve Act](#), is to facilitate such lending to small businesses.

The [CARES Act](#) rescue package, signed into law in the United States on March 27, includes in Section 1102 the establishment of the Paycheck Protection Program (PPP). The PPP [allocates \\$349 billion](#) of taxpayer funds to guarantee Small Business Administration (SBA) loans made by financial institutions to certain small businesses with up to 500 employees. The Fed had made a brief [announcement](#) on April 6 indicating that it was developing a program to provide term financing backed by PPP loans.

Under the PPP, financial institutions originate loans to eligible businesses. The SBA fully guarantees these loans. By accessing the PPPLF, the financial institutions can now use these PPP loans as collateral for loans at their regional Federal Reserve Bank. Such loans will be made on a non-recourse basis, meaning that the Fed is limited to recovery of collateral in the event loans are unpaid.

The PPPLF is available to all depository institutions that originate PPP loans. Under section 1102 of the CARES Act, a PPP Loan will be assigned a risk weight of zero percent under the risk-based capital rules that apply to depository institutions. The Fed has indicated that it will work to expand eligibility to other PPP lenders in the near future.

The Fed will not apply a haircut to the principal value of the PPP loan, which means it will accept the collateral at face value. The Fed will charge an interest rate of 35 basis points, but there is no participation fee. The maturity of the Fed's loan to the financial institution is set to match the maturity of the financial institution's loan to the small business, subject to acceleration in the event the underlying PPP loan defaults or is forgiven under the terms of the PPP.

The Fed announced that it will not extend new credit via the PPPLF after September 30. However, in an [interview](#), Fed Chair Jerome Powell said, "we will be in no hurry to pull back...on these programs. They are tentatively scheduled to stop lending on September 30. If they have to go longer, then of course they will. We'll be looking to make sure the economy really is on a solid footing before pulling back. And then, as we start pulling back, we will do so very gradually."