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COVID-19 and the CARES Act:

Rapid Response to Sustain the Economy During Pandemic Induced Coma

The COVID-19 Pandemic has triggered an unprecedented shutdown of the U.S. economy to address the medical threat posed by the novel coronavirus. This shutdown of a significant portion of the U.S. economy caused a sharp increase in unemployment and resulting declines in GDP. The federal government's COVID-19 relief plan has so far consisted of three components:

- Fiscal stimulus to individuals and businesses aggregating approximately $2.2 trillion approved by Congress through three stimulus bills: Phase I for $8.3 billion on March 6, Phase II for $100 billion on March 18, and the major stimulus package approved on March 27 with the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) with further detail in the PPP Interim Final Rule on April 2;
- Monetary policy action through rate cuts, lower reserve requirements, and liquidity support of approximately $4 trillion provided through at least 6 programs administered by the Federal Reserve in coordination with the U.S. Treasury; and
- Regulatory and accounting relief for borrowers and banks by allowing forbearance for loan deferrals to borrowers impacted by COVID-19, delay in the adoption of CECL, TDR relief for loan modifications, FDIC insurance for non-interest bearing deposit accounts, and reduced community bank leverage ratio requirement (CBLR) from 9% to 8%.

With the passage of the CARES Act along with the monetary policy and regulatory and accounting relief initiatives, the high level plans to address this economic crisis have been set forth and the focus must immediately turn towards implementation where the "devil is in the details". The near-term impact will be greatest for individuals, small businesses and industries directly impacted by COVID-19 and we expect to see a number of implementation questions addressed over the next 30 days. These include:

- With almost $350 billion in funds to disburse as soon as possible under the Paycheck Protection Program (the "PPP"), how will the SBA manage this process and ensure that money is disbursed properly?
- How will the U. S. Treasury quickly approve other non-SBA lenders for the PPP?
- How will the mid-market loan program be administered by the U.S. Treasury outside of the SBA?
- How will loan deferments be managed and how will such deferments impact the whole loan and securitization markets for consumer finance?
- Can consumer loans that have not been securitized access liquidity through one of the existing programs or will a new program be required?
- How will bank and non-bank loan servicers manage the expected large-scale delinquency in mortgages pursuant to permitted deferral loan programs and fund advances required by the agencies for their securitizations?
- How will the brokered CD market gain access to sources of liquidity since it is not currently included in any existing Fed or U.S. Treasury program?
- How will the non-QM mortgage market weather the sharp drop in funding and regain access to liquidity for potential securitization?
- How will CECL modification proceed?

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Answers to these and other questions will unfold over the next 90 days and we will endeavor to provide timely updates on new key developments.

For the U.S. banking industry, we think that the COVID-19 crisis and CARES Act response present a number of opportunities and challenges:

Accounting Relief for TDRs: The CARES Act provides that modifications for loans under certain forbearance conditions that were otherwise performing before the COVID-19 crisis will not be considered troubled debt restructurings (TDRs) for regulatory reporting and GAAP but will nonetheless complicate interim calculations of credit quality.

Optional Delay in CECL Implementation: The CARES Act stipulates that large SEC filers have the option of delaying the adoption of CECL from Q1 2020 to the earlier of the end of the COVID-19 emergency period or December 31, 2020. An interagency interim final rule issued by the OCC, Fed, and FDIC on March 27 would give banks that were required to implement CECL by the end of 2020 the ability to defer any impact of CECL on regulatory capital for two years before beginning the three year phase-in period, for a total five year phase-in period.

Potential to Adopt the CBLR Capital Regime: The CARES Act allows qualifying community banks to use 8% rather than 9% to remain well capitalized under the Community Bank Leverage Ratio (CBLR) requirement.

Increased Lending Opportunities: There will be unprecedented opportunities to bolster SBA and non-SBA lending with substantial U.S. government guarantees, reimbursement of fees, and limited underwriting requirements and documentation.

Increased Non-QM Mortgage Balance Sheet Lending Opportunity: With the CARES Act explicit requirement to allow mortgage payment deferral and the potential underwriting of most non-QM mortgages with limited proof of ability to repay (ATR), the liquidity of those underlying loans through securitization may be negatively impacted in the near term. This could open the market for more balance sheet lending for this loan type.

Funding Pressure on Mortgage Servicers: A majority of agency single-family loan securitizations require that servicers advance payments during a deferral period. With the explicit requirement for mortgage deferral if requested, the CARES Act will place pressure on servicers to continue to fund payments to the agencies. This will be particularly impactful for non-bank servicers who do not have access to insured deposits and the FHLB to fund such advances. GNMA announced on March 30 that they would set up a pass-through assistance program within the next few weeks and we expect other agencies may follow suit.

Increased Banking Funding Opportunities with Historically Low Rates: With lower short and long-term interest rates, there are unique opportunities to lock in historically low funding costs either directly with CDs, FHLB advances, short term advances with swaps, or from potential liquidity facilities offered under the monetary policy programs offered by the Fed.

While it is clear that the banking industry will be materially impacted by COVID-19 and the CARES Act response, we think there will be many other industries that face a significant impact. These include REITS, BDCs and other non-bank financials, insurance companies, along with air transportation companies, hotels, casinos, restaurants, states and local municipalities, health care companies, consumer lenders, consumer product companies, and financial technology companies, among others.

Background and Overview

We can compare the current response to the nature and actions taken during and after the Great Recession of 2008 to 2010. That was a credit crisis initially triggered by an excessive and lengthy period of home price stimulation followed by the sub-prime mortgage market meltdown. The recovery from this crisis included a systemic rework of the credit origination and funding mechanisms in the U.S. addressed through the Dodd-Frank Act, along with global agreement on a capital and liquidity framework (Basel III) by the G20 countries. The response was much slower. Over four months between late 2008 and early 2009, the recovery plan came together and consisted of two components to jump-start the economy: $1.5 trillion in fiscal stimulus and access to the Troubled Asset Relief Program (TARP) that provided capital and funding. These stimulus programs and TARP were implemented largely through the banking system, although a limited amount of direct lending to large businesses was done by the U.S. Treasury. As such, this was more of a “top down” response and recovery. These changes along with subsequent refinements and regulatory relief provided the basis for the sustained but moderate economic growth experienced in the U.S. through year-end 2019.

In contrast, the COVID-19 crisis developed over four weeks between mid-February and early March. U.S. Policy makers ordered the large-scale shutdown of the economy for a currently undetermined time-period. Without a proven medical treatment for COVID-19, policy makers are grappling with the best way to sustain the economy to allow time to slow the rate of infection and find a treatment or vaccine. This has been an unprecedented, vast, rapid shutdown of the economy that has produced a short-term “medically induced coma” of temporary forced work stoppage to reduce fatalities from COVID-19. With limited time to plan the

details, policy makers have swiftly assembled over $4 trillion in funding and liquidity from the Federal Reserve and Treasury combined with approximately $2.2 trillion in stimulus payments.

The parties most impacted by this economic coma are the travel and hospitality industries, entertainment and sports enterprises, retailers, small businesses, and individuals that may not have the financial resilience of large businesses. This crisis requires more of a “bottoms-up approach” with the near term priority being to get funding and income distributed on a means tested basis as quickly as possible to the people most in need in the next 90 days, although follow on stimulus measures are being considered. Learning from the TARP program, policy makers have conditioned access to funding and aid upon limits on executive compensation, restrictions on common stock repurchases and dividends, and in some cases requiring equity ownership in return for providing assistance.

With this priority to get funds quickly to individuals and small businesses clearly in mind, policy makers developed a three-prong approach to address the crisis:

First, Congress created a robust $2.2 trillion fiscal stimulus program through the CARES Act passed on March 27 that included loans and other aid to businesses, small business loans, direct payments to households, unemployment insurance, tax benefits for business, supplemental spending, and direct aid to states, hospital and veteran care, and other aid.

Second, the Federal Reserve in coordination with the U.S. Treasury provided strong monetary policy support by lowering the Fed Funds rates and the discount window-borrowing rate to near zero, providing unlimited quantitative easing, lowering reserve requirements to zero, and providing U.S. dollar swap lines to numerous central banks. They also opened six additional sources of funding for financial institutions and other eligible parties including the Primary Dealer Credit Facility (PDCF), the Commercial Paper Funding Facility (CPFF), the Money Market Mutual Fund Liquidity Facility (MMLF), the Term Asset-Backed Securities Loan Facility (TALF), the Primary Market Corporate Credit Facility (PMCCF), and the Secondary Market Corporate Credit Facility (SMCCF). Collectively, these facilities were provided with $50 billion of initial credit protection capacity but have the potential to leverage this funding by a maximum of 16.5x.

Third, the CARES Act and subsequent interim rulemaking by the regulatory agencies provide regulatory relief on many key issues. These include: FDIC insurance for non-interest bearing transaction accounts and certain other bank borrowings; an optional delay in the adoption of CECL for large SEC filing institutions; relief from classification of eligible loan modifications as a result of COVID-19 as TDRs; a temporary waiver of legal lending limit restrictions; and a temporary requirement to report modified loans as a result of COVID-19 as current.

As shown below in Chart A, this combination of fiscal policy, monetary policy and regulatory relief is unprecedented for both its scale and the speed with which it was assembled. Overall, with $2.2 trillion in economic stimulus, over $4 trillion in monetary policy support, and regulatory relief, policy makers have signaled they will do whatever it takes to defeat the COVID-19 economic crisis and stabilize the U.S. economy during this challenging period. We see these actions more as filling a hole in GDP rather than a forward-driving stimulus package, which is why we believe more will be in the works.

Chart A – Three Prong Approach to COVID-19 Crisis

Fiscal	Monetary	Regulatory/Accounting
	Secondary Market Corporate Credit Facility (SMCCF)	
	Primary Market Corporate Credit Facility (PMCCF)	
Other $103 Billion	Term Asset-Backed Security Loan Facility (TALF)	
Hospitals and Veterans Care $117 Billion	Money Market Mutual Fund Liquidity Facility (MMLF)	
Direct Aid to States $150 Billion	Commerical Paper Funding Facility (CPFF)	
Supplemental Spending $198 Billion	Primary Dealer Credit Facility (PDCF)	
Tax Benefits for Business $221 Billion	Lower Fed Funds Rate	Temporary Relief on Reporting to Credit Agencies (Section 4021)
Unemployment Insurance $250 Billion	Lowered Discount Window Rate	Waiver of Legal Lending Limit (Section 4011)
Direct Payments to Households $301 Billion	Quantitative Easing	TDR Relief (Section 4013)
Loans to Small Businesses $349 Billion	Reserve Requirement	CECL Delay (Section 4014)
General Purpose Fund for Loans and Other Aid to Businesses $454 Billion	Dollar Liquidity	Unlimited FDIC Insurance for Non-Interest Bearing Accounts (Section 4008)
$2.2 Trillion of Stimulus	$4.0 Trillion of Liquidity	Regulatory/Accounting Relief

Fiscal Stimulus

There are nine key components to the fiscal stimulus package as per Chart A.

Businesses ($454 Billion): The biggest component of stimulus is approximately $454 billion to provide targeted direct lending, loan guarantees, and investments by the U.S. Treasury into businesses with between 500 and 10,000 employees in connection with the Federal Reserve Section 13(3) lending powers[1]. Limited details on this program are currently available and we expect to see substantial guidance from Treasury in the coming weeks. This funding comes with significant strings attached, including maintaining the workforce, no outsourcing or offshoring jobs for the term of the loan plus two years, no resistance to collective bargaining agreements for the term of the loan plus two years, no stock buybacks, loans cannot be forgiven, employees are located predominantly in the U.S. and the recipient must show no alternative funding is otherwise available. We note that the Federal Reserve also announced on March 23 that it would offer assistance to mid-size businesses through its Main Street Business Lending Program that will not impose the same conditions as the assistance for businesses included in the CARES Act. We will provide updates on this program as available.

Small Businesses ($349 Billion): Terribly important, the next largest component of stimulus is approximately $349 billion to provide loans to small businesses generally with less than 500 employees, notably expanding potential borrowers beyond "small business concerns" historically able to participate in SBA loan programs. This funding will be provided through three SBA related programs, the new Paycheck Protection Program (PPP), the SBA's existing Economic Injury Disaster Loan (EIDL) Program that has been expanded to cover the COVID-19 disaster, and payment relief for existing SBA 7(a), 504 and microloans.

On April 2, the SBA released an Interim Final Rule (IFR) on the PPP that provided important details on the program. There have been so many changes to the rules and requirements that we have prepared a summary along with a comparison with the existing SBA 7(a) program for your ease of reference. The PPP is distinctly different from existing SBA loan programs. A summary of the PPP's updated rules and requirements is shown below (please see Appendix A for more details):

- *Availability:* April 3, 2020 to the earlier of June 30, 2020 or when no more available funds.
- *Guarantee:* 100% guarantee of principal and interest by the SBA. No collateral required. 0% risk weighted asset.
- *Rate:* 1% per year.
- *Originator/Lender:* Fee payable by the SBA of 5% for loans not more than $350,000; 3% for loans greater than $350,000 but less than $2 million; and 1% for loans of $2 million or more.
- *Agent Fees Paid by Lender/Originator:* Maximum of 1% for loans of not more than $350,000; .50% for loans of more than $350,000 and less than $2 million, .25% for loans of $2 million or more.
- *Maturity:* 2 year stated final maturity. Payments are deferred for the initial 6 months but interest will be accrued.
- *Loan Forgiveness:* 100% of the loan amount will be forgiven subject to: (i) 25% limitation on non-payroll expense and (ii) 25% or less decline in employment at the borrower (see more detail below on mechanics).
- *Eligible Lenders:* All existing SBA certified lenders have delegated authority. In addition, the following may apply to the SBA to make PPP loans: all insured depositories, federally insured credit unions, any Farm Credit System institution subject to BSA requirements, and any depository or non-depository financing provider that has originated, maintained or serviced at least $50 million in business loans or other commercial finance receivables or services during a recent 12 month period (subject to a formal compliance program and meeting BSA requirements).
- *Eligible Borrowers:* Small businesses with 500 or fewer employees in operation on February 15, 2020, and whose principal place of business is in the U.S., as well as certain franchises and businesses that operate in the hospitality or food delivery industry. Certain tax-exempt organizations and tribal business concerns are also included. Self-employed, independent contractors, or sole proprietorships are also permitted borrowers subject to required documentation.

[1] Please see March 27, 2020 Congressional Research Service report on "Federal Reserve: Emergency Landing" for more details on the Federal Reserve's emergency lending powers to nonbank financial institutions.

- *Excluded Borrowers:* Businesses engaged in any illegal activity, household worker employers, a business with an owner of 20% or more in jail or subject to criminal charges or convicted of a felony in last 5 years. In addition, traditionally ineligible borrowers under the SBA's Standard Operating Procedures (SOP) 50 10, Subpart B, Charter 2 other than non-profits, such as lending entities, life insurance companies and gambling businesses will continue to be ineligible under the PPP.
- *Permitted Loan Amount: Lesser* of $10 million or 2.5x average monthly included payroll. The included payroll is based on the 12-month average of aggregate compensation, excluding any compensation in excess of $100,000. (Any EIDL loan made between January 31, 2020 and April 3, 2020 would be added to the total less any EIDL COVID-19 loan.)
- *Secondary Market: A PPP loan may be sold on the secondary market at a premium or discount to par after the loan is fully disbursed. There is no fee payable to the SBA for any guarantee sold into the secondary market. More details to follow on this program.*
- *Reimbursement of Loan Timing by SBA:* Loans must be outstanding for a minimum of 7 weeks after which time the lender/originator can apply to the SBA to purchase the expected forgiveness amount of the loan. The SBA must purchase this amount within 15 days after a complete report that demonstrates the expected forgiveness amount. Note that the SBA is not required to purchase 100% of the loan if the borrower has failed to meet the purpose requirements as discussed below.
- *Loan Underwriting:* Lenders are not required to independently verify the information submitted by borrowers but may rely on borrower certifications contained in the PPP application form, receipt of information from the borrower on employees and payroll, and following applicable BSA requirements.

Chart B - Paycheck Protection Program Mechanics

As illustrated in Step 1 below, to determine the eligible loan amount the applicant must first determine payroll costs. The eligible loan amount is the lesser of $10 million or 2.5x the borrower's average monthly payroll costs.

Step 1	**Average Payroll**	**$125.0**	**(a)**
Calculation of	**Less: Excluded Payroll**	**$25.0**	**(b)**
Included Payroll	**Average Included Payroll**	**$100.0**	
Step 2	**Factor (x)**	**2.5**	
Calculation of	**Loan Amount**	**$250.0**	**(c)**
Loan Amount			
	Starting Non-payroll	**$50.0**	**20%**
	Starting Payroll (8 weeks)	**$200.0**	**80%**
	Total Loan Amount	**$250.0**	**100%**
Step 3	**Permitted Payroll**	**187.50**	**75%**
Calculation of Max	**Permitted Non-payroll**	**62.50**	**25%**
Permitted non-payroll	**Loan Amount**	**250.00**	**100%**

[a] Included in payroll costs for employers equal (i) the sum of any payments for salary, wages, commission or similar compensation, (ii) payment of cash tips or equivalent, (iii) payment for vacation, parental, family medical or sick leave, (iv) allowance for dismissal or separation and (v) payment required for group health benefits and payments.

[b] Excluded payroll costs for employers include (i) compensation for any employee with an annual salary in excess of $100K as pro-rated from the 2/15 – 6/30 period, (ii) payroll taxes, railroad retirement taxes and income taxes, (iii) any compensation to employees with principal residence outside the U.S. and (iv) qualified sick leave under Sections 7001 or 7003 under the Families First Coronavirus Response Act.

[c] For non-seasonal employees, the maximum loan amount equals 2.5 x the average total monthly payroll costs incurred during the year prior to the loan date. For non-seasonal employees not in operation in 2019, use January or February of 2020. For seasonal employees, use average monthly payroll for 12-week period beginning February 15 or March 1 and ending on June 30, 2020.

To help small businesses weather the COVID-19 pandemic and retain employees, the Paycheck Protection Program provides a strong incentive to avoid layoffs by forgiving borrowing amounts for up to eight weeks of eligible payroll. However, the amount that can be forgiven will be reduced if the business reduces more than 25% of its employees or 25% of the total salaries during the eight-week period after loan origination until June 30.

Small business employees may find that the state and federal unemployment insurance benefits (which were also enhanced under the CARES Act) offer employees more compensation than their current salaries. For example, in New Jersey, the unemployment benefits of 60% of wages per week along with the CARES Act supplemental unemployment benefit of $600 per week represents an hourly equivalent of almost $24 per hour for a worker that would otherwise be earning $15 per hour. This higher level of compensation may present a challenge to business owners to retain staff as declines in payroll will negatively impact the loan forgiveness amount. Small business owners should be aware of the impact of payroll reductions and the related increase in non-payroll expense on the amount of loan forgiveness they receive.

Step 4 in the chart below illustrates the impact of declines in payroll. As shown in column (d), as staffing declines by 20% to 32 employees while keeping non-payroll constant at $50,000, the loan forgiveness amount would decline to $210. As long as the job losses are less than 25% and the non-payroll amount stays below 25% of total loan forgiveness, the small business owner can increase the non-payroll reimbursement to $53.3 for total reimbursement of $213.3. But this amount is only 85% of the original loan amount and the small business owner would be required to repay the $36.7 or 15% difference over the next 2 years to the lending bank or ultimately the SBA.

						(d)				
	Starting Employees	40								
	Ending Employees	40	38	36	34	32	31	30	29	
Step 4	Percentage Decline in Staff		5%	10%	15%	20%	23%	25%	28%	
	Ending Employee Ratio	100%	95%	90%	85%	80%	78%	75%	73%	
Impact of Job Losses	Payroll	$200.0	$190.0	$180.0	$170.0	$160.0	$155.0	$150.0	$145.0	
on Loan Forgiveness	Non-payroll Constant	$50.0	$50.0	$50.0	$50.0	$50.0	$50.0	$50.0	$50.0	
Amount	Total Loan Amount	$250.0	$240.0	$230.0	$220.0	$210.0	$205.0	$200.0	$195.0	
	Non-payroll Cannot Exceed 25%	20%	21%	22%	23%	24%	24%	25%	26%	(e)
Step 5	Loan Forgiveness Amount	$200.0	$190.0	$180.0	$170.0	$160.0	$155.0	$150.0	$145.0	
Impact of 25% Limit	Non-payroll (+/-) to 25% Max	$50.0	$63.3	$60.0	$56.7	$53.3	$51.7	$50.0	$48.3	
on non-payroll	Lesser of $250 or 25% Max	$250.0	$250.0	$240.0	$226.7	$213.3	$206.7	$200.0	$193.3	
	Non-payroll/Total Forgiveness Amt.	*20%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	
	% Total Loan Forgiven	100%	100%	96%	91%	85%	83%	80%	77%	

Step 5 highlights the impact of reaching the 25% cap on non-payroll. Row (e) shows the change in percentage of non-payroll to total payroll. Once the 25% cap is breached in the last column, the small business owner can no longer have the full amount of non-payroll cost reimbursed and the total reimbursement declines to $193.3. This amount is only 77% of the original loan amount and the owner would be required to pay back 33% of the original loan over the next 2 years.

In addition to the PPP, the CARES Act also provides additional funding for the existing Economic Injury Disaster Loan (EIDL) Program to cover the COVID-19 disaster. Small business owners may apply for EIDL loans of up to $2 million at 4% with forgivable emergency loans of $10,000 available for funding within 3 days of application. Unlike the expanded category of potential borrowers under the PPP, EID loans are only available to traditionally eligible small business concerns.

Finally, for small businesses with an existing SBA-guaranteed loan, the CARES Act provides relief for up to 6 months of payments for SBA 7(a), 504, and microloans. The SBA will pay principal, interest and fees on these loans for 6 months beginning at the next payment date. Loans already on deferment will receive 6 months of payment from the SBA after the deferral period. The SBA will also encourage lenders to provide deferments and will allow lenders for up to one year to extend the maturity of SBA loans in deferment beyond the current terms.

Since the PPP was launched, the average loan size has been about $300,000. With roughly $350 billion in small business funding availability and an assumed average loan size of $300,000, only about 1.17 million small businesses would be able to access this funding. The SBA estimates that there are about 30 million businesses with under 500 employees in the U.S. This means the PPP will reach about 3.8% of the sector, assuming the average loan size holds. As such, it is reasonable to expect that this first tranche of the PPP will be the first of potentially many tranches to be allocated to support small business. The PPP's targeted size of $349 billion represents over 10x the SBA's historical annual origination of approximately $30 billion. For participating banks to fund such a large volume of new loans in a short period of time would be a major stress for liquidity. To address that concern, the Federal Reserve announced late yesterday that it would provide a new liquidity facility to provide term borrowing for such loans. More details are expected to follow this week.

The fluid nature of the PPP rules and requirements, along with the evolving funding from the Federal Reserve, highlight the importance of the small business lending component to the overall COVID-19 recovery plans. Stay tuned for what will likely be more changes to the program as it is implemented.

Direct Payment to Households ($301 Billion): As stated previously, this crisis requires more of a "bottoms-up approach" with the near term priority being to get funding and income distributed as quickly as possible to the people most in need in the next 90 days. Section 2201 covers direct payments to individuals. This is expected to be accomplished through an immediately refunded credit for 2020 to eligible taxpayers equal to $1,200 per individual or $2,400 per married taxpayers filing jointly plus $500 for each child subject to income limits. The credit is generally phased out for single taxpayers whose income exceeds $99,000 ($136,000 for heads of household and $198,000 for joint filers. More specifically, the credit declines by $5 for every $100 that a taxpayer's adjusted gross income exceeds (a) $75,000 for single taxpayers, (b) $112,500 for heads of households, and (c) $150,000 for joint filers. The credit amount will generally be based on 2019 returns and issued as a "refund" for the tax credits.

Unemployment Insurance ($250 Billion): Title II of the CARES Act provides a myriad of unemployment insurance provisions aggregating an estimated cost of $250 billion. Section 2102 provides Pandemic Unemployment Assistance through December 31, 2020 for those not otherwise eligible for unemployment benefits. Section 2103 provides emergency assistance to states to reimburse nonprofits, government agencies, and Indian tribes for half of the costs they incur through December 31, 2020. Section 2104 covers the emergency increase of $600 per week to each recipient of unemployment insurance or Pandemic Unemployment Assistance for up to 4 months. Section 2015 includes funding for the first week of unemployment through December 31, 2020 for states with a one week waiting-period to qualify for unemployment benefits. Section 2106 covers the cost of hiring staff to administer unemployment claims. Section 2107 provides for an additional 13 weeks of unemployment benefits through year-end 2020 for those who remain unemployed after state benefits are no longer available. Sections 2108, 2019 and 2110 provide funding to support short-term compensation arrangements whereby employers reduce hours instead of laying off employees. Sections 2111, 2112, 2113, 2114, 2115 and 2116 also provide funding or facilitate administration of these additional unemployment benefits.

Tax Benefits for Business ($221 Billion): The CARES Act includes at least six significant changes in tax laws estimated to aggregate $221 billion in cost. Section 2301 provides a 50% refundable tax credit for wages paid by employees during the COVID-19 crisis. This credit is available to employers whose operations were fully or partially suspended due to the COVID-19 crisis. Section 2302 allows employers to defer making the 6.2% social security tax on employee wages with the requirement that such payments be made 50% by December 31, 2021 and 50% by December 21, 2022. Section 2303 modifies the tax rules related to net operating losses and unusually allows that an NOL arising in a tax year beginning in 2018, 2019 or 2020 can be carried back 5 years. The provision also temporarily removes the taxable income limitation to allow an NOL to fully offset income. These important changes will allow companies to utilize losses and amend prior year returns thereby providing cash flow and liquidity. Section 2304 modifies loss limitations for pass-through businesses and sole proprietors. Section 2305 accelerates the ability of companies to recover alternative minimum tax credits. Section 2306 temporarily increases the interest expense deduction on corporate tax returns from 30% to 50% of taxable income for 2019 and 2020. Section 2307 allows businesses to write off immediately costs associated with improving facilities instead of having to depreciate those improvements over the 39-year life of the building.

Supplemental Spending ($198 Billion): Title III of the CARES Act also includes a number of programs to support America's health care system in the fight against the coronavirus. Sections 3101 to 3112 address supply shortages for medical products, emergency drug shortages, and access to telehealth services. Sections 3201 to 3203 address access to and pricing for COVID-19 diagnostic testing and coverage of preventive services and vaccines. Sections 3301 and 3302 facilitate the partnering with the private sector for new drug development, and establishes procedures to speed up the development of drugs to treat animals and prevent animal to human transmission, which is suspected to have caused the coronavirus. Section 3211 provides $1.32 billion in supplemental funding for community health centers.

Direct Aid to States ($150 Billion): Title V, Section 5001 of the CARES Act allocates $150 billion in direct aid to states, territories, and tribal governments to use for the expenditures incurred due to the public health emergency caused by falling revenues as a result of the COVID-19 crisis. This funding is expected to be allocated by population proportions, with a minimum of $1.25 billion for states with relatively small populations.

Hospitals and Veteran's Care ($117 Billion): Policy makers and the general public are very concerned about protecting health care workers, who are truly the heroes in the COVID-19 crisis, and supporting the hospitals and VA medical facilities in their health care delivery and maintenance. As such, approximately $117 billion was allocated for these efforts.

Other ($103 Billion): This category includes grants to cover wages at passenger air carriers, cargo air carriers, and contractors, relief for cargo and passenger airlines, public transport, and relief for businesses critical to national security.

Monetary Policy

In addition to fiscal stimulus, policy makers have provided access to approximately $4 trillion in liquidity support beginning on March 12 through a wide range of monetary policy instruments. Please see Chart C below for a summary of the monetary policy tools that the Fed has unveiled to address liquidity and funding concerns because of the COVID-19 crisis.

The monetary policy component includes much of the 2008-09 response from the last recession. The lowered Fed Funds and Discount Rates are presumed to set the tone for making lending more available in an otherwise inhospitable environment. These are unlikely to go further, i.e. through the “zero bound” into negative territory, without creating immense mechanical problems in U.S. financial markets.

However, quantitative easing (QE) is theoretically unlimited depending on Fed balance sheet constraints. As there are seemingly none, the last three rounds of QE left a bloated Fed balance sheet from the purchase of Treasuries as well as mortgage-backed securities, that was in the process of being unwound when it was discovered that a much higher level of bank reserves is now requisite to controlling the Fed funds band itself.

These two facets of monetary policy are a powerful means to enhance market liquidity in general, particularly with the Fed's own version of “whatever it takes” to mean being prepared to buy the gamut of financial instruments, both in the government and private sectors. As an emergency measure it is productive liquidity enhancement, but it can also be argued that there are two sides to the making-credit-available goal. Supply is certainly key but demand must also be there. A lesson perhaps unlearned from the last crisis is that borrowers retreat when they can. In the current situation, there are many who simply must borrow to fill the hole left in a brutal revenue halt cutting across almost the entire economy.

In addition, a variety of special facilities have been established. The 0% reserve requirement for banks should increase reserves at the Fed, supposedly stimulating credit supply. Capital and liquidity buffers are being temporarily relaxed as well.

The four direct funding facilities for commercial paper, money market funds, primary dealers and a special purpose vehicle for AAA ABS (TALF) are all traditional focus and grease for specific markets at $10 billion each, which is comparatively limited. Oddly, there is no structure similar to CP for bank CDs, which would provide balanced benefit for both bank and non-bank funding sources.

Perhaps the most important, new component is the Main Street Business Lending Program, that puts the Fed in position to directly lend to small businesses in concert with or as alternative to the three SBA programs. It is unusual for the Fed to directly support small business but considering the unique nature of this crisis its damage will undoubtedly be felt the most on smaller commercial enterprise, which are also the most important new job generator. The sharp loss of revenues due to “temporary” closures to these is truly existential and any means to sustain their survival cannot be overemphasized. This is also why the size may surprise. For more details on the eligible borrower, sellers and issuers; eligible collateral, rates, and term, please see Appendix B.

Chart C – Timeline of Fed's Monetary Policy Actions

Date	Program	Eligible Borrowers	Action/Amt.	Description
3/12/2020	Repo Operations	All Banks With Eligible Collateral	$500 B for 3-month Repo $500 B for 1-month Repo	FRBNY boosted volume of repos and signaled up to $1.5 trillion available
3/15/2020	Fed Funds Rate	Central Banks	0 to 0.25%	Federal Open Markets Committee cut the target rate
3/15/2020	Bond Buying	Central Banks	No limit to QM	FOMC committed to unlimited bond buying of Treasuries and MBS in the amounts needed to support smooth market functioning and effective transmission of monetary policy
3/15/2020	Swap Lines	14 non-U.S. central banks in major economies	$30 B of swap lines	Established U.S. dollar currency swap lines with 14 non-U.S. central banks
3/15/2020	Discount Window	Primary Dealers of the New York Fed	Lowered primary credit borrowing rate to 25 BPs	Fed, FDIC, and OCC encouraged discount window borrowing
3/15/2020	Reserve Requirements		Reserve Requirement Dropped to 0%	Reserve requirement cut to 0% freeing up funds as % total deposits to be left in account at the Fed
3/15/2020	Capital and Liquidity Buffers	Primary Dealers of the New York Fed	Lowered primary credit borrowing rate to 25 BPs	Fed, FDIC, and OCC issued statement encouraging banks to use capital and liquidity buffers to respond to crisis. Interim final rule change allows more gradual phase in of restrictions on distributions
3/17/2020	CPPF Commercial Paper Funding Facility	Central Banks	$10 B	SPV buys CP from U.S. issuers including financial and commercial companies and munis
3/17/2020	PDCF Primary Dealer Credit Facility	Central Banks	$10 B	Loans to primary dealers secured by a broad range of eligible collateral
3/18/2020	MMMLF Money Market Mutual Fund Liquidity Facility	Eligible Borrowers: U.S. banks/thrifts, U.S. BHCs, U.S. branches and agencies of FBOs Eligible MMFs: prime and municipal MMFs	$10 B	Non-recourse loans to U.S. banks and thrifts, U.S. BHCs, U.S. branches and agencies of FBOs, eligible money market funds and muni MMFs
3/23/2020	TALF Term Asset-Backed Security Loan	Primary Dealers of the New York Fed	$10 B	SPV makes loans secured by certain AAA-rated ABS without recourse to the borrower, subject to haircuts. FRBNY lends to SPV with recourse.
3/23/2020	PMCCF Primary Market Corporate Credit Facility	U.S. businesses with material operations in the U.S., excluding those that receive direct federal assistance by legislation	$10 B	SPV buys corporate bonds directly from eligible issuers in the primary market and provides loans to eiligible issuers. FRBNY lends to SPV with recourse
3/23/2020	SMCCF Secondary Market Corporate Credit Facility	Primary Dealers of the New York Fed	$10 B	SPV buys corporate debt of eilgible issuers on the secondary market. FRBNY lends to the SPV with recourse.
3/23/2020	Main Street Business Lending Program		TBD	The Federal Reserve expects to announce soon the establishment of a Main Street Business Lending Program to support lending to eligible small-and-medium sized businesses complementing efforts by the SBA.

One can see that as the policy makers became increasingly concerned about the enormity of the economic crisis, they rapidly ramped up the full retinue of tools available from March 15 to March 23 and even pulled a new tool out of the tool box with the Main Street Business Lending Program. As further evidence of this concern, note that the Federal Reserve announced on April 5 that that it will add a 10th liquidity program to the above list to provide funding support for banks originating PPP loans. Details are expected to be available later this week.

Regulatory and Accounting Relief

While fiscal stimulus and monetary policy provide consumers and businesses with money to spend and liquidity to finance those purchases, the banking system is the conduit through which much of this activity takes place. As such, a number of regulatory and accounting changes were needed to implement these policies with the intended result for the economy during this period of economic crisis. These include the temporary debt guarantee, temporary reduction in the CBLR ratio, optional delay in CECL adoption, temporary relief for TDR classification for modified loans, temporary relief on reporting modified loans to the credit agencies, and a temporary waiver of lending limit for valid reason. These key areas of regulatory and accounting relief are more fully described below.

There are many forms of temporary regulatory and accounting relief that were granted under the CARES Act. The sections in the CARES Act refer to this temporary period as the "Covered Period" which is defined as the period from March 1, 2020 to the earlier of December 31, 2020 or the date on which the national emergency related to the COVID-19 crisis terminates. For ease of reference, we will refer to that temporary period below as the Covered Period.

Temporary Debt Guarantee (Section 4008): This section authorizes the FDIC to guarantee accounts at 100% for non-interest bearing transaction deposit accounts that exceed the FDIC's current $250,000 limit during the Covered Period. Importantly, the legislation does NOT set a maximum amount to be guaranteed. In addition, this section authorizes the FDIC to guarantee obligations of solvent insured depository institutions or solvent depository institution holding companies (including any affiliates thereof) similar to what was done in the Great Recession. Details of any such temporary debt guarantee program will have to be spelled out by the FDIC. During the Covered Period, the National Credit Union Administration may temporarily increase during the Covered Period the share issuance coverage on any non-interest bearing transaction account in any federally insured credit union.

Temporary Reduction in the Community Bank Leverage Ratio (CBLR) (Section 4012): This provision allows qualified community banking organizations with less than $10 billion in assets to reduce their CBLR from 9% to 8% during the Covered Period.[2]

Optional Temporary Relief from Current Expected Credit Losses (CECL) (Section 4014): The CARES Act permits an insured depository institution, bank holding company, or an affiliate thereof the option to temporarily delay measuring credit losses on financial instruments using the CECL accounting standard until the Covered Period terminates. Subsequent to the passage of the CARES Act on March 27, the regulatory agencies released an interim final rule change that offers another option to financial institutions to delay for two years, until January 1, 2023, the recognition of any required CECL charge through regulatory capital. As such, large SEC filers will be left with three CECL options:

- Option 1: Do nothing and adopt CECL as currently required with the Day 1 charge recognized in Q1 2020 and amortized over three years for regulatory capital purposes through retained earnings and Day 2 charge also recognized in Q1 2020 through the income statement, tax effected and charged against retained earnings. Note that the Day 1 and Day 2 charges will be fully recognized for GAAP accounting purposes with only the Day 1 CECL charge available for three-year amortization for regulatory accounting purposes. Many of those that have devoted enormous resources to become CECL compliant are, perhaps surprisingly, leaning toward this option.

- Option 2: Delay adoption of CECL until the termination of the Covered Period at which point the banking institution would recognize the Day 1 charge for GAAP accounting and amortize the charge over 3 years for regulatory accounting purposes. The Day 2 CECL charge would be recognized for both GAAP and RAP purposes through the income statement, tax effected and charged against retained earnings.

[2] Qualifications to use the CBLR are as follows: banks with less than $10 billion in average total consolidated assets, a tier 1 leverage ratio greater than 9%, off-balance sheet exposures of 255 or less of total consolidated assets, trading asset plus trading liabilities of 5% or less of total consolidated assets, and not otherwise considered an Advanced Approaches bank. For more information on the CBLR please refer to the October 7, 2019 note - 9th Inning Clean Up at the link: http://www.pipersandler.com/private/pdf/9th_Inning_19.pdf

- Option 3: Opt for Two Year Delay to Adopt CECL for Regulatory Capital Purposes: This option is similar to Option 2 with the additional flexibility to delay regulatory accounting recognition of any CECL for 2 years. Following the two-year delay, the banking institution would amortize the Day 1 regulatory capital charge over three years as contemplated in Option 1. This approach also allows the financial institution to delay a portion of the charges to regulatory capital resulting from future Day 2 CECL provisioning for up to five years. This is calculated by adding back 25% of the impact resulting from the growth of the Allowance for Credit Losses since the adoption of CECL for the first two years following adoption. These adjustments would then be amortized over three years for regulatory capital purposes based on the same amortization schedule as the Day 1 charge.

In both Option 2 and Option 3, CECL would still be adopted for GAAP purposes no later than the end of the Covered Period. We expect to provide a more detailed assessment of these three CECL options in a subsequent report but for more details on the current rules please refer to the Piper Sandler report: CECL – Ready or Not Here is Comes, dated January 28, 2020 found at: http://www.pipersandler.com/2col.aspx?id=5874

Temporary Relief for Troubled Debt Restructuring (Section 4013): On March 22, the Fed, FDIC, NCUA, OCC, CFPB, and Conference of State Bank Supervisors issued an Interagency Statement on COVID-19 loan modifications that encouraged banks to work constructively with borrowers, agreed not to criticize banks for prudent loan modifications, acknowledged that agencies confirmed with FASB that short term modifications to otherwise performing loans made in good faith in response to COVID-19 are not TDRs, and that loan modifications for SFR loans will not be considered restructured for regulatory capital purposes. On March 27, the CARES Act specifically excluded loan modifications during the Covered Period related to the COVID-19 crisis from requirements under GAAP for loan modifications that would otherwise be categorized as a trouble debt restructuring, and the federal banking agencies must defer to the financial institution's determination.*The important distinction between the interagency bulletin and the CARES Act appears to be that federal banking agencies must defer to the financial institution's determination if the modification was done in good faith to respond to a borrower request. Clearly, bankers do not want to be in the position of trying to work with their borrowers in good faith only to have loan modifications criticized after the fact as not being prudent. The combination of the interagency bulletin and CARES Act wording provides robust support for bankers to work with borrowers on loan modifications but raises a question about how modifications will be accounted for if they extend beyond the Covered Period when accounting treatment would revert to GAAP.*

Temporary Relief on Reporting to Credit Agencies (Section 4021): Servicers must suspend reporting the status of a mortgage loan to credit bureaus during an active forbearance plan or repayment plan where the borrower is making required payments as agreed even though the payments are past due, as long as the delinquency is related to a COVID-19 hardship. Servicers must also suspend all foreclosure sales for the next 60 days other than on vacant or abandoned properties. HUD has suspended foreclosures for 60 days and FNMA and FHLMC will do the same. Servicers will be expected to evaluate a borrower's eligibility for a forbearance plan according to the FNMA and FHLMC guidelines but servicers are not required to obtain documentation of the borrower's hardship. Loans for primary residences, second homes and investment properties are eligible for forbearance. Servicers are expected to reach out to borrowers who have received a forbearance plan in response to COVID-19 no later than 30 days prior to the expiration of the forbearance plan term and evaluate loan modification options including Extend Modifications for Disaster Relief. To evidence these changes, on March 18, HUD released a Mortgagee Letter 2020-4 that placed a moratorium on foreclosure and evictions for 60 days.

Temporary Lending Limit Waiver (Section 4011): The legislation also temporarily authorizes the OCC to exempt during the Covered Period any lending limits to non-bank financial companies if the OCC determines it is in the public interest.

Summary

The CARES Act along with stimulus bills passed on March 6 and March 18 came together over a period of weeks from February 12 to March 27 with an unprecedented show of collective will to address the economic coma that policy makers were forced to impose on the U.S. economy to address the COVID-19 crisis. The policy makers have pulled many of the old monetary policy tools out of the tool shed, lowered the reference rates to near zero and committed to provide essentially unlimited QE. To supplement the robust small business lending effort by the SBA, the Treasury will take on more of a direct role to supplement loan originations under the PPP program by identifying and approving other lenders and offer a brand new Main Street Business Lending Program for medium to small businesses without all the constraints and limitations required under the larger business lending program. By directing a substantial amount of the stimulus directly to individuals, small businesses and hospitals, policy makers have engineered a “bottoms up” strategy of economic stimulus very different from the Great Recession.

As impressive as all these developments are coming in such a short period of time, it is understandable that there are many open issues and unanswered questions that will be determined over the coming weeks and months. Some examples include:

- Liquidity for pre-securitization consumer loans
- Liquidity for forbearance SFR and multi-family loans
- Funding for non-bank servicer advances to agencies
- Mechanics of Treasury led PPP loan effort
- The timetable for securitizations of PPP loans
- Mechanics of Main Street Loan Fund
- Bank level liquidity sources to fund new loan programs
- How are practices during the Covered Period migrated back to current GAAP
- How will investors and analysts make sense of financials with temporary GAAP versus normal GAAP, including the likely large disparity between accounting under GAAP and regulatory accounting principles (RAP)

Clearly, the courage and dedication exhibited by our front line health care providers has been an inspiration to all of us. Their efforts combined with energy and ingenuity exhibited by the policy makers leave us optimistic that we will band together to defeat this COVID-19 scourge and break out of collective economic coma. No doubt, there are many details to be resolved for these stimuli and funding programs to function as hoped but we look forward to what we know will be a very positive recovery on the other side of this crisis.

APPENDIX A

Summary Comparison of SBA 7(a) and PPP Loans

	7(a)	**PPP**
Maximum Loan Amount:	$5m	$10m
Term:	Typically 25 years, but may be up to 30 years	2 years
Interest Rate:	Negotiated up to: 6.00% + 0-200bp spread for loans < $250,000 and 5.00% for loans ≥ $250,000	1.00%[1]
Origination Fee Paid to Lender to the SBA:	None	5% for loans ≤$350,000 3% for loans $350,000 - $2m 1% for loans ≥$2m
Servicing Fee Paid to Lender:	1.00%	None[2]
SBA Guarantee:	85% for loans ≤ $150k; 75% for loans > $150k	100%
Forgiveness Amount:	N/A	*Up to* 100% if: (i) at least 75% used for approved payroll expenses by June 30th; and (ii) employee; and compensation levels maintained
Deferral Period:	N/A	6 months Interest accrues during this period but no payment is required[3]
SBA Payment of Principal & Interest to Lender:	*COVID-19 CHANGE:* SBA will automatically pay the principal, interest, and fees of current 7(a), 504, and microloans for a period of six months. SBA will also automatically pay the principal, interest, and fees of new 7(a), 504, and microloans issued prior to September 27, 2020.	Pursuant to SBA Guarantee & SBA Loan Purchase Only
Borrower Repayment Terms:	Monthly, amortized principal and interest over term of loan	Monthly, amortized principal and interest over 18 months from the end of the 6 month deferral period to maturity
Guarantee Fee Paid to SBA:	Initial; Ongoing; and Secondary market sale	None

Secondary Market Sales[4]:	Guaranteed & Unguaranteed portions may be sold; Sales of whole loans packaged into pooled securities by pool assemblers permitted.	After fully disbursed; At a discount or premium; and Without payment of a guaranty fee to the SBA
SBA Loan Purchase:	Only to extent guaranteed portion packaged by a pool assembler and sold as a guaranteed pool, then the SBA purchases the guaranteed portion of the loan out of the pool. If the guaranteed portion not sold into a pool, then the SBA pays out on the guarantee similar to an insurance claim – the lender is responsible for workouts/recoveries and the SBA will make them whole, net of what they recover	At Lender reques No earlier than end of 7 weeks into covered period Amount = Expected Forgiveness Amount. *Note, this may not equal the entire guaranteed amount if borrower has not met payroll and employee retention/compensation requirements.* SBA has + 15 days from receipt of all documentation to make payment
Collateral:	Loans ≤ $350,000: at least first lien on assets financed with loan proceeds and all fixed assets including real estate. RE collateral not required when the equity is less than 25% of the fair market value and can be limited to the loan amount. Loans > $350,000: maximum extent possible up to the loan amount. If business fixed assets do not "fully secure" the loan, may include trading assets (using 10% of current book value for the calculation), and must take available equity in the personal real estate (residential and investment) of the principals.	None No personal guarantees
Borrower Creditworthiness:	SBA Lending Criteria 120.15(SBA 120.101 Credit Elsewhere Test	120.150 N/A Eg., ATR (ability to repay) analysis NOT required Credit Available Elsewhere Test NOT required

Borrower Eligibility:	For-profit "small business" concerns	Expanded to include all businesses with < 500 employees, certain food delivery businesses with more than 500 employees, and non-profits. Affiliation standards are waived for small businesses: 1. In certain hotel and food services industries; 2. Franchises in the SBA's Franchise Directory; and 3. Receiving financial assistance from small business investment companies licensed by the SBA Historically *in*eligible businesses, such as lending institutions, life insurance companies, gambling businesses) are NOT eligible.
Lender Eligibility:	SBA Approved Lenders Only	*Automatically Eligible:* (i) depository institutions; (ii) farm credit system institution with BSA program meeting depository institution standards; (iii) certain other financing providers that originate, maintain, and services business loans or other commercial financial receivables and participation interests if have formalized compliance program meeting BSA requirements. *Ineligible lenders:* (i) designated Troubled Condition by their primary federal regulator or (ii) subject to formal enforcement action regarding unsafe or unsound lending practices
Required Forms:	SBA Form 1919 and SBA Form 1920	*Electronic Submissions:* (i) SBA Form 2483 Paycheck Protection Program Application Form – include payroll documentation. (ii) SBA Form 2484 Paycheck Protection Program Lender's Application for 7(a) Loan Guaranty electronically Must also maintain the forms and supporting documentation in lender files.

1. Note that the CARES Act set the maximum interest rate at 4.00%. Pursuant to the SBA's Interim Final Rule, the maximum interest rate was lowered to 1.00% but the SBA could revisit before the rule is finalized in 30 days.
2. If the lender sells the loan and then services it, they will need to back out a servicing fee.
3. The CARES Act provided for deferrals of up to 12 months. The SBA's Interim Final Rule limited this to 6 months.
4. Additional guidance regarding advance purchase sales to the secondary market is expected from the SBA.

APPENDIX B

Summary of Current Monetary Policy Options from the Federal Reserve and U.S. Treasury

Date	Program	Term	Rate	Eligible Borrowers	Eligible Collateral	Action/Amt.	Description
3/12/2020	Repo Operations	One month or three months	Set based on dealers' bids, subject to a minimum bid rate	All Banks With Eligible Collateral	Collateral eligible for Open Market Operations (OMO), i.e U.S. Treasuries, fully-guaranteed Agency securities, and GSE securities	$500 B for 3-month Repo $500 B for 1-month Repo	FRBNY boosted volume of repos and signaled up to $1.5 trillion available
3/15/2020	Fed Funds Rate	N/A	0 to 0.25%	Central Banks		0 to 0.25%	Federal Open Markets Committee cut the target rate
3/15/2020	Bond Buying	N/A	N/A	Central Banks		No limit to QM	FOMC committed to unlimited bond buying of Treasuries and MBS in the amounts needed to support smooth market functioning and effective transmission of monetary policy
3/15/2020	Swap Lines	Up to 84 days	OIS + 25 bps	14 non-U.S. central banks in major economies	Foreign currency of each counterparty	$30 B of swap lines	Established U.S. dollar currency swap lines with 14 non-U.S. central banks
3/15/2020	Discount Window	Up to 90 days	Primary credit: 25bps Secondary credit: 75 bps Seasonal credit: 120 bps	Primary Dealers of the New York Fed	List of eligible collateral, subject to haircuts, set forth in the Margins and Collateral Guidelines	Lowered primary credit borrowing rate to 25 BPs	Fed, FDIC, and OCC encouraged discount window borrowing
3/15/2020	Reserve Requirements	N/A	N/A			Reserve Requirement Dropped to 0%	Reserve requirement cut to 0% freeing up funds as % total deposits to be left in account at the Fed
3/15/2020	Capital and Liquidity Buffers	N/A	N/A	Primary Dealers of the New York Fed		Lowered primary credit borrowing rate to 25 BPs	Fed, FDIC, and OCC issued statement encouraging banks to use capital and liquidity buffers to respond to crisis. Interim final rule change allows more gradual phase in of restrictions on distributions
3/17/2020	CPPF Commercial Paper Funding Facility	Up to 90 Days	3-month OIS + 110 bps for A1/P1/F1-rated collateral 3-month OIS + 200 bps for A2/P2/F2 rated collateral	Central Banks	3-month CP (incl. tax-exempt CP) rated A1/P1/F1 by an NRSRO A one-time sale of A2/P2/F2-rated collateral is permitted in the event of a ratings downgrade	$10 B	SPV buys CP from U.S. issuers including financial and commercial companies and munis
3/17/2020	PDCF Primary Dealer Credit Facility	Up to 90 days	Primary credit rate	Central Banks	Wide range, many types of investment-grade debt and equities	$10 B	Loans to primary dealers secured by a broad range of eligible collateral
3/18/2020	MMMLF Money Market Mutual Fund Liquidity Facility	Equal to maturity of collateral pledged, must be <12 mos	Primary rate for OMO-eligible Primary + 25bps for munis Primary + 100bps for other collateral	Eligible Borrowers: U.S. banks/thrifts, U.S. BHCs, U.S. branches and agencies of FBOs; Eligible MMFs: prime and municipal MMFs	OMO-eligible securities; ABCP; certain repo receivables; short-term munis (including VRDNs); CDs	$10 B	Non-recourse loans to U.S. banks and thrifts, U.S. BHCs, U.S. branches and agencies of FBOs, eligible money market funds and muni MMFs

Date	Program	Term	Rate	Eligible Borrowers	Eligible Collateral	Action/Amt.	Description
3/23/2020	TALF Term Asset-Backed Security Loan	Three years	2Y LIBOR + 100 bps for <2Y ABS without government guarantee; 3Y LIBOR + 100 bps for >=2Y ABS without government guarantee	Primary Dealers of the New York Fed	Certain USD cash ABS issued on/ after March 23, rated AAA by an NRSRO Underlying assets limited to specified non-mortgage exposures; must be newly originated by a U.S. company, no ABS	$10 B	SPV makes loans secured by certain AAA-rated ABS without recourse to the borrower, subject to haircuts. FRBNY lends to SPV with recourse.
3/23/2020	PMCCF Primary Market Corporate Credit Facility	Up to 4 years, callable	Rate "informed by market conditions" PIK bonds available at Board discretion 100 bps commitment fee	U.S. businesses with material operations in the U.S., excluding those that receive direct federal assistance by legislation	Corporate bonds of eligible issuers rated BBB- or better by a major NRSRO	$10 B	SPV buys corporate bonds directly from eligible issuers in the primary market and provides loans to eiligible issuers. FRBNY lends to SPV with recourse
3/23/2020	SMCCF Secondary Market Corporate Credit Facility	Up to five years for corporate bonds	Purchased at fair market value on secondary market	Primary Dealers of the New York Fed	Corporate bonds of eligible issuers rated BBB- or better by a major NRSRO, capped at 10% of issuer's TTM maximum bond float; U.S.-listed ETFs (US, IG, corporate), capped at 20% of assets of ETF	$10 B	SPV buys corporate debt of eilgible issuers on the secondary market. FRBNY lends to the SPV with recourse.
3/23/2020	Main Street Business Lending Program					TBD	The Federal Reserve expects to announce soon the establishment of a Main Street Business Lending Program to support lending to eligible small-and-medium sized businesses complementing efforts by the SBA.

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