

# The Federal Reserve Provides Liquidity to Banks Participating in the Paycheck Protection Program

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On April 9, 2020, the Board of Governors of the Federal Reserve System (the “Federal Reserve”) issued guidance for banks that wish to participate in the Federal Reserve’s Paycheck Protection Program Lending Facility (the “PPPL Facility”). Under the PPPL Facility, the Federal Reserve Banks will extend funding, on a non-recourse basis, to banks participating in the Paycheck Protection Program (“PPP”) administered by the Small Business Administration (the “SBA”), taking PPP loans originated under the PPP as collateral. Below is a high level summary of the PPPL Facility and capital treatment for all PPPL Facility loans.

## Terms of the PPPL Facility

<b>Eligible Borrowers</b>	All banks and savings institutions originating PPP loans.
<b>Ineligible Borrowers</b>	Non-bank SBA-approved lenders may not participate in the PPPL Facility at this time; however, the Federal Reserve has indicated that it is working to expand eligibility to other lenders originating PPP loans in the near future.
<b>Principal Amount</b>	The principal amount of any extension of credit under the PPPL Facility will be equal to the principal amount of the PPP loans pledged as collateral.
<b>Interest Rate</b>	0.35%

<b>Collateral</b>	PPP loans guaranteed by the SBA, with the value of such collateral equal to the principal amount of such loans.
<b>Maturity</b>	The maturity date equals the maturity date of the PPP loans pledged as collateral.
<b>Acceleration</b>	<p>The maturity date will be accelerated if the underlying PPP loan goes into default and the bank sells the PPP loan to the SBA to realize on the SBA guarantee.</p> <p>The maturity date will also be accelerated to the extent of any loan forgiveness reimbursement received by the bank from the SBA.</p>
<b>Fees</b>	None
<b>Non-Recourse</b>	Extensions of credit under the PPPL Facility are non-recourse.
<b>PPPL Facility Termination Date</b>	The PPPL Facility will terminate on September 30, 2020, unless extended by the Federal Reserve and Department of Treasury.

## Regulatory Capital Treatment of PPP Loans

On April 9, 2020, the Federal Reserve, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency (collectively, the “federal banking agencies”) issued an interim final rule (the “Interim Rule”) that permits banks to neutralize the regulatory capital effects of participating in the PPPL Facility. Specifically, banks can expect the following regulatory capital treatment for PPP loans:

- banks may exclude from its regulatory capital ratios (i.e., total leverage exposure, average total consolidated assets, advanced approaches total risk-weighted assets and standardized total risk-weighted assets) all PPP loans pledged as collateral to the PPPL Facility; and
- PPP loans originated will receive a zero percent risk weight under the federal banking agencies’ regulatory capital rules regardless of whether they are pledged as collateral to the PPPL Facility; provided, PPP loans will be included in a banks leverage ratio requirement unless they are pledged as collateral to the PPPL Facility.

The Interim Rule is effective immediately upon its publication in the Federal Register, although comments will be accepted for 30 days after publication.

[Click here](#) to read the PPPL Facility – Term Sheet.

[Click here](#) to read the full Interim Rule (capital treatment).

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