

## **NEW Federal Reserve Paycheck Protection Program Liquidity Facility (PPPLF)** **Frequently Asked Questions**

<https://www.frbdiscountwindow.org/pages/general-information/faq#list-item-1%C2%A0>

### **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/>.

### **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.

### **REVISED: Who is eligible to participate in the PPPLF?**

SBA-qualified PPP lenders—both depository institutions and non-depository institutions—are eligible to borrow under the PPPLF. Before borrowing under the PPPLF, all eligible participants must complete the necessary documentation.

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

In order to obtain an extension of credit under the PPPLF, participants must complete the necessary documentation, which varies by type of PPPLF participant.

**Depository institutions:** Depository institutions must execute the [PPPLF Letter of Agreement](#) and a [certification](#) specific to section 13(3) facilities. 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 the Federal Reserve Bank's Operating Circular No. 10 (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 in addition to participating in the PPPLF, it must submit the 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.

**NEW: How does a PPPLF participant determine which Reserve Bank is the appropriate Reserve Bank for participating in the PPPLF?**

For depository institutions, the appropriate Reserve Bank is the Reserve Bank in whose District it is located. See [Regulation D, 12 CFR 204.3\(g\)\(1\)-\(2\)](#), for information on determining the District in which the depository institution is located.

**NEW: Can a PPPLF participant make revisions to the PPPLF letter of agreement certification, or borrowing resolution documents?**

No.

**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.

**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.

**REVISED: Does a PPP lender have to have a master account at a Federal Reserve Bank in order to borrow under the PPPLF?**

No. However, a PPP lender that does not have a master account must establish a correspondent relationship with a depository institution that does have a master account with a Reserve Bank (the master account may be with any Reserve Bank and does not have to be a master account with the lending Reserve Bank). PPPLF participants that do not already have an established correspondent relationship must designate the depository institution that will serve as their PPPLF correspondent in the PPPLF Letter of Agreement.

**NEW: How do institutions that have completed the PPPLF documents initiate an extension of credit under the PPPLF?**

PPPLF participants obtain a PPPLF extension of credit by contacting the [appropriate Reserve Bank](#).

**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.

**REVISED: 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 loans pledged to secure the extension of credit, generally two years from origination of the PPP loan. The maturity date of a PPPLF extension of credit will be accelerated under certain conditions. See: the FAQ below, "Can a PPPLF participant be required to repay a PPPLF extension of credit prior to the maturity date?" In addition, if the PPP loan matures on a Saturday or a Sunday, the PPPLF extension of credit secured by that loan will mature on the previous business day.

**Is there a limit to 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.

**Can a PPPLF participant 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.

**REVISED: Can a PPPLF participant be required to repay a PPPLF extension of credit prior to the maturity date?**

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

- The PPPLF participant has been reimbursed by the SBA for a loan forgiveness (to the extent of the forgiveness);
- The PPPLF participant has received payment from the SBA representing exercise of the loan guarantee;
- The PPPLF participant 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 guarantee 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. For more information on reporting payments on PPP loans and on prepayment of PPPLF extensions of credit, contact the appropriate Federal Reserve Bank.

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

No.

**Will Reserve Banks accept PPP loans that have imaged or 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).

**NEW: Will Reserve Banks accept a letter of agreement and certification for the PPPLF that have imaged or electronic rather than “wet ink” signatures? If so, what types of electronic signatures are acceptable?**

Yes. Reserve Banks will accept PPPLF documents with electronic signatures (i.e., images that are electronic copies of “wet ink” signatures, such as faxed or scanned copies of “wet ink” signed documents, or electronic signatures with a digital date and time stamp). PPPLF participants should direct any further questions regarding imaged or electronic signatures to discount window staff at the appropriate Reserve Bank.

**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.

**REVISED: Will the Federal Reserve disclose information about the PPPLF?**

The Federal Reserve expects to disclose information regarding the PPPLF during the operation of the facility, including information regarding participants, costs, revenues, and other fees. Balance sheet items related to the PPPLF will be reported weekly, on an aggregated basis, on the H.4.1 statistical release titled "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks," published by the Federal Reserve. In addition, the Federal Reserve will disclose to Congress information pursuant to Section 13(3) of the Federal Reserve Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the Board's Regulation A.

Under section 11(s) of the Federal Reserve Act, the Federal Reserve also will disclose information concerning the facility one year after the effective date of the termination by the Board of the authorization of the facility. This disclosure will include names and identifying details of each participant in the facility, the amount borrowed, the interest rate or discount paid, and information concerning the types and amounts of collateral pledged or assets transferred in connection with participation in the facility.

**REVISED: 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. A PPPLF participant may also rely on aspects of the PPPLF program to determine that funding from the PPPLF is more “adequate,” including, for example, beneficial capital treatment for PPP loans pledged to the PPPLF.

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

No, a PPPLF participant 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 PPPLF participant pledge a PPP loan as PPPLF collateral if the participant funded the PPP loan using secured funding from a warehouse lender?**

No. A participant 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 participant?**

No. Extensions of credit under the PPPLF are made without recourse to the PPPLF participant. The non-recourse status of the PPPLF extension of credit may change, however, if the PPPLF participant 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.

**For depository institutions, how are PPP loans treated for regulatory capital purposes?**

PPP loans pledged to the PPPLF 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, PPP loans pledged to the PPPLF 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.

**May a PPPLF borrower pledge a PPP loan that the borrower purchased from another PPP lender as collateral for an extension of credit under the PPPLF?**

Yes. An eligible borrower may pledge PPP loans purchased from other lenders to the PPPLF. PPP loans must be purchased in accordance with the SBA’s requirements for the sale and purchase of whole PPP loans. An institution that pledges a purchased PPP loan to the PPPLF must provide the Reserve Bank with documentation demonstrating that the SBA has acknowledged that the pledging institution is the beneficiary of the SBA guarantee for the loan. This FAQ and the PPPLF program documents will be updated at a later date to specify necessary documentation.

**May a participant 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 participant secured by all PPP loans submitted that mature on a single date. For example, a PPPLF participant 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 participant secured by the pool of PPP loans having the April 30, 2022, maturity date. For this reason, a PPPLF participant should ensure that it simultaneously pledges all PPP loans with the same maturity date. A PPPLF participant 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 participant?**

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 participant.

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

No. A PPPLF participant 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 PPPLF participant 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 PPPLF participant 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 participant 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?**

The PPPLF participant 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 participant wishes to sell into the secondary market. The PPPLF participant should contact the appropriate Reserve Bank for information on submitting its request and on completing any necessary documentation.

**Are there any restrictions on what a PPPLF participant 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 an institution does with the proceeds of a PPPLF advance.

**Do PPP lenders have to use a promissory note provided by the SBA or may they use their own?**

PPP lenders may use their own promissory note or an SBA form of promissory note. See the SBA's Frequently Asked Questions for Lenders and Borrowers for the Paycheck Protection Program at: <https://www.sba.gov/document/support-faq-lenders-borrowers> (Question: Do lenders have to use a promissory note provided by the SBA or may they use their own?")

**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](mailto: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>.

**NEW: When will interest on PPPLF advances accrue? When must a PPPLF participant pay accrued interest on a PPPLF advance?**

Interest on a PPPLF advance accrues daily beginning when the PPPLF advance is credited to the PPPLF participant's designated account at a Reserve Bank. Interest accrues daily until the PPPLF advance is fully repaid. PPPLF participants must pay all accrued and unpaid interest at

the time of payoff. In addition, a PPPLF participant must accompany any prepayments of any part of a PPPLF advance with payment of accrued and unpaid interest attributable to the amount of the prepayment. The prepayments (including payment of the accompanying accrued and unpaid interest) will be processed when the PPPLF participant reports a change to the Reserve Bank in the balance of the PPP loans pledged to secure the PPPLF advance. Interest on a PPPLF advance will continue to accrue during any lag between the time that the PPPLF participant receives a payment on a PPP loan securing a PPPLF advance and the time that the PPPLF participant reports that payment to the Reserve Bank.

**How will PPPLF participants prepay PPPLF advances when they receive payments on the PPP loans pledged to secure the PPPLF advance?**

PPPLF participants are required to prepay a PPPLF advance upon receiving any payments on PPP loans pledged as collateral for the advance. The amount of any PPPLF advance outstanding cannot exceed the outstanding amount of PPP loans pledged to secure the advance.

At the time that PPP loan forgiveness payments begin to be requested and processed by the SBA, lending Reserve Banks will begin requiring that PPPLF participants submit, at a frequency to be determined, updated aggregate outstanding balances of each pledge pool of PPP loans securing PPPLF advances. PPPLF participants are required to prepay PPPLF advances to match the updated aggregate collateral balance in the associated pledge pool, so that the amount of a PPPLF advance outstanding never exceeds the aggregate amount of PPPLF collateral pledged to secure the advance. PPPLF participants must pay all accrued and unpaid interest on the prepayment amount with such prepayments. Similar to the initial PPPLF collateral pledge and loan request, PPPLF participants must accompany all prepayments of PPPLF advances with a transmittal form showing the aggregate current outstanding balances of the pledged PPP loans, as well as with individual loan listings for each of the pledge pools. The forms and additional submission instructions for prepayments of PPPLF advances will be available by mid-May.

**NEW: What should PPPLF participants do to prepare for the required prepayments of their PPPLF advances?**

PPPLF participants should track all of their PPPLF advances and associated pledge pools of PPP loans separately and be prepared to report the updated aggregate current outstanding balance of the PPP loans in each pledge pool (reflecting payments on the PPP loans received from all sources). PPPLF participants should also be prepared to generate listings of *original and updated* information on individual pledged PPP loans.

**NEW: May a PPPLF participant that has received payments on pledged PPP loans pledge additional collateral to secure the PPPLF advance rather than prepay the PPPLF advance?**

No. The revalued pledge pool must include only those PPP loans that were included in the original pledge, less any that have been withdrawn or fully paid off. Substitution of PPP loans that were not originally pledged is not permitted.

**NEW: What should a PPPLF participant do if it receives a payment on a pledged PPP loan before late May 2020?**

If a PPPLF participant receives a paydown on a PPP loan pledged to a PPPLF advance before late May, the PPPLF participant should submit an updated aggregate collateral balance for the affected PPPLF advance and an updated individual loan listing for the collateral pool using the "Transmittal Form for Pledge of Small Business Administration Paycheck Protection Program

Loans for the Paycheck Protection Program Liquidity Facility and Request for Advance” and the “Paycheck Protection Program Individual Loan Reporting Template” forms that were used for the initial PPPLF advance request. The email transmitting the forms should specify that *the request is for a prepayment on an existing PPPLF advance*, not a request for a new PPPLF advance. The PPPLF participant is required to prepay the PPPLF advance to the extent necessary to match the remaining outstanding amount of the PPPLF advance with the aggregate value of the pledged PPP loans in the associated pledge pool, together with accrued and unpaid interest on the prepayment amount.

**NEW:** The PPPLF letter of agreement requires a participant to warrant, represent, and covenant that each PPP loan pledged as collateral “complies with all requirements of the PPP.” Does this requirement require the PPPLF participant to guarantee that the PPP loan borrower has complied or will comply with all SBA requirements applicable to PPP borrowers?

The PPPLF letter of agreement is not intended to impose requirements on a PPP lender related to its PPP borrower beyond the requirements imposed on PPP lenders by the SBA and U.S. Treasury. The SBA’s Interim Final Rule (85 Fed. Reg. 20811, 20815 (Apr. 15, 2020)) states that PPP lenders may rely on certifications of a borrower in order to determine eligibility of the PPP borrower and use of PPP loan proceeds, and provides that PPP lenders may rely on specified documents provided by the borrower to determine qualifying loan amount and eligibility for loan forgiveness. See the SBA’s Interim Final Rule for further information.