

# Paycheck Protection Program Lending Facility (PPPLF)

April 10, 2020

As you are working through applications for the SBA Paycheck Protection Program (PPP) loans and wondering if you can pledge these loans to borrow funding, the Federal Reserve has created a lending facility to accommodate your quandary. The PPPLF allows your institution to pledge SBA approved PPP loans in order to borrow from the Federal Reserve. This funding will help mitigate the liquidity concerns banks have regarding the time between extending credit, funding the PPP loan, when the loan is forgiven, and the subsequent receipt of payment from the 100% guaranty from the SBA. Here's how it works according to the Federal Reserve Discount Window website FAQs section for the PPPLF (the link is provided below):

<https://www.frbdiscountwindow.org/Pages/General-Information/faq>

“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.”

The expected date for banks to begin using this facility (PPPLF) is Monday, April 13, 2020:

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

The highlighted statement above adds some confusion. Why are they creating a new facility and charging 0.35% when the current Discount Window accepts them, and the rate is 0.25%? The answer may come from the required documentation to gain funding and how that differs from the Discount Window process:

“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/>. “

Regarding the documentation:

“In order to obtain an extension of credit under the PPPLF, depository institutions must execute the PPPLF Letter of Agreement and a certification specific to section 13(3) facilities. Depository institutions that have not already qualified to borrow from the discount window will agree to the Federal Reserve Bank's [Operating Circular No 10](#) (Lending) by executing the PPPLF Letter of Agreement. Depository institutions should contact the Federal Reserve Bank in whose District they are located to determine whether additional documentation is necessary and for detailed information on the documentation requirements. For contact information for each District, visit <https://www.frbdiscountwindow.org/pages/select-your-district>.”



Commerce Bank<sup>™</sup>  
Member FDIC

[commercebank.com](https://commercebank.com)

Financial institutions are not required to have a master account with the Federal Reserve in order to use this facility but there's a catch:

“No, it is not necessary for a depository institution to have a master account at a Federal Reserve Bank in order to obtain an extension of credit under the PPPLF. If a depository institution does not have a master account, however, the depository institution needs to have a correspondent relationship with an institution that does have a master account into which the proceeds of PPPLF extensions of credit are credited and repaid. A non-accountholder borrower and its correspondent will need to execute the relevant documentation required by the Reserve Bank extending PPPLF credit to the borrower. “

There is no limit placed on the amount a financial institution may borrow as it is based on the amount of loan pledged:

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

As with all these new emergency programs, terms may change as the situation remains very fluid. Stay informed by visiting the official sites of the Federal Reserve, the SBA, your state's banking associations. We will continue to provide information and do our best to keep you informed. Thank you for your business, thank you for your relationship, and thank you for how you are helping your communities. If you have any questions, please reach out to your CMG contact. Keep up the great work, you are awesome!

Matthew Maggi | Vice President | Commerce Bank Capital Markets | [matthew.maggi@commercebank.com](mailto:matthew.maggi@commercebank.com)

Information provided is from sources deemed reliable but cannot be guaranteed. The opinions expressed herein are that of the author and not necessarily Commerce Bank or the Capital Markets Group (CMG). The information contained herein does not constitute a solicitation of an investment product or strategy. Investments in Securities are NOT FDIC Insured, NOT Bank-Guaranteed and May Lose Value. CMG is not acting as your 'municipal advisor' within the meaning of Section 15B of the Securities Exchange Act and does not act in a fiduciary capacity. CMG is not an Investment Advisor nor a Portfolio Manager.