



Executive Summary, 2024-FMIC-B-018, September 23, 2024

FRB Minneapolis Followed Its Paycheck Protection Program Liquidity Facility Collateral Risk Management Processes and Can Enhance Monitoring and Collection Processes

Finding

The Paycheck Protection Program Liquidity Facility (PPPLF) followed its collateral risk management processes for at-risk, unresolved, and potentially fraudulent collateral for the pledged Paycheck Protection Program (PPP) loans we reviewed. However, the PPPLF did not fully develop and document measures to address the risk of nonpayment. Federal Reserve System representatives determined that it was unlikely that both (1) PPPLF participants would become insolvent *and* (2) the U.S. Small Business Administration (SBA) would deny guarantee purchase payment. As of March 31, 2024, the System has charged off a de minimis dollar amount of unpaid PPPLF advances; however, the amount of charge-offs may increase if the SBA denies guarantee purchase payment for pledged PPP loans and PPPLF participants responsible for repayment of those advances are insolvent.

In response to the evolving economic impacts of the COVID-19 pandemic, the Board of Governors of the Federal Reserve System quickly authorized the PPPLF and designated the Federal Reserve Bank of Minneapolis (FRB Minneapolis) as the program administrator. The PPPLF is no longer issuing advances; however, to reduce financial risk should the Board need to establish a similar lending facility in the future, Reserve Banks should establish as soon as practical processes to (1) identify data needs during a facility's design phase and work with partner agencies to explore options for facilitating information sharing and (2) independently verify nondepository institution solvency and that pledged loans are funded in a manner consistent with facility requirements.

Recommendation

Our report contains one recommendation designed to help FRB Minneapolis strengthen its processes related to repayment of outstanding advances. In its response to our draft report, FRB Minneapolis concurs with our recommendation and outlines actions to address it. We will follow up to ensure that the recommendation is fully addressed.

Purpose

The purpose of this evaluation was to assess the effectiveness of the System PPPLF's processes for (1) identifying and managing at-risk and unresolved collateral, (2) addressing nonpayment, and (3) detecting and mitigating fraudulent collateral. The scope of our evaluation included PPP loans pledged to the PPPLF as collateral from February 2022 to December 2023.

Background

The COVID-19 pandemic disrupted economic activity in the United States, which heightened the need for businesses to obtain credit to manage cash flows and sustain operations until economic conditions normalized. To support lenders that originated SBA PPP loans to small businesses, the Board authorized the PPPLF using section 13(3) of the Federal Reserve Act, with prior approval of the secretary of the U.S. Department of the Treasury. FRB Minneapolis administers the PPPLF, which includes servicing the remaining PPPLF portfolio. As of March 31, 2024, the PPPLF had 145,971 outstanding PPP loans pledged as collateral to the PPPLF against advances totaling over \$3 billion—approximately \$550 million held by depository institutions and \$2.5 billion held by nondepository institutions.