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Report on the Federal Reserve's Balance Sheet

August 2020

Board of Governors of the Federal Reserve System

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Purpose

The Federal Reserve prepares this balance sheet report to help fulfill its commitment to transparency about actions taken in connection with two of its key functions—conducting monetary policy to meet its congressional mandate and promoting financial stability.

This report provides an overview of the change in the size and composition of the Federal Reserve's balance sheet between March 11 and August 12, 2020, a period that reflects the forceful efforts the Federal Reserve has taken to support jobs and the broader economy during the disruptions caused by the COVID-19 pandemic. In addition, it includes recent developments and background information on the key line items on the Federal Reserve's balance sheet (including links to more detailed online information).

The Balance Sheet and Its Role in the Federal Reserve's Key Functions

The Federal Reserve conducts U.S. monetary policy in accordance with its mandate from Congress: to promote maximum employment and stable prices in the U.S. economy. Financial stability is an important prerequisite for achieving these goals. As a result, the Federal Reserve monitors financial stability risks and takes appropriate actions to help ensure that financial institutions and financial markets are able to efficiently channel the flow of credit to households, communities, and businesses.

> "The Federal Reserve is committed to transparency and accountability by providing the public and Congress detailed information about our actions to support the economy during this difficult time."
>
> —Chair Jerome H. Powell
>
> Federal Reserve Board of Governors news release, April 23, 2020 (https://www.federalreserve.gov/newsevents/pressreleases/monetary20200423a.htm)

The Federal Reserve considers transparency about the goals, conduct, and stance of monetary policy to be fundamental to the effectiveness of monetary policy. Transparency about monetary policy also helps promote the accountability of the Federal Reserve to Congress and the public.

The Federal Reserve's Response to COVID-19

Over the past several months, the United States and the world have faced unprecedented challenges from the COVID-19 pandemic. It has taken a tragic and growing toll in illnesses and lost lives, forced many U.S. businesses to close, and thrown millions of people out of work. The effect on the economy has been severe, particularly in the second quarter, disrupting financial markets and impairing the flow of credit.

Without access to credit, families can be forced to cut back on necessities and could lose their homes. Businesses can be forced to downsize or permanently close, resulting in further losses

of jobs and incomes and worsening the economic downturn. Preserving the flow of credit and reducing borrowing costs is thus essential for mitigating the damage to the economy from the pandemic and setting the stage for the recovery.

Beginning in March, the Federal Reserve acted with unprecedented speed and force to cut the federal funds rate to close to zero and also took broad and forceful measures to preserve the flow of credit in the economy. These measures are reflected in a significant increase in the size and evolving composition of the balance sheet between March 11 and August 12, 2020.

This report documents the changes in select assets and liabilities of the Federal Reserve's balance sheet and also highlights the key Federal Reserve actions and programs that contributed to those changes. In addition to documenting changes in the Federal Reserve's balance sheet, this report, and those in coming quarters, will be a valuable resource for the public to help provide the context for and details of the Fed's response to the pandemic.

More Information and Disclosure

The appendix of this report contains information about the transparency provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) as well as the Federal Reserve's compliance with those provisions as it responds to the COVID-19 pandemic.

For more information and data on the Federal Reserve's emergency facilities and other activities in response to the COVID-19 pandemic, see https://www.federalreserve.gov/covid-19.htm.

Contents

Abbreviations ... 1

Overview of Federal Reserve Actions and Activities ... 3
- General Balance Sheet Trends ... 3
- Change in Federal Reserve Assets ... 4
- Change in Federal Reserve Liabilities ... 7

Recent Developments ... 9
- Securities Holdings ... 9
- Repurchase Agreements ... 10
- Loans ... 10
- Limited Liability Companies ... 12
- Commercial Paper Funding Facility ... 13
- Primary and Secondary Market Corporate Credit Facilities ... 13
- Main Street Facilities (Main Street Lending Program) ... 15
- Municipal Liquidity Facility ... 16
- Term Asset-Backed Loan Facility ... 16
- Central Bank Liquidity Swaps ... 17
- Reserve Balances and Other Liabilities ... 18

Background on Selected Assets and Liabilities ... 19
- Selected Assets ... 19
- Selected Liabilities ... 26

Appendix ... 29
- Federal Reserve Disclosure Requirements and Other Provisions of the Dodd-Frank Act of 2010 and the CARES Act of 2020 ... 29
- Disclosure Requirements ... 29
- Other Provisions ... 30

Abbreviations

ABS	asset-backed securities
CAMELS	Capital, Assets, Management, Earnings, Liquidity, and Sensitivity
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CCF	Corporate Credit Facilities
CMO	collateralized mortgage obligations
CPFF	Commercial Paper Funding Facility
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
ETF	exchange-traded funds
FCB	foreign central bank
FIMA	foreign and international monetary authorities
FOMC	Federal Open Market Committee
FRBNY	Federal Reserve Bank of New York
GDP	gross domestic product
LLC	limited liability company
LSAP	large-scale asset purchase program
MBS	mortgage-backed securities
MLF	Municipal Liquidity Facility
MMLF	Money Market Mutual Fund Liquidity Facility
MSELF	Main Street Expanded Loan Facility
MS Facilities	Main Street Facilities
MSNLF	Main Street New Loan Facility
MSPLF	Main Street Priority Loan Facility
NOELF	Nonprofit Organization Expanded Loan Facility
NONLF	Nonprofit Organization New Loan Facility
OIS	overnight index swap
OMO	open market operation
PDCF	Primary Dealer Credit Facility
PPPLF	Paycheck Protection Program Liquidity Facility
RP (or, repo)	repurchase agreement
RRP	reverse repurchase agreement
SBA	Small Business Administration
SMCCF	Secondary Market Corporate Credit Facility
SOMA	System Open Market Account
SPV	special purpose vehicle

TALF	Term Asset-Backed Securities Loan Facility
TDF	Term Deposit Facility
TGA	Treasury's General Account

Overview of Federal Reserve Actions and Activities

In keeping with the Federal Reserve's mandate to promote maximum employment and stable prices and its responsibilities to promote financial stability, the Federal Reserve acted with unprecedented speed and force to address the economic effects of the COVID-19 pandemic. In addition to rapidly cutting the federal funds rate to near zero, the Federal Reserve undertook a wide array of other measures to support the flow of credit in the economy, supporting lending to households, businesses of all sizes, nonprofits, and state and local governments.[1] The actions and usage of the programs are reflected on the Federal Reserve's balance sheet.

General Balance Sheet Trends

As the Federal Reserve operationalized the measures to combat the COVID-19 shock, the size and composition of its balance sheet changed quickly. The size of the balance sheet increased from $4.3 trillion in mid-March 2020 to a peak of nearly $7.2 trillion in early June. Then, reflecting, in part, improvements in financial market functioning, the size of the balance sheet decreased to a bit under $7 trillion as of August 12. The size of the balance sheet relative to nominal gross domestic product (GDP) currently stands at about 35 percent, a level not seen since World War II.

In late March and early April, many of the Federal Reserve's measures to stabilize financial markets contributed to the increase in total assets. As of mid-April, purchases of Treasury securities and agency MBS amounted to $1.5 trillion, repurchase agreements (repos) stood at about $180 billion, and central bank liquidity swaps were near $380 billion. As financial market conditions across the globe began to improve, the pace of asset purchases slowed and repos and swap draws outstanding substantially diminished. Moreover, usage of many of the liquidity facilities established in March and April began to subside.

On the liabilities side of the balance sheet, reserves in the banking system rose in response to the net increase in the Federal Reserve's assets. Between mid-March and mid-August, reserve balances steadily climbed, and they ended the period around $2.8 trillion. All told, the change in size and composition of the balance sheet was rapid and consistent with the quick response by the Federal Reserve to provide some relief and stability to the U.S. economy in the midst of an economic downturn without modern precedent.

[1] The Federal Reserve's newly established programs benefit households and businesses by providing financing where it is not otherwise available, helping employers to keep their workers, and allowing consumers to continue spending. In many cases, by serving as a backstop to key financial markets, the programs help increase the willingness of private lenders to extend credit and ease financial conditions for families and businesses across the country. For more information about the Federal Reserve's measures in response to the COVID-19 pandemic, see Chair Powell's "Coronavirus and CARES Act" testimony on May 19, 2020, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, at https://www.federalreserve.gov/newsevents/testimony/powell20200519a.htm or similar testimony on June 30, 2020, before the Committee on Financial Services, U.S. House of Representatives, at https://www.federalreserve.gov/newsevents/testimony/powell20200630a.htm.

Change in Federal Reserve Assets

As shown in table 1, several types of assets associated with the Federal Reserve's actions and programs contributed to a noticeable increase in the size of the balance sheet from mid-March to mid-August 2020. The largest contribution was a $2.36 trillion increase in holdings of **Treasury and agency mortgage-backed securities (MBS)** (figure 1). This increase reflects asset purchases to support the smooth functioning of the markets in which these assets are issued and traded, markets that are vital to the flow of credit in the economy, and the transmission of monetary policy to broader financial conditions.

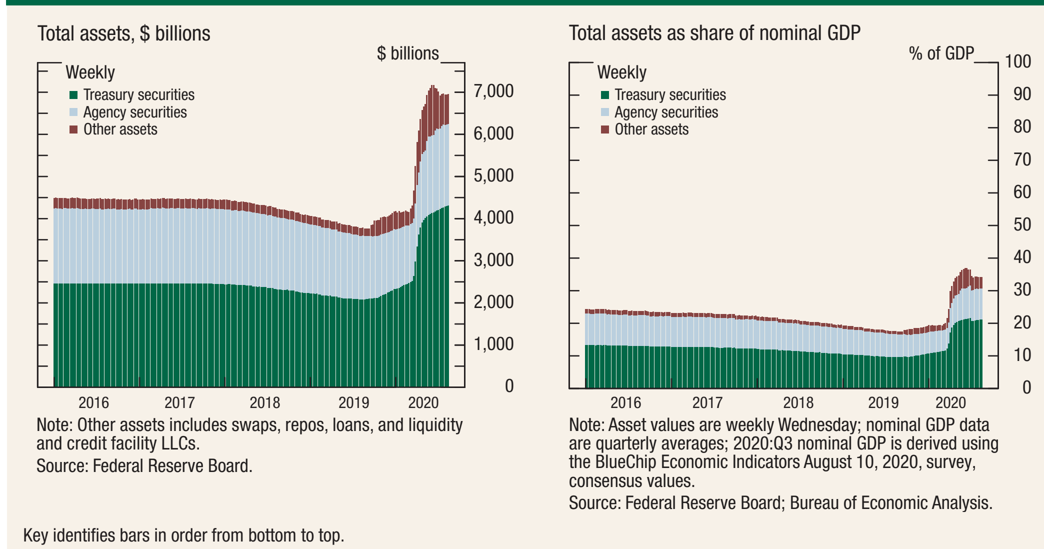
Table 1. Assets, liabilities, and capital of the Federal Reserve System
($ billions)

	March 11, 2020	August 12, 2020	Change from March 11, 2020
Total assets	**4,312**	**6,957**	**2,645**
Securities held outright	3,897	6,256	2,359
U.S. Treasury securities	2,523	4,320	1,797
Federal agency debt securities	2	2	0
Agency mortgage-backed securities	1,372	1,934	562
Repurchase agreements	242	0	-242
Foreign official	0	0	0
Other	242	0	-242
Loans	0	83	83
Discount window credit	0	3	3
Primary Dealer Credit Facility	0	1	1
Money Market Mutual Fund Liquidity Facility	0	11	11
Paycheck Protection Program Liquidity Facility	0	68	68
Other loans	0	0	0
Net portfolio holdings of Commercial Paper Funding Facility II LLC	0	9	9
Net portfolio holdings of Corporate Credit Facility LLC	0	44	44
Net portfolio holdings of Main Street Facilities LLC	0	38	38
Net portfolio holdings of Municipal Liquidity Facility LLC	0	16	16
Net portfolio holdings of Term Asset-Backed Securities Loan Facility II LLC	0	10	10
Central bank liquidity swaps	0	100	100
Other assets	172	401	229
Total liabilities	**4,273**	**6,918**	**2,645**
Federal Reserve notes	1,771	1,957	187
Deposits held by depository institutions other than term deposits	1,780	2,828	1,048
Reverse repurchase agreements	233	218	-15
Foreign official and international accounts	232	218	-14
Other	1	0	-1
U.S. Treasury, General Account	372	1,635	1,263
Treasury contributions to credit facilities	0	114	114
Other liabilities	117	165	48
Total capital	**39**	**39**	**0**

Note: Rounded to billions.

Source: Federal Reserve's H.4.1 statistical release, "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks," https://www.federalreserve.gov/releases/h41/.

Figure 1. Selected assets of the Federal Reserve, in billions and share of GDP, 2016–20



Note: Other assets includes swaps, repos, loans, and liquidity and credit facility LLCs.
Source: Federal Reserve Board.

Note: Asset values are weekly Wednesday; nominal GDP data are quarterly averages; 2020:Q3 nominal GDP is derived using the BlueChip Economic Indicators August 10, 2020, survey, consensus values.
Source: Federal Reserve Board; Bureau of Economic Analysis.

Key identifies bars in order from bottom to top.

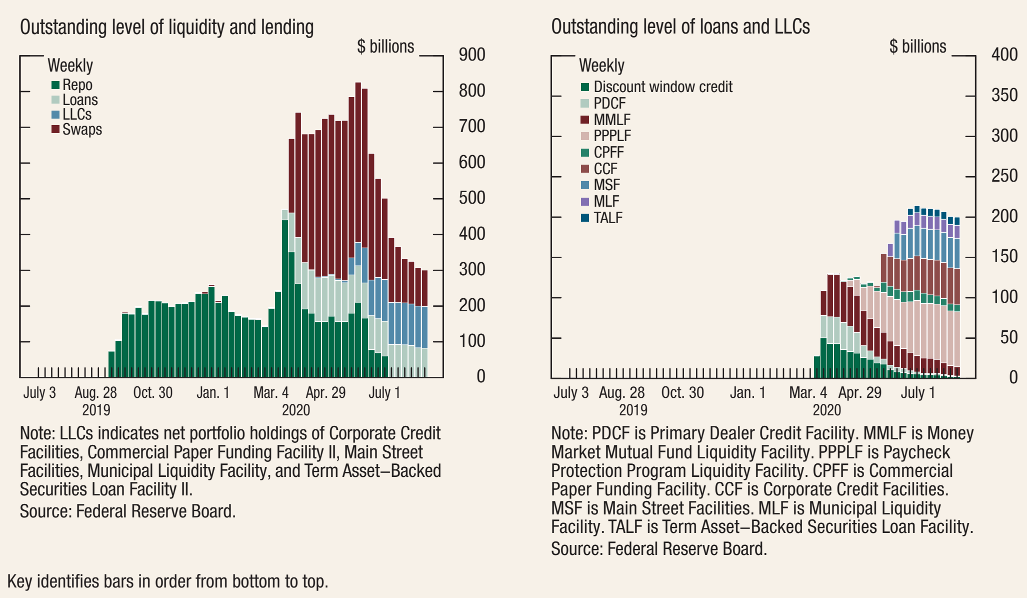
Other assets that boosted the size of the balance sheet include

- an increase in **central bank liquidity swaps** of $100 billion, as swap arrangements were expanded to include more frequent operations, longer tenors, and additional central banks to ease strains in global funding markets;
- **new liquidity and credit market facilities** and **new terms of discount window lending**—enacted to support the flow of credit to households, businesses, nonprofits, and municipalities.

New Liquidity and Credit Market Facilities

As of August 12, the Federal Reserve's new liquidity and credit market facilities had total assets of $197 billion (included in figure 2), which for the limited liability companies include assets purchased as well as the Treasury's equity contribution and a few other assets. Table 2 provides a summary of the liquidity and credit market facilities, including their utilization.

Figure 2. Liquidity and lending programs, 2019–20



Outstanding level of liquidity and lending

Note: LLCs indicates net portfolio holdings of Corporate Credit Facilities, Commercial Paper Funding Facility II, Main Street Facilities, Municipal Liquidity Facility, and Term Asset–Backed Securities Loan Facility II.

Source: Federal Reserve Board.

Outstanding level of loans and LLCs

Note: PDCF is Primary Dealer Credit Facility. MMLF is Money Market Mutual Fund Liquidity Facility. PPPLF is Paycheck Protection Program Liquidity Facility. CPFF is Commercial Paper Funding Facility. CCF is Corporate Credit Facilities. MSF is Main Street Facilities. MLF is Municipal Liquidity Facility. TALF is Term Asset–Backed Securities Loan Facility.

Source: Federal Reserve Board.

Key identifies bars in order from bottom to top.

Table 2. Federal Reserve liquidity and credit market facilities

Name	Target	Maximum size	Utilization as of 8/12/2020 ($ billions)
Primary Dealer Credit Facility	Broker-dealer liquidity	Unlimited	0.7
Money Market Mutual Fund Liquidity Facility	MMF liquidity	Unlimited	11.5
Paycheck Protection Program Lending Facility	Funding of PPP loans	Unlimited	68.2
Commercial Paper Funding Facility*	Newly issued CP	Issuer max outstanding limit	0.0+
Primary Market Corporate Credit Facility*	Newly issued corporate debt	Combined $750 billion	12.4
Secondary Market Corporate Credit Facility*	Secondary market corporate debt		
Main Street New Loan Facility*	Small and medium-sized businesses and nonprofit organizations	Combined $600 billion	0.2
Main Street Expanded Loan Facility*			
Main Street Priority Loan Facility*			
Nonprofit Organization New Loan Facility*			
Nonprofit Organization Expanded Loan Facility*			
Municipal Liquidity Facility*	States and municipal governments	$500 billion	1.2
Term Asset-Backed Securities Loan Facility*	Newly issued ABS	$100 billion	1.6

Note: Components may not sum to totals because of rounding. CP is commercial paper, MMF is money market fund, ABS is asset-backed securities, and PPP is Paycheck Protection Program.

* The dollar amounts reported for these facilities on the Federal Reserve's balance sheet (and in table 1) include not only the assets purchased by the Federal Reserve (as shown here in table 2), but also the Treasury contributions to the credit facilities (as shown in the box "U.S. Department of the Treasury Support for Liquidity and Credit Market Facilities"), as well as other assets. For more details, see the discussion of the Limited Liability Companies in the Recent Developments section of this report and table 4 in the Federal Reserve's H.4.1 statistical release, https://www.federalreserve.gov/releases/h41/current/default.htm.

Source: Federal Reserve Board, statistical release H.4.1, "Factors Affecting Reserve Balances."

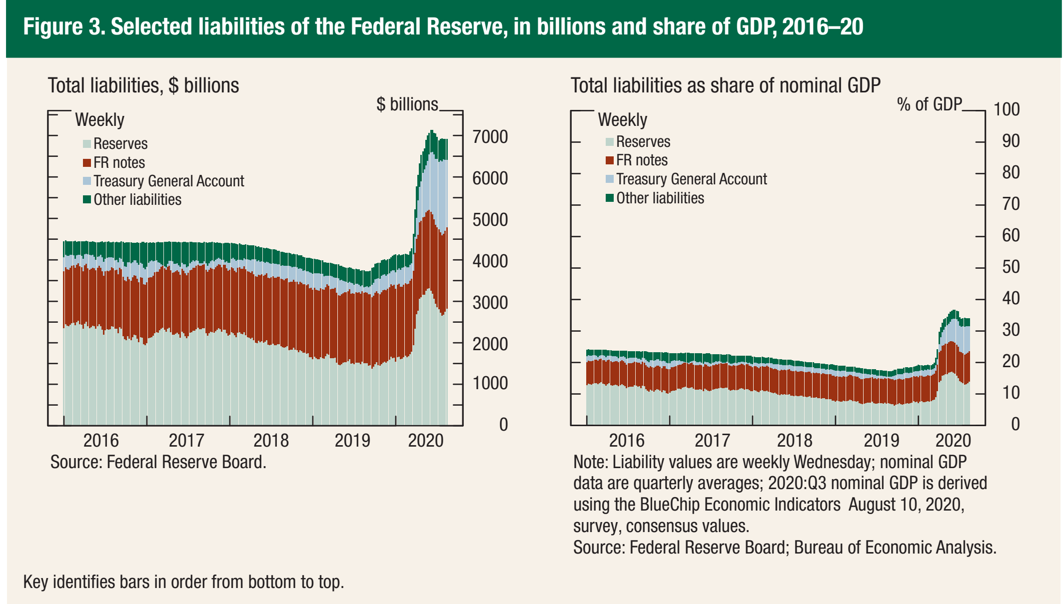
Change in Federal Reserve Liabilities

The Federal Reserve's actions and programs resulted in an increase in deposits at the Federal Reserve held by depository institutions, which consist nearly entirely of reserve balances. These balances rose by $1 trillion between mid-March and mid-August (figure 3). In addition, a few other liabilities rose over this period. The Treasury's General Account (TGA) balance increased amid a surge in Treasury bill issuance in anticipation of increased crisis-related expenditures, with a peak level of $1.83 trillion in late July and a still sizable level in mid-August.

Meanwhile, demand for Federal Reserve notes continued to increase throughout this period. And, the Federal Reserve recognized, as a liability, the support committed as an equity contribution by the U.S. Treasury for many of the credit facilities (see box "U.S. Department of the Treasury Support for Liquidity and Credit Market Facilities" for more details).

For more detailed information and data on Federal Reserve balance sheet activity, see the subsequent sections entitled Recent Developments and Background on Selected Assets and Liabilities.

Figure 3. Selected liabilities of the Federal Reserve, in billions and share of GDP, 2016–20



Source: Federal Reserve Board.

Note: Liability values are weekly Wednesday; nominal GDP data are quarterly averages; 2020:Q3 nominal GDP is derived using the BlueChip Economic Indicators August 10, 2020, survey, consensus values.

Source: Federal Reserve Board; Bureau of Economic Analysis.

Key identifies bars in order from bottom to top.

Recent Developments

The most notable changes in the Federal Reserve's assets over the period from mid-March to August 12, 2020, were

- a large expansion in the Federal Reserve's securities holdings to restore market functioning in Treasury and agency MBS markets and to promote effective transmission of monetary policy;
- an increase in liquidity—through central bank liquidity swap lines, overnight and term repos, and discount window credit—to address pressures in dollar funding markets; and
- the establishment and use of several emergency lending programs aimed at supporting the flow of credit to households, businesses, nonprofits, and state and local governments.

On the liabilities side of the balance sheet, the largest increases were in the TGA and in depository institutions' reserve balances at the Federal Reserve.

In addition to this report, the Federal Reserve also provides extensive, monthly information on the use of some of its emergency lending programs through its Reports to Congress Pursuant to Section 13(3) of the Federal Reserve Act in response to COVID-19.[2] (See this report's appendix for an overview of the Federal Reserve's disclosure requirements and other provisions of the Dodd-Frank and CARES Acts.) In addition, outstanding levels of the Federal Reserve's securities holdings and take-up at its liquidity and lending programs are released weekly on the Federal Reserve's H.4.1 statistical release, available at https://www.federalreserve.gov/releases/h41/.

Securities Holdings

- On March 15, 2020, to support the smooth functioning of the markets for Treasury securities and agency MBS, the Federal Open Market Committee (FOMC) announced that it would increase its holdings of Treasury securities by at least $500 billion, increase its holdings of agency MBS by at least $200 billion, and reinvest all principal payments from its holdings of agency debt and agency MBS in agency MBS.
- On March 23, 2020, the FOMC announced that it would purchase Treasury securities and agency MBS in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and would include agency commercial MBS in its purchases of agency MBS.
- Weekly purchase amounts, though initially large in late March, were gradually reduced in subsequent weeks as market conditions improved. The weekly amounts of purchases peaked at approximately $350 billion and $180 billion for Treasury securities and agency MBS, respectively, in late March; the pace of purchases was gradually reduced over subsequent weeks to the mid-August weekly amounts of around $20 billion and $26 billion, respectively.
- On August 12, securities holdings stood near $6.26 trillion, an increase of $2.36 trillion since mid-March.

[2] See the Board's website at https://www.federalreserve.gov/publications/reports-to-congress-in-response-to-covid-19.htm.

—Treasury security holdings stood at $4.3 trillion.

—Agency security holdings stood at $1.9 trillion, with agency commercial MBS holdings of about $9 billion.

—Securities holdings represented about 90 percent of total Federal Reserve assets.

—The Federal Reserve's Treasury securities holdings, as a share of the all outstanding Treasury debt, increased from 15 to 22 percent.

Repurchase Agreements

- In March 2020, the Federal Reserve implemented two forms of repo operations: it expanded its traditional repo operations and introduced the new, temporary foreign and international monetary authorities (FIMA) repo facility.

Traditional Repos

- In mid-March, in response to strains in short-term U.S. dollar funding markets resulting from the COVID-19 pandemic, the Federal Reserve Bank of New York's (FRBNY's) Trading Desk increased the size and frequency of its overnight and term repo operations with primary dealers.
- On March 17, outstanding total repos peaked at $496 billion amid strains in both term and overnight Treasury financing markets. Subsequently, take-up declined as market rates moved down as stresses receded, with the amount of take-up depending, in part, on the spread between the Federal Reserve's offering rate and market rates.
- Given the improvement in funding market conditions over time, the Trading Desk announced several changes to its repo operations. On April 13, the Trading Desk announced a reduction in the frequency of the overnight and term repo operations; on May 13, it reported a discontinuation of its three-month term operations; on June 11, it announced adjustments to the minimum bid rate and timing of its remaining repo operations.
- As of the second week of July, the outstanding level of traditional repos dropped to zero.

Temporary FIMA Repo Facility

- On March 31, to support the smooth functioning of both Treasury and dollar funding markets, the Federal Reserve established the temporary FIMA Repo Facility.
- Usage of this facility has been minimal.

Loans

Discount Window Credit

- On March 15, 2020, the Board of Governors of the Federal Reserve System, along with other federal banking agencies, issued a statement encouraging depository institutions to make use of the discount window to help meet demands for credit from households and businesses. In support of this guidance, the Board narrowed from 50 basis points to 0 basis points the spread between the primary credit rate and the top of the target range for the federal funds rate. Additionally, it announced that depository institutions may borrow primary credit not only overnight but also for periods as long as 90 days, prepayable and renewable by the borrower on a daily basis.

- In the weeks after the changes in the primary credit program were instituted, borrowing in overnight unsecured funding markets above the primary credit rate declined notably, from $67 billion (35 percent of total unsecured market borrowing) in mid-March to $6 billion (roughly 3 percent of total unsecured borrowing) in mid-April.
- Program usage was widespread between mid-March and mid-August.

  —Over 900 unique borrowers borrowed under the primary credit program.

  —Smaller institutions (with assets less than $10 billion) were the most frequent borrowers.

  —Midsized institutions (with assets ranging from $50 to $250 billion) borrowed the most in aggregate.
- As of August 12, outstanding discount window credit stood at approximately $3 billion, down from the peak of about $51 billion in late March as short-term funding market conditions stabilized.

Primary Dealer Credit Facility

- On March 17, 2020, to help restore normal market functioning, the Board authorized the FRBNY to implement and operate the Primary Dealer Credit Facility (PDCF) under section 13(3) of the Federal Reserve Act.[3]
- The amount of PDCF loans outstanding increased steeply in the initial days of the facility, peaking at around $37 billion at the end of March.

  —Collateral securing PDCF loans during peak usage included investment-grade debt securities (31 percent), commercial paper (19 percent), municipal bonds (16 percent), asset-backed securities (ABS) (8 percent), and other eligible securities (26 percent).
- As market functioning improved, usage of the facility declined, with a sharp drop at the beginning of May and continued gradual decreases in the following months.
- As of August 12, loans outstanding were under $1 billion.

Money Market Mutual Fund Liquidity Facility

- On March 18, 2020, under section 13(3) of the Federal Reserve Act, the Board authorized the Federal Reserve Bank of Boston to implement and operate the Money Market Mutual Fund Liquidity Facility (MMLF).
- From March 23 to 27 (the first week of operations), 568 loans were extended to six financial institutions that purchased assets from 102 different money market mutual funds totaling $45 billion. During this week, collateral securing MMLF loans included mainly certificates of deposit (30 percent), asset-backed commercial paper (51 percent), and commercial paper (16 percent).
- Take-up for the MMLF slowed considerably after the first week as redemptions from money funds slowed, reducing liquidity pressures.
- The MMLF has not made any new loans since April 23.

[3] Under section 13(3), the Board may establish broad-based lending facilities in unusual and exigent circumstances with approval of the Secretary of the Treasury.

- As of August 12, the MMLF had $11.5 billion in loans outstanding, representing 151 loans to seven financial institutions that purchased assets from 55 different money market mutual funds. At this time, collateral securing MMLF loans included certificates of deposit (52 percent), commercial paper (30 percent), asset-backed commercial paper (15 percent), and municipal debt and variable rate demand notes (3 percent).

Paycheck Protection Program Liquidity Facility

- On April 9, 2020, under section 13(3) of the Federal Reserve Act, the Federal Reserve established the PPPLF to bolster the effectiveness of the Small Business Administration's (SBA's) Paycheck Protection Program (PPP).
- On April 30, 2020, the PPPLF was expanded to allow not only depository institutions but also SBA-approved nondepository institutions to participate. In addition, while eligible collateral was initially restricted to borrower-originated PPP loans, the program was expanded to include acceptance of purchased PPP loans as collateral.
- On May 5, 2020, the federal bank regulatory agencies announced an interim final rule that neutralizes the liquidity coverage ratio impact associated with the nonrecourse funding provided by the PPPLF.
- The facility began operations on April 16, 2020, and experienced steady increases in credit demand from a wide range of community banks. Meanwhile, low money market rates and strong deposit inflows may have allowed many other banks to fund their PPP loans without accessing the PPPLF.
- As of August 12, PPPLF credit outstanding stood at $68 billion.
- Transaction-specific disclosure data are released on the Board's website.[4] As of mid-August

  —PPPLF credit was extended across about 10,552 loans and more than 647 borrowers,

  —nearly 95 percent of borrowers were community banks,

  —80 minority depository institutions and community development financial institutions borrowed under the facility,

  —50 nondepository institutions accessed the facility and have about $8.4 billion in PPPLF balances, and

  —there is at least one PPPLF borrower in each of the 50 states.

Limited Liability Companies

Some of the liquidity and credit market facilities established by the Federal Reserve involve special purpose vehicles (SPVs), structured as limited liability companies (LLCs), to conduct program-related transactions. The dollar amounts reported in the LLCs on the Federal Reserve's balance sheet include not only the assets purchased by the Federal Reserve but also short-term receivables, interest and dividend receivables, and other assets of the facility.[5] In addition, the LLC includes the portion of the Treasury contributions to the facilities that is

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4 See the Board's website at https://www.federalreserve.gov/reports-to-congress-covid-19.htm.

5 Table 4, "Information on Principal Accounts of Credit Facilities LLCs," of the Federal Reserve's H.4.1 statistical release provides the contribution of net portfolio holdings of each LLC into its (1) outstanding amount of asset

held as investments in nonmarketable Treasury securities (see box "U.S. Department of the Treasury Support for Liquidity and Credit Market Facilities" for more details).[6]

Commercial Paper Funding Facility

- On March 17, 2020, under section 13(3) of the Federal Reserve Act, the Board established the Commercial Paper Funding Facility (CPFF), and expanded it on March 23, 2020, to support the functioning of the issuance market for short-term debt and support businesses and state and local governments in managing their short-term revenue and expense fluctuations.
- On April 14, the facility conducted its first operation.
- Within the first few weeks of operation, usage peaked at $4.3 billion.
- In recent months, reflecting improvements in market functioning and liquidity conditions, highly-rated issuers have been able to fund three-month commercial paper in the market at or below the CPFF's purchase price. As a result, the CPFF saw limited further usage, with no usage since mid-July.
- On July 23, the Board expanded the set of counterparties through whom eligible issuers may sell commercial paper to the facility.
- As of August 12, the facility held only minimal amounts of commercial paper, as past holdings matured.

Primary and Secondary Market Corporate Credit Facilities

- On March 23, 2020, under section 13(3) of the Federal Reserve Act, the Board approved the establishment of the Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF) to support the credit needs of corporations and their employment and spending.
- On April 9, 2020, the Federal Reserve announced an expansion of the size and scope of the facilities.
  - —The PMCCF added to the list of eligible issuers to include firms recently downgraded to double-B.
  - —The SMCCF expanded the list of bonds and added exchange-traded funds (ETFs) to include eligible bonds of firms recently downgraded to double-B as well as high-yield ETFs.
- On May 12, the SMCCF became operational.
- On June 15, the Federal Reserve announced the SMCCF would begin buying a broad and diversified portfolio of corporate bonds to support market liquidity and the availability of credit for large employers.

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purchases and (2) the Treasury contribution and other assets. See the Board's website at https://www.federalreserve.gov/releases/h41/current/default.htm.

6 The Treasury contribution to the facilities includes both investments in nonmarketable Treasury securities and the residual portion held as cash and cash equivalents at the FRBNY. The amount of cash and cash equivalents are eliminated in consolidation on the report of the Federal Reserve's balance sheet.

Box 1. U.S. Department of the Treasury Support for Liquidity and Credit Market Facilities

Several of the new liquidity and credit market facilities introduced as part of the Federal Reserve's response to COVID-19 were established under the provisions of section 13(3) of the Federal Reserve Act with the approval of the Secretary of the Treasury. The U.S. Treasury is providing support to certain facilities, using the Exchange Stabilization Fund. In some cases, support committed by the Treasury was appropriated to the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). In most cases, the support is provided as an equity contribution to a limited liability company (LLC) to acquire, hold, manage, encumber, and dispose of assets. The amount of support committed by the Treasury for each facility is noted in table A.

Table A. New liquidity and credit market facilities that are supported by the U.S. Department of the Treasury

Facility	Related LLC	Support committed ($ billions)	Support funded as of August 12, 2020 ($ billions)
Money Market Mutual Fund Liquidity Facility	n.a.	10	1.5
Commercial Paper Funding Facility	Commercial Paper Funding Facility II LLC	10	10
Primary Market Corporate Credit Facility & Secondary Market Corporate Credit Facility (combined)*	Corporate Credit Facilities LLC	75	37.5
Municipal Liquidity Facility*	Municipal Liquidity Facility LLC	35	17.5
Main Street New Loan Facility (MSNLF), the Main Street Priority Loan Facility (MSPLF), the Main Street Expanded Loan Facility (MSELF), the Nonprofit Organization New Loan Facility (NONLF) and the Nonprofit Organization Expanded Loan Facility (NOELF) (combined)*	MS Facilities LLC	75	37.5
Term Asset-Backed Securities Loan Facility*	TALF II LLC	10	10

* Funds appropriated under the CARES Act.

n.a. Not applicable.

Treasury may fund the support committed in tranches in accordance with agreements between the Federal Reserve and the Treasury. During the time that the facilities are in operation, the Treasury support is available as credit protection for loans extended by the Reserve Banks for each facility. Funds received may be invested, generally in nonmarketable Treasury securities, or held on deposit at a Federal Reserve Bank.

The amount of the Treasury funds invested is presented on the asset side of the Federal Reserve's balance sheet as a component of "Net portfolio holdings" for each respective facility; Treasury funds received for the Money Market Liquidity Facility are presented as a component of other assets in the balance sheet. The amount of funded support for all facilities is presented in the liability section of the balance sheet in the line "Treasury contribution to credit facilities." At the termination of each facility, any residual funds provided will be distributed in accordance with the terms of program agreements.

- On June 29, the PMCCF became operational. In addition, the Federal Reserve released new term sheets, including pricing information, for this facility.
- On July 23, the Board broadened the range of counterparties for the SMCCF.
- As of August 12, the SMCCF purchases totaled a bit over $12 billion.
- Transaction-specific disclosure data for the SCCMF are released on the Board's website.[7] As of mid-August

  —eligible bond ETFs were 70 percent of purchases and corporate bonds were 30 percent;

  —90 percent of the purchases were investment grade, while 10 percent were high yield.

Main Street Facilities (Main Street Lending Program)

- On March 23, 2020, the Federal Reserve indicated that it was establishing a Main Street Lending Program (Main Street) to support lending to eligible small and medium-sized businesses, complementing efforts by the SBA.
- On April 9, the Federal Reserve released initial term sheets for the Main Street New Loan Facility (MSNLF) and Main Street Expanded Loan Facility (MSELF) and announced that it would purchase up to $600 billion of qualifying loan participations.
- On April 30, the Federal Reserve announced revisions to the MSNLF and MSELF term sheets and released an additional term sheet for the Main Street Priority Loan Facility (MSPLF).
- On May 27, the Federal Reserve released the legal forms and agreements for the MSNLF, MSPLF, and MSELF, including a form loan participation agreement, lender certifications and covenants, and borrower certifications and covenants.
- On June 8, the Federal Reserve expanded the program to enable more small and medium-sized businesses to be able to access Main Street. It lowered the minimum loan amount, raised the maximum loan size, adjusted the principal repayment schedule to begin after two years, and extended the term of the loans to five years to provide borrowers with greater flexibility in repaying the loans.
- On June 15, lender registration began, and the Board announced it would seek public feedback on the proposal to expand Main Street to provide access to credit for small and medium-sized nonprofit organizations.
- On July 6, Main Street began purchasing participations in eligible loans.
- On July 17, the Federal Reserve released term sheets for the Nonprofit Organization New Loan Facility (NONLF) and Nonprofit Organization Expanded Loan Facility (NOELF), thereby expanding access to the program to include nonprofit organizations such as educational institutions, hospitals, and social service organizations.
- As of early August, the for-profit facilities (MSNLF, MSPLF, and MSELF) were fully operational; the nonprofit facilities (NONLF and NOELF) were not yet purchasing participations in loans.

[7] See the Board's website at https://www.federalreserve.gov/reports-to-congress-covid-19.htm.

- Transaction-specific disclosure data are released for the MSNLF, MSPLF, and MSELF on the Board's website.[8] As of early August
  - —More than 500 lenders had registered to participate in the program, representing more than half of U.S. banking assets.
  - —Main Street had purchased participations in 32 loans. These loans totaled more than $250 million. An additional 55 loans worth more than $600 million had been submitted and are under review.

Municipal Liquidity Facility

- On April 9, 2020, under section 13(3) of the Federal Reserve Act, the Board announced the establishment of the Municipal Liquidity Facility (MLF) to help state and local governments manage cash-flow stresses caused by the COVID-19 pandemic; the facility will offer up to $500 billion in lending to states and municipalities.
- On April 27, the Federal Reserve expanded the set of eligible issuers to include smaller cities and counties and extended the duration of the facility.
- On June 3, the State of Illinois became the first borrower, issuing $1.2 billion of 12-month general obligation notes to the facility at a rate of 3.82 percent.
- On June 3, the Federal Reserve again expanded the number and type of entities eligible to directly use the MLF. All U.S. states are able to have at least two cities or counties eligible to use the facility, and state governors can designate two issuers in their jurisdictions whose revenues are generally derived from operating government activities to also be eligible.
- On August 11, the Board announced revised pricing on loans, reducing the interest rate spread on tax-exempt notes for each credit rating category by 50 basis points and reducing the amount by which the interest rate for taxable notes is adjusted relative to tax-exempt notes.
- Transaction-specific disclosure data are released on the Board's website.[9] As of mid-August, the loan to the State of Illinois was the only outstanding loan.

Term Asset-Backed Loan Facility

- On March 23, 2020, under section 13(3) of the Federal Reserve Act, the Board announced the establishment of the Term Asset-Backed Loan Facility (TALF) to support the flow of credit to U.S. consumers and businesses; the facility will make up to $100 billion of loans available.
- On April 9, the Federal Reserve broadened the range of assets that are eligible as collateral.
- On May 12, the Federal Reserve provided additional information regarding borrower and collateral eligibility criteria.
- On June 17, the TALF had its first subscription, which provided $252 million in loans, including $145 million for commercial MBS.

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8 See the Board's website at https://www.federalreserve.gov/reports-to-congress-covid-19.htm.

9 See the Board's website at https://www.federalreserve.gov/reports-to-congress-covid-19.htm.

- Starting in July, the TALF began holding two subscriptions per month.
- On July 23, the Board expanded the set of counterparties through whom eligible borrowers may apply for TALF funds.
- As of August 12, the TALF held four subscriptions.
- Loan settlements as of August 12 totaled $1.6 billion and, with the fourth subscription settlement on August 13, the total increased to $2.3 billion.
- Transaction-specific disclosure data are released on the Board's website.[10] As of mid-August

  —approximately one-half of the requests for small business ABS were collateralized by SBA-guaranteed loans and the remainder for commercial MBS (35 percent), premium finance loans (5 percent) and student loans (11 percent).

Central Bank Liquidity Swaps

- During the week of March 15, 2020, as offshore dollar funding markets came under stress, existing swap arrangements with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank were modified. In particular, the swap fee was reduced—from a rate of the U.S. dollar overnight index swap (OIS) rate plus 50 basis points to the OIS rate plus 25 basis points—the frequency of seven-day maturity operations increased from weekly to daily, and 84-day maturity swaps began to be offered.
- Swap lines were expanded to temporarily include nine additional central banks: the Reserve Bank of Australia, the Banco Central do Brasil, Danmarks Nationalbank (Denmark), the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, the Norges Bank (Norway), the Monetary Authority of Singapore, and the Sveriges Riksbank (Sweden).
- Early auctions were met with strong demand, especially for the 84-day operations.
- In late May, outstanding central bank liquidity swaps reached a peak of nearly $450 billion, with the Bank of Japan holding $223 billion of the outstanding amount and the European Central Bank holding $145 billion; other central banks usage was more limited. Nearly all of the swaps outstanding at the peak were in 84-day allotments.
- Reflecting improvements in offshore dollar funding markets, outstanding central bank liquidity swaps began to diminish in mid-June, as the first wave of 84-day swaps began to mature.
- Effective July 1, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank reduced the frequency of their seven-day maturity operations to three times a week.
- As of August 12, central bank liquidity swaps stood at $100 billion, with the Bank of Japan holding $80 billion of the outstanding amount and European Central Bank holding $9 billion. Swaps continued to be concentrated in the 84-day allotments.

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[10] See Board's website at https://www.federalreserve.gov/reports-to-congress-covid-19.htm.

Reserve Balances and Other Liabilities

- Deposits of depository institutions, which consist nearly entirely of reserve balances, increased by $1 trillion since early March 2020 to stand at about $2.8 trillion on August 12.[11] This increase primarily reflects the Federal Reserve's actions to support market functioning and the flow of credit to households and businesses.
- Federal Reserve notes in circulation increased from $1.8 trillion in March to almost $2 trillion on August 12, primarily reflecting a boost in demand for cash from domestic households and businesses, but also a surge in U.S. currency shipments to international destinations and a sizable increase in banks' vault cash early in the period.
- The TGA expanded from about $370 billion in early March to over $1.6 trillion in mid-August. This increase primarily reflects the cash proceeds of Treasury securities issuance needed to finance fiscal spending related to the CARES Act. The proceeds from the debt issuance are placed in the TGA until the Treasury uses the funds.
- Treasury's contributions to the liquidity and credit facilities—new funds on the Federal Reserve's balance sheet—stood at $114 billion on August 12, reflecting the amount of Treasury's equity investments in the LLCs created pursuant to establishing the facilities.

[11] Effective March 26, 2020, the Board reduced reserve requirement ratios to zero. This action eliminated reserve requirements for thousands of depository institutions, making all reserve balances excess, which should help to support lending to households and businesses.

Background on Selected Assets and Liabilities

The Federal Reserve is using its full range of policy tools to support the U.S. economy during this period of constrained economic activity and to ensure that the eventual recovery is as vigorous as possible. This section provides background information on key assets and liabilities that have been influenced by recent events.

On the asset side of the Federal Reserve's balance sheet, information reviewed includes the authority of the Federal Reserve to use each of its tools, a discussion of how each tool works, and an inclusion of links for more information.[12] On the liability side of the balance sheet, the information reviewed primarily reflects the definition of the line item and key factors that influence its level.

Selected Assets

The Federal Reserve holds a range of assets on its balance sheet. The discussion below summarizes some of the key components of the asset side of the balance sheet.

Securities Holdings and Repurchase Agreements

The Federal Reserve conducts permanent and temporary purchases of Treasury securities, government-sponsored enterprise debt securities, and agency MBS in the open market. These open market operations (OMOs) are a traditional tool of the Federal Reserve. The authority to conduct OMOs is granted under section 14 of the Federal Reserve Act, and the range of securities that the Federal Reserve is authorized to purchase and sell is relatively limited. OMOs are conducted by the Federal Reserve Bank of New York's Trading Desk, which acts as agent for the FOMC. The Trading Desk's traditional counterparties for OMOs are primary dealers.

Permanent OMOs involve outright purchases or sales of securities for the System Open Market Account (SOMA), the Federal Reserve's portfolio. Traditionally, permanent OMOs are used to accommodate the longer-term factors driving the expansion of the Federal Reserve's balance sheet—primarily the trend growth of currency in circulation. However, larger-sized purchases have also been used during times of severe stress to aid in smooth market functioning, assist in the transmission of monetary policy, or lower longer-term interest rates.

Temporary OMOs are typically used to address reserve needs that are deemed to be transitory in nature. Operations are either repurchase agreements (repos)—a Federal Reserve asset—or reverse repurchase agreements (reverse repos or RRPs)—a Federal Reserve liability. Under a repo, the Trading Desk buys a security under an agreement to resell that security in the future. A repo is the economic equivalent to a collateralized loan by the Federal Reserve, in which the difference between the purchase and sale prices reflects interest.

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[12] Another resource for information on the Federal Reserve's policy tools can be found on the Board's website at https://www.federalreserve.gov/monetarypolicy/policytools.htm, which includes terms and conditions of each of the facilities authorized under section 13(3) of the Federal Reserve Act.

The Federal Reserve has traditionally conducted repos with primary dealers, though in 2020 a temporary repo facility was created to engage in these transactions with its FIMA customers. Beginning on March 31, FIMA customers could enter into repos with the Federal Reserve through this facility, thus gaining access to a reliable source of dollar liquidity. Many of the countries that have access to this facility do not have access to the Federal Reserve's central bank liquidity swap arrangements, discussed below. When using the facility, FIMA account holders temporarily exchange their U.S. Treasury securities held with the Federal Reserve for U.S. dollars, which can then be made available to institutions in their respective jurisdictions. This temporary facility will be in place at least until March 31, 2021.

The following are resources to learn more about the Federal Reserve's OMOs.

- The FRBNY publishes details on traditional OMOs:
  - —permanent open market operations at https://www.newyorkfed.org/markets/pomo_landing.html
  - —temporary open market operations at https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/repo-reverse-repo-agreements
- FIMA repo facility FAQs can be found at https://www.federalreserve.gov/newsevents/pressreleases/fima-repo-facility-faqs.htm
- The Federal Reserve's H.4.1 statistical release includes information on types of securities holdings and repo operations (available at https://www.federalreserve.gov/releases/h41/H.4.1 statistical release). Securities holdings include various maturities of Treasury securities, federal agency debt securities, and agency MBS. Repos are reported for those conducted with primary dealers as well as FIMA customers. The FIMA Repo Facility's outstanding repo is reported in the line item "Foreign official" under "Repurchase agreements" in table 1.
- The FRBNY publishes a detailed explanation of OMOs each year in its *Annual Report*.[13]

Loans

The Federal Reserve—like many central banks—is empowered to function as a "lender of last resort," and can provide loans in this role. The Federal Reserve can loan funds to depository institutions using its standard, traditional tool of discount window lending. Under section 13(3) of the Federal Reserve Act, the Federal Reserve also has authority to provide liquidity to nondepository institutions in "unusual and exigent circumstances" so long as the loan programs have "broad-based eligibility," have been established with the approval of the Secretary of the Treasury, and meet a few other criteria.

In response to the COVID-19 pandemic, the Federal Reserve has made available a series of lending programs to key sectors of the economy. These programs are providing stability to the financial system and directly support the flow of credit in the economy—for households, for businesses of all sizes, and for state and local governments. These programs benefit the economy by providing financing where it is not otherwise available. In addition, by serving as a backstop to key credit markets, the programs can improve market functioning by increasing the willingness of private lenders to extend credit.

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[13] See the FRBNY's website at https://www.newyorkfed.org/markets/annual_reports.html.

Discount Window Credit

Federal Reserve lending to depository institutions (the “discount window”) plays an important role in supporting the liquidity and stability of the banking system and the effective implementation of monetary policy. By providing ready access to funding, the discount window helps depository institutions manage their liquidity risks efficiently and avoid actions that have negative consequences for their customers, such as withdrawing credit during times of market stress. Thus, the discount window supports the smooth flow of credit to households and businesses. Providing liquidity in this way is one of the original purposes of the Federal Reserve System and other central banks around the world.

Much of the statutory framework that governs lending to depository institutions is contained in section 10B of the Federal Reserve Act, as amended. The general policies that govern discount window lending are set forth in the Board’s Regulation A. Depository institutions have, since 2003, had access to three types of discount window credit—primary credit, secondary credit, and seasonal credit. All discount window loans must be fully collateralized to the satisfaction of the lending Reserve Bank, with an appropriate haircut applied to the collateral; in other words, the value of the collateral exceeds the value of the loan.

Primary Credit

Primary credit is a lending program that serves as the principal safety valve for ensuring adequate liquidity in the banking system. It is available to depository institutions that are in generally sound financial condition; there are no restrictions on the use of funds borrowed under primary credit, and minimal information is required from a primary credit borrower. The primary credit rate is determined by the Board, and credit under this program is extended for periods as long as 90 days.

Secondary Credit

Secondary credit is a lending program available to depository institutions that are not eligible for primary credit. It is extended on a very short-term basis, typically overnight, and at a rate 50 basis points above the rate applicable for primary credit. In contrast to primary credit, there are restrictions on the uses of secondary credit extensions. Secondary credit is available to meet backup liquidity needs when its use is consistent with a timely return by the borrower to a reliance on market sources of funding or the orderly resolution of a troubled institution. Secondary credit may not be used to fund an expansion of the borrower’s assets.

Moreover, the secondary credit program entails a higher level of Reserve Bank administration and oversight than the primary credit program—the Reserve Bank must obtain the reason for borrowing and any additional information necessary to confirm that borrowing is consistent with the objectives of the program. Reserve Banks typically apply higher haircuts on collateral pledged to secure secondary credit, closely monitor the liquidity position of secondary credit, and are in close contact with the borrower’s primary federal regulator.

Seasonal Credit

Seasonal credit is a lending program that is available to assist small depository institutions with demonstrated liquidity pressures of a seasonal nature and will not normally be available to institutions with deposits of $500 million or more. Institutions that experience and can demonstrate a clear pattern of recurring intra-yearly fluctuations in deposits and loans—caused by construction, college, farming, resort, municipal financing, and other seasonal

types of business—frequently qualify for the seasonal credit program; eligible institutions are usually located in agricultural or tourist areas.

To become eligible for seasonal credit, an institution must establish a seasonal qualification with its Reserve Bank. Eligible depository institutions may qualify for term funding for up to nine months of seasonal need during the calendar year, enabling them to carry fewer liquid assets during the rest of the year and, thus, allowing them to make more funds available for local lending. The interest rate applied to seasonal credit is a floating rate based on market rates.

For more information on the discount window, see

- https://www.federalreserve.gov/monetarypolicy/discountrate.htm
- https://www.frbdiscountwindow.org/
- https://www.frbdiscountwindow.org/pages/general-information/the%20discount%20window

Primary Dealer Credit Facility

The PDCF, authorized under section 13(3) of the Federal Reserve Act and with the approval of the Secretary of the Treasury, provides overnight and term financing up to 90 days to primary dealers in exchange for a broad range of collateral. The interest rate charged is the primary credit rate at the time the loan is made. The facility allows primary dealers to support smooth market functioning and facilitate the availability of credit to businesses and households.

This facility will remain available to primary dealers until December 31, 2020, unless the Board and the Department of the Treasury extend the PDCF. For more information on the PDCF, visit https://www.newyorkfed.org/markets/primary-dealer-credit-facility/primary-dealer-credit-facility-faq.

Money Market Mutual Fund Liquidity Facility

The MMLF, authorized under section 13(3) of the Federal Reserve Act, makes loans available to eligible financial institutions secured by high-quality assets they purchased from prime, single-state or other tax-exempt money market mutual funds. Pricing varies by the collateral pledged. The facility assists money market mutual funds in meeting demands for redemptions by investors and also provides confidence to investors that they can access their cash if and when they need it, relieving the pressure to sell out of the funds in the first place. Overall, the facility is aimed to foster liquidity in short-term funding markets.

The facility will be operational through December 31, 2020, unless the MMLF is extended by the Board and the Department of the Treasury. For more information on the purpose and design, borrower information, collateral requirements, and other terms, visit https://www.federalreserve.gov/monetarypolicy/files/mmlf-faqs.pdf.

Paycheck Protection Program Liquidity Facility

The PPPLF, authorized under section 13(3) of the Federal Reserve Act, strengthens the effectiveness of the Small Business Administration's PPP by supplying liquidity to participating financial institutions against PPP loans. The facility lends to eligible financial institutions that originate or purchase PPP loans from the SBA on a nonrecourse basis using the PPP loans as

collateral at face value. Increasing the capacity of PPP lenders to lend to small businesses allows more small businesses to keep their staff on their payroll.

No new extensions of credit will be made under the PPPLF after December 31, 2020, unless the Board and the Department of the Treasury determine to extend the PPPLF. For additional information, visit https://www.frbdiscountwindow.org.

Net Portfolio Holdings of Commercial Paper Funding Facility II LLC

The CPFF, authorized under section 13(3) of the Federal Reserve Act, provides a liquidity backstop to U.S. issuers of commercial paper through a specially created limited liability company, the CPFF II LLC. This LLC purchases highly rated, U.S. dollar-denominated, three-month commercial paper from businesses, municipals, and issuers of asset-backed commercial paper. The Federal Reserve provides financing to the LLC, which is secured by all of the assets of the LLC. This facility enhances the liquidity of the commercial paper market by increasing the availability of term commercial paper funding to issuers and by providing greater assurance to both issuers and investors that firms and municipalities will be able to roll over their maturing commercial paper. By ensuring the smooth functioning of this market, particularly in times of strain, the Federal Reserve is providing credit that will support families, businesses, and jobs across the economy.

This facility will cease purchasing commercial paper on March 17, 2021, unless the Board extends the facility. For additional information, visit https://www.newyorkfed.org/markets/commercial-paper-funding-facility/commercial-paper-funding-facility-faq.

Net Portfolio Holdings of Corporate Credit Facilities LLC

The Primary Market Corporate Credit Facility and the Secondary Market Corporate Credit Facility, authorized under section 13(3) of the Federal Reserve Act, support the credit needs of corporations, and the employment and spending that they undertake. The two corporate credit facilities operate through a single common SPV, the Corporate Credit Facilities LLC (CCF LLC).

The PMCCF is aimed to help large employers access credit by directly providing bridge financing so that they are better able to maintain business operations and capacity. Under the PMCFF, the CCF LLC, when approached by qualified businesses, will purchases bonds and portions of syndicated loans with maturities of no more than four years at interest rates informed by market conditions plus a 100 basis point fee. Borrowers either must currently be investment grade or were investment grade on March 22, 2020, and are now the highest below-investment-grade rating.

Meanwhile, the SMCCF is geared to purchase corporate bonds issued by U.S. companies and U.S.-listed exchange-traded funds (ETFs) in the secondary market, thereby providing liquidity for outstanding corporate bonds. Under the SMCCF, the CCF LLC purchases in the secondary market, at fair market value, individual corporate bonds with, at most, five-year remaining maturity issued by a broad set of U.S. corporations. The facility also may purchase U.S.-listed corporate bond ETFs. In order to prevent an unusually large gap from opening up between borrowing costs faced by investment-grade and high-yield businesses, the SMCCF may purchase a limited amount of shares in ETFs that target high-yield bonds. The facility will avoid purchasing shares of eligible ETFs when they trade at prices that materially exceed the estimated net asset value of the underlying portfolio.

The CCFs will cease purchasing eligible corporate bonds, eligible syndicated loans, and eligible ETFs no later than December 31, 2020, unless the CCFs are extended by the Board and the Department of the Treasury. For additional information on the purpose and design, eligible issuers and sellers, eligible assets and other terms, visit https://www.newyorkfed.org/markets/primary-and-secondary-market-faq/corporate-credit-facility-faq.

Net Portfolio Holdings of MS Facilities LLC (Main Street Lending Program)

The Main Street Lending Program, authorized under section 13(3) of the Federal Reserve Act, supports lending to small and medium-sized businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic. The program consists of five facilities—the Main Street New Loan Facility (MSNLF), the Main Street Priority Loan Facility (MSPLF), the Main Street Expanded Loan Facility (MSELF), the Nonprofit Organization New Loan Facility (NONLF) and the Nonprofit Organization Expanded Loan Facility (NOELF)—that operate through a single common SPV, the Main Street Facilities LLC (MS Facilities LLC).

The MS Facilities LLC purchases 95 percent participations in eligible loans originated by eligible lenders to eligible borrowers. Lenders retain 5 percent of the loans. To be eligible to participate in Main Street, a borrower must, in addition to meeting other criteria, (i) have 15,000 employees or fewer, or (ii) 2019 revenues of $5 billion or less. Eligible lenders may originate new loans (under MSNLF, MSPLF, and NONLF), or increase the size of (or "upsize") existing loans made (under MSELF and NOELF), to eligible borrowers. Any loan issued under Main Street has a five-year maturity, principal payments are deferred for two years, and interest payments on the loans are deferred for one year.

The MS Facilities LLC will cease purchasing loan participations on December 31, 2020, unless the program is extended by the Board and the Treasury Department.

To learn about the differences between the various for-profit and nonprofit facilities as well as other program information, see https://www.bostonfed.org/mslp-faqs and https://www.bostonfed.org/-/media/Documents/special-lending-facilities/mslp/legal/frequently-asked-questions-faqs-nonprofit.pdf, respectively.

Net Portfolio Holdings of Municipal Liquidity Facility LLC

The Municipal Liquidity Facility, authorized under section 13(3) of the Federal Reserve Act, provides a liquidity backstop to state and local governments through a specially created LLC, the Municipal Liquidity Facility LLC. This LLC purchases up to $500 billion of short-term notes directly from U.S. states (including the District of Columbia), certain U.S. counties, certain U.S. cities, certain multistate issuers and revenue bond issuers, and limited revenue bond issuers that are designated by governors of U.S. states and the mayor of the District of Columbia.

The LLC will cease purchasing eligible notes on December 31, 2020, unless the Board and the Treasury Department extend the facility. For additional information on the purpose and design, eligible issuers, eligible notes, disclosures, methods of sale and process, and other terms, visit https://www.newyorkfed.org/markets/municipal-liquidity-facility/municipal-liquidity-facility-faq.

Net Portfolio Holdings of TALF II LLC

The TALF, authorized under section 13(3) of the Federal Reserve Act, supports the flow of credit to consumers and businesses by facilitating the issuance of new ABS and supporting liquidity in secondary markets for existing ABS. The facility operates through a specially created LLC, the TALF II LLC.

The TALF II LLC makes loans available to investors (including asset managers, mutual funds, insurance companies, and hedge funds) to encourage them to purchase certain ABS with underlying credit exposures of auto, student, and credit card loans as well as some small business loans guaranteed by the SBA, and certain other assets. The loans are nonrecourse, have a principal amount equal to the market value of the ABS less a haircut, and are secured at all times by the ABS.

No new credit extensions will be made after December 31, 2020, unless the program is extended by the Board and the Department of the Treasury. For additional information, visit https://www.newyorkfed.org/markets/term-asset-backed-securities-loan-facility/term-asset-backed-securities-loan-facility-faq.

Central Bank Liquidity Swaps

The Federal Reserve's swap lines are designed to improve liquidity conditions in dollar funding markets in the United States and abroad by providing foreign central banks with the capacity to deliver U.S. dollar funding to institutions in their jurisdictions during times of market stress. Under the dollar liquidity swap arrangements, the Federal Reserve provides U.S. dollars to a foreign central bank in exchange for the equivalent amount of funds in the foreign central bank's currency based on the market exchange rate at the time of the transaction.

This "swap" provides the foreign central bank with dollars that it can supply to financial institutions in its jurisdictions. The Federal Reserve and the foreign central bank agree to swap back the same quantities of their two currencies at a specified date in the future. Because the terms of this second transaction are set in advance and the Federal Reserve's counterparty is another central bank, these swap operations carry no exchange rate or counterparty risk.

In the years leading up to the COVID-19 pandemic, the Federal Reserve had standing swap lines with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank. As of March 19, 2020, swap lines have temporarily been expanded to include nine additional central banks. These arrangements serve as an important liquidity backstop to ease strains in global funding markets, thereby helping to mitigate the effects of such strains on the supply of credit to households and businesses, both domestically and abroad. The U.S. dollar liquidity arrangements with the expanded set of central banks will be in place at least through March 31, 2021. For more information on central bank liquidity swap arrangements, visit https://www.newyorkfed.org/markets/international-market-operations/central-bank-swap-arrangements.

Selected Liabilities

The major items on the liability side of the Federal Reserve balance sheet are Federal Reserve notes (U.S. paper currency), the deposits that depository institutions hold (termed "reserve balances"), and the U.S. Treasury's General Account. This section reviews these items as well as a few other selected liabilities.

Federal Reserve Notes, Net of Federal Reserve Bank Holdings

Historically, Federal Reserve notes have been the largest liability on the Federal Reserve's balance sheet. A U.S. depository institution, when it needs more currency to meet its customers' needs, asks a Reserve Bank to send it more Federal Reserve notes. The Reserve Bank ships the currency to the institution and debits the institution's Federal Reserve account by the amount shipped. Thus, an increase in Federal Reserve notes outside of the Reserve Banks is matched by a reduction in the quantity of deposits that banks and other depository institutions hold in their Federal Reserve accounts.

Similarly, a depository institution that finds that it has more Federal Reserve notes on hand than it needs to meet its customers' demands generally returns the extra currency to a Reserve Bank; the Reserve Bank credits the institution's account so the liability side of the Federal Reserve's balance sheet shows a reduction in Federal Reserve notes outstanding and a matching increase in deposits held by depository institutions.

Reverse Repurchase Agreements

The Federal Reserve conducts reverse repurchase agreements (reverse repos or RRPs) by selling Treasury securities, federal agency debt securities, and agency MBS to counterparties who agree to sell the securities back to the Federal Reserve on a stated future date. Reverse repos are temporary OMOs (see Securities Holdings and Repurchase Agreements above for the discussion of OMOs) and are the economic equivalent of collateralized borrowing by the Federal Reserve. More information about this operation can be found at https://www.newyorkfed.org/markets/rrp_faq.html.

As part of normal operations, the Federal Reserve has a standing overnight reverse repo facility that helps put a floor on select overnight money market interest rates and helps keep the effective federal funds rate from falling below the target range set by the FOMC. More information about this policy tool can be found at https://www.federalreserve.gov/monetarypolicy/overnight-reverse-repurchase-agreements.htm.

In addition, every business day, the Federal Reserve conducts overnight reverse repos with foreign central banks that hold dollars in their accounts at the FRBNY. These transactions are one of the services that central banks provide one another to facilitate their international operations. In particular, this repo operation is a short-term liquid, U.S. dollar investment option for account holders and supports daily cash management needs to clear and settle securities. This investment service has been a standard provision to foreign public-sector account holders for many years and is separate from monetary policy operations.

More information on reverse repos with foreign official and international accounts can be found at https://www.newyorkfed.org/aboutthefed/fedpoint/fed20.

Reserve Balances of Depository Institutions

More than 5,500 depository institutions maintain accounts at the Federal Reserve Banks. They hold balances in those accounts to make and receive payments. The total amount of balances in their accounts is shown in the line "other deposits held by depository institutions" under "Deposits" in the H.4.1 statistical release, available at https://www.federalreserve.gov/releases/h41/H.4.1 statistical release.

The Federal Reserve can change the total amount of balances available to the banking system through its lending programs or through OMOs. The Treasury's transactions that move funds into and out of the TGA, discussed below, are also a significant factor that affects the supply of reserve balances held by depository institutions.

When the Federal Reserve lends, all else equal, the total amount of reserves of depository institutions increases. When a depository institution borrows directly from the Federal Reserve, the amount the institution borrows is credited to its Federal Reserve account. When the Federal Reserve lends to a borrower that does not have an account at a Reserve Bank, the Federal Reserve credits the funds to the account of the borrower's bank at the Federal Reserve. When a borrower of either type repays the Federal Reserve, the process is reversed, and total balances in depository institutions' accounts at the Reserve Banks decline. This type of lending occurs through many of the lending facilities discussed above.

An increase in the Federal Reserve's holdings of securities also raises the level of reserves of depository institutions. When the Federal Reserve buys securities, either outright or via a repurchase agreement, the Federal Reserve credits the account of the clearing bank used by the primary dealer from whom the security is purchased. Conversely, the Federal Reserve's sales of securities decrease the level of reserves of depository institutions. These OMOs were discussed above.

U.S. Treasury General Account

The Federal Reserve is the fiscal agent of the U.S. Treasury. Major outlays of the Treasury are paid from the TGA at the Federal Reserve.

The Treasury's receipts and expenditures affect not only the balance the Treasury holds at the Federal Reserve but also the balances in the accounts that depository institutions maintain at the Reserve Banks. When the Treasury makes a payment from its General Account, funds flow from the TGA into the account of a depository institution either for that institution or for one of the institution's customers. As a result, all else equal, a decline in the balances held in the TGA results in an increase in the reserves of depository institutions.

Conversely, funds that flow into the TGA drain balances from the reserves of depository institutions. These changes do not rely on the nature of the transaction. A tax payment to the Treasury's account reduces the reserves of depository institutions in the same way that the transfer of funds does when a private citizen purchases Treasury debt. Both actions result in funds flowing from a depository institution's account into the Treasury's account.

The U.S. Treasury reports its balance in its Federal Reserve account daily on its Daily Treasury Statement at https://www.fiscal.treasury.gov/reports-statements/dts/index.html.

Treasury Contributions to Credit Facilities

The U.S. Treasury is providing support to certain of the Federal Reserve's liquidity and credit market facilities. (see box "U.S. Department of the Treasury Support for Liquidity and Credit Market Facilities" for more details.) The support is available as credit protection for loans extended by the Reserve Banks for each facility. The support for all facilities is a liability item of the Federal Reserve's balance sheet, "Treasury contribution to credit facilities." At the termination of each facility, any residual funds will be distributed in accordance with the terms of program agreements.

Appendix

Federal Reserve Disclosure Requirements and Other Provisions of the Dodd-Frank Act of 2010 and the CARES Act of 2020

The Dodd-Frank Act included legislative changes designed to promote transparency while protecting monetary policy independence and the efficacy of the Federal Reserve's liquidity programs and OMOs.[14] In addition, the Dodd-Frank Act modified the Federal Reserve's authority to provide emergency liquidity to nondepository institutions under section 13(3) of the Federal Reserve Act and also specifically prohibited (with certain exceptions) lending through the discount window to institutions that are registered as swap dealers or major swap participants.

"We are deeply committed to transparency, and recognize that the need for transparency is heightened when we are called upon to use our emergency powers. This is particularly the case when Congress appropriates taxpayer funds to back lending programs that the Fed administers. In connection with the CARES Act facilities—including the two corporate credit facilities, the Main Street Lending Program, the Municipal Liquidity Facility, and the TALF—we will be disclosing, on a monthly basis, names and details of participants in each facility; amounts borrowed and interest rate charged; and overall costs, revenues, and fees for each facility."

—Chair Jerome H. Powell

May 19, 2020 (https://www.federalreserve.gov/newsevents/testimony/powell20200519a.htm)

Disclosure Requirements

The Dodd-Frank Act established a framework for disclosure of information regarding facilities established pursuant to section 13(3). The disclosure framework requires that the Board provide Congress with

1. a report not later than seven days after the Board authorizes a facility that includes information regarding the justification for the exercise of the authority and information on the transactions and expected cost to taxpayers; and

2. a report once every 30 days regarding the value of collateral, the amount of fees and other items of value received; and the expected or final cost to the taxpayer.[15]

The CARES Act, enacted on March 27, 2020, established an additional requirement that the Board post on its website the reports described above no later than seven days after they are submitted to Congress.

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[14] The full text of the Dodd-Frank Act is available at https://www.gpo.gov/fdsys/pkg/BILLS-111hr4173enr/pdf/BILLS-111hr4173enr.pdf.

[15] With regard to facilities established during the 2008 financial crisis, the Federal Reserve posted to its public website detailed information about entities that received loans or other financial assistance under a section 13(3) credit facility between December 1, 2007, and July 21, 2010, and about persons or entities that participated in the agency MBS purchase program, used foreign currency liquidity swap lines, or borrowed through the Term Auction Facility during that time frame.

In 2020, in response to the severe economic dislocations that occurred as a result of COVID-19, the Federal Reserve, with the consent of the Secretary of the Treasury, established several facilities under section 13(3). Pursuant to the reporting requirements in section 13(3) and the CARES Act, the Board has filed the required reports and posted the reports on its website on the next business day following their submission to Congress.

The initial, seven-day reports generally do not include transaction information as they are required to be filed before the facilities are operational. To enhance transparency, the monthly, 30-day reports will contain substantial amounts of information for the liquidity and lending facilities using CARES Act funding as well as for the PPPLF, including the names and details of participants in each facility; amounts borrowed and interest rates charged; and overall costs, revenues, and fees for each facility.

For the few programs that are targeted at financial market functioning, the Federal Reserve will provide a full accounting of transactions in these facilities but on a delayed schedule. Real-time disclosure would risk stigmatizing participation in these facilities and undermining the Federal Reserve's ability to assure that these systemically important markets continue their critical function in times of severe market stress. The delay in disclosure will be no longer than it needs to be to be to ensure that participants do not hesitate to participate. While the facility is operating, the Board will disclose extensive and regular aggregate information on total borrowing, collateral, and fees and interest income

As required by the Dodd-Frank Act, the Federal Reserve also posted an audit webpage, available at https://www.federalreserve.gov/newsevents/reform_audit.htm. This page is updated as reports and other information become available.

The Dodd-Frank Act also established a framework for the delayed disclosure of information on entities that, after July 21, 2010, received a loan from the discount window under section 10B of the Federal Reserve Act or from a section 13(3) facility, or participated in OMO transactions. Generally, this framework requires the Federal Reserve to publicly disclose certain information about these discount window borrowers and OMO counterparties approximately two years after the relevant loan or transaction; information about borrowers under future section 13(3) facilities will be disclosed one year after the authorization for the facility is terminated. Information to be disclosed will include the names and identifying details of each borrower or counterparty, the amount borrowed, the interest rate paid, and information identifying the types and amounts of collateral pledged or assets transferred in connection with the borrowing or transaction. The disclosures of discount window borrowers and OMO counterparties commenced in September 2012; the information is available at https://www.federalreserve.gov/newsevents/reform_quarterly_transaction.htm and https://www.newyorkfed.org/markets/OMO_transaction_data.html.

Other Provisions

The Dodd-Frank Act modified the Federal Reserve's authority to provide emergency liquidity to nondepository institutions under section 13(3) of the Federal Reserve Act in light of other amendments that provide the U.S. government with new authority to resolve failing, systemically important nonbank financial institutions in an orderly manner. As a result, after July 2010, any emergency lending programs and facilities authorized by the Federal Reserve under section 13(3) of the Federal Reserve Act must have broad-based eligibility and must be approved by the Secretary of the Treasury, among several other limitations.

Section 716 of the Dodd-Frank Act prohibits the Federal Reserve from extending discount window credit to "swaps entities," subject to certain exceptions. A swaps entity includes a person that is registered as a swap dealer, security-based swap dealer, major swap participant, or major security-based swap participant under the Commodity Exchange Act or Securities Exchange Act of 1934, other than an insured depository institution that is registered as a major swap participant or major security-based swap participant.[16] The provisions of section 716 became effective on July 16, 2013. Accordingly, in early July 2013 the Federal Reserve amended its Operating Circular No. 10, the standard lending agreement under which institutions borrow from the discount window, in order to comply with the requirements of section 716. Under the amended Operating Circular No. 10, each time that a borrower requests an advance, it must be, and is deemed to represent, that it is not a swaps entity (as defined above), or it is a swaps entity that is eligible to receive the advance pursuant to one or more subsections of section 716 of the Dodd-Frank Act.

[16] In June 2013, the Board issued an interim final rule to clarify that uninsured U.S. branches and agencies of foreign banks are treated as insured depository institutions for purposes of section 716. The interim final rule also set out the process for state member banks and uninsured state branches and agencies of foreign banks to apply to the Board for the compliance transition period provided for in section 716. See 78 Fed. Reg. 34,545 (June 10, 2013).

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