The Fed’s Paycheck Protection Program Liquidity Facility, explained

America needs a bridge—a bridge that will get households, communities, and businesses over the unanticipated challenges created by the COVID-19 shutdown. In helping to build that bridge, the Federal Reserve, with authorization from Congress, has created and revived a number of rare lending programs, each providing targeted assistance to the needs of those impacted.

The challenge
The Small Business Administration introduced the Paycheck Protection Program to get up to $660 billion into the hands of small businesses quickly so those businesses could keep paying their employees during the shutdown. But lenders needed a source of cash to quickly meet businesses’ demand for loans.

The response
The Federal Reserve, whose role is to help stabilize the economy, stepped in and started lending to banks and other lenders so that those lenders, in turn, could lend to small businesses. The aim is to help make it so that businesses that seek loans are more likely to hear yeses, that funds will flow through lenders receiving the Fed loans to those small businesses and the people who work for them.

In mid-April, the Fed began lending nationwide through its Paycheck Protection Program Liquidity Facility. New loans can be made through September 30, 2020, unless the US Treasury and the Fed’s Board of Governors extend the work.

The details
The lenders borrowing from the Fed have up to five years to repay the Fed—the same amount of time small businesses have to repay the Paycheck Protection Program loans they borrow from their lenders. Before the Fed lends to a lender, the lender must have already made some Paycheck Protection Program loans and must put those loans up as collateral. That way, if the lender fails to repay the Fed, the Fed can work to recoup its money, for example, by selling those loans.

The goal?
Avoid a vicious cycle. When businesses can’t keep paying their employees, those people face hardships, and the larger economy further slows. When people cannot buy goods and services, additional businesses have to lay off or reduce hours for staff, causing even more unemployment and less spending.

The Fed is committed to transparency
and makes periodic reports and updates related to this lending available.

For more information: www.frbdiscountwindow.org/pages/general-information/faq#list-item-1
Federal Reserve | Published June 24, 2020 | Curious about what else the Fed is doing to help?