Evaluation Report
2024-FMIC-B-018
September 23, 2024

Board of Governors of the Federal Reserve System

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

Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

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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.

Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Recommendation, 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 PPPLF Followed Its Collateral Risk Management Processes and Should Strengthen Some Processes to Identify and Respond to Financial Risk

Number	Recommendation	Responsible office
1	Develop and implement formal procedures that monitor NDI participants and address at-risk and unresolved collateral.	FRB Minneapolis Supervision, Regulation, and Credit

Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM

DATE: September 23, 2024

TO: Ken Heinecke
Senior Vice President, Supervision, Regulation, and Credit
Federal Reserve Bank of Minneapolis

FROM: Cynthia Gray
Deputy Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2024-FMIC-B-018: *FRB Minneapolis Followed Its Paycheck Protection Program Liquidity Facility Collateral Risk Management Processes and Can Enhance Monitoring and Collection Processes*

We have completed our report on the subject evaluation. We conducted this evaluation to assess the effectiveness of the Federal Reserve System Paycheck Protection Program Liquidity Facility's processes for (1) identifying and managing at-risk and unresolved collateral, (2) addressing nonpayment, and (3) detecting and mitigating fraudulent collateral.

We provided you with a draft of our report for review and comment. In your response, you concur with our recommendation and outline actions to address it. We have included your response as appendix B to our report.

We appreciate the cooperation that we received from the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of Minneapolis during our evaluation. Please contact me if you would like to discuss this report or any related issues.

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Introduction

Objective

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 lending to small businesses, under section 13(3) of the Federal Reserve Act and with prior approval by the secretary of the U.S. Department of the Treasury, the Board of Governors of the Federal Reserve System authorized the Paycheck Protection Program Liquidity Facility (PPPLF) to provide liquidity to financial institution lenders that made loans to small businesses through the U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP). The PPPLF advanced approximately $200 billion to eligible lenders and had approximately $3.05 billion in outstanding advances as of March 31, 2024.

The objective of this evaluation was to assess the effectiveness of the PPPLF's processes for (1) identifying and managing at-risk and unresolved collateral, (2) addressing nonpayment, and (3) detecting and mitigating fraudulent collateral.[1] To accomplish our objective, we interviewed Federal Reserve System representatives and reviewed 15 PPP loans that went through PPPLF processes for identifying and managing at-risk and unresolved collateral, nonpayment, and fraudulent collateral from February 2022 through December 2023. We reviewed PPP loan data, including current repayment status and communications between the PPPLF and participants. Details on our scope and methodology are in appendix A.

Background

PPP Overview

The Coronavirus Aid, Relief, and Economic Security (CARES) Act created the PPP to support lending to small businesses affected by the COVID-19 pandemic. Under the PPP, depository institution (DI) and nondepository institution (NDI) lenders made forgivable loans to small businesses for payroll and certain other purposes specified in the CARES Act (figure 1).[2]

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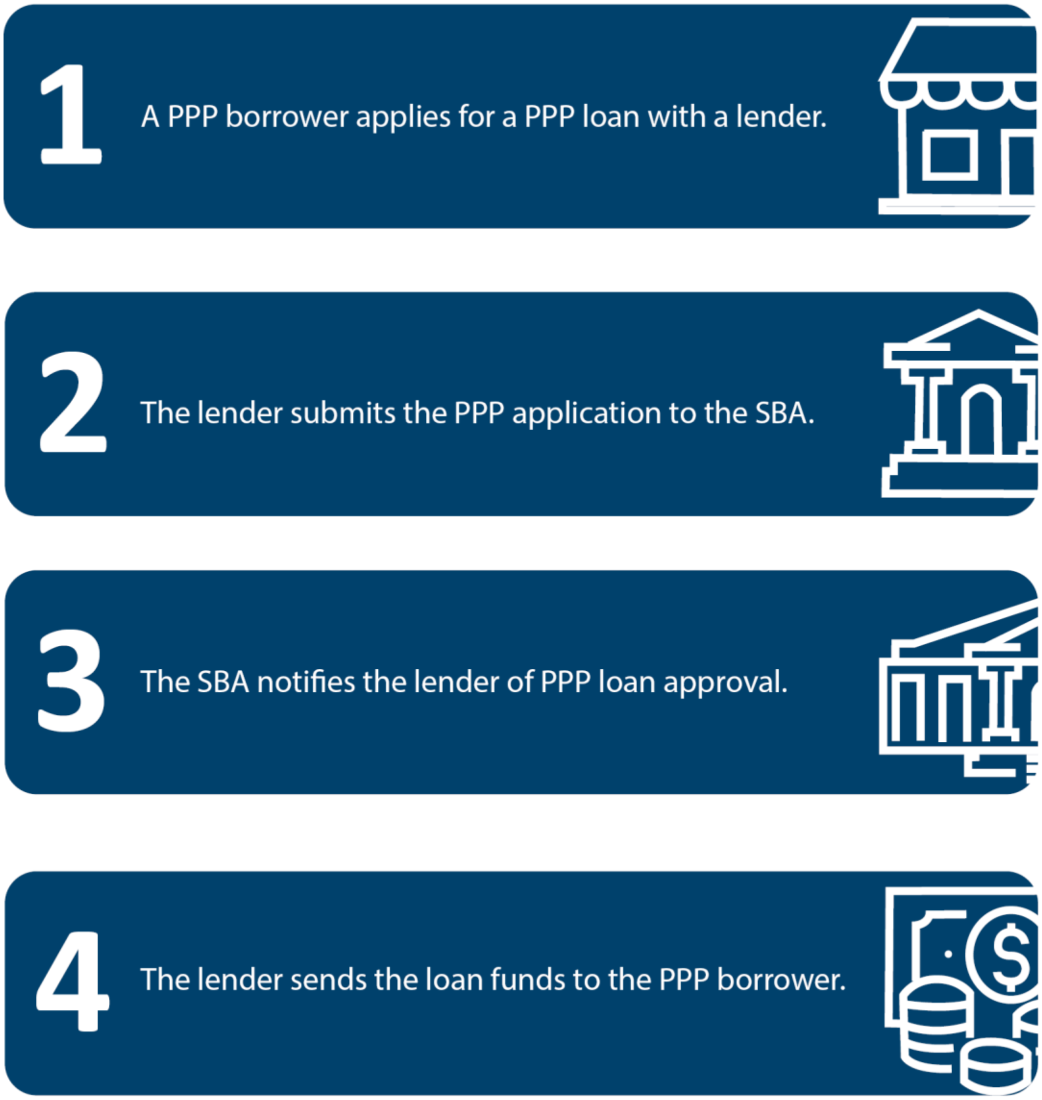
[1] *At-risk collateral* includes pledged PPP loans that may be unlikely to receive SBA forgiveness or guarantee repurchase payments because they do not meet the requirements of the PPP and are unlikely to be repaid in full by the PPP borrower, who may be insolvent. *Unresolved collateral* includes pledged PPP loans for which the Federal Reserve System has not received a participant's expected payment or confirmation that the PPP loan meets the SBA guarantee purchase requirements.

[2] *DIs* include banks, credit unions, or other savings associations that accept deposits and extend credit for business or for personal expenditure purposes. *NDIs* include companies that do not accept deposits and primarily finance investments and business and personal expenditures.

Figure 1. PPP Loan Funding Process



Source: OIG adaptation of a Federal Reserve Bank of Minneapolis graphic.

PPP borrowers can apply for loan forgiveness, and the SBA will pay the eligible calculated forgiveness amount to the PPP lender. In addition, the SBA provides a conditional guarantee of 100 percent of the outstanding PPP loan to protect lenders against borrower defaults provided the lender complies with certain requirements, including that they (1) complied with all PPP loan program requirements, including the lenders' underwriting requirements and the document collection and retention requirements; (2) request guarantee purchase within 180 days after loan maturity, after a forgiveness decision, or after completion of liquidation; (3) disclose accurate material facts to the SBA; and (4) make, close, service, or liquidate the loan in a prudent manner. If a PPP borrower defaults and the SBA approves the loan for guarantee purchase, the SBA pays the lender. If the SBA denies the PPP loan for guarantee purchase, lenders can seek to collect the outstanding balance of the PPP loans from the borrowers. Lenders can request reconsideration of initial PPP loan guarantee purchase denials with the SBA.[3]

PPPLF Overview

Section 13(3) of the Federal Reserve Act permits the Board of Governors, in "unusual and exigent circumstances," to authorize the Federal Reserve Banks to extend credit to participants in any program or facility with broad-based eligibility, with the prior approval of the secretary of the U.S. Department of the Treasury. To provide liquidity support to the PPP program, the Board used this authority to create the PPPLF, which authorized the Reserve Banks to advance funds to both DI and NDI PPP lenders that pledged PPP loans as collateral; these lenders became PPPLF participants. Once a PPP participating lender received payment from the borrower, the SBA forgiveness amount, or the SBA guarantee purchase payment for a pledged PPP loan, the participating lender was required by the PPPLF to pay the PPPLF for that portion of the outstanding PPPLF advance plus interest (figure 2).[4]

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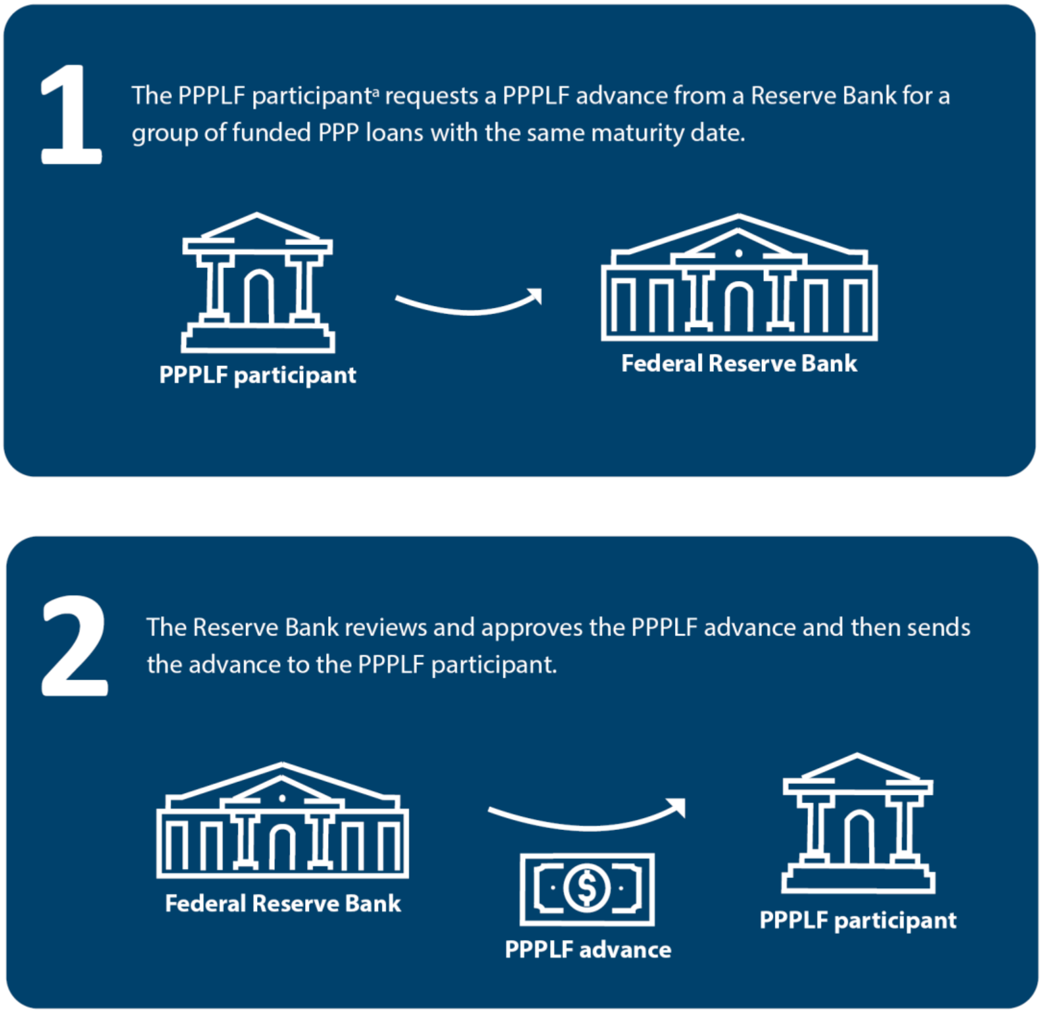
[3] The guarantee purchase denial reconsideration process is an SBA-specific process. Therefore, we did not assess it.

[4] The PPPLF charged participants an interest rate of 0.35 percent and did not charge fees.

Figure 2. How the PPPLF Advanced Funds



Source: OIG adaptation of a Federal Reserve Bank of Minneapolis graphic.

[a] A *PPPLF participant* is a lender that pledged PPP loans as collateral.

The Board authorized the 12 Reserve Banks to make PPPLF advances and designated the Federal Reserve Bank of Minneapolis (FRB Minneapolis) as the PPPLF program manager to foster consistency in its processes and tools. Individual Reserve Banks administered their own PPPLF advances until January 2022, when FRB Minneapolis assumed centralized administration responsibilities for the System's remaining PPPLF portfolio pursuant to a memorandum of understanding among the Reserve Banks.[5]

The PPPLF advanced approximately $200 billion, including approximately $110 billion to DIs and $90 billion to NDIs. As of March 31, 2024, outstanding PPPLF advances totaled approximately $3.05 billion, including approximately $550 million to DIs and $2.5 billion to NDIs. The outstanding

[5] The Board's Legal Division also consults with FRB Minneapolis and other System participants on the PPPLF's policy and process decisions for managing the portfolio and any necessary deviations from policy.

advances included 145,971 PPP loans pledged as collateral to the PPPLF. As of March 31, 2024, the System has received $460 million in interest income from participating lenders.

Further, as of March 2024, the SBA has preliminarily denied guarantee payment for thousands of PPP loans pledged as collateral to the PPPLF. Some of the pledged loans denied guarantee are pending SBA reconsideration.[6]

The PPPLF's Eligibility Requirements

The PPPLF's terms and conditions allowed all lenders eligible to originate PPP loans to participate in the PPPLF, and the PPPLF accepted only SBA–conditionally guaranteed PPP loans as qualifying collateral.[7]

To become a PPPLF participant, PPP lenders had to certify their solvency and commit to funding PPP loans before submitting them to the PPPLF as collateral and commit to

- service pledged PPP loans and apply for SBA guarantee payments in the event of borrower default or bankruptcy before or upon maturity
- remit as prepayment to the Reserve Bank any amounts received from borrowers or the SBA for collateralized PPP loans
- direct that SBA payments be wired directly to the lending Reserve Bank upon request

NDI participants further agreed to

- provide Reserve Banks with additional financial and operational information upon request, including about their financial condition
- obtain a correspondent banking relationship with a DI that has a master account at the designated Reserve Bank for the purposes of credit or debit entries for the PPPLF

If participants fail to adhere to PPP or PPPLF requirements, their PPPLF advances become recourse obligations, which would allow the PPPLF to pursue other participant assets for a full recovery. Such a failure could also result in the PPPLF requiring participants to repay PPPLF advances before maturity or transfer outstanding collateral to the System.

PPPLF Collateral Risk Management Processes

The PPPLF identifies potential at-risk and unresolved collateral using SBA data and reviews the U.S. Department of Justice's (DOJ) COVID-19 fraud cases and other reliable sources to identify potentially fraudulent PPP collateral. For each identified PPP loan pledged as collateral, PPPLF policies state that the program will contact participants and request supporting documentation or a paydown of the identified

[6] The number and dollar value of at-risk loans or loans with preliminary denials of guarantee purchase payment may be incomplete, as FRB Minneapolis relies on SBA or participant reporting.

[7] The SBA has preliminarily denied guarantee purchase payment of loans in the PPPLF portfolio because lenders did not meet the SBA's requirements for PPP loan origination. Lenders may request reconsideration.

loans, debit the relevant master account if the participant is nonresponsive, and notify program leadership for further guidance on unresolved exceptions.[8]

For matured PPPLF advances that have not received SBA guarantee purchase payments, the PPPLF will (1) request participant confirmation that they have requested guarantee purchase from the SBA and (2) remind participants of the requirement to apply for guarantee purchase within 180 days after maturity.

[8] When debiting a master account, the PPPLF can debit a DI's master account or an NDI's correspondent master account. However, unlike a DI with a master account, a correspondent bank can decline or reverse the PPPLF's debit if the correspondent bank has not received the funds due from an NDI participant.

Finding: The PPPLF Followed Its Collateral Risk Management Processes and Should Strengthen Some Processes to Identify and Respond to Financial Risk

The PPPLF followed its collateral risk management processes for at-risk, unresolved, and potentially fraudulent collateral for the loans we reviewed. However, the PPPLF's documented procedures did not include all available measures, such as monitoring the financial condition of NDIs, taking control of collateral, directing SBA guarantee purchase payments to the PPPLF, or seeking repayments from participants for loans with a preliminary or final SBA guarantee denial. The PPPLF did not fully develop and document these processes because System representatives determined that it was unlikely that both (1) PPPLF participants would become insolvent *and* (2) the SBA would deny guarantee purchase. The PPPLF's current charge-offs are de minimis in relation to actual and anticipated revenue; however, if the SBA does not ultimately approve guarantee purchase payments and PPPLF participants cannot repay their advances, charge-offs could increase.

The PPPLF's Processes Should Include Additional Measures Related to Repayment of Outstanding Advances

The PPPLF followed its collateral risk management processes for at-risk, unresolved, and potentially fraudulent collateral for the loans we reviewed. However, the PPPLF's documented procedures do not include the following measures to assess the likelihood of repayment and to address nonpayment:

- **Monitoring NDI financial condition:** While Reserve Banks have established processes for monitoring the financial condition of DIs as part of their safety and soundness supervisory oversight processes for financial institutions, the Reserve Banks do not have insight into the financial condition of NDIs. As a result, Reserve Banks may have little or no advance notice of potential NDI default or insolvency. Reserve Banks can request and obtain NDI financial information; however, the PPPLF does not proactively monitor the financial condition of NDIs and has requested NDI financial information only after becoming aware of a potential decline in an NDI's financial condition.
- **Taking control of collateral or payments:** The PPPLF has relied on participants to service PPP loans, provide requested information, apply for SBA guarantees, and repay advances. The PPPLF did not establish specific processes to take control of collateral or payments.
- **Seeking repayment for loans denied SBA guarantee:** A PPPLF representative stated that the PPPLF did not have a documented process to seek repayment for PPPLF advances secured by PPP loans with known guarantee purchase denials that were scheduled to mature in 2025 or 2026. During

our review, the PPPLF developed a new process to seek repayment of such PPPLF advances, but this process does not include mechanisms to enforce repayment.

Internal control standards highlight the importance of reviewing policies and procedures for effectiveness in achieving entity objectives or addressing related risks.

The PPPLF has not fully developed processes to monitor the financial condition of NDI participants, manage at-risk and unresolved collateral, or address nonpayment because System representatives determined that it was unlikely that both (1) participants would become insolvent *and* (2) the SBA would deny guarantee purchase. Instead, the PPPLF manages these scenarios on a case-by-case basis. Further, System officials expected that the SBA would protect Reserve Banks from credit losses, although this expectation was not formalized with the SBA in a written agreement.

As of March 31, 2024, the PPPLF has charged off approximately $332,000 for unpaid and nonguaranteed PPP loan collateral held by insolvent participants, which is a de minimis amount in relation to the PPPLF's actual and anticipated revenue. However, these charge-offs could increase if the SBA ultimately denies guarantee purchase payments and PPPLF participants cannot repay their advances. The System can more effectively identify and respond to financial risks by (1) proactively monitoring NDI participants' financial condition and (2) formalizing procedures on how and when to take control of collateral or payments when needed.

Recommendation

We recommend that the senior vice president, FRB Minneapolis Supervision, Regulation, and Credit

1. Develop and implement formal procedures that monitor NDI participants and address at-risk and unresolved collateral.

Management Response

In the response to our draft report, the senior vice president, FRB Minneapolis Supervision, Regulation, and Credit, concurs with our recommendation. FRB Minneapolis will document the suggested process enhancements and implement the processes when appropriate. FRB Minneapolis anticipates completing this process documentation by June 2025.

OIG Comment

The actions described by FRB Minneapolis appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.

Matter for Management Consideration: Program Design Factors to Consider Should the Board Establish a Similar Liquidity Facility in the Future

The PPPLF responded to the evolving economic impacts of the pandemic and quickly supplied liquidity to financial institutions participating in the PPP program. From April 2020 through May 2020, the Board authorized the PPPLF and established program terms, and Reserve Banks began issuing advances. While the PPPLF was able to leverage existing risk management practices, the System had minimal documentation of experiences and lessons learned from prior lending facilities to leverage in designing processes for certain unique aspects of the PPPLF. These aspects included (1) relying on another federal agency and its lending program requirements and (2) advancing funds to NDI participants.

Section 13(3) of the Federal Reserve Act authorizes the Board to implement emergency liquidity facilities similar to the PPPLF in the future with the prior approval of the secretary of the U.S. Department of the Treasury. Because the PPPLF issued its last advance in July 2021, our observations below are forward looking. Should the Board need to consider a liquidity facility with similar features or risks in the future, we encourage consideration of the design factors described below to help reduce financial risk.

- **Enhance data coordination with partner agencies:** The System did not have an agreement with the SBA to obtain relevant data until 5 months after the PPPLF's implementation. During this 5-month interval, the PPPLF advanced funds without confirming collateral approval by the SBA and delayed identification of canceled or invalid PPP loans. In addition, the data sharing agreement eventually implemented does not provide complete loan-level data, which requires the System to conduct additional outreach to the SBA for relevant information needed to monitor guarantee status. Not having full access to these data limits the PPPLF's ability to effectively manage collateral risk, contributing to the issues outlined in the finding. The System should identify data needs during the design phase and work with partner agencies to explore options for facilitating enhanced and timely information sharing.
- **Verify key program requirements:** The PPPLF required participants to be solvent and pledge only fully funded PPP loans to the facility. PPPLF representatives stated that the PPPLF relied solely on attestations for these requirements. Independent verification of the following elements would help limit or avoid extending credit to participants that present additional financial risk through noncompliance with facility requirements:
    - **NDI solvency—**Reserve Banks have financial condition information and existing processes for interacting with DIs. Regulators also have established robust processes to resolve and transfer assets of failed DIs. Reserve Banks have little to no insight into NDI financial condition information, and other financial regulators do not have established processes to resolve NDI insolvency. Reserve Banks should establish as soon as practical a process to verify the financial condition of NDIs.

- **Fully-funded PPP loan collateral—**The PPPLF's procedures required that collateral be fully funded before providing any advances to program participants. Despite having an attestation from lenders that the underlying PPP loans had been fully funded in advance, we observed two PPP loans for over $830,000 that participants funded after receiving PPPLF advances.[9] Reserve Banks should establish as soon as practical a process to verify that pledged loans are funded in a manner consistent with facility requirements.

[9] We identified these instances in the course of our review of at-risk and unresolved PPPLF collateral. We did not review the entire population of PPPLF collateral, so we cannot determine whether there are additional advances that were not fully funded at the time of the PPPLF advance.

Appendix A: Scope and Methodology

Our objective 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 as collateral to the PPPLF that went through oversight processes from February 2022 to December 2023.

To understand the design, implementation, and effectiveness of these processes, we reviewed applicable laws; PPPLF internal documentation; and publicly available information, such as the PPPLF's frequently asked questions and term sheets. We also conducted interviews with relevant officials from the Board's Legal Division, the Division of Reserve Bank Operations and Payment Systems, and the PPPLF team. Further, we reached out to SBA officials regarding data sharing availability with the PPPLF. The SBA did not provide the requested information, but we did not pursue the matter further because it was not substantive to our finding and recommendation.

We also reviewed 15 PPP loans that went through processes related to either (1) collateral due diligence for at-risk, unresolved, or potentially fraudulent collateral; (2) PPP loans past maturity; or (3) PPP loans with preliminarily denied guarantee purchase payment from February 2022 through December 2023. We used PPPLF-provided reports to identify PPP loans that went through these processes and contained certain factors, such as dollar value, participant type (DI or NDI), and PPPLF resolution of the issue. We then selected PPP loans to provide coverage of participants for each process. Because this is a nonstatistical sample, we are unable to project the results to the population of outstanding PPPLF advances.

Our sample included 8 PPP loans that went through the PPPLF's collateral due diligence processes to identify canceled or invalid loans, loans that received SBA payment, and potentially fraudulent loans. The sample included 4 loans that were paid off and 4 that remained unpaid at the time of our selection. The selection covered the 2 participants (100 percent) identified as having canceled loans or loans not matching SBA data, 4 of 10 participants (40 percent) identified as having received SBA payment without remission to the PPPLF, and 2 of 8 participants (25 percent) with loans identified as potentially fraudulent through review of the DOJ's PPP fraud website. For each collateral due diligence sample, we determined whether the PPPLF (1) contacted authorized individuals, (2) followed communication time frames, (3) maintained appropriate documentation of the collateral due diligence process and communications, and (4) attempted to resolve the issue and receive payment.

The sample also included 4 loans past maturity, which covered all 3 participants (100 percent) with loans past maturity. For each loan past maturity sample, we determined whether the PPPLF (1) contacted participants to try and resolve matured collateral, (2) obtained participants' plans to pay down matured collateral or apply for SBA guarantee purchase, (3) directed participants to pay down matured collateral past the SBA guarantee deadline, and (4) attempted to debit participant accounts that did not pay down matured collateral past the SBA guarantee deadline.

Finally, the sample included 3 loans preliminarily denied guarantee purchase payment, which covered 3 of 8 participants (37.5 percent) with preliminarily denied guarantees.[10] For each loan preliminarily denied guarantee purchase payment, we determined whether the PPPLF (1) contacted participants to pay down the PPPLF advance for the amount of the preliminarily denied SBA guarantee purchase payment and (2) attempted to debit participant accounts for the amount of the preliminarily denied SBA guarantee purchase payment if the participant did not pay off the PPPLF advance.

To identify collateral not funded before the PPPLF issued an advance, we reviewed PPPLF-provided records of PPP loan collateral identified as fraudulent and compared the advance issuance dates with PPP loan funding dates listed in DOJ criminal complaints.

We assessed the PPPLF's processes administered by FRB Minneapolis because the Board authorized the lending facilities and reports to Congress and the public in accordance with section 13(3) of the Federal Reserve Act. Moreover, the Board authorized FRB Minneapolis to operate the PPPLF, and as such, the lending facilities, including the PPPLF, are subject to the limitations, restrictions, and regulations of the Board.

We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. We conducted our work from May 2023 to June 2024.

[10] We selected these samples from a January 2023 PPPLF report that listed 19 total PPPLF advances preliminarily denied guarantee purchase payment. PPPLF management affirmed that these were all known denials through December 2023. For the 3 sampled loans, we do not know whether participants requested reconsideration of guarantee denial decisions from the SBA. Two participants paid off the advances, and one participant's PPP loan collateral has not yet matured.

Appendix B: Management Response

FEDERAL RESERVE BANK OF MINNEAPOLIS

Pursuing an economy that works for all of us

September 11, 2024

Michael VanHuysen
Associate Inspector General for Audits and Evaluations
Office of Inspector General
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Dear Mr. VanHuysen:

Thank you for the opportunity to comment on your draft report, *FRB Minneapolis Followed its Paycheck Protection Program Liquidity Facility Collateral Risk Management Processes and Can Enhance Monitoring and Collection Processes.* The Federal Reserve Bank of Minneapolis (Reserve Bank) appreciates the effort that the Office of Inspector General (OIG) has put into this report and its recommendations. We are pleased that the report found that the Reserve Bank followed its risk management processes. The Reserve Bank is committed to continuous improvement and welcomes the OIG's additional suggestions to document PPPLF process enhancements.

The Federal Reserve System (FRS) designed and implemented the PPPLF to respond promptly and decisively to the COVID-19 pandemic by bolstering the effectiveness of the SBA's Paycheck Protection Program (PPP). As the report indicates, the FRS "had minimal documentation of experiences and lessons learned from prior lending facilities to leverage in designing processes for certain unique aspects of the PPPLF" including "advancing funds to [a broad range of] NDI participants" and "relying on another federal agency" (including for purposes of determining which NDIs were eligible to become PPP lenders). We agree with the OIG's suggested consideration of lessons learned should the FRS ever "need to consider a liquidity facility with similar features or risks in the future."

With respect to the current facility, the OIG makes the following recommendation:

1. *Develop and implement formal procedures that monitor NDI participants and address at-risk and unresolved collateral.*

   Management Response 1: The Reserve Bank concurs with this recommendation and will document processes for monitoring NDI participants and addressing at-risk and unresolved collateral by June 2025. We will implement such processes on a case-by-case basis when appropriate (in consultation with the lending Federal Reserve Bank, as applicable).

   We have already taken action to document the suggested process enhancements.

Best regards,

Ken Heinecke
Senior Vice President
Supervision Regulation, and Credit

Abbreviations

CARES Act	Coronavirus Aid, Relief, and Economic Security Act
DI	depository institution
DOJ	U.S. Department of Justice
FRB Minneapolis	Federal Reserve Bank of Minneapolis
NDI	nondepository institution
PPP	Paycheck Protection Program
PPPLF	Paycheck Protection Program Liquidity Facility
SBA	U.S. Small Business Administration

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