

**The Eighteenth Report of the Congressional Oversight
Commission**

October 29, 2021

**Commission Members
U.S. Representative French Hill
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INTRODUCTION

This is the eighteenth report of the Congressional Oversight Commission (“Commission”) created by the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”).¹ The Commission’s role is to conduct oversight of the implementation of Division A, Title IV, Subtitle A of the CARES Act (“Subtitle A”) by the U.S. Department of the Treasury (“Treasury”) and the Board of Governors of the Federal Reserve System (“Federal Reserve”). Subtitle A provided \$500 billion to the Treasury for lending and other investments “to provide liquidity to eligible businesses, States, and municipalities related to losses incurred as a result of coronavirus.”²

Of this amount, \$46 billion was set aside for the Treasury to provide loans or loan guarantees to certain types of companies. Up to \$25 billion was available for passenger air carriers, eligible businesses certified to inspect, repair, replace, or overhaul services, and ticket agents. Up to \$4 billion was available for cargo air carriers, and \$17 billion was available for businesses “critical to maintaining national security.”³

The CARES Act charges the Commission with submitting regular reports to Congress on:

- The Federal Reserve’s use of its authority under Subtitle A, including the use of contracting authority and administration of the provisions of Subtitle A.
- The impact of loans, loan guarantees, and investments made under Subtitle A on the financial well-being of the U.S. economy.
- The extent to which the information made available on transactions under Subtitle A has contributed to market transparency.
- The effectiveness of loans, loan guarantees, and investments made under Subtitle A in minimizing long-term costs to the taxpayers and maximizing the benefits for taxpayers.⁴

In its first report to Congress on May 18, 2020, the Commission stated that it is responsible for answering two basic questions:

- What are the Treasury and the Federal Reserve doing with \$500 billion of taxpayer money?

¹ CARES Act, Pub. L. No. 116-136, § 4020, 134 Stat. 281 (2020).

² *Id.* § 4003(a).

³ *Id.* § 4003(b). In addition, Division A, Title IV, Subtitle B of the CARES Act (“Subtitle B”) authorized the Treasury to provide up to \$32 billion in financial assistance to passenger air carriers, cargo air carriers, and certain airline industry contractors that must be exclusively used for the continuation of payment of employee wages, salaries, and benefits. Subtitle B is not within the jurisdiction of the Commission.

⁴ *Id.* § 4020.

- Who is that money helping?⁵

The emergency lending facilities established by the Federal Reserve that received CARES Act funds are:

Primary Market Corporate Credit Facility (“PMCCF”) and Secondary Market Corporate Credit Facility (“SMCCF”): Through a special purpose vehicle (“SPV”), the PMCCF enabled the Federal Reserve to purchase newly issued corporate bonds and portions of syndicated loans, and the SMCCF enabled the Federal Reserve to purchase previously issued corporate bonds and exchange-traded funds (“ETFs”) that invest in corporate bonds.⁶ The PMCCF never made any purchases during the period it was operational.⁷ As of October 27, 2021, the SMCCF had zero outstanding bond ETF and individual corporate bond purchases.⁸

Main Street Lending Program (“MSLP”): The MSLP is comprised of five facilities—three dedicated to for-profit businesses and two dedicated to non-profit organizations. The Federal Reserve, through an SPV, acquired loans issued by lenders to small and medium-sized businesses and non-profit organizations with up to 15,000 employees or 2019 revenues of \$5 billion or less. As of October 27, 2021, the Federal Reserve held \$15.7 billion in loan participations purchased under the MSLP.⁹

Municipal Liquidity Facility (“MLF”): The MLF enabled the Federal Reserve, through an SPV, to purchase short-term notes issued by state and local governments. As of October 27, 2021, the MLF had \$4.4 billion in outstanding purchases of municipal notes.¹⁰

⁵ Congressional Oversight Commission, *Questions About the CARES Act’s \$500 Billion Emergency Economic Stabilization Funds*, May 18, 2020, at 5, https://coc.senate.gov/sites/default/files/2020-08/20200518_Congressional_Oversight_Committee_1st_Report.pdf.

⁶ Board of Governors of the Federal Reserve System, *Primary Market Corporate Credit Facility Term Sheet*, July 28, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a9.pdf>; Board of Governors of the Federal Reserve System, *Secondary Market Corporate Credit Facility Term Sheet*, July 28, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a1.pdf>.

⁷ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act*, Oct. 12, 2021, <https://www.federalreserve.gov/publications/files/pdcf-mmlf-cpff-pmccf-smccf-talf-mlf-ppplf-msnlf-mself-msplf-nonlf-noelf-10-13-21.pdf>.

⁸ Board of Governors of the Federal Reserve System, *Statistical Release H.4.1: Factors Affecting Reserve Balances of the Depository Institutions and Condition Statement of Federal Reserve Banks*, Oct. 28, 2021, at n.4, <https://www.federalreserve.gov/releases/h41/>. The SPV for the SMCCF is the Corporate Credit Facilities LLC. The SPV for the MSLP is MS Facilities LLC. The SPV for the MLF is Municipal Liquidity Facility LLC.

⁹ *Id.*

¹⁰ *Id.*

Term Asset-Backed Securities Loan Facility (“TALF”): The Federal Reserve established TALF to support the flow of credit to consumers and businesses and to generally improve the market conditions for asset-backed securities (“ABS”).¹¹ TALF’s purpose was to enable the issuance of ABS backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration, leveraged loans, commercial mortgages, and certain other assets.¹² TALF had a total outstanding amount of \$1.4 billion in loans as of October 27, 2021.¹³

The direct lending programs managed by the Treasury that received CARES Act funds are:

Treasury Loans for National Security Businesses: The Treasury had \$17 billion available to make loans to businesses critical to maintaining national security under Subtitle A. The Treasury provided national security loans to eleven businesses, totaling \$735.9 million.¹⁴ One business, Yellow Corporation (“Yellow”), which was formerly known as YRC Worldwide, Inc. (“YRC”), accounted for 95% of the total outstanding loans.¹⁵

Treasury Loans for the Airline Industry: In addition, the Treasury had \$29 billion available to make loans to the airline industry under Subtitle A, with \$25 billion available for passenger air carriers, including related businesses, and \$4 billion available for cargo air carriers.¹⁶ The Treasury lent \$21.2 billion across twenty-four such loans to companies the Treasury characterized as airlines, ticket agents, a repair station, and a cargo air carrier.¹⁷

In this report, we provide updates regarding recent key actions taken by the Treasury and the Federal Reserve regarding each of the above lending programs and facilities under Subtitle A, as well as updates regarding the Commission’s oversight activities.

¹¹ Federal Reserve, Term Asset-Backed Securities Loan Facility Term Sheet, Jul. 28, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a6.pdf>.

¹² *Id.*

¹³ Board of Governors of the Federal Reserve System, *Statistical Release H.4.1: Factors Affecting Reserve Balances of the Depository Institutions and Condition Statement of Federal Reserve Banks*, Oct. 28, 2021, at n.4, <https://www.federalreserve.gov/releases/h41/>.

¹⁴ U.S. Department of the Treasury, *Loans to Air Carriers, Eligible Businesses, and National Security Businesses*, last visited Oct. 28, 2021, <https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses>.

¹⁵ Yellow Corporation, *YRC Worldwide Inc. is Renamed Yellow Corporation*, Feb. 4, 2021, <https://investors.myyellow.com/news-releases/news-release-details/ycr-worldwide-inc-renamed-yellow-corporation>.

¹⁶ CARES Act § 4003. Related businesses are eligible businesses that are certified under part 145 of title 14, Code of Federal Regulations, and approved to perform inspection, repair, replace, or overhaul services, and ticket agents (as defined in Section 40102 of Title 49 of the United States Code).

¹⁷ U.S. Department of the Treasury, *Loans to Air Carriers, Eligible Businesses, and National Security Businesses*, last visited Oct. 28, 2021, <https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses>.

TREASURY AND FEDERAL RESERVE RECENT DEVELOPMENTS

As of January 8, 2021, all emergency lending programs created by the Treasury and the Federal Reserve under Section 4003 of the CARES Act have ceased operations. On December 21, 2020, Congress passed new COVID-relief legislation in the Consolidated Appropriations Act, 2021, Pub. L. No. 115-260. In that legislation, Congress prohibited these Federal Reserve's CARES Act lending facilities from being restarted or replicated without congressional approval, and it rescinded the remaining unobligated balance of the \$500 billion previously made available under Section 4003 of the CARES Act for emergency lending programs.¹⁸

We summarize below the outstanding amounts of credit extended by each facility and other key developments.

Primary Market Corporate Credit Facility ("PMCCF")

The PMCCF ceased operations on December 31, 2020. The PMCCF did not engage in any transactions during the period in which it was operational.¹⁹

Secondary Market Corporate Credit Facility ("SMCCF")

The SMCCF ceased operations on December 31, 2020. As of its closure, the SMCCF invested in 16 bond ETFs with a market value of \$8.8 billion.²⁰ As of its closure, the SMCCF also had purchased individual corporate bonds from 557 different issuers, with the market value of outstanding individual bond holdings totaling \$5.5 billion.²¹ As of September 1, 2021, the SMCCF held zero ETF securities and zero in individual bond purchases.²²

On June 2, 2021, the Federal Reserve announced plans to begin winding down the SMCCF's portfolio of bond ETFs and individual corporate bonds.²³ On June 10, 2021, the Federal Reserve briefed the Commission on its plan to sell the SMCCF's holdings. The Federal

¹⁸ Consolidated Appropriations Act, 2021, Pub. L. No. 115-260, Division N, Title X, § 1003, 134 Stat. 1182.

¹⁹ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act*, Oct. 12, 2021, <https://www.federalreserve.gov/publications/files/pdcf-mmlf-cpff-pmccf-smccf-talf-mlf-ppplf-msnlf-mself-msplf-nonlf-noelf-10-13-21.pdf>.

²⁰ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Oct. 13 2021, <https://www.federalreserve.gov/publications/files/smccf-transaction-specific-disclosures-10-13-21.xlsx>.

²¹ *Id.*

²² *Id.*

²³ Board of Governors of the Federal Reserve System, *Federal Reserve Board announces plans to begin winding down the portfolio of the Secondary Market Corporate Credit Facility*, Jun. 2, 2021, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20210602a.htm>.

Reserve noted it intended to take into account daily liquidity and trading conditions for ETFs and corporate bonds to minimize the potential for any adverse impact on market functioning when executing the planned sales. The Federal Reserve stated its goal was to complete the sale of the SMCCF's assets by December 31, 2021. As of September 1, 2021, SMCCF has completed its planned wind down with the SMCCF holding zero ETF securities and zero individual bonds.²⁴

Main Street Lending Program (“MSLP”)

The MSLP ceased operations on January 8, 2021. The MSLP purchased 1,830 loan participations while it was operational, totaling \$16.6 billion,²⁵ representing 2.8% of its original \$600 billion lending capacity.²⁶ As of September 30, 2021, the MSLP had a balance of \$15.9 billion in loan participations, with an estimated loan loss allowance that increased to \$2.5 billion, up from previous estimate of \$2.4 billion.²⁷ For context, the Small Business Administration's 7(a) Loan Program that targets small businesses has experienced cumulative defaults of 10% to 28% throughout the life of the loans, with loans that were originated in the lead-up to the 2007 financial crisis experiencing 30% to 40% of defaults.²⁸

Every MSLP loan matures in 2025.²⁹ This introduces risk to the taxpayer, as the MSLP will be dependent on market conditions in 2025. To mitigate the above risk, the Federal Reserve monitors credit quality based on borrower information provided to it. The terms of the MSLP participation agreement require the borrower to provide the MSLP with certain financial information quarterly and annually, as well as any material developments. The Federal Reserve, with the assistance of a third-party vendor, reviews and analyzes this information and uses it to develop an internal credit score for MSLP loans. As seen in the table below, the evaluation of

²⁴ Board of Governors of the Federal Reserve System, *Statistical Release H.4.1: Factors Affecting Reserve Balances of the Depository Institutions and Condition Statement of Federal Reserve Banks*, Sep. 2, 2021, at n.4, <https://www.federalreserve.gov/releases/h41/>.

²⁵ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Feb. 8 2021, <https://www.federalreserve.gov/publications/files/mslp-transaction-specific-disclosures-02-09-21.xlsx>.

²⁶ Board of Governors of the Federal Reserve, *Federal Reserve takes additional actions to provide up to \$2.3 trillion in loans to support the economy*, Apr. 9, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm>.

²⁷ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act*, Oct. 12, 2021, <https://www.federalreserve.gov/publications/files/pdcf-mmlf-cpff-pmccf-smccf-talf-mlf-ppplf-msnlf-mself-msplf-nonlf-noelf-10-13-21.pdf>.

²⁸ S&P Global, *Small Business ABS Credit Quality Hinges on Pandemic Duration and Stimulus Efficacy*, Apr. 28, 2020, <https://www.spglobal.com/ratings/en/research/articles/200428-small-business-abs-credit-quality-hinges-on-pandemic-duration-and-stimulus-efficacy-11467182>.

²⁹ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act*, Oct. 12, 2021, <https://www.federalreserve.gov/publications/files/pdcf-mmlf-cpff-pmccf-smccf-talf-mlf-ppplf-msnlf-mself-msplf-nonlf-noelf-10-13-21.pdf>.

loan participations purchased by the MSLP resulted in a loan loss allowance in the amount of \$2.5 billion as of September 30, 2021, equivalent to 15.7% of the \$15.9 billion loan participations' balance.³⁰ As of September 30, 2021, MSLP has recognized approximately \$12 million in loan losses.³¹

Date as of	Loan Loss Reserve	Portfolio Balance	Loan Loss % of Total Portfolio	Actual Losses
September 30, 2021	\$2.5 billion	\$15.9 billion	15.7%	\$12 million
March 31, 2021	\$2.4 billion	\$16.5 billion	14.5%	\$0

Municipal Liquidity Facility (“MLF”)

The MLF ceased operations on December 31, 2020. During its period of operation, the MLF purchased a total of four notes from just two borrowers—the State of Illinois and New York City’s Metropolitan Transportation Authority (“MTA”). These notes totaled \$6.6 billion, representing 1% of the MLF’s original \$500 billion lending capacity.³² As of September 30, 2021, the Federal Reserve held \$4.4 billion of outstanding asset purchases.³³

All of the MLF’s remaining municipal notes mature in 2023, exposing the taxpayer to the risk of market conditions in 2023.³⁴ To mitigate this risk, the Federal Reserve reviews the MLF municipal note investments on a quarterly basis to identify investments that have indications of possible credit impairment. In addition, the Federal Reserve’s modeling of portfolio performance includes an evaluation of the municipal note portfolio performance under stress conditions. As of September 30, 2021, the Federal Reserve does not expect any losses in the MLF portfolio.³⁵

³⁰ *Id.*

³¹ *Id.*

³² Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Jan. 11 2021, <https://www.federalreserve.gov/publications/files/mlf-transaction-specific-disclosures-01-11-21.xlsx>.

³³ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Oct. 13 2021, <https://www.federalreserve.gov/publications/files/mlf-transaction-specific-disclosures-10-13-21.xlsx>.

³⁴ *Id.*

³⁵ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act*, Oct. 12, 2021, <https://www.federalreserve.gov/publications/files/pdcf-mmmlf-cpff-pmccf-smccf-talf-mlf-ppplf-msnlf-mself-mself-nonlf-noelf-10-13-21.pdf>.

Term Asset-Backed Securities Loan Facility (“TALF”)

TALF ceased operations on December 31, 2020. During its period of operation, the TALF made 224 loans totaling \$4.4 billion to 20 investment funds, representing 4% of TALF’s original \$100 billion lending capacity.³⁶ While TALF only issued \$4.4 billion in loans, improvements in the funding markets allowed \$304 billion in capital to flow to borrowers in the ABS markets in 2020.³⁷

In regards to when TALF loans are scheduled to be repaid, every TALF loan matures in 2023.³⁸ This introduces risk to the taxpayer as the TALF will be dependent on market conditions in 2023. That said, many TALF borrowers have elected to prepay their TALF loans, causing the size of the TALF loan program to contract to a total outstanding amount of \$1.5 billion in loans, as of September 30, 2021.³⁹

To further mitigate taxpayer risk, TALF has recourse to the ABS collateral securing the loan. TALF annual financial statements note that the fair value of the ABS collateral for each TALF loan is subject to both market and credit risk, arising from movements in variables such as interest rates, credit spreads, and the credit quality of the collateral. Lending haircuts applied to each ABS at the time the loan was originated provide a further layer of protection against loss, as the loan amount advanced against each ABS was less than the ABS’ value.⁴⁰

The Federal Reserve has indicated that TALF loans are evaluated on a quarterly basis for impairment to determine if the fair value of the collateral is sufficient to repay each loan. Based on evaluations performed as of June 30, 2021, there were no credit impairments in TALF’s holdings.⁴¹ The fair value of the collateral is publicly disclosed by the Federal Reserve in its periodic reports to Congress on TALF. Relative to the \$1.5 billion in loans outstanding, the total value of the collateral pledged to secure the TALF loans to eligible borrowers was \$1.7 billion as of September 30, 2021.⁴²

³⁶ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Jan. 11 2021, <https://www.federalreserve.gov/publications/files/talf-transaction-specific-disclosures-01-11-21.xlsx>.

³⁷ SIFMA, *U.S. Asset-Backed Securities Statistics*, Oct. 6, 2021, <https://www.sifma.org/resources/research/us-asset-backed-securities-statistics/>.

³⁸ Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act*, Oct. 12, 2021, <https://www.federalreserve.gov/publications/files/pdcf-mmlf-cpff-pmccf-smccf-talf-mlf-ppplf-msnlf-mself-msplf-nonlf-noelf-10-13-21.pdf>.

³⁹ *Id.*

⁴⁰ Federal Reserve, *Financial Statements: TALF II LLC, for the period from April 13, 2020 to December 31, 2020*, Mar. 17, 2021, <https://www.federalreserve.gov/aboutthefed/files/talfilcfinstmt2020.pdf>.

⁴¹ Federal Reserve, *Federal Reserve Banks Combined Quarterly Financial Report*, Jun. 30, 2021, <https://www.federalreserve.gov/aboutthefed/files/quarterly-report-20210827.pdf>.

⁴² Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act*, Oct. 12, 2021,

Treasury Loans for National Security Businesses

The national security loan program made 11 loans totaling \$735.9 million.⁴³ The \$700 million loan to Yellow made up a substantial portion of the program. The Treasury's loan to Yellow contains two parts (i.e., tranches) that mature on September 30, 2024. The first tranche of \$300 million ("tranche A") has an interest rate of London Inter-bank Offered Rate ("LIBOR") +3.50%. Yellow used the funds to cover, among other things, healthcare and pension liabilities, real estate and equipment leases, and interest payments on debt. The second tranche of \$400 million ("tranche B") also has an interest rate of LIBOR +3.50%. Yellow has been using these funds to finance the purchase of tractors and trailers in accordance with the company's capital expenditures plan that must be submitted to, and approved by, the Treasury. The full \$300 million of tranche A of the loan was disbursed during 2020 and the \$400 million tranche B has been disbursed as of July 2021.⁴⁴ As additional security for the Treasury's loan to Yellow, the Treasury received 15.9 million shares of Yellow's common stock as consideration.⁴⁵ Based on Yellow's stock price on October 28, 2021, the value of the Treasury's common stock position is approximately \$141.7 million.

On May 10, 2021, the Commission sent letters to the Secretary of Defense and the Secretary of the Treasury, requesting additional documents regarding the loan made to Yellow. The Commission has not yet received a response from the Secretary of Defense. The Commission received a response from the Treasury on July 8, 2021 with copies of the letters of support for Yellow that the Treasury received from members of Congress.

On October 7, 2021, the Commission sent letters to the Secretary of Defense and the Secretary of the Treasury, requesting information about the status of the eleven loans executed under the national security loan program.

Treasury Loans for the Airline Industry

The Treasury's airline industry loan program made 24 loans totaling \$21.2 billion.⁴⁶ The Commission's eleventh report featured an in-depth analysis on the program and offered recommendations related to the program.

<https://www.federalreserve.gov/publications/files/pdcf-mm1f-cpff-pmccf-smccf-talf-mlf-pp1f-msnlf-mself-msplf-nonlf-noelf-10-13-21.pdf>.

⁴³ U.S. Department of the Treasury, *Loans to Air Carriers, Eligible Businesses, and National Security Businesses*, last visited Oct. 28, 2021, <https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses>.

⁴⁴ Yellow Corporation, *Second Quarter 2021 Earnings Call*, August 4, 2021, <https://investors.myyellow.com/events/event-details/yellow-corporation-2nd-quarter-2021-earnings-call>.

⁴⁵ Yellow Corporation, *2020 Annual Report*, Feb. 11, 2021, <https://investors.myyellow.com/static-files/c7b4a86d-ddd4-444b-80e6-0603b6b5876b> (see "U.S. Treasury Loan").

⁴⁶ U.S. Department of the Treasury, *Loans to Air Carriers, Eligible Businesses, and National Security Businesses*, last visited Oct. 28, 2021, <https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses>.