DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 3, 2020

Re: 2020-03-082

Christine H. Monahan
American Oversight
1030 15th Street, NW, B255
Washington, DC 20005
christine.monahan@americanoversight.org

Dear Ms. Monahan:

This is the first response to the above-referenced Freedom of Information Act (FOIA) request to the Department of the Treasury (Treasury). The request asked for email communications sent by identified Treasury officials containing any of 43 separate terms related to the coronavirus from January 15, 2020 through the date of the search.

In accordance with the parties' agreed upon schedule, as memorialized in the October 30, 2020 Joint Status Report, this constitutes Treasury's first production in this case. Treasury has reviewed 72 documents collected in response to your FOIA request. Forty of these documents were non-responsive to your request, and 31 were responsive. We are producing 12 documents with redactions made pursuant to exemptions (b)(5) (deliberative process) and (b)(6) (protection of personal privacy). The other documents deemed responsive will be reviewed, appropriately redacted, and sent to the White House for consultation (they consist of communications with personnel in the Executive Office of the President). Treasury will continue to review and process documents and will provide another production not later than January 15, 2020.

If you have any questions, please contact James Bickford in the Department of Justice at James.Bickford@usdoj.gov.

Sincerely,

Richard S. Dodson

Richard S. Dodson
Senior Counsel
Office of the General Counsel
U.S. Department of the Treasury

AMERICAN OVERSIGHT

[No Subject]

From: justin.muzinich@treasury.gov
To: "McIntosh, Brent" <brent.mcintosh@treasury.gov>
Date: Mon, 02 Mar 2020 09:23:58 -0500

McKinsey is coming by at 5pm to talk about real economy effects of covid19 if you'd like to join. Invited Faulkender too.

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[No Subject]

From: justin.muzinich@treasury.gov
To: Kenneth J. Kies <ken.kies@fpgdc.com>
Date: Mon, 09 Mar 2020 17:22:25 -0400

Got it, will raise. This email best. Thanks.

Begin forwarded message:

From: Ken Kies <ken.kies@fpgdc.com>
Date: March 9, 2020 at 5:16:52 PM EDT
To: Justin George Muzinich
Subject: Fwd: Urgent Meeting Request Secretary Mnuchin

Justin, any help you could provide with the attached meeting request would be greatly appreciated. Thanks. Ken.
Sent from my iPhone

Begin forwarded message:

From: Michael McGarry <mmcgarry@cruising.org>
Date: March 9, 2020 at 4:27:29 PM EDT
To: Kenneth Kies <ken.kies@fpgdc.com>
Subject: Urgent Meeting Request Secretary Mnuchin

Hi Ken,

On Wednesday, March 11, the CEOs of Carnival Corporation & plc, Royal Caribbean Cruises Ltd, Norwegian Cruise Line Holdings Ltd, and MSC Cruises USA will be in Washington, DC and would like to meet with U.S. Treasury Secretary Steven Mnuchin. These four companies represent over 90 percent of global cruise capacity. They would like to discuss with Secretary Mnuchin the actions that the cruise industry is taking to protect passengers, crew, and communities since the outbreak of COVID-19. They also want to discuss the economic impact to Florida, Texas, California, and other states, as well as the wider U.S. travel and tourism industry if further adverse actions are taken in response to COVID-19 which could irreparably harm the cruise industry in the United States. The U.S. is the largest cruise market in the world, by passengers, ports, jobs, and direct spending. Tomorrow, the cruise industry will deliver a plan to the White House to further strengthen COVID-19 measures for cruise lines, so this conversation would be especially timely.

The cruise industry is a vital artery for the U.S. economy, supporting over 421,000 American jobs and contributing nearly $53 billion to the U.S. economy in 2018. In Florida alone, where these companies are based, the cruise industry supports over 154,000 jobs. Further, the cruise industry is an essential part of the wider travel and tourism industry, supporting travel agencies, airlines, hotels, and a broad supply chain of industries that stretches across the United States.

Thank you for helping us with facilitating this meeting.

Best regards,
Mike

Michael J. McGarry
SVP, Global Government Affairs &
North American Secretariat
Cruise Lines International Association
1201 F Street NW Suite 250 | Washington, DC 20004

mmcgarry@cruising.org | **T** (202) 759-6762 | **M** (703) 541-8419
cruising.org | **Facebook** | **Twitter** | **LinkedIn**

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[No Subject]

From: justin.muzinich@treasury.gov
To: Secretary Mnuchin
Cc: "Callanan, Brian" <brian.callanan@treasury.gov>
Date: Tue, 17 Mar 2020 21:15:11 -0400

Attached. If you are generally ok we can make small edits and get to Hill this eve.

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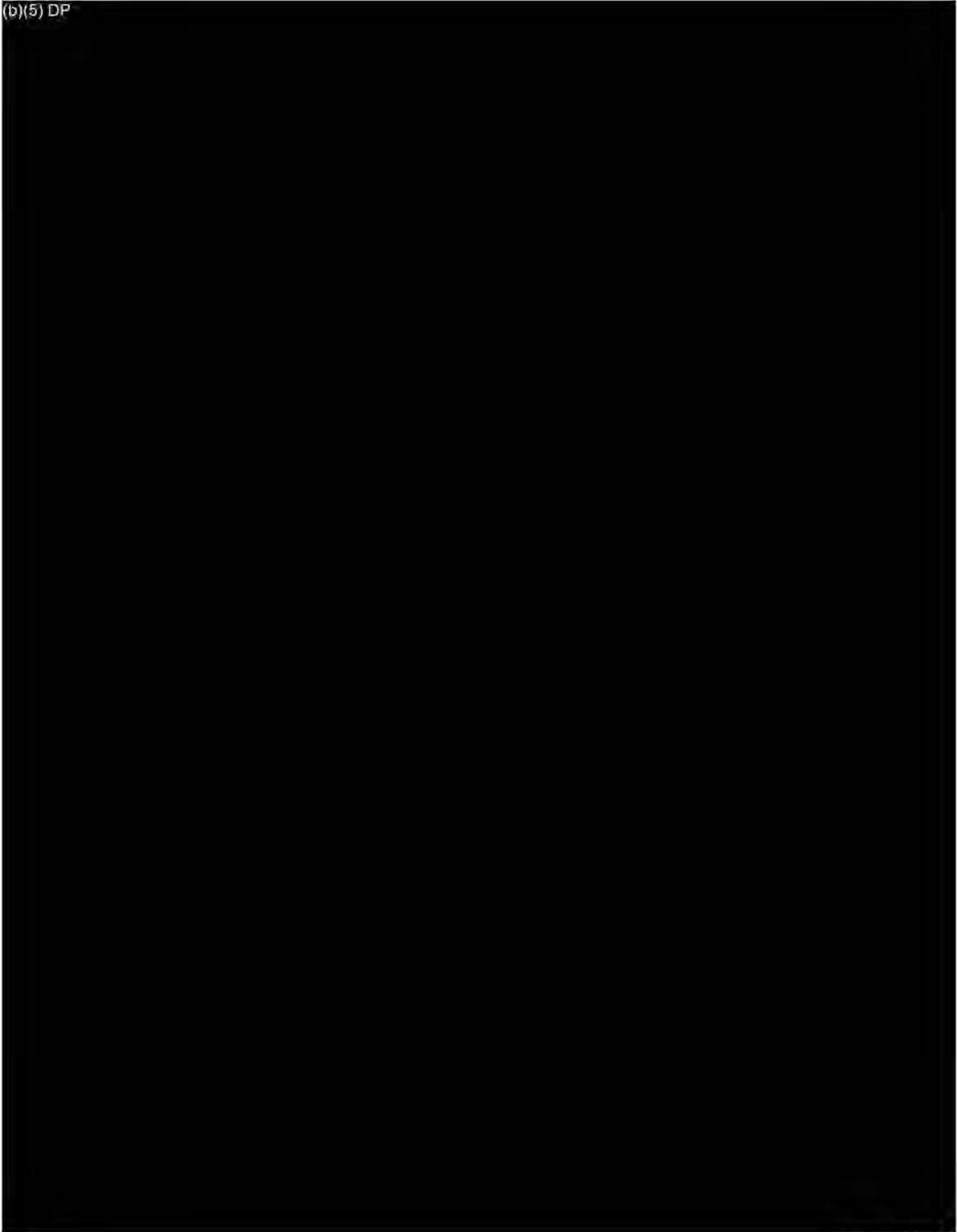

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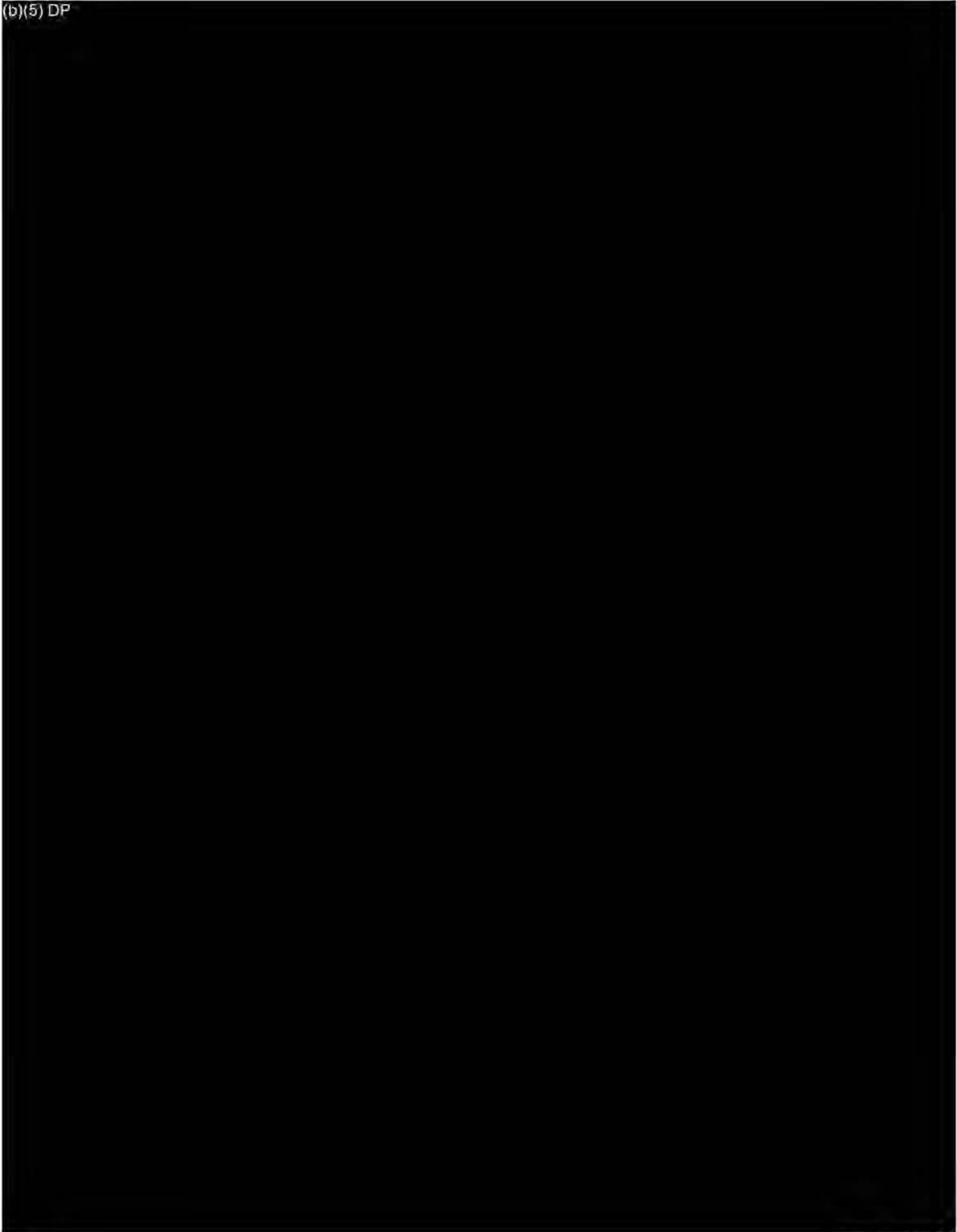
(b)(5) DP



UST_000005

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[No Subject]

From: "Muzinich, Justin" <"/o=ustreasury/ou=exchange administrative group (fydibohf23spdlt)/cn=recipients/cn=3d2afce60d7e464fbd30ff8dbedefecb-muzinich, jus">
To: Secretary Mnuchin
Date: Sat, 18 Apr 2020 06:20:21 -0400

Useful quick summary of Waters and Crapo letters (items 3 and 4). Also 1d has analysis of needed PPP size, incl link to AEI report fysa.

From: Jeb Mason via Treasury Plus <treasuryplus@cypressgroupdc.com>
Date: April 17, 2020 at 9:52:18 PM EDT
To: Jeb Mason <jeb@cypressgroupdc.com>
Subject: Cypress COVID-19 Response Update (56/56): PPP/hospital Funding "Phase 3.5" talks continue; What's Next for Fed Facilities?; Waters, Crapo offer Input; Oversight Ramping Up; CARES Act Implementation Snapshot

** **Caution:** External email. Pay attention to suspicious links and attachments. Send suspicious email to suspect@treasury.gov **

Editorial Note: *To cut down on the size of this ongoing chain, we have consolidated our prior 55 updates into this ARCHIVE and are starting fresh.*

1. **Phase 3.5 (PPP/Hospital Funding).** Democratic Congressional leadership will continue talks with Secretary Mnuchin "through the weekend" according to Schumer on MSNBC this morning, adding "We're making progress. Will get this all done hopefully very, very soon." Meanwhile, McConnell on the floor yesterday struck a different tone, applying pressure stating "Here's where we are, a week later, with absolutely no progress... Americans need Democrats to stop blocking emergency paycheck money and let this job-saving program reopen. I hope our colleagues will come around soon."
   a. Vice President Pence held a call with Senate Democrats earlier today.
   b. House Republican Leaders McCarthy today indicated that he would support providing additional aid to hospitals in this interim package, confirming what we had indicated in previous notes concerning expectations Republicans were opening to hospital funding).
   c. We still expect a resolution, but it's probably not coming until Tuesday at the earliest at this point.
   d. **Still Gonna Need a Bigger Boat.** Our sense is $250 billion for the PPP needs to be increased for the PPP program to ultimately be judged a success, and this could aid ongoing negotiations.
      i. While it's hard to pinpoint precise figures, our sense just the existing eligible universe could be a good bit bigger than $600bn (the original $350bn, plus the $250bn in the current administration request)
      ii. This recent AEI analysis estimates that full revenue replacement for nonfinancial small businesses in the services sector for 12 weeks would require $1.5 trillion. Sticking with just the original 8-weeks the program was designed to address, might put the total demand around $1 trillion.
      iii. We also hear anecdotally that some lenders already have applications in queue 2x those loans they have already processed. Extrapolating, that might suggest they could put out another $700bn or more.
      iv. To us, it makes complete since under these circumstances significantly increase the funding as part of ongoing negotiations. The goal ought to be to make sure there is more than enough to cover the whole covered universe of eligible borrowers however congress ultimately defines that universe. Then you abolish the first-come-first serve dynamic that has so many constituencies concerned and clamoring for set-aside funds. California doesn't need worry about how Texas got more loans out of the first round, b/c in the second round, we shouldn't run out of funds. Success is running out of eligible borrowers before you run out of funds, not positioning the right borrowers to get money before we run out again. Getting beyond the first-come-first serve dynamic would also make it easier to expand eligibility to small businesses that have taken outside investment from a non-SBIC sponsor, but aren't bars, restaurants, or franchises.
      v. We're not saying we believe it will happen yet, but to us it makes sense.
   e. **PPP Report.** Meanwhile the SBA issued an updated report on the PPP program, stating that more than 1.6 million small business loans were approved before funding ran out on Thursday, with an average loan size of $206,000.
   f. **Fed Expands PPP Eligibility.** And the Federal Reserve announced that it has temporarily modified its rules so that certain bank directors and shareholders can apply for PPP loans for their small businesses. Under Board rules, bank directors, shareholders, officers, and businesses owned by these persons are limited in the types and quantity of loans they can receive from their related banks. The change will allow those individuals to apply for PPP loans, consistent with SBA's rules and restrictions, and applies only to PPP loans. The rule change is effective immediately.

2. **Fed Facilities – What May be Next?**
   a. **Fed Pledges Transparency with Corporate Credit Facilities.** The New York Fed this evening released FAQs related to the Primary Market and Secondary Market Corporate Credit Facilities (PMCCF and SMCCF). Notably, the Fed said that it will "publicly disclose information regarding the CCFs during the operation of the facilities, including information regarding participants, transaction amounts, costs, revenues and other fees." Additional information, including the expected launch dates of the facilities, is forthcoming.
   b. As we've noted previously, we also think additional guidance/clarity to the terms of the Fed's facilities announced last week are needed and are likely in the works in several cases. On the Main Street Lending facilities in particular, we think the Fed could anticipate some of the feedback they are getting (the comment period closed yesterday), and they will likely be able to articulate some additional clarity any day now, even as they may continue to refine further on a rolling basis. Among some of the potential changes we think could be in play and/or watching for in other facilities (see also letters from oversight chairs Waters and Crapo – more below):
   c. Main Street Lending
      i. We expect they may need to reduce the loan size from $1,000,000, particularly if Congress is not going to fully fund the PPP program for small businesses, as this will be their next best option, even as the loans are not forgivable.
      ii. Clarity/flexibility on calculation of EBITDA and related leverage restrictions
      iii. Waiver or flexibility on dividends to address pass-throughs and companies that must pay dividends to maintain elected tax status like REITs and BDCs.
      iv. Inclusion of non-profits as eligible borrowers.
      v. Inclusion of non-bank lenders (BDCs, CDFIs, fintechs) as eligible lenders.
   d. Corporate Credit.
      i. Relaxing requirement that borrowers have a majority of their workforce in the United States (our sense is this sits uncomfortably with the Fed already)
      ii. Clarity on eligible NRSROs to include all those approved by the SEC (supported by two oversight chairs)
      iii. SMCCF expansion of high-yield purchases (we don't think they are quite there yet, as we've noted, we view their foray into "fallen angels" and HY ETFs as dipping a toe in to start)
   e. Munis:
      i. We expect they will need to detail a pricing grid based on ratings (addressing NRSRO clarity)
      ii. Lower the population threshold (they will be under tremendous pressure due to the exclusion of cities with significantly higher minority populations)
      iii. Include tribes, territories or others (this could be challenging to include even as the Fed will get pressure from Congress on it)
      iv. Consider a secondary facility and moving out in duration (we're not sure the Fed is convinced yet, but our sense is there will need to be a functioning secondary market if borrowers are to be able to roll the 2-year debt they acquire in the primary facility)
   f. PPPLF:
      i. Expanded eligibility to non-depository participants in the PPP
   g. Mortgage Servicing:

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i. Still a work in progress.

3. **House Financial Services Chair Waters' (D-CA)** letter notes concerns with several Fed facilities including the "narrow design of the Municipal Liquidity Facility; exclusion of lenders and organizations looking to participate in the Main Street Lending Program; limits to certain Paycheck Protection Program (PPP) lenders who wish to access the PPP Liquidity Facility; and other improvements that should be made regarding the Primary Market Corporate Credit Facility, Secondary Market Corporate Credit Facility, and the Commercial Paper Funding Facility." Waters requests a response no later than April 24.
   a. **MLF.** Waters states that "The Federal Reserve's narrow design of the Municipal Liquidity Facility is inconsistent with the letter and spirit of the law. The facility can be immediately improved by, among other things, including territories and dramatically lowering if not eliminating the arbitrary thresholds set for eligible municipalities."
   b. **MSLP.** Waters recommends that the Fed ensure that all types of lenders are able to fully participate as lenders in the facility, including CDFIs, and prioritize the inclusion of community banks, credit unions, and minority depository institutions.
   c. **PPPLF.** Urges the Fed to expand the PPPLF to ensure all PPP, no just banks, can access the facility.
   d. **PMCCF.** Waters states that this facility is effectively providing direct loans to eligible business and urges the Fed to apply restrictions on stock buybacks, dividend payments, and executive compensation as a condition of purchase, as well as impose conditions that protect collective bargaining agreements and require eligible businesses to guarantee full paid leave, worker representation on corporate boards, and a $15 minimum wage.
   e. **NRSRO Eligibility.** Urges the Fed to clarify its term sheets to reflect that it will accept ratings from any NRSRO not just the "big three."

4. **Senate Banking Committee Chair Crapo's (R-ID)** letter urges action with respect to the new 13(3) lending facilities announced on April 9. Specifically, Crapo requests that the facilities' term sheets be updated to address a number of issues/questions (outline below) and asks Treasury and the Fed to provide guidance on how they are prioritizing the next tranche of emergency lending.
   a. **PPP**.
      i. Eligibility of non-depository lenders not currently approved, including CDFIs;
      ii. Additional flexibility for certain industries;
      iii. Additional guidance on the secondary market, what is required for loan forgiveness and how it will work, a more comprehensive hold harmless agreement, and contact information for technical support;
      iv. Additional guidance on how to calculate PPP loan forgiveness;
      v. Address various technology issues that have led to processing and other delays;
      vi. Making necessary changes to loan terms and conditions to ensure the broadest possible participation, including changes to applicable interest rates, loan disbursement timing, loan uses and verification; and
      vii. Work with SBA to acknowledge good faith efforts by banks and honor the guarantees associated with those loans.
   b. **MSNLF and MSELF.**
      i. Set EBITDA multiples that provide for the broadest possible access for small and medium-sized organizations;
      ii. Amend language pertaining to debt considered in relation to EBITDA multiples to appropriately consider debt's funding terms and reflect the amount that a business is actually able to borrow;
      iii. Provide clarity on access to the facilities for non-profits, universities and hospitals;
      iv. Adjust the facilities' $1 million minimum loan size to provide flexibility for longer loan maturities;
      v. Provide certainty that underwriting and lending decisions ultimately lie with the bank regardless of the borrower meeting the basic minimum criteria under the term sheets;
      vi. Provide flexibility to institutions to use a reference rate other than SOFR;
      vii. Provide flexibility for sectors of the economy that are required to pay dividends as a condition of their legal structure; and
      viii. Permit U.S. branches and agencies of non-US banks to qualify.
   c. **PMCCF and SMCCF.**
      i. Seek input on how to expand the size and scope of these facilities to ensure stability of both investment and non-investment grade markets; and
      ii. Conform to both "major" and "eligible" NRSROs.
   d. **MLF.**
      i. Update the terms so cities, counties and tribes in rural states (like Idaho) can apply rather than be automatically excluded; and
      ii. Provide more clarity on pricing based on an eligible issuer's rating, disclosure to the public, and taxpayer protections.

5. **Oversight.** Senate Banking Committee Chairman Crapo (R-ID) sent a separate letter to Treasury and the Fed highlighting the Committee's oversight role over Title IV of the CARES Act. It notes that the first report from the Special Inspector General for Pandemic Recovery (SIGPR) is required not later than 60 days after the date of the SIGPR's confirmation and reports by the Congressional Oversight Commission are required not later than 30 days after the first exercise by Treasury and the Fed under Title IV and every 30 days thereafter.
   a. Crapo notes that confirming the SIGPR nominee and announcing the members of the Oversight Commission are critical to this oversight, and that he plans to hold a confirmation hearing for Brian Miller "as soon as can be safely done." He also encourages Treasury and the Fed to begin to collect and track the necessary data sets so that the reporting timeframes can be met. Senate Majority Leader McConnell today also reaffirmed that Senator Crapo would be leading and coordinating the Senate oversight of the CARES act.
   b. Recall, the CARES Act also established an 5-member oversight commission to which Congressional leaders are naming their respective picks. As of this evening, four of the five have been named (all but the Chair):
      i. McConnell → Pat Toomey (R-PA)
      ii. Schumer → Bharat Ramamurti (former economic policy advisor and Banking staffer to Sen Elizabeth Warren)
      iii. Pelsoi → Rep. Donna Shalala (D-FL)
      iv. McCarthy → Rep. French Hill (R-AR)
      v. Chair (to be agreed by Pelosi/McConnell) → TBD
   c. We also note the Fed indicated yesterday it is working on a plan to publish transactions on its website, and they touch on initial plans for the two corporate credit facilities within the FAQ released this evening (Mentioned above), but it's not yet perfectly clear what specific details will be included as to other facilities, and specifically whether they name which individual companies receive aid for instance in the main street facility.
      i. Recall too, Ramamurti sent a letter to Fed Chair Powell earlier this week requesting that the Fed "publicly release detailed and timely information about each individual transaction."

6. **Highlights from the 4/16 White House Briefing.**
   a. **Health Update.** President Trump noted that experts say the curve has flattened and peak is behind us.
      i. 30% of the country have reported no new cases in last 7 days.

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ii. The US has completed more than 3.5 million tests to date.

b. **Reopening** . The administration's plan to reopen the economy includes 1) criteria for states; 2) recommendations for state's preparedness and 3) phased guidelines.

   i. New guidelines released by the administration provides governors with a three-phased approach to reopening their respective states.
   ii. The guidelines suggest states achieve the "gating criteria" prior to entering each phase, which includes a downward trajectory of cases for the past 14 days.
   iii. States that have already met the gating period can enter phase one tomorrow. President Trump is optimistic a number of states will reopen soon.
   iv. The administration will continue to work with governors to advise them on surveillance and diagnostic testing.

c. **PPP/Phase 3.5.** President Trump touted the PPP, noting that 4,000 community banks participated.

   i. With regard to the debate on additional funding for the program, he was optimistic that a deal would be reached soon.
   ii. President Trump also noted that he would like to see an infrastructure bill soon.

7. **DHS Updates Essential Workers guidance.** The Cybersecurity and Infrastructure Security Agency (CISA) released the third iteration of the Essential Critical Infrastructure Workers guidance today.

8. **Farm Aid.** President Trump tonight announced $19 billion in agricultural aid, including government purchases of meat, dairy products and other foods to bolster prices, as well as direct payments to farmers. USDA will receive an additional $14 billion in July for further assistance. Secretary Perdue has said that the commodities purchased will be distributed through food banks and other nutrition programs serving the poor, school children and the elderly.

9. **CARES Act Implementation.** We note that today is the de facto deadline for airline industry loan applications under the CARES Act Section IV. We've also attempted a handy chart outlining some other status updates for key CARES Act programs to give a better snapshot of the multitude of workstreams.

Program	Allocation	Disbursed	Next Steps
Small Passenger Air Carriers Payroll Support Grants	$25 billion	Disbursement beginning 4/10 for grants under $100 million	Applications due no later than April 27
Large Passenger Air Carriers Payroll Support Grants		Agreement in principle reached on financial conditions	
Air Cargo Carrier Payroll Support Grants	$4 billion	Guidance pending	
Airport Grants	$10 billion	Disbursement 4/14	*Complete*
Air Passenger Carrier Loans	$25 billion	$0	-Applications due 4/17 for expedited approval
Air Cargo Carrier Loans	$4 billion	$0	-Official deadline April 30
"National Security" Loans	$17 billion	$0	
Paycheck Protection Program	$349 billion	$339 billion ($10 billion reserved for administrative expenses)	$250 billion+ additional funding pending Congressional action
Economic Impact Payments	~$300 billion	Direct Deposits	Paper Checks
Healthcare	$100 billion	$30 billion disbursed 4/10	Second tranche to be disbursed by 4/17 with focus on "hot spots"
State and Local Funding	~$175 billion	$71 billion	Remaining balance to be paid no later than April 24
Education	$31 billion	- $6.28 billion disbursed 4/10 - $3 billion in GEER funds disbursed 4/14	TBD

As always, your questions, comments, input are welcomed. Have a great weekend.

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202.812.0551 (m)
https://hyperlink.services.treasury.gov/agency.do?origin=www.CypressGroupDC.com
jeb@cypressgroupdc.com

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[No Subject]

From: justin.muzinich@treasury.gov
To: Secretary Mnuchin
Date: Sat, 25 Apr 2020 12:22:55 -0400

Fysa one more view, from Harvard / Chicago professors. (b)(5) DP
(b)(5) DP

Deliberative / pre-decisional

From: Kashyap, Anil <Anil.Kashyap@chicagobooth.edu>
Date: April 25, 2020 at 11:31:08 AM EDT
To: Muzinich, Justin <Justin.Muzinich@treasury.gov>
Cc: Kashyap, Anil <Anil.Kashyap@chicagobooth.edu>, (b)(6) @treasury.gov>
Subject: RE: Introduction

** **Caution:** External email. Pay attention to suspicious links and attachments. Send suspicious email to suspect@treasury.gov **

Hi Justin,

I am sorry we could not connect at our Annapolis conference last fall. I hope we can get you to the next one.

I have been drafted to help kibitz about the Main Street Lending programs that UST and the Fed are working on. Our analysis suggests that it might be helpful to think about the design problem as sharing lots of the features that a venture capital investor faces.

VCs have firms with highly uncertain prospects who need funding. They do not start by saying you should be way deep in the money to get support and then give them a big funding slug. Instead they take lots of gambles, but keep people on a short leash, by using multiple rounds of funding. This allows them to preserve optionality. In the current situation, this would suggest being very generous now, when uncertainty really high and trying to give many firms a bridge for the next few months. By the fall, circumstances will be much clearer and we can decide on the terms of the next stage of funding. For now, it seems clear that we want a big take up of the program, to preserve the possibility of a big restart. If by the fall, that looks improbable then we could adjust the rules for subsequent funding. We are worried that going for 4 year loans, with pretty tough standards up front for who qualifies, is not accounting for the optionality. There is a longer version of this reasoning that I am attaching.

I am working on this with Jeremy Stein at Harvard some colleagues of his at HBS and mine at Booth. If you would like to chat about this, we would love the chance to do so. Thanks for considering it, I hope you and your family are safe and healthy,

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Anil

UST_000011

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THE FEDERAL RESERVE'S BUSINESS LENDING FACILITIES

April 21, 2020

Goal: The key goal of the Treasury and Fed's business lending facilities should be to limit the knock-on effects and amplification—both real and financial—of the COVID-19 shock. The pandemic will lead to a direct loss of real output that must be borne, but these direct losses are small compared to potential economic losses that could arise from a large, disorderly wave of business failures in the coming months. Put simply, the goal should be to "flatten the business failure curve," enabling many businesses to stay afloat during the health emergency so they can rapidly rehire workers afterwards.

Principles: The business lending facilities should be designed with the following principles in mind:

1) **Program eligibility should be broad:** We currently want to maximize program take-up by economically viable firms that are suddenly facing financial distress due to the COVID-19 shock. Given the risks of macroeconomic amplification, Type I errors (i.e., making "bad loans" either to nonviable firms or firms that do not need financial support) are less costly today than Type II errors (i.e., rejecting "good loans" to viable firms that are suddenly facing financial distress). We should not seek to drive the number of "bad loans" to zero because the intensive screening needed to do so will severely reduce the number of "good loans" we make.

2) **Uses of proceeds:** Lending facilities should help firms both (i) refinance maturing debt and (ii) obtain additional financing to cover their recurring fixed obligations—i.e., interest, rent, lease, and utility payments. However, it is unworkable for a firm to borrow to cover it pre-crisis payroll expenses if it is facing a large near-term decline in demand.

3) **Other repayment terms should be "soft."** We want firms to not only survive the public health crisis, but to emerge from it with sufficiently strong balance sheets that they can quickly rehire workers and resume normal levels of investment, driving a rapid recovery. Repayment terms should not be so onerous that firms face debt overhang or cashflow issues once the health crisis ends. Soft repayment terms will also keep the Treasury and Fed from becoming deeply involved in an uncomfortable series of debt renegotiations and bankruptcy proceedings.

4) **Dynamics:** The Fed should use its lending facilities to build an "orderly bridge" to the economy's uncertain "new normal," whatever that may be. As uncertainty about the post-pandemic economy is resolved, the Fed can fill in many of the most important contingencies *ex post* by dynamically adjusting the terms of its facilities over time.

   If the public health crisis is contained in the next few months and the economy can rapidly "re-open," the Fed should quickly wind down its lending programs by, say, September 30th. In this case, the Fed's programs will have served to prevent a large, but ultimately short-lived shock from triggering a wave of business failures that would permanently hobble the U.S. economy.

   If the health crisis drags on, the economy will likely enter a deep recession or even a depression. In this case, many firms will require financial restructuring, and some will need to be liquidated. Policymakers should not attempt to indefinitely delay bankruptcies in this scenario. However, there is tremendous real option value in delaying a large wave of socially costly business failures until we are more confident that we are in this adverse scenario. Moreover, even in this adverse scenario, policymakers should still seek to "flatten the business failure curve" to avoid the severe congestion problems that would arise if many businesses were to simultaneously file for bankruptcy. To do so, the Fed would *gradually* restrict new financial support to firms. This approach will ensure that the unavoidable wave of bankruptcies plays out in a far more *orderly* fashion than it otherwise would have, limiting collateral damage to the broader economy.

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Concrete suggestions:

1) **PMCFF and Main Street Facilities**
   a. Expand eligibility. There are two large holes in the Fed's current set of lending programs: (i) non-investment grade firms who do not qualify for the PMCCF, but that are too large to qualify for the Main Street Facilities; and (ii) midsized, non-investment grade firms that are too levered to qualify for the Main Street Facilities.
      i. We estimate that 35% of public nonfinancial firms, which account for 31% public firm employment, are excluded from the current suite of government programs (including the SBA's PPP program). See Table 1 on the next page.
      ii. If Treasury and Fed were to allow BB-rated and B-rated firms to borrow from the PMCCF and firms with Debt/EBITDA less than 6 (less than 8) to borrow from the MSNLF (MSELF), 23% of public nonfinancial firms would remain ineligible, accounting for 11% of employment at public firms. See Table 2.
      iii. From the standpoint of covering firm employment, the most important step would be to make BB-rated and B-rated firms eligible for the PMCCF.
   b. Impose more tailored maximum loan sizes to help limit adverse selection concerns:
      i. Firms should be required to approach a facility, say, once a quarter for a new loan to cover their recurring fixed obligations. Use firms' 2019 financials (e.g., tax returns) to tailor maximum sizes for loans to cover recurring obligations.
      ii. Any loans to refinance maturing debt should be limited to the total amount of debt will actually mature in the next several quarters.
      iii. Firms could make "special requests" for other incremental credit needs, although we expect these to be quite small in the current economic environment.
   c. Harmonize/rationalize limitations on shareholder distributions and executive compensation between the Main Street Facilities and the PMCCF.

2) **PMCFF**
   a. Expand eligibility: Expand eligibility to include all borrowers with ratings above B-/B3.
   b. Soften repayment terms: Reinsert interest deferral option that was included in the March 23rd term sheet, but that was removed from the April 9th term sheet. Use restrictions on dividends, share repurchases, and compensation to make this option costly to exercise.

3) **Main Street Facilities (MSNLF and MSELF)**
   a. Expand eligibility: Relax Debt/EBITDA requirements and reduce the minimum loan sizes to sweep in more small and mid-sized firms.
   b. Soften employment requirements: Loan terms should require firms to make "reasonable efforts" to either (i) furlough their workers or (ii) use work-sharing programs. In this case, employees whose hours are reduced would become eligible for unemployment insurance to cover lost wages but would continue receiving employer health benefits.
   c. Allow refinancing. Allow firms to refinance debt with existing lenders as it comes due. Currently, mid-sized firms with multiple creditors may have a difficult time refinancing maturing debt with new lenders, as is required by the facilities. However, it is reasonable to ask firms to attest that they will not use proceeds to *pre-pay* other outstanding loans.
   d. Soften repayment terms:
      i. Extend loan maturities from 4 years to, say, 10 years.
      ii. Give firms the option to defer interest payments. Again, use restrictions on dividends, repurchases, and compensation to make this option costly to exercise.

AMERICAN OVERSIGHT

TREAS-20-0568-A-000013

Table 1: Estimated program eligibility at All U.S. based, publicly-listed, nonfinancial firms with current program terms

Program Eligibility	N	Employment	Sales	EBITDA	Assets	Debt Out*	Bank Debt Out *	Max Program Amt	Mkt Equity Value
Quantities	Number	Millions	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion
Included: PMCCF	372	20.7	9,748.7	1,895.5	15,636.4	5,928.3	1,288.8	6,243.3	20,383.7
Included: Main Street	732	3.2	1,299.1	246.0	1,797.5	732.5	409.2	383.8	2,676.0
Included: SBA PPP	702	0.1	250.1	46.9	637.8	343.8	165.2	167.9	512.6
Excluded: Large, high-yield (or unrated)	262	9.4	2,632.9	403.7	3,753.2	1,889.2	707.8	-	2,959.2
Excluded: Mid-sized, levered, high-yield	729	1.6	586.3	37.4	1,121.2	624.7	260.5	-	1,358.9
Excluded: Investment grade with no debt	1	0.0	4.1	0.8	5.3	0.5	0.5	-	9.7
Total	**2,798**	**35.0**	**$ 14,521.1**	**$ 2,630.3**	**$ 22,951.4**	**$ 9,519.0**	**$ 2,831.9**	**$ 6,794.9**	**$ 27,900.2**
% of Total									
Included: PMCCF	13.3%	59.1%	67.1%	72.1%	68.1%	62.3%	45.5%	91.9%	73.1%
Included: Main Street	26.2%	9.2%	8.9%	9.4%	7.8%	7.7%	14.4%	5.6%	9.6%
Included: SBA PPP	25.1%	0.3%	1.7%	1.8%	2.8%	3.6%	5.8%	2.5%	1.8%
Excluded: Large, high-yield (or unrated)	9.4%	26.7%	18.1%	15.3%	16.4%	19.8%	25.0%	0.0%	10.6%
Excluded: Mid-sized, levered, high-yield	26.1%	4.6%	4.0%	1.4%	4.9%	6.6%	9.2%	0.0%	4.9%
Excluded: Investment grade with no debt	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Includeds undrawn credit lines

Table 2: Estimated program eligibility at All U.S. based, publicly-listed, nonfinancial firms with modified terms **

Program Eligibility	N	Employment	Sales	EBITDA	Assets	Debt Out*	Bank Debt Out *	Max Program Amt	Mkt Equity Value
Quantities	Number	Millions	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion
Included: PMCCF	767	28.0	12,164.8	2,251.2	19,353.9	8,031.6	2,109.4	8,545.0	22,616.3
Included: Main Street	683	2.9	1,123.0	218.8	1,568.6	590.5	322.4	725.7	2,490.0
Included: SBA PPP	702	0.1	250.1	46.9	637.8	343.8	165.2	314.3	512.6
Excluded: Large, high-yield (or unrated)	97	3.1	747.3	126.5	893.0	323.7	152.3	-	1,416.0
Excluded: Mid-sized, levered, high-yield	548	0.9	231.9	(13.9)	492.8	229.0	82.2	-	855.6
Excluded: Investment grade with no debt	1	0.0	4.1	0.8	5.3	0.5	0.5	-	9.7
Total	**2,798**	**35.0**	**$ 14,521.1**	**$ 2,630.3**	**$ 22,951.4**	**$ 9,519.0**	**$ 2,831.9**	**$ 9,585.0**	**$ 27,900.2**
% of Total									
Included: PMCCF	27.4%	80.0%	83.8%	85.6%	84.3%	84.4%	74.5%	89.1%	81.1%
Included: Main Street	24.4%	8.4%	7.7%	8.3%	6.8%	6.2%	11.4%	7.6%	8.9%
Included: SBA PPP	25.1%	0.3%	1.7%	1.8%	2.8%	3.6%	5.8%	3.3%	1.8%
Excluded: Large, high-yield (or unrated)	3.5%	8.8%	5.1%	4.8%	3.9%	3.4%	5.4%	0.0%	5.1%
Excluded: Mid-sized, levered, high-yield	19.6%	2.5%	1.6%	-0.5%	2.1%	2.4%	2.9%	0.0%	3.1%
Excluded: Investment grade with no debt	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Includeds undrawn credit lines

** Assumes that (i) firms rated higher than B-/B3 are eligible for the PMCCF, (ii) Debt/EBITDA requirement for MSNLF is raised from 4 to 6, and (iii) Debt/EBITDA requirement for MSELF is raised from 6 to 8.

AMERICAN OVERSIGHT

[No Subject]

From: justin.muzinich@treasury.gov
To: Secretary Mnuchin
Date: Sat, 09 May 2020 13:03:27 -0400

FYSA (b)(5) DP . Ben is former chair of Harvard Econ dept. Stein is current chair.

Begin forwarded message:

> **From:** "Friedman, Benjamin M." <bfriedman@harvard.edu>
> **Date:** May 9, 2020 at 10:06:58 AM EDT
> **To:** Justin Muzinich (b)(6) com>
> **Subject: some interesting thinking on the new lending programs**
>
> Justin –
>
> My colleague Jeremy Stein, together with a few colleagues, has been doing some interesting thinking on the recently initiated lending programs.
>
> Ben

AMERICAN OVERSIGHT

THE FEDERAL RESERVE'S BUSINESS LENDING FACILITIES

April 21, 2020

Goal: The key goal of the Treasury and Fed's business lending facilities should be to limit the knock-on effects and amplification—both real and financial—of the COVID-19 shock. The pandemic will lead to a direct loss of real output that must be borne, but these direct losses are small compared to potential economic losses that could arise from a large, disorderly wave of business failures in the coming months. Put simply, the goal should be to "flatten the business failure curve," enabling many businesses to stay afloat during the health emergency so they can rapidly rehire workers afterwards.

Principles: The business lending facilities should be designed with the following principles in mind:

1) **Program eligibility should be broad:** We currently want to maximize program take-up by economically viable firms that are suddenly facing financial distress due to the COVID-19 shock. Given the risks of macroeconomic amplification, Type I errors (i.e., making "bad loans" either to nonviable firms or firms that do not need financial support) are less costly today than Type II errors (i.e., rejecting "good loans" to viable firms that are suddenly facing financial distress). We should not seek to drive the number of "bad loans" to zero because the intensive screening needed to do so will severely reduce the number of "good loans" we make.

2) **Uses of proceeds:** Lending facilities should help firms both (i) refinance maturing debt and (ii) obtain additional financing to cover their recurring fixed obligations—i.e., interest, rent, lease, and utility payments. However, it is unworkable for a firm to borrow to cover it pre-crisis payroll expenses if it is facing a large near-term decline in demand.

3) **Other repayment terms should be "soft."** We want firms to not only survive the public health crisis, but to emerge from it with sufficiently strong balance sheets that they can quickly rehire workers and resume normal levels of investment, driving a rapid recovery. Repayment terms should not be so onerous that firms face debt overhang or cashflow issues once the health crisis ends. Soft repayment terms will also keep the Treasury and Fed from becoming deeply involved in an uncomfortable series of debt renegotiations and bankruptcy proceedings.

4) **Dynamics:** The Fed should use its lending facilities to build an "orderly bridge" to the economy's uncertain "new normal," whatever that may be. As uncertainty about the post-pandemic economy is resolved, the Fed can fill in many of the most important contingencies *ex post* by dynamically adjusting the terms of its facilities over time.

   If the public health crisis is contained in the next few months and the economy can rapidly "re-open," the Fed should quickly wind down its lending programs by, say, September 30th. In this case, the Fed's programs will have served to prevent a large, but ultimately short-lived shock from triggering a wave of business failures that would permanently hobble the U.S. economy.

   If the health crisis drags on, the economy will likely enter a deep recession or even a depression. In this case, many firms will require financial restructuring, and some will need to be liquidated. Policymakers should not attempt to indefinitely delay bankruptcies in this scenario. However, there is tremendous real option value in delaying a large wave of socially costly business failures until we are more confident that we are in this adverse scenario. Moreover, even in this adverse scenario, policymakers should still seek to "flatten the business failure curve" to avoid the severe congestion problems that would arise if many businesses were to simultaneously file for bankruptcy. To do so, the Fed would *gradually* restrict new financial support to firms. This approach will ensure that the unavoidable wave of bankruptcies plays out in a far more *orderly* fashion than it otherwise would have, limiting collateral damage to the broader economy.

AMERICAN OVERSIGHT

Concrete suggestions:

1) **PMCFF and Main Street Facilities**
   a. Expand eligibility. There are two large holes in the Fed's current set of lending programs: (i) non-investment grade firms who do not qualify for the PMCCF, but that are too large to qualify for the Main Street Facilities; and (ii) midsized, non-investment grade firms that are too levered to qualify for the Main Street Facilities.
      i. We estimate that 35% of public nonfinancial firms, which account for 31% public firm employment, are excluded from the current suite of government programs (including the SBA's PPP program). See Table 1 on the next page.
      ii. If Treasury and Fed were to allow BB-rated and B-rated firms to borrow from the PMCCF and firms with Debt/EBITDA less than 6 (less than 8) to borrow from the MSNLF (MSELF), 23% of public nonfinancial firms would remain ineligible, accounting for 11% of employment at public firms. See Table 2.
      iii. From the standpoint of covering firm employment, the most important step would be to make BB-rated and B-rated firms eligible for the PMCCF.
   b. Impose more tailored maximum loan sizes to help limit adverse selection concerns:
      i. Firms should be required to approach a facility, say, once a quarter for a new loan to cover their recurring fixed obligations. Use firms' 2019 financials (e.g., tax returns) to tailor maximum sizes for loans to cover recurring obligations.
      ii. Any loans to refinance maturing debt should be limited to the total amount of debt will actually mature in the next several quarters.
      iii. Firms could make "special requests" for other incremental credit needs, although we expect these to be quite small in the current economic environment.
   c. Harmonize/rationalize limitations on shareholder distributions and executive compensation between the Main Street Facilities and the PMCCF.

2) **PMCFF**
   a. Expand eligibility: Expand eligibility to include all borrowers with ratings above B-/B3.
   b. Soften repayment terms: Reinsert interest deferral option that was included in the March 23rd term sheet, but that was removed from the April 9th term sheet. Use restrictions on dividends, share repurchases, and compensation to make this option costly to exercise.

3) **Main Street Facilities (MSNLF and MSELF)**
   a. Expand eligibility: Relax Debt/EBITDA requirements and reduce the minimum loan sizes to sweep in more small and mid-sized firms.
   b. Soften employment requirements: Loan terms should require firms to make "reasonable efforts" to either (i) furlough their workers or (ii) use work-sharing programs. In this case, employees whose hours are reduced would become eligible for unemployment insurance to cover lost wages but would continue receiving employer health benefits.
   c. Allow refinancing. Allow firms to refinance debt with existing lenders as it comes due. Currently, mid-sized firms with multiple creditors may have a difficult time refinancing maturing debt with new lenders, as is required by the facilities. However, it is reasonable to ask firms to attest that they will not use proceeds to *pre-pay* other outstanding loans.
   d. Soften repayment terms:
      i. Extend loan maturities from 4 years to, say, 10 years.
      ii. Give firms the option to defer interest payments. Again, use restrictions on dividends, repurchases, and compensation to make this option costly to exercise.

UST_000017

AMERICAN OVERSIGHT

TREAS-20-0568-A-000017

Table 1: **Estimated program eligibility at All U.S. based, publicly-listed, nonfinancial firms with current program terms**

Program Eligibility	N	Employment	Sales	EBITDA	Assets	Debt Out*	Bank Debt Out *	Max Program Amt	Mkt Equity Value
Quantities	Number	Millions	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion
Included: PMCCF	372	20.7	9,748.7	1,895.5	15,636.4	5,928.3	1,288.8	6,243.3	20,383.7
Included: Main Street	732	3.2	1,299.1	246.0	1,797.5	732.5	409.2	383.8	2,676.0
Included: SBA PPP	702	0.1	250.1	46.9	637.8	343.8	165.2	167.9	512.6
Excluded: Large, high-yield (or unrated)	262	9.4	2,632.9	403.7	3,753.2	1,889.2	707.8	-	2,959.2
Excluded: Mid-sized, levered, high-yield	729	1.6	586.3	37.4	1,121.2	624.7	260.5	-	1,358.9
Excluded: Investment grade with no debt	1	0.0	4.1	0.8	5.3	0.5	0.5	-	9.7
Total	**2,798**	**35.0**	**$ 14,521.1**	**$ 2,630.3**	**$ 22,951.4**	**$ 9,519.0**	**$ 2,831.9**	**$ 6,794.9**	**$ 27,900.2**
% of Total									
Included: PMCCF	13.3%	59.1%	67.1%	72.1%	68.1%	62.3%	45.5%	91.9%	73.1%
Included: Main Street	26.2%	9.2%	8.9%	9.4%	7.8%	7.7%	14.4%	5.6%	9.6%
Included: SBA PPP	25.1%	0.3%	1.7%	1.8%	2.8%	3.6%	5.8%	2.5%	1.8%
Excluded: Large, high-yield (or unrated)	9.4%	26.7%	18.1%	15.3%	16.4%	19.8%	25.0%	0.0%	10.6%
Excluded: Mid-sized, levered, high-yield	26.1%	4.6%	4.0%	1.4%	4.9%	6.6%	9.2%	0.0%	4.9%
Excluded: Investment grade with no debt	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Includeds undrawn credit lines

Table 2: **Estimated program eligibility at All U.S. based, publicly-listed, nonfinancial firms with modified terms ****

Program Eligibility	N	Employment	Sales	EBITDA	Assets	Debt Out*	Bank Debt Out *	Max Program Amt	Mkt Equity Value
Quantities	Number	Millions	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion
Included: PMCCF	767	28.0	12,164.8	2,251.2	19,353.9	8,031.6	2,109.4	8,545.0	22,616.3
Included: Main Street	683	2.9	1,123.0	218.8	1,568.6	590.5	322.4	725.7	2,490.0
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Excluded: Investment grade with no debt	1	0.0	4.1	0.8	5.3	0.5	0.5	-	9.7
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Included: SBA PPP	25.1%	0.3%	1.7%	1.8%	2.8%	3.6%	5.8%	3.3%	1.8%
Excluded: Large, high-yield (or unrated)	3.5%	8.8%	5.1%	4.8%	3.9%	3.4%	5.4%	0.0%	5.1%
Excluded: Mid-sized, levered, high-yield	19.6%	2.5%	1.6%	-0.5%	2.1%	2.4%	2.9%	0.0%	3.1%
Excluded: Investment grade with no debt	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Includeds undrawn credit lines

** Assumes that (i) firms rated higher than B-/B3 are eligible for the PMCCF, (ii) Debt/EBITDA requirement for MSNLF is raised from 4 to 6, and (iii) Debt/EBITDA requirement for MSELF is raised from 6 to 8.

AMERICAN OVERSIGHT

[No Subject]

From: "Muzinich, Justin" <"/o=ustreasury/ou=exchange administrative group (fydibohf23spdlt)/cn=recipients/cn=3d2afce60d7e464fbd30ff8dbedefecb-muzinich, jus">
To: Secretary Mnuchin
Cc: "McEntee, Zachary" <zachary.mcentee@treasury.gov>
Date: Mon, 18 May 2020 12:30:17 -0400

Resending. (b)(5) DP
(b)(5) DP

(b)(5) DP

###

From: Muzinich, Justin <Justin.Muzinich@treasury.gov>
Date: May 9, 2020 at 1:03:28 PM EDT
To: Secretary Mnuchin
Subject: (No subject)

FYSA (b)(5) DP Ben is former chair of Harvard Econ dept. Stein is current chair.

Begin forwarded message:

> **From:** "Friedman, Benjamin M." <bfriedman@harvard.edu>
> **Date:** May 9, 2020 at 10:06:58 AM EDT
> **To:** Justin Muzinich (b)(6) com>
> **Subject: some interesting thinking on the new lending programs**

> Justin –
>
> My colleague Jeremy Stein, together with a few colleagues, has been doing some interesting thinking on the recently initiated lending programs.
>
> Ben

AMERICAN OVERSIGHT

THE FEDERAL RESERVE'S BUSINESS LENDING FACILITIES

April 21, 2020

Goal: The key goal of the Treasury and Fed's business lending facilities should be to limit the knock-on effects and amplification—both real and financial—of the COVID-19 shock. The pandemic will lead to a direct loss of real output that must be borne, but these direct losses are small compared to potential economic losses that could arise from a large, disorderly wave of business failures in the coming months. Put simply, the goal should be to "flatten the business failure curve," enabling many businesses to stay afloat during the health emergency so they can rapidly rehire workers afterwards.

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3) **Other repayment terms should be "soft."** We want firms to not only survive the public health crisis, but to emerge from it with sufficiently strong balance sheets that they can quickly rehire workers and resume normal levels of investment, driving a rapid recovery. Repayment terms should not be so onerous that firms face debt overhang or cashflow issues once the health crisis ends. Soft repayment terms will also keep the Treasury and Fed from becoming deeply involved in an uncomfortable series of debt renegotiations and bankruptcy proceedings.

4) **Dynamics:** The Fed should use its lending facilities to build an "orderly bridge" to the economy's uncertain "new normal," whatever that may be. As uncertainty about the post-pandemic economy is resolved, the Fed can fill in many of the most important contingencies *ex post* by dynamically adjusting the terms of its facilities over time.

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   If the health crisis drags on, the economy will likely enter a deep recession or even a depression. In this case, many firms will require financial restructuring, and some will need to be liquidated. Policymakers should not attempt to indefinitely delay bankruptcies in this scenario. However, there is tremendous real option value in delaying a large wave of socially costly business failures until we are more confident that we are in this adverse scenario. Moreover, even in this adverse scenario, policymakers should still seek to "flatten the business failure curve" to avoid the severe congestion problems that would arise if many businesses were to simultaneously file for bankruptcy. To do so, the Fed would *gradually* restrict new financial support to firms. This approach will ensure that the unavoidable wave of bankruptcies plays out in a far more *orderly* fashion than it otherwise would have, limiting collateral damage to the broader economy.

AMERICAN OVERSIGHT

Concrete suggestions:

1) **PMCFF and Main Street Facilities**
    a. Expand eligibility. There are two large holes in the Fed's current set of lending programs: (i) non-investment grade firms who do not qualify for the PMCCF, but that are too large to qualify for the Main Street Facilities; and (ii) midsized, non-investment grade firms that are too levered to qualify for the Main Street Facilities.
        i. We estimate that 35% of public nonfinancial firms, which account for 31% public firm employment, are excluded from the current suite of government programs (including the SBA's PPP program). See Table 1 on the next page.
        ii. If Treasury and Fed were to allow BB-rated and B-rated firms to borrow from the PMCCF and firms with Debt/EBITDA less than 6 (less than 8) to borrow from the MSNLF (MSELF), 23% of public nonfinancial firms would remain ineligible, accounting for 11% of employment at public firms. See Table 2.
        iii. From the standpoint of covering firm employment, the most important step would be to make BB-rated and B-rated firms eligible for the PMCCF.
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        i. Firms should be required to approach a facility, say, once a quarter for a new loan to cover their recurring fixed obligations. Use firms' 2019 financials (e.g., tax returns) to tailor maximum sizes for loans to cover recurring obligations.
        ii. Any loans to refinance maturing debt should be limited to the total amount of debt will actually mature in the next several quarters.
        iii. Firms could make "special requests" for other incremental credit needs, although we expect these to be quite small in the current economic environment.
    c. Harmonize/rationalize limitations on shareholder distributions and executive compensation between the Main Street Facilities and the PMCCF.

2) **PMCFF**
    a. Expand eligibility: Expand eligibility to include all borrowers with ratings above B-/B3.
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    a. Expand eligibility: Relax Debt/EBITDA requirements and reduce the minimum loan sizes to sweep in more small and mid-sized firms.
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    c. Allow refinancing. Allow firms to refinance debt with existing lenders as it comes due. Currently, mid-sized firms with multiple creditors may have a difficult time refinancing maturing debt with new lenders, as is required by the facilities. However, it is reasonable to ask firms to attest that they will not use proceeds to *pre-pay* other outstanding loans.
    d. Soften repayment terms:
        i. Extend loan maturities from 4 years to, say, 10 years.
        ii. Give firms the option to defer interest payments. Again, use restrictions on dividends, repurchases, and compensation to make this option costly to exercise.

UST_000021

AMERICAN OVERSIGHT

TREAS-20-0568-A-000021

Table 1: Estimated program eligibility at All U.S. based, publicly-listed, nonfinancial firms with current program terms

Program Eligibility	N	Employment	Sales	EBITDA	Assets	Debt Out*	Bank Debt Out *	Max Program Amt	Mkt Equity Value
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Included: Main Street	732	3.2	1,299.1	246.0	1,797.5	732.5	409.2	383.8	2,676.0
Included: SBA PPP	702	0.1	250.1	46.9	637.8	343.8	165.2	167.9	512.6
Excluded: Large, high-yield (or unrated)	262	9.4	2,632.9	403.7	3,753.2	1,889.2	707.8	-	2,959.2
Excluded: Mid-sized, levered, high-yield	729	1.6	586.3	37.4	1,121.2	624.7	260.5	-	1,358.9
Excluded: Investment grade with no debt	1	0.0	4.1	0.8	5.3	0.5	0.5	-	9.7
Total	**2,798**	**35.0**	**$ 14,521.1**	**$ 2,630.3**	**$ 22,951.4**	**$ 9,519.0**	**$ 2,831.9**	**$ 6,794.9**	**$ 27,900.2**
% of Total									
Included: PMCCF	13.3%	59.1%	67.1%	72.1%	68.1%	62.3%	45.5%	91.9%	73.1%
Included: Main Street	26.2%	9.2%	8.9%	9.4%	7.8%	7.7%	14.4%	5.6%	9.6%
Included: SBA PPP	25.1%	0.3%	1.7%	1.8%	2.8%	3.6%	5.8%	2.5%	1.8%
Excluded: Large, high-yield (or unrated)	9.4%	26.7%	18.1%	15.3%	16.4%	19.8%	25.0%	0.0%	10.6%
Excluded: Mid-sized, levered, high-yield	26.1%	4.6%	4.0%	1.4%	4.9%	6.6%	9.2%	0.0%	4.9%
Excluded: Investment grade with no debt	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Includeds undrawn credit lines

Table 2: Estimated program eligibility at All U.S. based, publicly-listed, nonfinancial firms with modified terms **

Program Eligibility	N	Employment	Sales	EBITDA	Assets	Debt Out*	Bank Debt Out *	Max Program Amt	Mkt Equity Value
Quantities	Number	Millions	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion	$ Billion
Included: PMCCF	767	28.0	12,164.8	2,251.2	19,353.9	8,031.6	2,109.4	8,545.0	22,616.3
Included: Main Street	683	2.9	1,123.0	218.8	1,568.6	590.5	322.4	725.7	2,490.0
Included: SBA PPP	702	0.1	250.1	46.9	637.8	343.8	165.2	314.3	512.6
Excluded: Large, high-yield (or unrated)	97	3.1	747.3	126.5	893.0	323.7	152.3	-	1,416.0
Excluded: Mid-sized, levered, high-yield	548	0.9	231.9	(13.9)	492.8	229.0	82.2	-	855.6
Excluded: Investment grade with no debt	1	0.0	4.1	0.8	5.3	0.5	0.5	-	9.7
Total	**2,798**	**35.0**	**$ 14,521.1**	**$ 2,630.3**	**$ 22,951.4**	**$ 9,519.0**	**$ 2,831.9**	**$ 9,585.0**	**$ 27,900.2**
% of Total									
Included: PMCCF	27.4%	80.0%	83.8%	85.6%	84.3%	84.4%	74.5%	89.1%	81.1%
Included: Main Street	24.4%	8.4%	7.7%	8.3%	6.8%	6.2%	11.4%	7.6%	8.9%
Included: SBA PPP	25.1%	0.3%	1.7%	1.8%	2.8%	3.6%	5.8%	3.3%	1.8%
Excluded: Large, high-yield (or unrated)	3.5%	8.8%	5.1%	4.8%	3.9%	3.4%	5.4%	0.0%	5.1%
Excluded: Mid-sized, levered, high-yield	19.6%	2.5%	1.6%	-0.5%	2.1%	2.4%	2.9%	0.0%	3.1%
Excluded: Investment grade with no debt	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Includeds undrawn credit lines
** Assumes that (i) firms rated higher than B-/B3 are eligible for the PMCCF, (ii) Debt/EBITDA requirement for MSNLF is raised from 4 to 6, and (iii) Debt/EBITDA requirement for MSELF is raised from 6 to 8.

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[No Subject]

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ICYMI

FT: Rosengren sees more US businesses needing Fed rescue (James Politi and Laura Noonan, 7.8.20)

Virus outbreaks in the coming months will drive a "ramp up" in demand for the Federal Reserve's $600bn lending scheme to help American business weather the coronavirus pandemic, a senior central bank official has predicted.

"My expectation and my fear is that we still have community spread in many areas of the United States and that's likely to continue being a problem, not only for public health, but also for the economy," said Eric Rosengren, the president of the Federal Reserve Bank of Boston.

"If my expectations are right, there are going to be more firms that start worrying about whether they have sufficient financing . . . so my expectation is that we will ramp up over time, and we will see more banks and more borrowers," Mr Rosengren said in an interview with the Financial Times.

The "Main Street Lending Programme", where banks dole out loans but the Fed takes 95 per cent of the risk, was announced in March but only became fully operational in June. The Boston Fed, which is responsible for the programme, spent months hammering out ways to broaden eligibility and sweeten loans terms after scepticism from banks and borrowers.

Even with those changes, banks say there has been little or no interest in the programme since its launch, blaming the fact that larger companies can raise record levels of funding from debt markets while smaller companies find the programme too costly and complex.

The funding environment for large companies is so good that US banks are expected to report next week that lending fell overall in the first quarter as companies repaid the credit lines they drew down in March when they feared a funding crunch.

Still, Mr Rosengren said the Fed was beginning to field requests for loans from companies ranging from movie chains to software, beverage, and oil services businesses.

The Fed is also continuing to attract banks to help originate the loans: some 260 have registered to participate in the programme, including 90 that will process loans for non-customers as well as for businesses with which they have existing relationships. Many other banks are in the registration process, bringing the total number either signed up or signing up to over 400.

"If the pandemic and the economy continue to be intertwined in a negative way as we get into the fall, and possibly with a more severe problem in the fall, this programme provides a very important insurance against both borrowers not having access to credit, and banks being reluctant to provide lending as their own balance sheets become potentially constrained by problem loans," Mr Rosengren said.

The Boston Fed president also hinted the scheme might have a longer lifespan than its original September expiration date. "I would think if there is a need — and my expectation is there probably will be a need — that that will be extended, but no decision has been made at this point," said Mr Rosengren.

He brushed off criticism that the loan terms in the Main Street plan were too stringent and the process too costly for struggling companies, particularly smaller ones who face tens of thousands of dollars in fees for loans as low as $250,000.

"Libor [the interbank borrowing rate] plus 300 basis points for a firm that is either shut down, or was shut down for quite a period and had a bad disruption in revenues, I think for many of those borrowers that will actually be an attractive rate," he said.

But Mr Rosengren warned that the most distressed businesses would not be able to participate, since the Fed is constrained on how much credit risk it can take.

"As we see the programme proceed and we see what's happening with the economy, we certainly have the ability to re-evaluate what's working and what's not working and if we see that there are major problems, we'll have to take a look at that," he said.

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