



Office of Inspector General

Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Executive Summary, 2023-FMIC-B-011, July 17, 2023

The Board and FRB Boston Generally Followed Their Process for Purchasing MSLP Loan Participations but Can Formally Document Some Key Processes

Findings

All 35 of the loans in our sample had complete and properly executed lender-submitted loan documents, as required by the Main Street Lending Program (MSLP), and the special purpose vehicle (SPV) team performed its required reviews for 33 of the 35 loans. However, the credit administrator did not conduct the required prepurchase reviews for 2 loans to confirm that accounting data matched loan documentation because the SPV did not define its documentation expectations. Rather, the credit administrator reviewed some accounting data during the postpurchase review of loan documents for these two loans. Obtaining and reviewing loan documentation ensures that the loan participations conform to program expectations.

In addition, the Board of Governors of the Federal Reserve System's Legal Division and the Federal Reserve Bank of Boston's (FRB Boston) Legal Department have not documented the general process for addressing potentially ineligible loans in a manner consistent with internal control standards. According to a Board official, the process is not formally documented because the current process is well established. Documenting a framework for reviewing potentially ineligible loans can preserve institutional knowledge and help ensure consistency.

Finally, we identified a matter for management consideration. Specifically, the SPV has not formally documented its processes to review loan participation purchases. The program's \$1.0 billion loan loss allowance, coupled with actual loan losses of \$136 million as of April 30, 2023, could result in public scrutiny of loan participation purchases. Documenting the loan purchasing process, including the successes and challenges associated with each process, can help the SPV retain institutional knowledge in MSLP loan participation purchases, thereby reducing its reputational risk.

Recommendation

Our report contains a recommendation designed to help the Board and FRB Boston ensure consistency in their process for determining whether loans were purchased based on inaccurate borrower certifications. In response to our draft report, the Board and FRB Boston concur with our recommendation and outline actions to address the recommendation. We will follow up to ensure that the recommendation is fully addressed.

Purpose

The objective of our evaluation was to assess the design and operating effectiveness of the Board and FRB Boston's process for purchasing MSLP loan participations. The scope of our evaluation focused on MSLP loan participations purchased from December 1, 2020, to January 8, 2021, because 64 percent of all MSLP loan participations were purchased during this period. We focused on the three for-profit MSLP lending facilities: the Main Street Expanded Loan Facility, the Main Street New Loan Facility, and the Main Street Priority Loan Facility. We excluded the two nonprofit MSLP lending facilities because one of these facilities did not extend any loans and the other extended loans that accounted for less than 1 percent of the total number of loans made.

Background

The COVID-19 pandemic disrupted economic activity in the United States. To support lending to businesses and nonprofits, the Board authorized the MSLP using section 13(3) of the Federal Reserve Act, with prior approval of the U.S. Department of the Treasury's secretary. The MSLP is administered by FRB Boston, which established an SPV to purchase loan participations from eligible lenders.