The Eleventh Report of the Congressional Oversight Commission

March 30, 2021

Commission Members
U.S. Representative French Hill
Donna E. Shalala
U.S. Senator Pat Toomey

TABLE OF CONTENTS

INTRODUCTION

This is the eleventh 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?
- Who is that money helping?[5]

---

[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.

[5] Congressional Oversight Commission, *Questions About the CARES Act's $500 Billion Emergency Economic*

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 March 24, 2021, the SMCCF had an outstanding amount of bond ETFs and individual corporate bond purchases of $14.0 billion.[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 March 24, 2021, the Federal Reserve held $16.5 billion in loan participations purchased under the MSLP.[9]
>
> Municipal Liquidity Facility ("MLF"): The MLF enabled the Federal Reserve, through a SPV, to purchase short-term notes issued by state and local governments. As of March 24, 2021, the MLF had $6.2 billion in outstanding purchases of municipal notes.[10]
>
> Term Asset-Backed Securities Loan Facility ("TALF"): The TALF enabled the Federal Reserve, through an SPV, to make loans to U.S. companies secured by asset-

---

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*, Feb. 9, 2021, https://www.federalreserve.gov/publications/files/pdcf-mmlf-cpff-pmccf-smccf-talf-mlf-ppplf-msnlf-mself-msplf-nonlf-noelf-02-09-21.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*, Mar. 25, 2021, at n.4, https://www.federalreserve.gov/releases/h41/. The SPV is the Corporate Credit Facilities LLC.

[9] 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*, Mar. 25, 2021, at table 4, https://www.federalreserve.gov/releases/h41/. The SPV for the MSLP is MS Facilities LLC.

[10] 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*, Mar. 25, 2021, at table 4, https://www.federalreserve.gov/releases/h41/. The SPV for the MLF is Municipal Liquidity Facility LLC.

backed securities ("ABS") backed by student loans, auto loans, credit card loans, commercial mortgages, leveraged loans, loans guaranteed by the Small Business Administration, and certain other assets.[11] TALF had a total outstanding amount of $2.6 billion in loans as of March 24, 2021.[12]

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

Treasury Loans for National Security Businesses: The Treasury also 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.[13] One business, YRC Worldwide, Inc. ("YRC"), accounted for 95% of the total outstanding loans.[14]

Treasury Loans for the Airline Industry: In addition, the Treasury had available $29 billion to make loans to the airline industry under Subtitle A, with $25 billion available to passenger air carriers, including related businesses, and $4 billion available to cargo air carriers.[15] 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.[16]

***

In this report, we provide an in-depth look at the Treasury's airline industry loan program. We also 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] Board of Governors of the Federal Reserve, *Term Asset-Backed Securities Loan Facility Term Sheet*, July 28, 2020, https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a6.pdf.

[12] 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*, Mar. 25, 2021, at table 4, https://www.federalreserve.gov/releases/h41/.

[13] U.S. Department of the Treasury, *Loans to Air Carriers, Eligible Businesses, and National Security Businesses*, last visited Mar. 19, 2021, https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses.

[14] U.S. Department of the Treasury, *Loans to Air Carriers, Eligible Businesses, and National Security Businesses*, last visited Mar. 19, 2021, https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses.

[15] 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).

[16] U.S. Department of the Treasury, *Loans to Air Carriers, Eligible Businesses, and National Security Businesses*, last visited Mar. 19, 2021, https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses (*see* "Transaction Summary" of each transaction for more details).

AIRLINE INDUSTRY LOAN PROGRAM

On November 30, 2020, the Commission sent a letter to the Treasury requesting additional information regarding the airline industry loan program under the CARES Act. In response, the Treasury provided confidential answers on January 15, 2021. These letters are attached as Appendix A and Appendix B. The answers provide further information about the Treasury's application process and why certain applicants received loans while others did not. The below provides a high level summary of the submission.

While the Treasury is responsible for carrying out the program, the Treasury did hire outside legal and financial advisors to review each application. If an application was recommended for further consideration, a credit memorandum was presented for review by a credit committee, consisting of senior Treasury staff and the outside financial and legal advisors. The deliberations of the committee would be informed by internal and outside advisors, and all recommendations would be made in consultation with the Treasury's Office of General Counsel. Decisions by the committee were made by consensus or by majority vote to recommend the application for approval or rejection. An action memo would be then sent to the Treasury Secretary or the Treasury Under Secretary for International Affairs, depending on risk category of the application, for final approval.

During the application process, the Treasury denied loans to a number of applicants. The leading cause of denied loans was applicant ineligibility, due to not qualifying under credit standards or statutory requirements, or failure to comply with CARES Act requirements. Further, the Treasury rejected applicants who they deemed better suited for the MSLP, as well as applicants whose applications were for loans less than the required $250,000 minimum. There are no pending applications as the program expired on December 31, 2020, and the Treasury has completed its decision-making process for all applications. The Treasury determined the size of each applicant's loan based on the Treasury's quantitative credit standards. The Treasury did not require collateral from the three unsecured debt loans which were provided to Aero Hydraulics, Inc., Ovation Travel Group and Legacy Airways, LLC.

The Commission requested specifics on the Treasury's financing of the loans. The Treasury's credit standards are designed to minimize loss and maximize taxpayers' reasonable recovery in the case of any loss. The Treasury did not specify what losses they anticipate. The Treasury required warrants or equity interests to be provided from all borrowers traded on national securities exchanges. The Treasury did state it expects the airline industry to face continual challenges.

The Treasury believes that it charged a lower interest rate compared to what borrowers would have received had they solicited private lenders. Loan rates were determined by the Treasury's quantitative credit standards. The Treasury believes that under these credit standards, a borrower must be able to support the loan amount.

The Commission makes two recommendations for the Treasury, detailed below. The

Commission appreciates the Treasury's commitment to thorough due diligence and ensuring the appropriate protocols were in place to properly review the loan applications and administer the loan program. The Commission looks forward to working with the Treasury to evaluate the portfolio's performance and evaluating any concerns or changes that may occur.

Recommendations

Following a review of the confidential materials the Treasury sent in January 2021, in response to the Commission's questions, the Commission is making the following recommendations:

1. The Treasury should publish periodic monitoring updates for the airline industry loans that include an estimate for expected loan losses for the program. This would be consistent with the approach the Federal Reserve took with the MSLP.

2. If Congress were to authorize the Treasury to operate any new airline industry loan programs in future, the Treasury should explicitly prohibit insolvent borrowers from being eligible for loans. The Commission's review found that the Treasury made loans to two small airline companies that were balance sheet insolvent. In contrast, the CARES Act required borrower solvency for the Federal Reserve's Section 13(3) emergency lending programs and the Commission believes this requirement is also appropriate for the Treasury's direct loan and loan guarantee programs.[17]

[17] CARES Act, Pub. L. No. 116-136, § 4003, 134 Stat. 281 (2020).

Borrower	City, State	Loan amount	Interest rate (LIBOR+%)	Maturity date	Compensation for Treasury	Loan collateral
American Airlines	Fort Worth, TX	$7,500,000,000	3.50%	6/30/2025	Warrants for 10% of loan amount.	Loyalty program.
United Airlines	Chicago, IL	$7,4910,000,000	3.00%	9/26/2025	Warrants for 10% of loan amount.	European and South American routes as well as certain aircraft and simulators.
JetBlue Airways	Long Island City, NY	$1,948,000,000	2.75%	9/29/2025	Warrants for 10% of loan amount.	Loyalty program, certain aircraft and engines.
Alaska Airlines	Seattle, WA	$1,928,000,000	2.50%	9/26/2025	Warrants for 10% of loan amount.	Loyalty program, certain aircraft and engines.
SkyWest Airlines	St. George, UT	$725,000,000	3.00%	9/29/2025	Warrants for 10% of loan amount.	Certain engines, airframes, and rotable parts.
Hawaiian Airlines	Honolulu, HI	$622,000,000	2.50%	6/30/2024	Warrants for 10% of loan amount.	Loyalty program as well as certain aircraft.
Frontier Airlines	Denver, CO	$574,000,000	2.50%	9/26/2025	Warrants for 10% of loan amount.	Loyalty program.
Mesa Airlines, Inc.	Phoenix, AZ	$195,000,000	3.50%	10/30/2025	Warrants for 10% of loan amount.	Aircraft, engines, receivables, and equipment.
Republic Airlines, Inc.	Indianapolis, IN	$58,000,000	3.50%	11/6/2025	Warrants for 10% of loan amount.	Spare parts and tooling inventory.
Sun Country, Inc.	Minneapolis, MN	$45,000,000	3.50%	10/26/2025	3% payment-in-kind interest.	Loyalty program.
Ovation Travel Group	New York, NY	$20,000,000	5.50%	10/15/2025	3% payment-in-kind interest.	Unsecured senior debt.
Eastern Airlines, LLC	Wayne, PA	$15,000,000	3.50%	10/28/2025	3% payment-in-kind interest.	Aircraft, engines, and accounts receivables.
Timco Engine Center, Inc.	Oscoda, MI	$8,390,240	3.50%	11/5/2025	3% payment-in-kind interest.	Engines, parts, accounts receivables, and other equipment and inventory.
Caribbean Sun Airlines, Inc.	Virginia Garden, FL	$6,768,749	3.50%	11/5/2025	3% payment-in-kind interest.	Aircraft, engines, and rotable parts.
Allflight Corporation	Kent, WA	$4,721,260	3.50%	11/5/2025	3% payment-in-kind interest.	Inventory, engines, equipment, and spare parts.
Aviation Management & Repairs	Fort Pierce, FL	$4,026,705	3.50%	11/5/2025	3% payment-in-kind interest.	Aircraft, accounts receivable, engines, parts, and other equipment.
Elite Airways, LLC	Portland, ME	$2,630,274	3.50%	11/7/2025	3% payment-in-kind interest.	Equipment and spare parts.
Southern Airways Express, LLC	Pompano Beach, FL	$1,838,501	3.50%	10/28/2025	3% payment-in-kind interest.	Aircraft, engines, parts, and other equipment.
Legacy Airways, LLC	Conroe, TX	$1,817,306	5.50%	10/20/2025	3% payment-in-kind interest.	Unsecured senior debt.
Thomas Global Systems, LLC	Irvine, CA	$1,400,000	3.50%	11/7/2025	3% payment-in-kind interest.	Accounts receivable.
American Jet International Corp.	Houston, TX	$1,162,124	3.50%	11/5/2025	3% payment-in-kind interest.	Secured by accounts receivable.
Bristin Travel, LLC	Fayetteville, AR	$549,651	3.50%	10/26/2025	3% payment-in-kind interest.	Accounts receivable.
Aero Hydraulics, Inc.	Fayetteville, GA	$450,000	5.50%	10/23/2025	3% payment-in-kind interest.	Unsecured senior debt.
Island Wings, Inc.	Ft. Lauderdale, FL	$294,350	3.50%	11/5/2025	3% payment-in-kind interest.	Aircraft.
Total		**$21,164,069,160**				

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 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

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

The SMCCF ceased operations on December 31, 2020. As of its closure, the SMCCF had purchased individual corporate bonds from 557 different issuers, with the amortized cost of outstanding individual bond holdings totaling $5.5 billion.[20] As of February 28, 2021, the SMCCF held $5.4 billion in individual bond purchases.[21] The chart below summarizes the SMCCF's ten largest individual bond holdings which make up 15.3% of SMCCF's holdings.[22] As of February 28, the SMCCF also owns 16 bond ETFs with a market value of $8.6 billion, including 7 high-yield bond ETFs with a market value of $1.2 billion.[23]

---

[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*, Mar. 10, 2021, https://www.federalreserve.gov/publications/files/pdcf-mmlf-cpff-pmccf-smccf-talf-mlf-ppplf-msnlf-mself-msplf-nonlf-noelf-03-11-21.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)*, Jan. 11 2021, https://www.federalreserve.gov/publications/files/smccf-transaction-specific-disclosures-01-11-21.xlsx.

[21] 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)*, Mar. 11 2021, https://www.federalreserve.gov/publications/files/smccf-transaction-specific-disclosures-03-11-21.xlsx.

[22] *Id.* As reflected in the transaction-level disclosure, a number of the corporate bonds held by the Federal Reserve have matured, been redeemed, or been exchanged.

[23] *Id.*

Issuer	Sector	Amortized Cost ($ Millions)	Percentage SMCCF Individual Bond Holdings
AT&T Inc.	Communications	97.9	1.81%
Toyota Motor Credit Corp.	Consumer Cyclical	93.7	1.73%
Verizon Communications Inc.	Communications	91.8	1.69%
Volkswagen Group of America Finance LLC	Consumer Cyclical	89.4	1.65%
Apple Inc.	Technology	85.3	1.57%
Daimler Finance North America LLC	Consumer Cyclical	84.7	1.56%
Comcast Corp.	Communications	84.3	1.55%
BMW US Capital LLC	Consumer Cyclical	69.5	1.28%
Microsoft Corp.	Technology	67.2	1.24%
General Electric Co.	Capital Goods	65.8	1.21%

It is unclear whether and when the Federal Reserve will unwind its corporate bond investments, particularly with respect to the ETFs. Chair Powell has testified that "[w]e are generally a hold to maturity [investor]. It may be that we sell some back into the secondary market down the road, but ultimately we're [a] buy-and-hold type buyer."[24]

Main Street Lending Program

The MSLP ceased operations on January 8, 2021. The total loan participations purchased by the MSLP while it was operational totaled $16.6 billion,[25] representing 2.8% of its original $600 billion lending capacity.[26] As of February 28, 2021, the MSLP had a balance of $16.6

[24] House Financial Services Committee Hearing on Economic with Federal Reserve Chair Jerome Powell, 116th Cong. (June 17, 2020) (Testimony of Chair Jerome Powell), *available at* https://www.rev.com/blog/transcripts/house-financial-committee-hearing-transcript-on-economy-with-jerome-powell.

[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*

billion in loan participations with an estimated loan loss allowance in the amount of $2.4 billion, equivalent to 14.5% of the $16.6 billion loan participations balance.[27]

The majority of MSLP loans were provided through the two private sector new term loan facilities: the Main Street Priority Loan Facility ("MSPLF") and the Main Street New Loan Facility ("MSNLF"). At $4.37 million, the average loan size for the MSNLF is smaller than the overall average due in part because these loans were available on an unsecured basis and these companies are generally smaller than the borrowers who participated in the MSPLF. At 0.82% of total loans, only a marginal amount of loans were provided through the Nonprofit Organization New Loan Facility ("NONLF"), and zero loans were provided through the Nonprofit Organization Expanded Loan Facility ("NOELF").

Facility	Loan Amount (in $ million)	Federal Reserve Participation (in $ million)	Number of Loans	Average Loan Size (in $ million)
Main Street Priority Loan Facility (MSPLF)	$12,917	$12,272	1,173	$11.01
Main Street New Loan Facility (MSNLF)	2,695	2,560	616	4.37
Main Street Expanded Loan Facility (MSELF)	1,805	1,714	26	69.41
Nonprofit Organization New Loan Facility (NONLF)	42.0	39.9	15	2.80
Nonprofit Organization Expanded Loan Facility (NOELF)	0.0	0.0	0	0.0
Total	**$17,459**	**$16,586**	**1,830**	**$9.54**

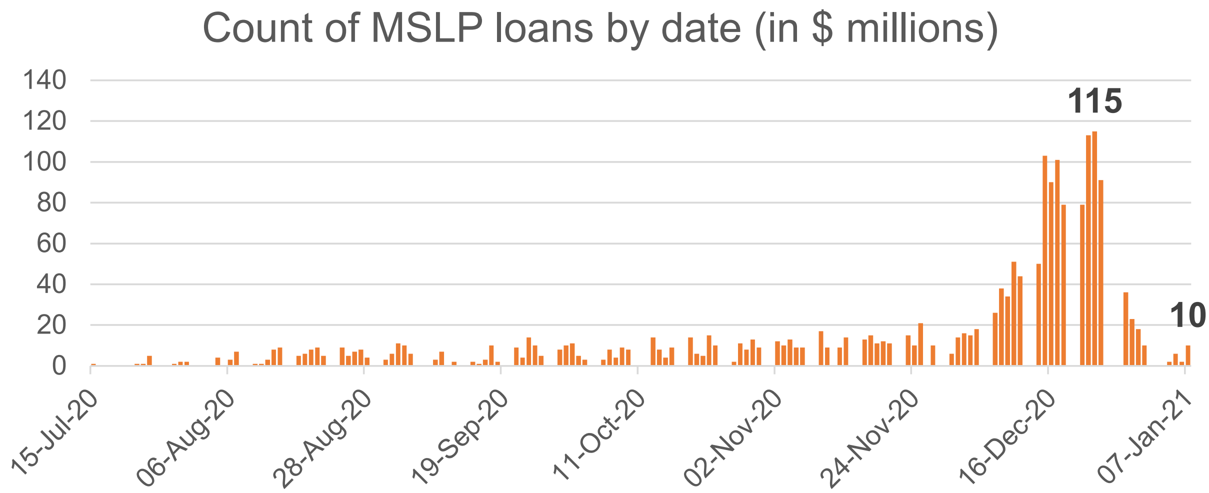
The MSLP saw an increase in loan activity in the month before the program ended. As seen in the chart below, nearly two-thirds of the MSLP's $16.6 billion in loan participations were transactions after November 30, 2020.[28] Federal Reserve Bank of Boston ("Boston Fed") President Eric Rosengren attributed this December surge to both the announcement of the program's impending closure and to "the stresses many medium-sized businesses were

in loans to support the economy, Apr. 9, 2020, https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm.

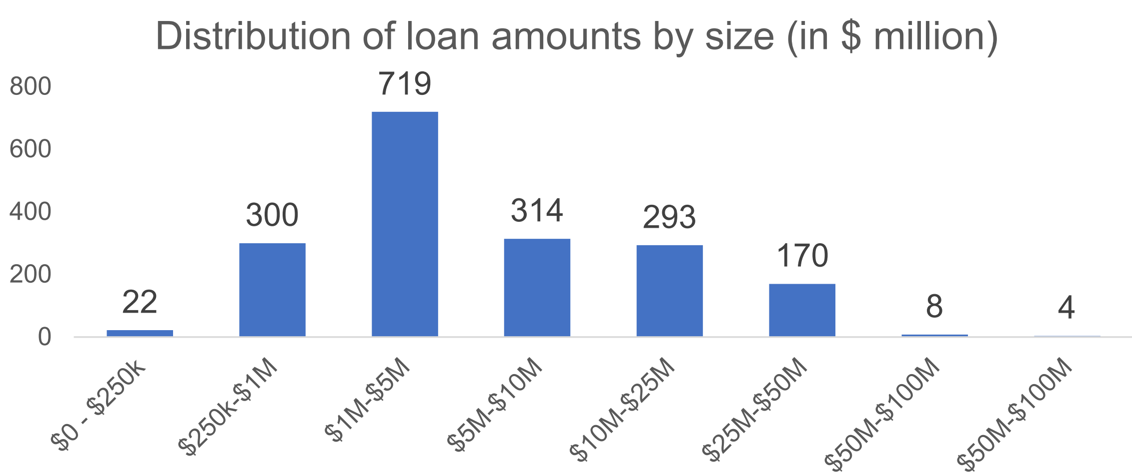
[27] Board of Governors of the Federal Reserve System, *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13(3) of the Federal Reserve Act (Transaction-specific Disclosures)*, Feb. 8 2021, https://www.federalreserve.gov/publications/files/mslp-transaction-specific-disclosures-02-09-21.xlsx.

[28] 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)*, Mar. 11 2021, https://www.federalreserve.gov/publications/files/mslp-transaction-specific-disclosures-03-11-21.xlsx.

experiencing at the end of 2020 as a result of the resurgence of COVID infections."[29]



The majority of the 1,830 loans originated and purchased through the MSLP were for smaller-sized loans. The average size of a MSLP loan was $9.5 million, while the median loan size was $4.0 million. This shows the program was reaching its intended target audience of companies that were too small to access the capital markets. The below chart shows the distribution of the 1,830 loans by size of principal amount.



To monitor credit quality, the Boston Fed relies heavily on borrower information provided to the SPV. The terms of the Main Street Participation Agreement require the borrower to provide certain financial information quarterly and annually as well as any material developments to the SPV. The information is reviewed by the Boston Fed credit team, with the assistance of a third-party vendor, where an internal credit score is developed that informs how the portfolio is categorized and analyzed within the Federal Reserve. As of February 28, 2021, the evaluation of loan participations purchased by the MSLP resulted in a loan loss allowance in

[29] *Id.*

the amount of $2.4 billion, equivalent to 14.5% of the $16.6 billion loan participation's balance.[30]

Municipal Liquidity Facility

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—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.[31] As of February 28, 2021, the Federal Reserve held $6.2 billion of outstanding asset purchases.[32]

Term Asset-Backed Securities Loan Facility

The 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.[33] More than half of the investors in these investment funds were foreign-based companies.[34] TALF had a total outstanding amount of $2.6 billion in loans as of February 28, 2021.[35] The following chart shows the five investment funds with the most TALF loans outstanding.

Investment Fund	Loan Amount (in $ million)	Percentage of Total Program
Alta Fundamental Advisers SP LLC - Belstar-Alta Series 1	$1,967.3	67.1%
MacKay Shields TALF 2.0 Opportunities Master Fund LP	545.4	18.6%
Alta Fundamental Advisers SP LLC - Belstar-Alta Series 2	238.4	8.1%
Barings Paragon LLC	53.9	1.8%

[30] 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.

[31] 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.

[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)*, Mar. 11 2021, https://www.federalreserve.gov/publications/files/mlf-transaction-specific-disclosures-03-11-21.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)*, Jan. 11 2021, https://www.federalreserve.gov/publications/files/talf-transaction-specific-disclosures-01-11-21.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 (Transaction-specific Disclosures)*, Mar. 11 2021, https://www.federalreserve.gov/publications/files/talf-transaction-specific-disclosures-03-11-21.xlsx.

Tortoise TALF Opportunities Fund, LP	50.8	1.7%

The investment funds use TALF loans to purchase securities backed by certain types of consumer and business loans. The chart below illustrates the collateral sector breakdown of the underlying loans that were purchased by investor funds using TALF loan proceeds.

Collateral Sector	Loan Amount Outstanding (in $ million)	Percentage of Total Program
Small Business Administration Loans	$1,684.6	65.1%
Commercial Mortgage	450.3	17.4%
Leveraged Loan	296.3	11.4%
Private Student Loans	157.6	6.1%
Premium Finance	0.0	0.0%
Total	$2,589	

The following chart shows the five ABS issuers with the most TALF-funded purchases.

Issuer	Sector	Loan Amount Outstanding (in $ million)	Percentage of Total Program
Small Business Administration Pools SBA–7(a) program	Small Business	$1,619.6	55.2%
Golub Capital Partners TALF 2020-1 LLC	Leveraged Loan	298.3	10.2%
Small Business Administration SBA–504 program	Small Business	210.1	7.2%
Golub Capital Partners TALF 2020-2 LLC	Leveraged Loan	152.0	5.2%
Navient Private Education Refi Loan Trust 2020-F	Private Student Loans	132.6	4.5%

Treasury Loans for National Security Businesses

The national security loan program made 11 loans totaling $735.9 million.[36] The Commission recently sent a letter to the U.S. Transportation Command, a U.S. Department of Defense (DOD) functional combatant command responsible for providing air, land, and sea transportation to meet national security needs. The letter inquired about Crowley Logistics' work as a prime contractor for the DOD and Crowley's relationship with its subcontractor, YRC. We have received responses to this letter and the Commission intends to provide details on the response in a future report.

Treasury Loans for the Airline Industry

The Treasury's airline industry loan program made 24 loans totaling $21.2 billion.[37] The Commission submitted written questions to the Treasury regarding the airline loan program on November 30, 2020 and the Commission received the Treasury's written responses on January 15, 2021. This report provides details on those responses.

---

[36] U.S. Department of the Treasury, *Loans to Air Carriers, Eligible Businesses, and National Security Businesses*, last visited Mar. 19, 2021, https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses.

[37] *Id.*

Appendix A:
Commission Letter to the Treasury Requesting Information about the Airline Industry Loan Program

REP. FRENCH HILL
BHARAT RAMAMURTI
REP. DONNA E. SHALALA
SEN. PAT TOOMEY

SDG–55 DIRKSEN SENATE
OFFICE BUILDING

WASHINGTON, DC 20510
(202) 224–5050

Congressional Oversight Commission

November 30, 2020

The Honorable Steven T. Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

November 30, 2020

Dear Secretary Mnuchin:

Section 4020(b) of the CARES Act charges the Oversight Commission with the duty to conduct oversight of both the Treasury Department and the Federal Reserve with respect to Subtitle A, Division A programs. Pursuant to Section 4020(e)(1), (4) of the Act, the Oversight Commission requests your response to the attached questions regarding the CARES Act Division A loan program for air carriers and related airline-industry businesses. In light of the Oversight Commission's monthly reporting obligations, we ask that you provide the information requested in this letter by December 8, 2020.

Thank you for your attention to this matter.

Sincerely,

/s/ French Hill Member of Congress	/s/ Bharat Ramamurti Commissioner
/s/ Donna E. Shalala Member of Congress	/s/ Pat Toomey U.S. Senator

CONGRESSIONAL OVERSIGHT COMMISSION
Questions for the U.S. Treasury Regarding the Airline-industry Loan Program Established Pursuant to CARES Act § 4003(b)(1)-(2)

Questions for the Record Submitted to U.S. Treasury from the Congressional Oversight Commission

1. Who is the point person at the Treasury Department responsible for matters involving CARES Act § 4003(b)(1)-(2) loans to air carriers and related businesses?

2. What is the process for applying for a loan?

3. What is the Treasury's process for granting a loan?

    a. Who is involved?

    b. What are the criteria?

4. The Treasury's website includes a "Procedures and Minimum Requirements" document dated March 30, 2020, which states that it will be supplemented with additional information, including materials like additional rules and policies, an application form, and evaluation criteria, etc.[1] However, the only other such document published on the website is a brief FAQ document dated July 15, 2020, and one earlier iteration of the FAQ.[2] Please provide copies of any and all documents governing the airline-industry loan program, including the program's procedures, requirements, terms, evaluation criteria, the application, any guidance, etc. If these documents have changed over time, please provide all iterations of them.

5. In the FAQ, the Treasury states that "[s]ome businesses that applied for loans from Treasury will likely be better served by the Main Street Lending Program," and encourages applicants "to first apply for such a loan."[3]

    a. Why does the Treasury believe the Main Street Lending Program would likely be a better fit?

    b. Were any recipients of the Treasury loans rejected by the Main Street Lending Program?

    c. Were any Main Street Lending Program loans made to businesses that would otherwise qualify under the Treasury's § 4003(b)(1)-(2) direct loan program?

---

[1] U.S. Department of the Treasury, *Procedures and Minimum Requirements for Loans to Air Carriers and Eligible Businesses and National Security Businesses under Division A, Title IV, Subtitle A of the Coronavirus Aid, Relief, and Economic Security Act*, at 1, 6, Mar. 30, 2020, https://home.treasury.gov/system/files/136/Procedures%20and%20Minimum%20Requirements%20for%20Loans.pdf (hereinafter "March Procedures").
[2] U.S. Department of the Treasury, *Q&A: Loans to Air Carriers and Eligible Businesses*, Jul. 15, 2020, https://home.treasury.gov/system/files/136/CARES-Airline-Loan-Support-Q-and-A-7-15-20.pdf (hereinafter "July FAQ"); U.S. Department of the Treasury, *Q&A: Loans to Air Carriers and Eligible Businesses and National Security Businesses*, Apr. 10, 2020, https://home.treasury.gov/system/files/136/CARES-Airline-Loan-Support-Q-and-A-national-security.pdf.
[3] July FAQ, at 1-2.

   d. Does the Federal Reserve announcement that lenders should submit eligible loans for the Main Street Lending Program on or before December 14, 2020 change the Treasury's view?

6. In the FAQ, the Treasury states that there is a minimum loan size of $250,000.[4] Have any air carriers or related businesses asked the Treasury to lower this minimum, or is the Treasury otherwise aware of interested businesses that are unable to participate due to it?

7. In the Procedures and Minimum Requirements document, the Treasury states that it will "determine[]" whether something constitutes a qualifying "loss[] incurred directly or indirectly as a result of coronavirus," and that it requires applicants to provide a description of the claimed covered losses by "line items detailing the cause of the loss."[5]

   a. What losses qualify?

   b. What losses has Treasury rejected as not qualifying?

8. Has the Treasury denied any loan applications? If so, what was the basis for the denial?

9. Do any loan applications remain pending? Does the Treasury anticipate extending additional loans or modifying existing loans? If yes, please provide details.

10. Does the Treasury anticipate sustaining any losses on the loans?

11. The Treasury required applicants to "provide … information" regarding "[t]he purposes for which the borrower will use the loan proceeds."[6] Please provide this information for each approved borrower.

12. In the FAQ, the Treasury provides that loan proceeds "may not be used for … capital expenses, delinquent taxes, and debt principal payments" unless the Treasury finds certain conditions are met.[7] Did the Treasury authorize any such uses?

13. In the Procedures and Minimum Requirements document, the Treasury directs applicants to provide evidence regarding their lack of credit elsewhere.[8] How does the Treasury evaluate whether the applicant lacked reasonable access to credit elsewhere at the time of the transaction?

14. How does the Treasury assess whether the obligations are prudently incurred and sufficiently secured? Please provide all supporting financial analysis, including any professional opinions or reports by external financial advisors to the Treasury.

15. Did the Treasury consider taking an equity stake in any of the borrowers? If so, why did it elect not to?

---

[4] *Id.* at 2.
[5] March Procedures, at 2, 5.
[6] *Id.* at 5.
[7] July FAQ, at 2.
[8] March Procedures, at 4-5.

16. Some but not all of the loan agreements granted the Treasury warrants for common stock equal to 10% of the loan amount.

    a. How did the Treasury determine the appropriate amount of warrants? Please provide all supporting financial analysis, including any professional opinions or reports by external financial advisors to the Treasury.

    b. Why did the Treasury elect not to require the warrants from all borrowers?

17. For each borrower, how does the interest rate provided by the Treasury compare to rates the borrower could have obtained from private lenders?

18. For each borrower, how does the interest rate provided by the Treasury compare to rates the borrower received on comparable loans prior to the pandemic?

19. For each borrower, how did the Treasury determine the appropriate size of the loan?

20. The loans to Aero Hydraulics, Inc., Ovation Travel Group, and Legacy Airways, LLC are unsecured senior debt.

    a. What is the Treasury's assessment of the riskiness of these unsecured loans? Please provide all supporting financial analysis, including any professional opinions or reports by external financial advisors to the Treasury.

    b. Did the Treasury consider requiring collateral for these loans?

    c. Why did it not require collateral?

    d. Why does the Treasury believe that LIBOR + 5.5% and 3% payment-in-kind interest adequately compensates taxpayers for the risk of these loans? Please provide all supporting financial analysis, including any professional opinions or reports by external financial advisors to the Treasury.

21. In the Procedures and Minimum Requirements document, the Treasury states that "requirements contained herein may be waived by the Treasury Department in its sole discretion to the extent permitted by law."[9] Did the Treasury provide any waivers? If so, please describe with particularly the nature and basis for each waiver, including who received a waiver, who issued the waiver, and why.

22. Nearly all of the air carrier and related business loan recipients applied to Treasury for a loan in April, with the latest-filed application made in June. Yet all of the Treasury loan agreements are dated September 25, 2020 or later—an average application processing time of 182 days. What accounts for the

[9] *Id.* at 1.

length of time between application and approval? Please provide a detailed timeline of the review process and list any factors that may have contributed to 182 day average processing time.

23. In July, the Treasury Department announced that it had "signed letters of intent setting out the terms on which Treasury was prepared to extend loans" to American Airlines, Frontier Airlines, Hawaiian Airlines, Sky West Airlines, Alaska Airlines, JetBlue Airways, and United Airlines.[10] These airlines then all entered loan agreements with the Treasury Department that are dated September 25-September 29, 2020.

    a. Given that the terms of the loans had already been negotiated in July, what was the reason for the delay?

    b. Please provide a copy of each letter of intent signed by the Treasury regarding § 4003(b)(1)-(2) loans.

24. SEC filings indicate that the Treasury reached tentative agreements with at least some borrowers several months before Treasury's July press release announcing that it had signed letters of intent with airlines.[11] Those filings indicate that at that stage Treasury had already reached agreements with at least some borrowers regarding the approximate amount of the loans and the type of taxpayer protection (i.e. security, warrants, etc.) that would be provided.[12] The Treasury's July press release still did not disclose the terms or contours of the agreements that had been reached. Rather, the Treasury waited to disclose the substance of any agreements until late September. What accounts for the length of time before Treasury's disclosures to the public?

25. Beyond requiring a certification from the borrower, did the Treasury verify whether prospective borrowers have a majority of their employees in the United States?

26. What steps will the Treasury to take to verify borrowers' ongoing compliance with the restrictions on employee compensation in CARES Act § 4004(a) and corresponding loan agreement provisions?

27. Are any of the borrowers currently subject to a requirement that they continue air service, pursuant to CARES Act § 4005 and corresponding loan agreement provisions?

    a. If so, please describe the requirements imposed.

---

[10] U.S. Department of the Treasury, *Statement from Secretary Steven T. Mnuchin on CARES Act Loans to Major Airlines*, July 7, 2020, https://home.treasury.gov/news/press-releases/sm1054. Three additional airlines that signed letters of intent later announced that they would not participate in the Treasury's loan program. *See* The Sixth Report of the Congressional Oversight Commission, at 14, https://coc.senate.gov/sites/default/files/2020-10/The%20Sixth%20Report_Final%20%28002%29_0.pdf.

[11] *E.g.*, American Airlines Group Inc., Form 8-9, filed with U.S. Securities and Exchange Commission on Apr. 14, 2020, https://www.sec.gov/ix?doc=/Archives/edgar/data/4515/000000620120000059/a8k041420caresactterms.htm.

[12] *Id.*

b. If not, did the Treasury confer with the Secretary of Transportation regarding whether any such requirements should be imposed? Please describe the Treasury's understanding of why such requirements have not been imposed.

c. Does the Treasury anticipate that such requirements may be imposed in the future?

28. Why did the Treasury and United Airlines amend and restate their loan agreement? Please describe the changes made, provide the original agreement, and provide a redline showing the differences between the original and amended/restated agreements.

29. The Treasury required cargo air carrier borrowers to "provide … information" regarding both 2019 revenue per ton mile "and a forecast of the same for 2020 that was prepared by or for the air carrier no earlier than October 1, 2019."[13] But the Treasury defines "cargo air carrier" to be backwards-looking—i.e., to consider only whether the air carrier derived more than 50% of its revenue from the transportation of property or mail from April 1, 2019 to September 30, 2019.[14]

    a. Why did the Treasury adopt a backwards-looking definition of cargo air carrier?

    b. Why did the Treasury determine April 1, 2019 to September 30, 2019 was the appropriate lookback window?

    c. Does the Treasury take into account the applicant's 2020 forecast?

    d. To date, the Treasury has classified only one loan—the loan to Legacy Airways, LLC—as a loan to a cargo air carrier made pursuant to § 4003(b)(2). Does Legacy Airways, LLC currently derive 50% or more of its revenue for the transportation of property or mail?

    e. What did Legacy Airways, LLC's 2020 forecast state?

30. The Treasury airline-industry loan program is currently set to expire on December 31, 2020. Does the Treasury believe that further relief to the airline industry is needed?

31. Does the Treasury Department believe the airline industry will continue to face decreased demand during 2021?

Questions for the Record Submitted to U.S. Treasury from Commissioner Bharat Ramamurti & Congresswoman Donna E. Shalala

1. The loan agreements with major airlines were entered two weeks or more before the agreements with smaller airlines and businesses, despite generally have similar application dates. The average loan processing time for United Airlines, Hawaiian Airlines, American Airlines, Frontier Airlines, Alaska

[13] March Procedures, at 5.
[14] *Id.* at 2.

Airlines, SkyWest Airlines, and JetBlue Airways was 161 days. The average for all other borrowers, excluding Legacy Airways LLC, was 196 days. Legacy Airways received the fastest loan processing time of all borrowers, at 119 days.

a. Did the major airlines receive priority in loan processing? If so, why?

b. Why was Legacy Airway, LLC's processing time faster (although still lengthy)?

2. What steps will the Treasury take to verify borrowers' ongoing compliance with the restrictions on stock buybacks and dividends in CARES Act § 4003(b)(2)(E)-(F) and corresponding loan agreement provisions?

3. Does the Treasury Department believe preventing job losses is a goal of the CARES Act § 4003(b)(1)-(2) loan programs?

4. The Treasury required applicants to "provide … information" regarding "any proposed changes to the borrower's employment levels, relative to March 24, 2020, during 2020."[15] What information regarding proposed changes to employment levels did each borrower provide?

5. CARES Act § 4003(c)(2)(G) provides that "until September 30, 2020," a loan recipient must "maintain its employment levels as of March 24, 2020 to the extent practicable, and in any case shall not reduce its employment levels by more than 10 percent from the [March 24] levels." A number of Treasury loan recipients reportedly made layoff announcements in early October. For example, United Airlines and American announced it planned to cut a combined 32,000 jobs, and Alaska Airlines began laying off 466 employees.[16] Are Treasury loan recipients under any obligation to maintain their employment levels after September 30, 2020?

6. All of the Treasury's loan agreements with air carriers and related business are dated September 25, 2020 or later. In Treasury's view, to be eligible for these loans, were the borrowers required to make practicable efforts to maintain their employment levels between March 24, 2020 and September 30, 2020, pursuant to CARES Act § 4003(c)(2)(G)?

7. What steps has Treasury taken to verify whether the borrowers made practicable efforts to maintain their employment levels between March 24, 2020 and September 30, 2020?

8. The Treasury currently reports the number of U.S. employees each borrower had in March 2020. To facilitate the Commission's ability to study the program's effect on jobs, will the Treasury report the number of U.S. employees each borrower had on September 30, 2020 and also at regular intervals throughout the life of each loan?

---

[15] March Procedures, at 4.

[16] Katherine Khasimova Long, *Alaska Airlines to Furlough or Lay Off More Employees as COVID-19 Grips Travel Industry*, Seattle Times, Oct. 1, 2020, https://www.seattletimes.com/business/boeing-aerospace/alaska-airlines-to-furlough-or-lay-off-more-employees-as-covid-19-grips-travel-industry/.

9. Although the Treasury generally reports the number of March 2020 U.S. employees for nearly every borrower, it has not done so with respect to Island Wings, Inc. How many U.S. employees did Island Wings, Inc. have in March 2020?

10. A number of the borrowers appear to provide private luxury charter jet services.

    a. Does the Treasury acknowledge that some borrowers provide private luxury charter jet services? Please identify all borrowers who do so.

    b. Do any of the Treasury's loan program requirements preclude private luxury charter jet companies from participating?

    c. Does the Treasury believe that supporting private charter jet companies and/or services is an appropriate use of coronavirus relief funds?

11. Did the Treasury consider requiring borrowers to implement COVID-related health protection measures, such as distancing and mask requirements? If so, why did the Treasury elect not to require such health protections for passengers and airline workers?

12. Does the Treasury anticipate further airline-industry job losses?

13. Does the Treasury have any "lessons learned" that policymakers should consider in crafting future relief programs (either with respect to the current pandemic or otherwise)?

Appendix B:
Treasury Department's Responses to Questions Regarding the Airline Industry Loan Program

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 15, 2021

The Honorable French Hill
U.S. House of Representatives
Washington, DC 20515

The Honorable Donna E. Shalala
U.S. House of Representatives
Washington, DC 20515

Mr. Bharat Ramamurti
Congressional Oversight Commission
Washington, DC 20515

The Honorable Pat Toomey
United States Senate
Washington, DC 20510

Dear Members of the Congressional Oversight Commission:

I write in further response to your November 30, 2020 letter, which enclosed questions and information requests from the Congressional Oversight Commission and additional questions from individual commissioners regarding the loan program for air carriers and related airline-industry businesses under the Coronavirus Aid, Relief, and Economic Security Act.

Enclosed are responses and materials identified as responsive to those requests. Please note that the Department of the Treasury has identified materials being produced as containing sensitive, nonpublic information, and we appreciate the Commission's commitment to handling such materials in a confidential manner and to not disclosing or discussing the contents thereof outside of the Commission without prior written authorization from Treasury.

We appreciate your patience in receiving this response as we worked to further support those impacted by the COVID-19 pandemic through the enactment and implementation of new legislation that is already providing additional vital relief to American workers and families. We also hope the information we were able to provide you last month in response to other requests that we understood to be priorities for the Commission has been helpful.

If you have further questions, please direct your staff to contact the Office of Legislative Affairs

Sincerely,

Frederick W. Vaughan
Principal Deputy Assistant Secretary
Office of Legislative Affairs

Enclosures