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Liquidity programs: How much will be disclosed and when?

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Use of the Fed's liquidity facilities began last week. But how much information on usage will the Fed provide to the public? And will disclosure rules temper program use? We examine the reporting requirements for the Fed's 13(3) emergency liquidity and credit programs as well as the CARES Act.

- **The Fed reports aggregate program use weekly on a contemporaneous basis.**
- **After the financial crisis, the Fed began publishing a monthly summary of its liquidity programs. We expect this to resume next month.**
- **However, neither the weekly balance sheet nor the monthly liquidity reports contain transactions level information or borrower identities.**
- **By law, the Fed is required to release detailed transactions level data – including borrower identities – one year after the liquidity program is terminated.**
- **The CARES Act lending programs have mandatory reporting and fairly short public dissemination requirements.**
- **In the past, the willingness to use some of the Fed's liquidity programs has been tempered by perceptions of stigma and fears of information disclosure.**
- **The Fed has moved aggressively to counteract these perceptions with respect to its liquidity programs.**

However, we wonder if reporting requirements might make some borrowers hesitant to tap the CARES Act business lending program.

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Public data

What does the Fed report?

The Fed publishes weekly information each Thursday afternoon on its balance sheet. The weekly updates include information on its securities holdings as well as the level of bank reserves. As new liquidity programs are created, they are added to its weekly balance sheet reports. Note, the Fed reports all this information as both a weekly average (Wednesday/Wednesday) as well as the amount outstanding at the end of the previous day. We find the end-of-period figures are more useful for gauging the strength of program demand.

These data are aggregated across all program borrowers. There is no identifying information about the borrower or transaction terms. To provide more transparency around its liquidity programs after the financial crisis, the Fed began publishing a *monthly summary* of program activity. Although these reports were also limited to aggregate amounts outstanding, they included a discussion of market conditions and program use. Occasionally, the Fed provided more detail (though still generalized) – such as, the percentage of large bank borrowing from the discount window. Publication of these monthly reports continued even after the crisis liquidity programs had ended, but became quarterly reports that focused on the Fed's balance sheet developments.

The Fed's liquidity programs are audited by the GAO

The GAO audits the Fed's liquidity facilities as well as any transactions covered by the 13(3) exigent circumstances clause.[1] The report is provided to Congress after 90 days. The audit focusses primarily on how effectively the Fed is running these programs. The GAO audit examines the effectiveness of the Fed's loan collateralization and whether the program is equally available to all eligible borrowers. It also reviews any third party relationships the Fed establishes to facilitate its programs. Given the Fed's foray into credit and municipal markets as well as ETFs, we expect it will rely heavily on outside expert advice, which the GAO audit will review. Borrowers' details are redacted before the report is posted on the Fed's website.

The Fed is required to inform the House Banking and Senate Finance Committees within seven days of creating a 13(3) program, and it must update both Committees every 30 days thereafter. These updates are required to include details about collateral, fees, and the expected final cost to tax payers. They will also include details on the identity of the borrowers as well as information about the date, terms, and amounts borrowed. These data are confidential at the Fed Chair's request and only provided to the Chair and ranking members of both Committees.

Under Dodd-Frank, the Fed is required to release detailed data – including borrower identities – one year after the 13(3) credit facility is terminated. If there is no official announcement that the program is terminated, the law stipulates releasing the identifying data two years after the last use of the program. The Fed's website has detailed transactions level data in excel files for each of the 2008 13(3) programs.

CARES Act

CARES has strict reporting requirements

The recently passed CARES Act imposes reporting requirements on the Treasury's $500bn loan program. As the program is structured, the Treasury will use the money authorized by Congress to capitalize one or more Fed lending programs. The Treasury's cash will be a first loss equity investment that the Fed will then leverage to make loans to businesses.

Under Section 4026, the Treasury Secretary is required to provide Congress and the public with a "plain language description" of the lending program on the Treasury's website within 72 hours of any loan transaction. The text must include the amount, the identity of the

[1] For more on 13(3) see *Unusual and exigent*, March 10, 2020

borrower as well as details about the financial terms and interest rate in the transaction.[2] The Treasury Secretary is also required to supply a detailed financial statement to the Chairs and ranking members of the House Banking, Financial Services, and Ways and Means Committees as well as the Senate Finance Committee within seven days, which will be published on the Treasury's website seven days later. The Treasury will update these financial statements every 30 days during the life of the lending program. As these are 13(3) programs, the reporting rules for the Fed also apply. In addition, the CARES Act requires quarterly Congressional testimony from the Treasury Secretary and Federal Reserve Chair. It creates a Special Inspector General for Pandemic Recovery with audit powers. CARES also requires the GAO to conduct a study of the loans, loan guarantees, and financial terms of any lending created under the program. The first GAO report will be due nine months after the program creation and then annually thereafter.

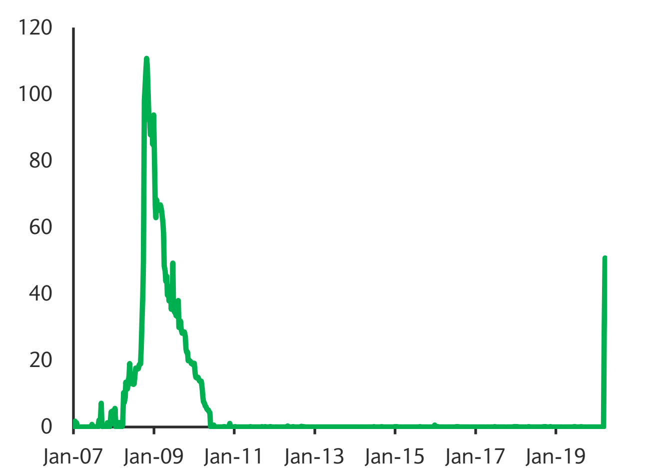
Naming names

Will some borrowers be reluctant to tap CARES Act loans?

Ordinarily, we would expect disclosing borrower details contemporaneous to the lending program would make borrowers somewhat leery of tapping the facility. Indeed, even facilities for which borrower data is released with a long lag still have perception issues. The Fed has tried to overcome discount window stigma for years. A similar reluctance to use the central bank swap lines emerged during the sovereign debt crisis in 2011. Although market rates were trading well above the swap line, non-US banks were leery of using the program. At the time, this was ascribed to their reluctance to "confess" to central bank officials that they needed more liquidity than what they could raise independently in the market. We think this sentiment was exacerbated as it occurred when memories of the financial crisis were still fresh in central banks' memory.

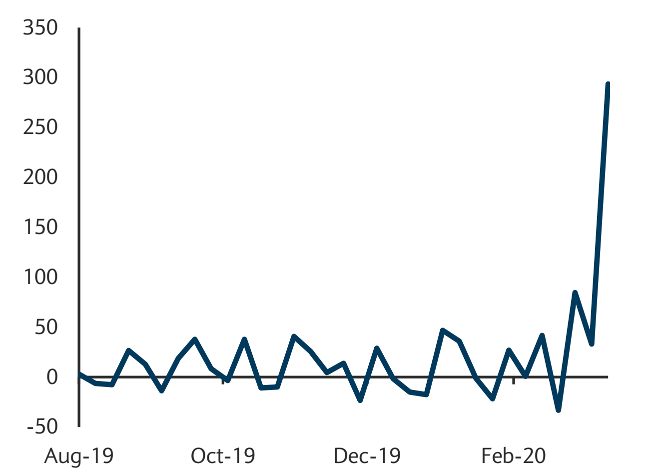
The Fed is moving actively to overcome discount window stigma.[3] In addition to providing moral support, it lowered the borrowing rate and began offering three month loans. That said, discount window borrowing has been somewhat slower to pick up than we expected given the depth of the liquidity strains in financial markets. As of last Wednesday, total outstanding borrowing was $50.8bn (Figure 1). It is unclear why discount window borrowing has not grown faster. We think there could be a variety of reasons beyond the perceived stigma. First, the Fed has rapidly expanded the level of bank reserves in the last two weeks – balances have increased by more than $700bn in the past two weeks. Not only

FIGURE 1
Discount window borrowing ($bn)



Source: Federal Reserve, Barclays Research

FIGURE 2
Other deposits ($bn)



Source: Federal Reserve, Barclays Research

[2] See *CARES Act*, page 214-15
[3] But as we note, this is challenging given the evolution of non-bank lending and regulatory issues. See *New crisis, new solutions: Liquidity support is not enough*, March 19, 2020

has this restocked bank liquidity buffers, but it has removed much of the Treasury and MBS paper that had piled up in inventory over the past month. Second, large banks – and smaller institutions to a lesser extent – have been beneficiaries of the flight to liquidity. Other deposits – a catch-all category that includes operational and transactions deposits – jumped by nearly $300bn in the March 18 week (Figure 2). Separately, banks appear to have overcome their reluctance to use the central bank swap lines – last week outstanding balances exceeded $300bn.[4] Finally, banks may be waiting until they have more clarity on the extent of their liquidity needs during the economic shutdown.

Everyone is doing it

But we wonder if the CARES lending program might not encounter some borrower hesitancy tied to these reporting requirements. Of course, it is also true that there are no atheists in a foxhole. Borrowing under the CARES Act may be similar – borrowers may be more worried about their survival than news reports that reveal they used the program – even if these reports become public *as* they use the program. In addition, given the widespread nature of the crisis, it is difficult to imagine shareholders or investors punishing a firm from borrowing under the program, particularly if widespread use of the program helped stem job losses. If it becomes evident that 'everyone' is borrowing – and in fact, needs to – this should be sufficient to overcome negative perceptions about program use. That said, it will be interesting to see how much program demand there is for CARES loans – and from whom – once the program gets up and running.

This illustrates a key impediment for policy – both for the Fed and the CARES program. If perceptions about program use stigma are hard to displace, usage may be constrained and the effects on growth and employment will be muted. In turn, this suggests that policymakers may need a more robust response – one where the public sector takes on even more private sector risk than currently envisioned in CARES and by abundant Fed liquidity support programs.

[4] The official tally was $206bn but there was at least $100bn in transactions that had not settled by the time of the Fed's report.

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