Note 8. Investments in Special Purpose Vehicles

Investments in Special Purpose Vehicles as of September 30, 2020

(In billions of dollars)	Gross Investments	Cumulative Valuation Gain (Loss)	Fair Value
Corporate Credit Facilities	37.5	(0.1)	37.4
Main Street Lending Programs	37.5	(4.3)	33.2
Municipal Liquidity Facility	17.5	(0.2)	17.3
Term Assets Lending Facility	10.0	(0.1)	9.9
Commercial Paper Funding Facility	10.0	0.1	10.1
Total investments in Special Purpose Vehicles	112.5	(4.6)	107.9
Common stock warrants[1]			0.5
Total			108.4

[1]Investments in common stock warrants are included due to the nature of funding and purpose of financial assistance to provide payroll support to aviation workers during the pandemic. Common stock warrants gross investment cost is $.4 billion

In response to the COVID-19 pandemic, the government invested in SPVs established by the Federal Reserve Board through the FRBNY and FRBB for the purpose of enhancing the liquidity of the U.S. financial system. SPV investments are accounted for as equity investments at fair value, rather than as direct loans, as these instruments do not meet the criteria of SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*. Accordingly, changes in the fair value of these investments are recorded as gains or losses.

The fair value of SPV equity investments is determined by using available market pricing data, risk-free discount rates, market pricing of floating interest-rate swaps, and contractual instrument terms to estimate scenario-specific, risk-neutral cash flows for the SPVs. For determining market pricing data, active market prices for the CCF and TALF programs that own publicly traded securities, Bloomberg estimated prices for the MLF program which owns securities that do not have active market prices but have estimated prices in Bloomberg, or market prices for baskets of comparable publicly traded bonds for the MSF program, based on relevant bond attributes such as instrument credit rating, time to maturity, issuer industry, coupon rate, and call provisions. Contractual instrument terms and market derived, risk-neutral loss rates and, where applicable, market pricing of floating interest-rate swaps are used to estimate scenario specific, risk-neutral cash flows which are discounted using risk-free discount rates.

In deriving the fair value of SPV investments, Treasury relied upon market observed prices for SPV purchased assets and collateral, market prices for comparable assets, asset valuations performed by third parties, historical asset data, discussions with subject matter experts within Treasury, and other information pertinent to the valuation were relied on. Because the instruments are not publicly traded, there is no comparable trading information available. The fair valuations rely on significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing.

Under SFFAS No. 47, *Reporting Entity* criteria, SPVs were owned or established by the federal government. The relationship with the federal government represents non-permanent intervention designed to help mitigate the economic impacts. These entities are classified as disclosure entities based on their characteristics as a whole. Accordingly, these entities are not consolidated into the U.S. government's consolidated financial statements; however, the value of the investments in these entities, changes in value, and related activity with these entities are included in the U.S. government's consolidated financial statements.

Corporate Credit Facilities LLC

On April 13, 2020, the FRBNY established the CCF as the SPV to facilitate both the PMCCF and the SMCCF programs in support of providing the flow of credit to employers through corporate bond and loan issuances. The FRBNY lends to the SPV on a recourse basis. The PMCCF purchases qualified bonds from eligible issuers and purchases portions of syndicated loans or bonds at issuance, giving issuers access to credit so that they are better able to maintain business operations and capacity during the period of disruption caused by COVID-19. The FRBNY loans are secured by all the assets of the SPV. The PMCCF buys bonds and loans of investment-grade companies, as well as certain companies that were investment-grade as of March 22, 2020. The SMCCF supports the flow of credit to employers by providing liquidity to the market for outstanding corporate bonds. The SMCCF purchases in the secondary market corporate bonds issued by investment-grade U.S. companies or certain U.S. companies that were investment-grade as of March 22, 2020, as well as U.S. listed exchange-traded funds whose investment objective is to provide broad exposure to the market for U.S. corporate bonds.

Main Street Lending Program

On May 18, 2020, the FRBB established the MSF to support lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic and have good post-pandemic prospects. The MSF program operates through five facilities: 1) the MSNLF; 2) the MSPLF; 3) the MSELF; 4) the Main Street NONLF; and 5) the Main Street NOELF. Using loans from the FRBB, the SPV purchases 95 percent participations in loans originated by eligible lenders, while the lender retains 5 percent. To qualify for MSF loans, potential borrowers must meet certain specified eligibility criteria and pass normal lender underwriting processes. Loans issued under the MSF program have a five-year maturity, principal payments are deferred for two years, and interest payments are deferred for one year. All loans are amortized in years 3-5 according to the following schedule: 15 percent, 15 percent, 70 percent. Eligible lenders may originate new loans (under MSNLF, MSPLF, and NONLF) or increase the size of (or “upsize”) existing loans (under MSELF and NOELF) made to eligible borrowers.

Municipal Liquidity Facility LLC

On May 1, 2020, the FRBNY established the MLF SPV to help state and local governments manage cash flow pressures while continuing to serve households and businesses in their communities. The FRBNY lends to the MLF SPV, on a recourse basis, to allow the facility to purchase up to $500.0 billion of short-term notes directly from eligible U.S. states (including the District of Columbia), U.S. counties with a population of at least 500,000 residents, and U.S. cities with a population of at least 250,000 residents. Issuers must have been rated at least BBB-/Baa3, as of April 8, 2020, by two or more nationally recognized statistical rating organizations. The SPV purchases eligible notes directly from issuers at the time of issuance. The SPV charges an origination fee of 10 basis points.

Term Asset-Backed Securities Loan Facility II LLC

FRBNY established the TALF SPV on March 23, 2020, to support the flow of credit to consumers and businesses for purposes of stabilizing the U.S. financial system. The TALF facilitates the issuance of ABS backed by student loans, auto loans, credit card loans, loans guaranteed by the SBA, commercial mortgages, and certain other assets. Through loans from the FRBNY, the TALF SPV lends to holders of eligible ABS, an amount equal to the market value of the ABS less fees, and the loans will be secured at all times by the ABS. Eligible borrowers are U.S.-organized or U.S.-based businesses that maintain banking relationships with a primary dealer. Collateral valuations are reduced by haircuts ranging from 5 percent on credit card loans to 20 percent on static leveraged loans.

Commercial Paper Funding Facility II LLC

On March 30, 2020, the FRBNY established the CPFF LLC to provide liquidity to short-term funding markets by purchasing three-month unsecured and asset-backed commercial paper directly from eligible issuers. The FRBNY makes loans to the SPV, on a recourse basis, to fund the SPV’s purchase from eligible U.S. issuers of three-month U.S. dollar-denominated commercial paper through the FRBNY’s primary dealers. This contribution is being used to cover potential losses incurred by FRBNY in connection with this program. Unlike the other SPVs, which were funded by a combination of CARES Act appropriated and Treasury borrowed funds, Treasury funded the CPFF contribution with core Exchange Stabilization Funds which were previously invested in overnight federal investments.

Common Stock Warrants

Common stock warrants provide Treasury with the right to purchase shares of common stock or receive a cash payment. The number of warrants required is equal to 10 percent of the principal amount of the note issued by the participant, divided by an exercise price. The exercise price for passenger air carriers is generally equal to the value of the shares as of market close on April 9, 2020. The exercise price of cargo air carriers is equal to the market value of the shares of market close on May 1, 2020. The warrants are exercisable for a five-year term. In accordance with the warrant agreement between Treasury and each recipient, Treasury acknowledges the warrants are not registered under the *Securities Act of 1933* and may not be sold without such registration or an exemption. Additionally, the warrants received do not entitle Treasury to any voting rights or other rights of a shareholder before the date of exercise. Common stock warrants are not considered to be SPVs but are included here due to the nature of their funding and purpose.

The SPVs invest certain funds in Treasury issued non-marketable SPV securities. As of September 30, 2020, the SPVs had invested $96 billion in Treasury issued SPV securities. Please see Note 12—Federal Debt and Interest Payable. For additional information regarding COVID-19 relief, CARES Act funding, and amendments of SPV agreements refer to Treasury's financial report, Note 28—COVID-19 Activity, and Note 29—Subsequent Events.