

The Washington Post

Fed's Main Street lending program doesn't have many large banks making loans to new customers

Rachel Siegel

July 8, 2020

More than three months after the Fed announced a new effort to shore up the economy aimed at small and medium-size businesses, its \$600 billion loan program has only one of the nation's largest banks signed on to deliver the loans to new customers.

On Wednesday, the Federal Reserve Bank of Boston disclosed the list of lenders that have agreed to participate in the Main Street Lending Program, extending Fed-backed loans to new customers. Of the nation's largest banks, only Bank of America has registered.

The Fed's Main Street program has become a sort of litmus test for how effective the central bank's multifaceted response to the recession can be. Thousands of banks are eligible to sign up and have been able to register since mid-June. But last week, Fed Chair Jerome H. Powell said only about 300 had registered, including firms making loans solely to existing customers, for which there is no public list. Meanwhile, businesses eager for loans have said they're hard-pressed to find banks that will issue them.

George Selgin, director of the Center for Monetary and Financial Alternatives at the libertarian Cato Institute, said participation by the large banks can help the Fed's program have broader impact and reach. Having an array of branches, he said, makes it easier for banks to close a deal with nearby customers.

The Fed lists participating banks by state, but the central bank doesn't say much about where the banks are and how extensive their footprints are.

"Without knowing how well distributed the branches are, it's hard to say how many prospective borrowers are out of the running," Selgin said.

Fed's Powell warns lawmakers not to become complacent in dealing with coronavirus

The Fed's list of banks will continue to be updated, but it's unclear how much more enthusiasm will follow the program. JPMorgan Chase told The Washington Post it intends to participate in the program, and Wells Fargo said it is registered. Citigroup is also signing up and will limit loans to existing clients, a spokeswoman said. Along with Bank of America, the banks are the country's largest, with at least \$1 trillion in assets.

"Now that the program is fully operational and ready to purchase loan participation, we encourage more lenders to register," Eric Rosengren, president of the Boston Federal Reserve Bank, which is administering the program, said in a statement. "The list of participating lenders is likely to grow as more and more banks register."

'It's very discouraging': America's new \$600 billion rescue program for small businesses is off to a rocky start

Other banks on the list with relatively large footprints include BBVA, Truist, Citizens and Zions. Some states have many more banks registered than others, while Bank of America is the only lender listed for all of Hawaii.

The Main Street program allows banks to make low-interest loans to businesses, and then the Fed purchases 95 percent of the loan from the bank.

Unlike Congress, which is debating whether to expand direct relief to households and struggling businesses, the Fed has lending power, not spending power. Testifying before the House Financial Services Committee last week, Powell said that for many companies buckled by the recession, going into further debt "may not be the answer here."

Powell said the Fed was open to revising the Main Street program, including lowering the minimum loan amount, which has already been reduced from \$1 million to \$250,000. The maximum loan amount is \$300 million. The program offers five-year term loans.

The Fed's public balance sheet is updated each week, including with aggregate information on the Main Street facility. Since the Main Street program became entirely operational Monday, the Fed's latest disclosure from July 2 won't reflect loans made this week.

The Fed also plans to regularly release loan-specific information, including on the identities of the banks and borrowers — offering a more detailed snapshot of just who the program is reaching.