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The Federal Reserve's $2.3 trillion pot — what's in it for small businesses?

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Small-business owners may still be catching up on all the details of the $2.2 trillion in CARES Act funding that became law March 27. But now they must contend with a new, massive pot of funding — $2.3 trillion in programs being rolled out by the Federal Reserve System to help stabilize financial markets and boost lending to small and large businesses.

The latter programs, announced April 9, were funded in part by $454 billion from the CARES Act, and the remaining from the Fed's ability to add credit to the existing monetary system, thus increasing the overall amount of dollars available to lend. And while these lending programs have something for everyone, including small businesses, experts say their purpose is a bit different: to help stabilize the various debt and financial markets that normally help the economy in a time of deep uncertainty.

"We have put the economy in a medically induced coma," said David Wessel, director of The Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution. "And the idea is, if we lend some money to banks and to companies, maybe fewer of them will go bankrupt. And that means it will be easier to restart the economy when the virus finally recedes."

That also means some of the Federal Reserve programs don't interact directly with small businesses, but instead feed into the larger government or banking systems that help sustain them. So why should small businesses care about the Fed programs? Here's what they do.

Back up the Paycheck Protection Program: The Paycheck Protection Program Liquidity Facility is essentially a way for banks to lend more under the PPP. While Congress appropriated $349 billion for the program, banks still have to make the loans using their own capital. This program essentially allows banks to offer those loans to the Federal Reserve as collateral for new loans to free up additional dollars for banks to lend to more small businesses.

Banks are expected to quickly meet their PPP funding caps. But the Fed's program could expand if Congress appropriates more money toward the PPP, and banks find themselves in need of fresh capital.

Help local governments get loans: The spread of the novel coronavirus has deeply damaged state and local budgets. The Municipal Liquidity Facility will buy up to $500 billion in state and local governments' debt to allow them to continue to borrow at reasonable rates — and avoid drastic cuts in services and jobs when citizens and small businesses need them most, said George Selgin, a senior fellow and director of the Center for Monetary and Financial Alternatives at the Cato Institute in D.C.

During the Great Recession, he said, the federal government and Federal Reserve both stepped up stimulus programs only to see a wave of local government cuts that undid a lot of the work and money spent rebuilding the economy. This latest program is an attempt to mitigate some of that damage, Selgin said.

Boost lending to businesses: Here's a program that speaks directly to businesses, both small and large. The Main Street Lending Program is a $600 billion revolving loan program where the Fed partners with banks to offer loans, with a $1 million minimum, to any company that qualifies. To meet that bar, businesses must employ no more than 10,000 workers and generate fewer than $2.5 billion in revenue. The four-year loans carry an adjustable rate of 2.5% to 4%, with interest and payments deferred for a year. Through a special vehicle created for this program, the Fed will buy 95% of the loan made by a participating bank.

For qualifying businesses, the process is the same as with the PPP: Go through partner banks to either take out new Main Street loans or receive boosts to existing loans. The businesses must "commit to make reasonable efforts" to maintain staffs and payroll, per the Federal Reserve.

Boost corporate lending: And here's a pick-me-up for larger companies. The Fed's new Primary Market Corporate Credit Facilities is a $750 billion program to buy investment-grade corporate debt from large companies and securities holders in an effort to keep corporate debt flowing.

"This is a classic case of 'last resort' lending where the Fed is stepping in and buying this credit and paying for it — what it might have been worth until this crisis began," Selgin said.

Together, the package of programs and loan facilities add up to the Federal Reserve's largest-ever stimulus effort — at least in absolute dollars — including during the financial crisis and resulting Great Recession. It joins a number of programs the Fed had already rolled out in recent weeks, including a $100 billion revolving fund for the purchase of asset securities.

Though, these programs are still subject to change, as the central banking system continues to accept comments on their rollout and details through April 16.