



Office of the Special Inspector General for  
Pandemic Recovery  
Office of Audits

# Alert Memorandum: Closure of Participating Main Street Lending Program Bank

Report Number SIGPR-A-23-002-1  
April 11, 2023




*SIGPR-A-23-002-1*



## Office of the Special Inspector General for Pandemic Recovery

April 11, 2023

TO: Jacob D. Leibenluft  
Chief Recovery Officer  
U.S. Department of the Treasury  


FROM: Theodore R. Stehney  
Assistant Inspector General for Auditing  
Special Inspector General for Pandemic Recovery (SIGPR)

SUBJECT: Alert Memorandum: Closure of Participating Main Street Lending  
Program Bank A-23-002-1

The purpose of this memorandum is to notify you of an issue we found during planning for our Audit of the Effects the Main Street Lending Program's Loan Losses Have on Treasury's Investment in the Program (A-23-002).

On Sunday, March 12, 2023, the Federal Deposit Insurance Corporation (FDIC) announced that Signature Bank of New York (Signature Bank) was closed by the New York State Department of Financial Services. Signature Bank issued 5 loans under the Main Street Lending Program (MSLP), with a value of \$113.4 million. Treasury should coordinate with the Federal Reserve Bank of Boston (FRBB) to determine how this closure may affect Treasury's investment in the MSLP.

### Background

The MSLP was designed to help credit flow to small and medium-sized for-profit businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 crisis but needed loans to help maintain their operations until they recovered from, or adapted to, the impacts of the pandemic.

The FRBB manages the program and set up a Special Purpose Vehicle (SPV) to purchase 95 percent of participations in MSLP loans from lender banks. These purchases are backed by a \$16.6 billion equity investment by Treasury. The lender banks retain the remaining 5 percent of the risk associated with making a loan. By the end of the program, 319 participating lender banks issued 1,830 MSLP loans valued at approximately \$17.5 billion.

As of February 28, 2023, the SPV has recognized approximately \$115 million in actual MSLP loan losses, net of subsequent recoveries.



## Specific Concern

During planning for our Audit of the Effects the Main Street Lending Program's Loan Losses Have on Treasury's Investment in the Program, we identified a significant concern that warrants your immediate attention. This concern is described below and will be further explored as we continue with audit fieldwork.

## Closure of a Participating Main Street Lending Program Lender Bank

Signature Bank, an MSLP lender bank that issued 5 MSLP loans valued at \$113.4 million, was closed on March 12, 2023, by the State of New York. To protect depositors, the FDIC transferred all of Signature Bank's assets to an FDIC run institution that will continue to be operated by the FDIC until it can be sold. Although FDIC guidance indicates that borrowers of Signature Bank should continue to make their loan payments as usual to the FDIC's newly established institution, it is not clear how this closure, or any potential future closures, will affect MSLP borrowers and their loans.

## Conclusion

Signature Bank held 5 MSLP loans valued at \$113.4 million. In light of Signature Bank's closure, it is not clear how MSLP borrowers and their loans will be affected. Therefore, Signature Bank's closure, as well as any potential future bank closures, may put Treasury's investment in the MSLP at risk.

## Recommendation

The Special Inspector General for Pandemic Recovery recommends that Treasury coordinate with the Federal Reserve Bank of Boston to determine what can be done to protect Treasury's investment in the Main Street Lending Program regarding this closure and any potential bank closures in the future.

## Agency Comments

Treasury's Deputy Assistant Secretary for Capital Markets agreed with our recommendation. Treasury's written comments are included in **Appendix B**.

## Compliance Statement

In accordance with generally accepted government auditing standards (GAGAS), during an audit, the auditors may provide interim reports of significant matters to appropriate entity and oversight officials. Such communication alerts officials to matters needing immediate attention and allows them to take corrective action before the final report is completed.



## Office of the Special Inspector General for Pandemic Recovery

The related ongoing audit, when completed, will comply with GAGAS. The associated performance audit report that will be issued in the future will incorporate the issues discussed in this alert memorandum.

### **Audit Team**

This audit was managed and conducted by the individuals listed below:

Michael Sinclair  
Kevin Gallagher

Audit Manager  
Auditor-In-Charge



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## ***Appendix A - Memorandum Distribution***

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Chief Recovery Officer – U.S. Department of the Treasury

Office of General Counsel – U.S. Department of the Treasury

Inspector General – Special Inspector General for Pandemic Recovery

Office of General Counsel – Special Inspector General for Pandemic Recovery



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## Appendix B – Agency Comments

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 3, 2022

Theodore R. Stehney  
Assistant Inspector General for Auditing  
Special Inspector General for Pandemic Recovery  
2051 Jamieson Avenue  
Alexandria, VA 22314

Dear Mr. Stehney:

I write regarding the Special Inspector General for Pandemic Recovery's (SIGPR) Alert Memorandum: Closure of Participating Main Street Lending Program Bank (the Alert Memo). The U.S. Department of the Treasury (Treasury) appreciates SIGPR's efforts.

### **Background on the Main Street Lending Program (MSLP)**

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted on March 27, 2020, to provide emergency assistance in response to the unprecedented challenges presented by the COVID-19 public health emergency. The CARES Act allocated funds to Treasury to make loans, loan guarantees, and investments in programs or facilities established by the Federal Reserve. One of the investments made by Treasury pursuant to this authority was an equity investment in a special-purpose vehicle (the Main Street SPV) that supported three facilities that lent to for-profit businesses (the Main Street facilities). The Main Street facilities are managed by the Federal Reserve Bank of Boston (FRBB).

During the program, 319 eligible lenders issued 1,830 MSLP loans totaling approximately \$17.5 billion.

### **The Alert Memo**

The Alert Memo highlights recent events at Signature Bank, an MSLP lender that had issued five MSLP loans valued at \$113.4 million. Signature Bank has closed and been placed into receivership by the Federal Deposit Insurance Corporation (FDIC). The Alert Memo notes that SIGPR is unclear what effect the events at Signature Bank would have on MSLP borrowers, and that Treasury's investment in the Main Street SPV may be at risk.

SIGPR recommends that Treasury coordinate with the FRBB to determine what can be done to protect Treasury's investment in the MSLP regarding this closure and any potential bank closures in the future.

Treasury agrees that it is important to protect its investment in the MSLP, and to that end, is discussing the issue with the FRBB. We understand that the FRBB has also reached out to the



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## ***Appendix B – Agency Comments***

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points of contact of the MSLP loans who were formerly employees of Signature Bank to inquire as to the current status of the loans.

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Treasury appreciates SIGPR's work, and we look forward to working with you as you continue to evaluate the lending programs created by the CARES Act.

Sincerely,

Dini Ajmani  
Deputy Assistant Secretary for Capital Markets