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April 16, 2020

Attention to: Ms. Ann E. Misback, Secretary, **Board of Governors of the Federal Reserve System (FED)**

Email: regs.comments@federalreserve.gov

Subject: **Main Street Lending Program (MSLP), Paycheck Protection Program (PPP), Primary Market/ Secondary Market/ Term Asset-Backed Securities Loan Facilities (PMCCF / SMCCF / TALF) amid Coronavirus situation**

On behalf of **Data Boiler Technologies**, I am pleased to provide the FED with comments regarding the captioned programs and facilities. As a former G-SIB executive and currently an entrepreneurial inventor of a suite of patented solutions for the Capital Markets, I would say short-term bail-out would not be as helpful as in 2008 to restore our economy's financial strengths. Be mindful and prepare that we might be in this pandemic crisis or economy turmoil for a long time with structural shifts to our way of living. Therefore, we ought to think about better ways to delineate rights, keeping our transaction costs low, and enabling our economic production to continue from now to the next era.

Facilities	Observations
PPP	Received 9.5 years of volume in 2 weeks means the SBA-Banks-Borrowers pipes need a complete overhaul. "Plane flying while building it" simply would not work; policy makers must make hard choices on "who are the right people on the plane".[1] Absolutely no way 35 bps can cover credit losses, not including the immense amount of non-conformance/ fraud/ exploitations.
MSLP	To preserve balance sheet strengths in banks, MSNL and MSEL are structured to be past-through loans where eligible lenders only retain 5% of the risk. Concerns if banks may become paper pushers, and if borrowers aren't using the facilities as last resort funding source. Also, how MSLP is different from other countries' sweeping non-performance loans under the rug?
PMCCF	This funding backstop helps investment grade debt issuance and refinancing of certain outstanding debts. The not over 25% limit makes sense because FED doesn't want to be majority owner. The 10 to 1 leverage when acquiring corporate bonds or syndicated loans from issuers seem reasonable given the covenant of not exceeding 130% of issuer's maximum outstanding. Yet, the 7 to 1 leverage for "other eligible asset" is questionable – how the FED would review these on case-by-case basis?
SMCCF	Interesting – the corporate debt secondary market is going to be transformed not by digitization, but a pandemic pushes SMCCF + PMCCF to flood the market with $750 billion in liquidity. Blessed the US for having this might power! However, many debt products are already over-valued,[2] how the purchased assets in form of ETFs would reliably "exchange hands" is a big question.
TALF	TALF is a lot like the Troubled Asset Relief Program (TARP) by US Treasury during the 2008 crisis. Scooping up these auto/ equipment loans/ leases, student debts, credit card receivables, SBA loans, etc. are understandable way for quantitative easing. Yet, I am perturbed by its nonrecourse nature. Although it will be fully secured by eligible ABS, it is uncertain what constitutes as eligible underlying credit exposures for CMBS.

[1] Brookings' event: Government lending to small businesses during COVID-19—Why? How? And will it work?
[2] Dalio Says 'You'd Be Pretty Crazy' to Hold Bonds Right Now https://www.bloomberg.com/news/videos/2020-04-15/dalio-says-you-d-be-pretty-crazy-to-hold-bonds-right-now-video

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Initially, I think direct payroll payment to get money in the hands of employees would be a better approach because the administration could be handled with relative ease primarily by ADP given their prominent position in the payroll processing market. Yet, I believe think-tanks (such as Brookings) and government agencies have already considered the pros and cons as well as political realities in the US, so I am not going to pursuit that direction.

Cutting to the chase for my recommendations:

1. Set a floor for eligible borrowers under PPP. Those under $2 million in annual revenue and less than 3 years in business are considered as Tier-0. Their failure rate can be in the 90% range. They don't have much long-term contractual commitment. They are more likely to exist out and reopen under different names. In my humble opinion, PPP should be for companies that are essential components of certain supply-chains to ensure price stability in market. The goal is to divert out 80% of PPP applicants, so that SBA and banks can reasonably handle the remaining 20% volume.

2. Next, let's give these Tier-0 owners some money for R&D, skills training, free access to equipment/ tools that enable them to work remote, or even vouchers/ coupons to use professional services, etc. These freebies/ reliefs may either be given direct or indirectly through nonprofit organizations that receive Federal/ State Grants are much better than giving them unsecured loans. If it is loan, they'll keep coming back again and again to ask for more. Imagine if restaurants becoming packaged meal delivery or canned food production companies in this new reality. I know this is more a thing for US Treasury or other government agencies to consider rather than the mandate of the FED, but in short, let's enable them to fish instead of giving fishes.

3. Tier-0 or other redundant employees whom collect unemployment benefits should be incentivized if they pursue entrepreneurship. Give them a bonus check 10 or 20 times of their last unemployment benefit if they start a new business and agree not to collect unemployment for a certain period of time. This might require the FED to work with the US Treasury to implement, but it will reduce unemployment rate instantly.

4. PPP for borrowers with $2 million to $50 million annual revenue (Tier 1-3) have loss norm of 35 bps in average on "secured" credit (i.e. with collateral) if not higher under normal market condition. Market stress likely exacerbates their delinquency and loss ratio exponentially. It is better to extend their loan repayment duration or give them a 3-6 months break (depended on industry sectors and other tier criteria) on repaying interests and principals than offering a low interest rate. The PPP rate for this group should at least go from double to quadruple in order to justify related risks for "unsecured" credit. Taxpayers and our next generation should not bear the adverse consequences of any miscalculated risks in PPP by the FED.

5. I would call those businesses with $50 million to $200 million as micro-/ medium-enterprise (MME). Their credit quality in average might be better than many Top-Tier conglomerates (TTC). Many MME are not listed, so they do not have the pressure to push for quarterly performance via high leverages. Indeed, market downturn is usually an ideal timing for MME to challenge the larger competitors and gain market shares. Besides, allowing MME to grow is better than over reliance on big elephants to propel fast recovery of our economy. MME would be able to recruit massive workforce laid off by TTC and mobilize them for higher value works. Therefore, let's give these MME a higher leverage ratio as well as a fair chance to excel.

6. TTC with annual revenue between $200 million to $2.5 billion have multiple long-term credit relationships with banks. I envisage that MSEL would enable them to "hold-off" drastic cost-cutting exercise in the short-term. Yet, MSEL would most likely NOT be their "last resort" for funding sources. Thus, the MSLP may stuck in

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the dilemma of TTC might take maximum advantages of it, while spin the story to articulate/ defend their "reasonable" effort to "minimize" lay-off. TTC may also dispose tremendous amount of assets and/or securities to further dampen price when realigning their businesses. I believe most CFOs at TTC would have a banking or capital markets background and supported by team of lawyers, thus they'll be slick to legally exploit what permissible under the government guaranteed loan program. No standard term-sheet under MSEL would be effective to curb such behaviors. Hence, this is the time for banks to use their balance sheet and long-term relations to extend credits to these TTC, and I believe policy makers have already been kind to banks in lifting their related regulatory burden. So, instead of eligible lenders retaining 5% of the upsized tranche of each eligible MSEL loan, banks indeed should retain majority of the risks (i.e. 60% to 95% range).

7. For MSNL, I see risk retention percentage can reasonably be set between 40% to 60% range, but not 5% for eligible lenders under impending market condition. Maximum loan size of $25 million seems too little for TTC.
8. For PMCCF or SMCCF, I have no objection to the facility leverages Treasury equity at 10 to 1 when acquiring corporate bonds or syndicated loans from issuers that are investment grade at the time of purchase. Yet, I have reservation for the 7 to 1 leverage when the facility acquiring "any other type" of eligible asset (fat tail at bottom layer).
9. On the "limits per issuer" for PMCCF, I think not exceed 130 percent of the issuer's maximum outstanding bonds and loans seem unnecessarily high, cut that down by half to 65% should be sufficient to carry the issuer through this pandemic. An outside-of-the-box recommendation: I think adding convertible feature to these new debts issuance (i.e. hybrid securities) would make them more attractive.
10. For SMCCF, I commend the bold move by the FED. Blessed the US for having this might power, it will defy Ray Dalio's recent comments about "You'd Be Pretty Crazy' to Hold Bonds"[2]. To revitalize the corporate debt market and make it sustainable, I encourage policy makers to think from some Bond Kings'[3] perspective. That is, to give market participants fair chance to exploit element of certainty (e.g. credit ratings, yields, maturities, etc.) and make educated bet on uncertainty elements (e.g. direction of interest rates). At the same time, there need a monitoring mechanism to effectively curb self-dealing. After all, I hope the SPV will continue purchase of eligible notes till year 2022. Let's the ball rolling and we'll see a stronger than ever economy in the new era.
11. Regarding TALF, I get that scooping up these assets is in essence like the TARP by US Treasury during the 2008 crisis. As mentioned earlier, I don't like it being nonrecourse, and there is a question on what constitutes as eligible underlying credit exposures for CMBS. That being said, I have no objection to TALF, except a reminder that shifted risks away from banks' books should not be coming back to haunt banks. In my opinion, the industry as a whole may look into the asset gathering and fund distribution processes (e.g. monitor the banking entity's investments in, and transactions with, any covered funds), and use behavioral science to ensure "exit only, no re-entry" – like "letting go"[4] of bad habits/toxic assets.
12. Last but not least, our position regarding the Dodd-Frank Volcker Revision[5] remains unchanged – i.e. I advocate for a "Stress RENTD" condition to encourage banks to pour liquidity to market while temporarily

[3] https://en.wikipedia.org/wiki/Bill_H._Gross; https://en.wikipedia.org/wiki/Michael_Milken
[4] https://www.bakadesuyo.com/2016/04/bad-habits/
[5] https://www.databoiler.com/index_htm_files/DataBoiler%202020Comments%20VolckerRevision.pdf

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lifting their corresponding compliance restrictions during crunch time. It is better than revising the Rule with risky carve-out of additional exclusions permanently. Besides, Volcker never prohibits banks from direct lending to small businesses. Why should there be frequent buying and selling of these SBIC funds? If banks only act as sponsors while incapable to lend directly to small businesses, does the economy still need banks to seat in the middle?![6] Therefore, it is about extending loans, not "speculating" on SBIC or other funds.

Feel free to contact us with any questions. Thank you and we look forward to engage in any opportunities where our expertise might be required. Blessing and stay well amid the Coronavirus situation.

Sincerely,

Kelvin To

MSc Banking, MMGT, BSc

Founder and President

Data Boiler Technologies, LLC

This letter is also available at:
https://www.DataBoiler.com/index_htm_files/DataBoiler%20MSLP%20PPP%20PMCCF%20SMCCF%20TALF.pdf

[6] https://psmag.com/economics/banks-dont-much-banking-anymore-thats-serious-problem-72654