OVERSIGHT OF THE TREASURY DEPARTMENT'S AND FEDERAL RESERVE'S PANDEMIC RESPONSE

HYBRID HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

SECOND SESSION

SEPTEMBER 22, 2020

Printed for the use of the Committee on Financial Services

Serial No. 116–111

U.S. GOVERNMENT PUBLISHING OFFICE
43–525 PDF WASHINGTON : 2021

HOUSE COMMITTEE ON FINANCIAL SERVICES

MAXINE WATERS, California, *Chairwoman*

CAROLYN B. MALONEY, New York
NYDIA M. VELÁZQUEZ, New York
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
WM. LACY CLAY, Missouri
DAVID SCOTT, Georgia
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
ED PERLMUTTER, Colorado
JIM A. HIMES, Connecticut
BILL FOSTER, Illinois
JOYCE BEATTY, Ohio
DENNY HECK, Washington
JUAN VARGAS, California
JOSH GOTTHEIMER, New Jersey
VICENTE GONZALEZ, Texas
AL LAWSON, Florida
MICHAEL SAN NICOLAS, Guam
RASHIDA TLAIB, Michigan
KATIE PORTER, California
CINDY AXNE, Iowa
SEAN CASTEN, Illinois
AYANNA PRESSLEY, Massachusetts
BEN McADAMS, Utah
ALEXANDRIA OCASIO-CORTEZ, New York
JENNIFER WEXTON, Virginia
STEPHEN F. LYNCH, Massachusetts
TULSI GABBARD, Hawaii
ALMA ADAMS, North Carolina
MADELEINE DEAN, Pennsylvania
JESÚS "CHUY" GARCIA, Illinois
SYLVIA GARCIA, Texas
DEAN PHILLIPS, Minnesota

PATRICK McHENRY, North Carolina, *Ranking Member*
ANN WAGNER, Missouri
FRANK D. LUCAS, Oklahoma
BILL POSEY, Florida
BLAINE LUETKEMEYER, Missouri
BILL HUIZENGA, Michigan
STEVE STIVERS, Ohio
ANDY BARR, Kentucky
SCOTT TIPTON, Colorado
ROGER WILLIAMS, Texas
FRENCH HILL, Arkansas
TOM EMMER, Minnesota
LEE M. ZELDIN, New York
BARRY LOUDERMILK, Georgia
ALEXANDER X. MOONEY, West Virginia
WARREN DAVIDSON, Ohio
TED BUDD, North Carolina
DAVID KUSTOFF, Tennessee
TREY HOLLINGSWORTH, Indiana
ANTHONY GONZALEZ, Ohio
JOHN ROSE, Tennessee
BRYAN STEIL, Wisconsin
LANCE GOODEN, Texas
DENVER RIGGLEMAN, Virginia
WILLIAM TIMMONS, South Carolina
VAN TAYLOR, Texas

Charla Ouertatani, *Staff Director*

CONTENTS

Page

Hearing held on:
 September 22, 2020 1
Appendix:
 September 22, 2020 39

WITNESSES

TUESDAY, SEPTEMBER 22, 2020

Mnuchin, Hon. Steven T. Secretary, U.S. Department of the Treasury 6
Powell, Hon. Jerome H., Chair, Board of Governors of the Federal Reserve System 8

APPENDIX

Prepared statements:
 Mnuchin, Hon. Steven T. 40
 Powell, Hon. Jerome H. 43

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Mnuchin, Hon. Steven T:
 Written responses to questions for the record submitted by Chairwoman Waters 55
 Written responses to questions for the record submitted by Representative Stivers 60
 Written responses to questions for the record submitted by Representative Kustoff 61
 Written responses to questions for the record submitted by Representative Gabbard 62
 Written responses to questions for the record submitted by Representative Barr 63
Powell, Hon. Jerome H.:
 Written responses to questions for the record submitted by Chairwoman Waters 65
 Written responses to questions for the record submitted by Representative Anthony Gonzalez 85
 Written responses to questions for the record submitted by Representative Hill 88
 Written responses to questions for the record submitted by Representative Kustoff 90

OVERSIGHT OF THE TREASURY DEPARTMENT'S AND FEDERAL RESERVE'S PANDEMIC RESPONSE

Tuesday, September 22, 2020

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:34 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Sherman, Green, Perlmutter, Himes, Foster, Beatty, Heck, Vargas, Gottheimer, Gonzalez of Texas, Lawson, Tlaib, Porter, Axne, Casten, McAdams, Adams, Dean, Garcia of Illinois, Garcia of Texas; McHenry, Wagner, Lucas, Posey, Luetkemeyer, Huizenga, Barr, Williams, Hill, Emmer, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Hollingsworth, Gonzalez of Ohio, Rose, Steil, Timmons, and Taylor.

Chairwoman WATERS. The Financial Services Committee will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time.

I want to remind Members of a few matters, including some required by the regulations accompanying House Resolution 965, which established the framework for remote committee proceedings.

First, I would ask all Members on the Webex platform to keep themselves muted when they are not being recognized by the Chair. This will minimize disturbances while Members are asking questions of our witnesses. Members on the Webex platform are responsible for muting and unmuting themselves. The staff has been instructed not to mute Members except when a Member is not being recognized by the Chair, and there is inadvertent background noise.

Members on the Webex platform are reminded that they may only attend one remote hearing at a time, so if you are participating today, please remain with us during the hearing. Members should try to avoid coming in and out of the hearing, particularly during the question period.

If, during the hearing, Members wish to be recognized, the Chair recommends that Members identify themselves by name so as to facilitate the Chair's recognition. I would also ask that Members be patient as the Chair proceeds, given the nature of the online platform the committee is using.

In addition, the Chair informs the Members participating in person that in enforcing order and decorum in the hearing room, the Chair has a duty to protect the safety of the Members. The Attending Physician provided the following guidance: "For U.S. House of Representatives meetings, in a limited and closed space, such as a committee hearing room, for greater than 15 minutes, face coverings are required." Accordingly, the Chair will treat wearing masks as a matter of order and decorum, and all Members should wear a mask. The Chair has a strong preference for Members to wear a mask even while being recognized by the Chair. Members who do not wish to wear a mask may participate virtually through the Webex platform.

Before going any further, I would ask unanimous consent to speak out of order, and I suppose this would be a personal privilege. I would like to take a minute to acknowledge the departure of a staff member, Lisa Peto.

Lisa has been with the committee for 8 years, working her way up from a fellow to the committee's chief counsel. She has been a dedicated, tireless, and committed public servant with a keen understanding of procedure and a deep knowledge of the legislative process.

Under Lisa's guidance, committee Democrats successfully transitioned from the Minority to the Majority, and then, Lisa was instrumental in the committee's transition from in-person hearings to virtual and hybrid ones.

Lisa has accomplished so much with the committee, but her most important accomplishment is her family. She is mom to her son, Adrian, who recently celebrated his first birthday.

Lisa has been a valued member of my team, and I will miss her dearly. So, I want to thank her for her service, and wish her the best in her future endeavors.

Mr. MCHENRY. Madam Chairwoman?

Chairwoman WATERS. I now recognize the ranking member to speak out of order.

Mr. MCHENRY. Thank you, Madam Chairwoman.

As we all know, and as we grow in our service here, we know how important having staff is to this whole process, how essential it is that you have good staffers who are going to represent their Member's perspective.

And I will tell you that Lisa has been a fierce advocate for her principal's perspective. In negotiations, she has not wavered in her view, her view being the chairwoman's view, but at the same time, being cordial enough to have a conversation and maintain relationships. That is a priceless bit of art that is representative of Lisa's character.

And we are grateful, Lisa, that we have been able to work with you. We wish that we had been more successful in our negotiations with you personally. But it is due to your talent, and it is also due to your knowledge.

And so, we thank you for your service to your country, to our country, to this institution, and to this committee. And I know committee Democrats especially will miss you. Committee Republicans won't miss you quite as much. But we are certainly grateful for the relationship that we have all been able to have with you, Lisa.

Congratulations to you on your son and your new family, and we hope that your time away will be but temporary from public service. But thank you for your service to your country and this institution.

And I yield back.

[applause]

Chairwoman WATERS. Thank you very much, Mr. Ranking Member.

Today's hearing is entitled, "Oversight of the Treasury Department's and Federal Reserve's Pandemic Response." This hearing is the committee's second quarterly hearing required by the Coronavirus Aid, Relief, and Economic Security (CARES Act), for oversight of the various Facilities and programs under the Act.

I now recognize myself for 4 minutes to give an opening statement.

Welcome back, Chair Powell and Secretary Mnuchin. Since you last testified before this committee in June, the coronavirus crisis has continued to have a catastrophic impact on communities across the country.

Nearly 200,000 people in the United States have lost their lives to the coronavirus, and there have been over 6.8 million U.S. cases. Millions of families are struggling to make ends meet during this crisis and are on the verge of eviction. Over a million small businesses, which are the lifeblood of our economy, have shut their doors as families across the country are looking to Washington for leadership.

The Trump Administration has utterly failed in its economic response to this virus, with 32 percent of renters unable to make their full September rent payments at the beginning of the month, according to Apartment List, and back rent piling up. The need for emergency rental assistance to prevent a crushing wave of evictions is growing every day.

Instead of rental assistance, the Trump Administration has issued a Centers for Disease Control and Prevention action that temporarily prevents evictions for some renters, but only after they sign documents that potentially expose them to litigation and criminal penalties. Meanwhile, the unpaid back rent continues to accrue, meaning that the Trump Administration is simply delaying, not preventing, evictions.

The Health and Economic Recovery Omnibus Emergency Solutions (Heroes) Act, which passed the House in May to prevent those evictions and provide other critical relief, is gathering dust in the Senate on Mitch McConnell's desk.

I said before that I am pleased that after calls from members of this committee, the Treasury and the Small Business Administration made adjustments to the Paycheck Protection Program (PPP) to ensure that community development financial institutions (CDFIs) and minority depository institutions (MDIs) are able to provide loans to the communities they serve, and I appreciate that the Federal Reserve has expanded several programs. But I am frustrated with the Trump Administration's implementation of pandemic relief programs based on the concerns I continue to hear.

Specifically, I am very concerned that much of the $500 billion Congress allocated in the CARES Act to Treasury, most of which was to support Federal Reserve lending, to help reeling businesses, nonprofits, and State and local governments, has gone unused. Here we are almost 6 months after the passage of the CARES Act and a mere 0.2 percent of Main Street Lending Program funds and 0.3 of Municipal Liquidity Facility funds have been put to use. This is unacceptable.

Secretary Mnuchin, Chair Powell, let me be blunt. This pandemic response has fallen badly short, and the Trump Administration has sabotaged efforts to pass a relief package or address the major public health and economic crisis we face. Your work to address this crisis doesn't stop when the stock market recovers from its losses. Your mandate is to help hardworking individuals and families who are suffering.

Before I close, let me say that I just learned today that there are 40,000 students who have been infected with the virus. That shakes me. And we still have people who are forcing schools to open and not do distance learning. I don't get it. And I didn't know until today that that many students had been infected. So, I am very, very concerned.

I now recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 4 minutes.

Mr. MCHENRY. Thank you. We all know that testing, treatment, and therapeutics need to come online for a full economic recovery. That is moving at an unprecedented pace, I would say, not just globally, but here in the United States, with great innovators. The coordination between the public sector and the private sector has been the best it has ever been in generations. And this Administration's response to this unprecedented pandemic, the Federal Reserve's response to this unprecedented pandemic, is topnotch.

It is fantastic, the delivery that Secretary Mnuchin was able to provide on PPP, which supported 51 million jobs and issued over 5 million loans to small businesses impacted by COVID. That was a direct intervention of the Treasury Secretary and his team at Treasury.

The Federal Reserve stood up more Facilities in a 6-month period of time than they did in the fullness of the financial crisis. They stood up more Facilities than they did in decades prior to this pandemic. So, I would give the Federal Reserve an A-plus for its initial response and to where we are.

And just because Congress can't get its act together and compromise to see a way through so that we can provide those people who are still hurting because of this voluntary shutdown of our economy because of this health crisis, we need to give those people relief and we need to come to terms. That means that Democrats and Republicans need to move to the middle.

And I would commend Secretary Mnuchin for his negotiations and his willingness to move the ball forward on behalf of the American people, even in the midst of the crazy politics that we are currently experiencing, with people shouting in the streets and threatening violence because they don't like political perspectives.

So, I would commend him for being willing to negotiate where others have walked away, like Speaker Pelosi and Leader Schumer, and saying, "$3 trillion is all we are going to accept, and anything less is completely unacceptable." We need to actually find a compromise to support those people who are still out of work because of this global health pandemic.

Quite frankly, on that bill, Democrats would rather bail out blue States and hold out for that rather than help people who are still out of work because their jobs are shut down.

Let me finish with this. What we saw at the end of last year was the best economy of our lifetimes. We had household wage growth at almost 7 percent in 2019. Households were feeling wealthy for the first time in a very, very long time in my State of North Carolina, and across the country.

We need to do that again. We know that we are in the midst of this health pandemic. We know that therapeutics are coming online, treatment techniques are much better than they were at any time since March, and those things are coming along. And maybe there will be a vaccine, maybe, but we need to have treatment and we need to have widescale testing so that people can get back to some semblance of economic life.

But what I would like to hear today is the limits of the Federal Reserve's actions and activities and where Congress should act, because monetary policy simply cannot do the same thing that fiscal policy can.

And on the fiscal side of the House, Secretary Mnuchin, I would like to hear the economic plan from this Administration on what, when we get past this awful, awful scourge of COVID, that economic recovery must entail to get people back in the position they were in in 2019, or even in January or February of this year. I think there is a good story to tell and a hopeful story to tell if we can work together and get things done. And so, I look forward to your testimony.

I yield back.

Chairwoman WATERS. I now recognize the gentleman from Texas, Mr. Green, who is also the Chair of our Subcommittee on Oversight and Investigations, for 1 minute.

Chairman GREEN. Thank you, Madam Chairwoman.

And, Madam Chairwoman, I would like to associate myself entirely with your comments, and I would only add that the stimulus, the economic impact statement, must be made because the rent must be paid.

Yesterday, the Government Accountability Office (GAO) reported that the Treasury Department lacks up-to-date information on the number of eligible recipients who have yet to receive their economic impact payments (EIPs). This new GAO report follows previous GAO findings dating back to May 2020, that persons not in the traditional employment relationships, such as those working in the gig economy, may be missing from the IRS EIP outreach. Without this data, it is very difficult to know who is being left behind, and that number may be in the millions.

I will say it again: The rent must be paid, and the EIP payment must be made. If we do not do this, we will put persons at risk of being evicted at a time when we are having a pandemic that is still taking lives in this country.

I do believe that this can be done, but I know that we must have more help to make sure the rent is paid. The EIP payments are already there; they are funded. We need to make sure that the people who need them will get the funds.

I yield back.

Chairwoman WATERS. I now recognize the subcommittee's ranking member, Mr. Barr, for 1 minute.

Mr. BARR. Thank you, Secretary Mnuchin and Chairman Powell, for appearing before the committee today, and for your continued efforts to combat the economic fallout from the COVID-19 pandemic.

Treasury and the Fed acted swiftly to stabilize the economy, keep businesses open, ensure the continued operation of the credit markets, and promote long-term recovery.

Since you last appeared before this committee to testify on the CARES Act implementation, the economy has improved. Unemployment has decreased. Nearly half of the jobs lost in the early days of the pandemic have been added back to the labor market, and our economy is safely reopening. We are on the road to recovery.

Policies put into place by Treasury and the Fed, and actions you both have taken during this crisis, have put the economy on a more stable footing.

However, important sectors of our economy, including hospitality, conventions, entertainment, retail, and commercial real estate remain in distress, and there are elements of your responses to the pandemic that could still be adjusted as we move forward. I look forward to discussing those today and hearing your plans to implement a strategy for long-term economic growth.

Thank you.

Chairwoman WATERS. I want to welcome today's witnesses to the committee.

First, I want to welcome Steven T. Mnuchin, the Secretary of the Treasury. He has served in his current position since 2017. Mr. Mnuchin has testified before the committee on previous occasions, so I do not believe he needs any further introduction.

I also want to welcome our other distinguished witness, Jerome H. Powell, Chair of the Board of Governors of the Federal Reserve System. He has served on the Board of Governors since 2012, and as its Chair since 2017. Chair Powell has also testified before the committee on previous occasions, so I do not believe he needs any further introduction, either.

Each of you will have 5 minutes to summarize your testimony. When you have 1 minute remaining, a yellow light will appear. At that time, I would ask you to wrap up your testimony so that we can be respectful of the committee members' time. And without objection, your written statements will be made a part of the record.

Secretary Mnuchin, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF THE HONORABLE STEVEN T. MNUCHIN, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Secretary MNUCHIN. Thank you.

Chairwoman Waters, Ranking Member McHenry, and members of the committee, I am pleased to join you today to update you on how the Department of the Treasury and the Federal Reserve have been partnering over the last 6 months to provide relief for American workers and liquidity to credit markets, businesses, nonprofit organizations, State and local governments, and households. We are fully committed to getting every American back to work as quickly as possible.

America is in the midst of the fastest economic recovery from any crisis in the United States. The August jobs report showed the economy has gained back 10.6 million jobs since April, nearly 50 percent of all jobs lost due to the pandemic. The unemployment rate decreased to 8.4 percent, a notable achievement considering many people thought it could get as high as 25 percent. Thanks to the programs provided by the CARES Act, we never got close to that figure.

I believe we will see tremendous growth in the third quarter fueled by strong retail sales, housing starts, home sales, manufacturing growth, and increased business activity. The September Blue Chip survey projects close to 24 percent for third quarter GDP.

The recovery has been strong because the Administration and Congress worked together on a bipartisan basis to deliver the largest economic relief package in American history. The Federal Reserve has been instrumental to the recovery by implementing unique Section 13(3) lending Facilities. Economic reopenings, combined with the CARES Act, have enabled us to have an economic rebound, but some industries particularly hard hit by the pandemic require additional relief.

The President and I remain committed to providing support for American workers and businesses. We continue to work with Congress on a bipartisan basis to pass a Phase IV relief program. I believe a targeted package is still needed, and the Administration is ready to reach a bipartisan agreement.

Treasury has been working hard to implement the CARES Act with transparency and accountability. We have released a significant amount of information on our website, Treasury.gov, and USAspending.gov. We have released more information than was required by the statute. The Federal Reserve has also posted information on its website regarding the lending Facilities.

We have provided regular updates to Congress, with today marking my 6th appearance before Congress for a CARES Act hearing. We are cooperating with various oversight bodies: the new Special Inspector General; the Treasury Inspector General; the Treasury Inspector General for Tax; the new Congressional Oversight Commission; and the GAO.

We appreciate Congress' interest in these issues and have devoted significant resources to responding. We remain committed to working with you to accommodate Congress' legislative needs and further whole-of-government approach.

I would like to thank the members of the committee for working with us to provide economic support to the American people.

Thank you.

[The prepared statement of Secretary Mnuchin can be found on page 40 of the appendix.]

Chairwoman WATERS. Thank you, Secretary Mnuchin.

Chair Powell, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF THE HONORABLE JEROME H. POWELL, CHAIR, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. POWELL. Thank you.

Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity to update you on our ongoing measures to address the hardship wrought by the pandemic.

The Federal Reserve, along with others across the government, is working to alleviate the economic fallout. We remain committed to using our tools to do what we can, for as long as it takes, to ensure that the recovery will be as strong as possible and to limit lasting damage to the economy.

Economic activity has picked up from its depressed second quarter level when much of the economy was shut down to stem the spread of the virus. Many economic indicators show marked improvement. Household spending looks to have recovered about three quarters of its earlier decline, likely owing in part to Federal stimulus payments and expanded unemployment benefits. The housing sector has rebounded, and business fixed investment shows signs of improvement. In the labor market, roughly half of the 22 million payroll jobs that were lost in March and April have been regained as people return to work.

Both employment and overall economic activity, however, remain well below their pre-pandemic levels, and the path ahead continues to be highly uncertain.

The downturn has not fallen equally on all Americans. Those least able to bear the burden have been the most affected. The rising joblessness has been especially severe for lower wage workers, for women, and for African-Americans and Hispanics. The reversal of economic fortune has upended many lives and created great uncertainty about the future.

A full recovery is likely to come only when people are confident that it is safe to reengage in a broad range of activities. The path forward will depend on keeping the virus under control and on policy actions taken at all levels of government.

Since mid-March, we have taken forceful action, implementing a policy of near-zero rates, increasing asset holdings, and standing up 13 emergency lending Facilities. We took these measures to support broader financial conditions and more directly to support the flow of credit to households, businesses of all sizes, and State and local governments.

Our actions taken together have unlocked more than a trillion dollars of funding, which in turn has helped keep organizations from shuttering, putting them in a better position to keep workers on and to hire them back as the economy continues to recover.

The Main Street Lending Program has been of significant interest to this committee and to the public. Many of the businesses affected by the pandemic are smaller firms that rely on banks for loans rather than public credit markets.

Main Street is designed to facilitate the flow of credit to small and medium-sized businesses. In establishing the Facility, we conducted extensive outreach, soliciting public comment and holding in-depth discussions with lenders and borrowers of all sizes.

In response to feedback, we have continued to make adjustments to Main Street to provide greater support to small and medium-sized businesses and to nonprofit organizations, such as educational institutions, hospitals, and social service organizations.

Nearly 600 banks, representing well more than half of the assets in the banking system, have either completed registration or are in the process of doing so. About 230 loans, totaling roughly $2 billion, are either funded or in the pipeline.

Main Street is intended for businesses that were on a sound footing pre-pandemic and that have good longer-term prospects, but have encountered temporary cash flow problems due to the pandemic and are not able to get credit on reasonable terms as a result.

Main Street loans may not be the right solution for some businesses, in part because the CARES Act states clearly that these loans cannot be forgiven. Our credit Facilities have improved lending conditions broadly, including for potential Main Street borrowers. The evidence suggests that most creditworthy small and medium-sized businesses can currently get loans from private sector financial institutions.

Many of our programs rely on emergency lending powers that require the support of the Treasury Department and are available only in unusual circumstances. By serving as a backstop to key credit markets, our programs have significantly increased the extension of credit from private lenders. However, the Facilities are only that: a backstop. They are designed to support the functioning of private markets, not to replace them.

Moreover, these are lending, not spending powers. Many borrowers will benefit from these programs, as will the overall economy, but for others, a loan that could be difficult to repay might not be the answer, and in these cases, direct fiscal support may be needed.

Our economy will recover fully from this difficult period. We remain committed to using our full range of tools to support the economy for as long as is needed.

Thank you.

[The prepared statement of Chairman Powell can be found on page 43 of the appendix.]

Chairwoman WATERS. Thank you very much, Chair Powell.

I now recognize myself for 5 minutes for questions.

I am very appreciative, Chair Powell, of the explanations that you are giving in anticipation of all of the questions that we have about Main Street and other Facilities.

Earlier this month, our committee held a hearing on the need for further Federal assistance to State and Territorial Governments. Although each of the State Governors at that hearing can borrow through private markets at more attractive rates than the Municipal Liquidity Facility currently offers, they affirmed the need to keep the Facility as an option in the future, and the Guam Governor urged the Fed to make the Facility available to Territories.

The Republican witness, Dr. Holtz-Eakin, a former Congressional Budget Office Director, and Staff Economist for President George

H. W. Bush's Council of Advisers said, "The mystery to me has been the performance of the Treasury in using essentially half a trillion dollars to backstop their Facilities, including the Municipal Liquidity Facility. This seems underutilized in my eyes, and I don't fully understand why that hasn't happened. That is something that can and should be more aggressively used."

So, Secretary Mnuchin, at a time when a wide range of businesses have been frustrated that they have been unable to access their Facilities, again, like the Main Street Lending Program, and we have heard the excuses that were given for that, and we have Republican and Democratic State Governors pressing for more assistance, do you agree there is more that Treasury can do with the $500 billion Congress provided you to enhance these Fed Facilities to support the economy?

Secretary MNUCHIN. I, unfortunately, think there is not more we can do. And part of the reason we agreed if there is potential legislation is to reallocate that money to better use.

Almost every single one of the Facilities has extra capacity. I think that in the case of many businesses that haven't been impacted by the virus, they are able to borrow in the private markets.

As it relates to Main Street, we have worked very hard with the Federal Reserve to roll out this program. It is based upon underwriting from pre-pandemic, and I know there has been some questions. We do expect to take losses on that, and we are working closely with the Fed on that Facility.

Chairwoman WATERS. Secretary Mnuchin, of the $600 billion available through the Main Street Lending Program, only about $1.2 billion has gone out the door to 118 companies. Would Treasury object to the Fed eliminating the Main Street Lending Program's minimum loan threshold of $250,000, so that small businesses and minority-owned businesses who need smaller loans could access the program?

Let me just say, I am appreciative, because when we started out, when they first rolled out the Main Street Program, the minimum requirement for the loan was $1 million, and you did reduce that to $250,000. I am asking, can you go further in the reductions so that the loans can be made to smaller businesses?

Secretary Mnuchin?

Secretary MNUCHIN. I would be fine lowering that to $100,000, and I will consult with Chair Powell afterwards on lowering it.

Chairwoman WATERS. Chair Powell?

Mr. POWELL. There is very little demand in the Facility below a million dollars. There isn't much interest at all below a million dollars. So, this would have to be a different kind of Facility. It wouldn't look like Main Street.

I think extending credit in those small quantities would require a Facility built from the ground up that would be quite different than Main Street. It wouldn't have the same requirements. But we can talk about that. It wouldn't look like the current Main Street Facility, though. It is just a very different kind of a thing.

Chairwoman WATERS. I am aware of how the Main Street Facility was formulated, was created for the mid-sized businesses, and also I am very much aware that they have to repay those loans. But we have so many small businesses still eligible for PPP and beyond, and certainly they would repay those small loans that they could get. It is not that they are absolutely looking to have those loans waived.

So, do you think that something can be done?

Mr. POWELL. It is possible. I really do, though, think that this is more appropriate for PPP loans, which are in the nature of grants. I think that is a better way to approach these.

Trying to underwrite the credit of hundreds of thousands of very small businesses would be very difficult. And I think PPP is a better way to approach that space in the market, and I think you were well-advised to use that.

Chairwoman WATERS. Thank you.

I now recognize the distinguished ranking member, Mr. McHenry, for 5 minutes for questions.

Mr. MCHENRY. Thank you, Madam Chairwoman.

Secretary Powell, let's begin here. In the Federal Reserve's own data, we see that there is a substantial economic recovery happening. We see economic numbers improving, and we have many households that are about the same as they were, or a little better off in terms of savings than back at the beginning of the year. But we see many households much, much worse off. And so it is sort of a tale of two different recoveries, if you will, or two different experiences of this pandemic.

So while we see good economic numbers, what are the areas that you see as needing further assistance? What areas of our economy do you see as needing further assistance to get us back to something more normalized, given where we are with COVID?

Mr. POWELL. I guess I would point to the labor market to sort of capture the size of the issue. We still have 11 million people out of the 22 million who were laid off in the payroll numbers in March and April, still 11 million out there. And that is really good progress. We have put fully half of them back to work. But there is a long way to go. That is more people than lost their jobs during the global financial crisis, as I am sure you know.

So there is a lot of work to do there, and our policies will support that, but it will go faster for those people if we have—if it is all of government working together.

Mr. MCHENRY. Okay. Meaning that there is a fiscal response to help support the economy for those most affected by COVID, economically affected by COVID?

Mr. POWELL. Yes. Now, of course, the details of that are between Congress and the Administration, and not for the Fed to say. But I do think that the recovery will go faster if we have both tools continuing to work together, as they have so far, I think, worked very well together.

Mr. MCHENRY. Okay. Thank you.

Secretary Mnuchin, there is much that has been made up here on Capitol Hill about your negotiations on another CARES package like we passed back in March, that you negotiated. You are the lead Administration negotiator on that package, which I think, from all sources, was a very solid piece of bipartisan legislating, and I want to commend you for being the Administration's voice and negotiator on that project. And I think we got good results from the programs that you were then able to set up in coordination with the Fed.

Along those lines, what are the components for the next package that we need to take to support the economy, to get things going again?

Secretary MNUCHIN. I think the next package should be much more targeted. It should be focused on kids and jobs and areas of the economy that are still hard-hit, particularly areas such as the travel business and restaurants. I think there is broad bipartisan support for extending the PPP to businesses that have had revenue drops for a second check. I think small businesses are a large priority of that.

Mr. MCHENRY. Okay. So focused on small business and family support, right? And that would be a strong foundation, I assume, for this.

Let me ask you both this, treatment, therapeutics, massive scale testing—we are getting up-to-speed with some really first-rate testing across the country and getting kids back in school in a safe way. Those things are sort of foundations for us getting the economy going to the next degree, right? It is not all going to be fiscal policy or monetary policy to get the people back in restaurants again. It is not government regulation. It is going to be people's decisions of whether or not to engage in many ways, similar to getting on airplanes.

Along those lines, do you see the capacity for us to get to a full economic recovery, Secretary Mnuchin?

Secretary MNUCHIN. I do. I think it is just a question of time. And I would just highlight, we are extremely pleased that we have committed to 150 million point-of-care tests with Abbott that will be delivered between now and the end of the year, and we are working with other parties to deliver comparable amounts of point-of-care testing with instant results.

Mr. MCHENRY. So, it is instant results. And those are very low-cost tests, are they not?

Secretary MNUCHIN. That is correct.

Mr. MCHENRY. Okay. I thank you both for your testimony, I thank you for being here today, and I thank you for your leadership in the midst of this crisis. And I know we are still deeply in the midst of it, of the economic effects of COVID. And I want to thank you both for being there, both with the life insurance policy and with the water to put out the flames. You have worked in good stead on behalf of the American people. Thank you both.

Chairwoman WATERS. The time of the gentleman has expired.

I now recognize Mr. Himes of Connecticut for 5 minutes.

Mr. HIMES. Thank you, Madam Chairwoman.

And thank you, gentlemen, for being here.

I am going to pick up on what the ranking member just said about the insurance policy. My time in Washington is bracketed by bailouts. Right before I got here, we passed the Troubled Asset Relief Program (TARP), which led to a massive bailout of the financial services industry and, of course, a bailout of the auto industry. And now, through CARES, we are bailing out the airlines; we are bailing out businesses large and small. The government is very, very much in the business of bailouts.

I would point out to my friends on the Republican side that all of those bailouts were promoted and passed and promulgated by Republican Presidents. They might just bear that in mind as they accuse my party of being socialist, but that is a conversation for a different day.

Secretary Mnuchin, I had the opportunity to talk to Chair Powell about this, so I want to talk with you about bailouts. I would like to believe we could do fewer rather than more. I don't like the idea of business managers large and small thinking that every 5, 7, or 10 years, the Federal Government will bail them out of liquidity crises or whatever it might be.

I also like the idea, as long as we are going to do these things, that the American public be compensated for the use of their funds for private and commercial purposes. And I admire your efforts to get warrants and make sure that the American public is compensated.

But there is a funny hostage situation that develops, right? When I proposed that on a caucus call, I instantly got calls from labor unions and the airline industry saying, no, if you make the money cost anything, they won't take it and they will fire us. That feels to me like a hostage situation: Give me the money for free or we will not take it and we will fire people.

So, Secretary Mnuchin, I would love to give you much of the rest of my time. First, what do we need to do structurally to get out of the business of bailouts?

And, second, how can we get out of this hostage situation, in which I think you actually worked very, very hard, where the American people are being compensated fairly for the use of their money for private purposes?

Secretary MNUCHIN. First of all, I would just say that this is a very different situation than the financial crisis, because in this case, the businesses that are impacted were impacted because of COVID, which was not their fault, as opposed to issues that they controlled.

I would say, in the case of the airlines, I think we struck the right balance. We did get proper compensation for taxpayers. I think it was very important, given what went on in the travel industry. In the case of the national security loans that we have made to the trucking companies, we took a 30 percent equity interest in that for proper compensation.

So, I agree with you that the government should be properly compensated.

On the other hand, I think for very small businesses, like the PPP, the money that we spent there, we saved significant money on unemployment on the other side.

Mr. HIMES. With respect to the warrants, Mr. Secretary, and the 30 percent equity stake in the trucking company, what is your philosophy? Is your philosophy to dispose of that position as soon as you can do so safely and in a sound manner, or is it to maximize the return to the American public?

Secretary MNUCHIN. I don't think it is to absolutely maximize the return, but I think that the American public should reap the benefit. So my expectation is that is not something we would liquidate now; we would liquidate when the markets are more normalized and the economy is back to normal.

Mr. HIMES. Let me run an offbeat idea by you. As it happens, I had the opportunity to talk to both former Treasury Secretary Paulson and another former Treasury Secretary about it. One of the vehicles for capturing common wealth for the citizens of a country is a sovereign wealth fund. As you know, Persian Gulf countries use it, Alaska uses it, Norway uses it, largely oil-driven wealth.

Should Congress investigate, if we are going to be in the regular business of bailouts and receive a return on those bailouts, should we look at establishing a sovereign wealth fund in order to take the proceeds from that common wealth and either use it as an insurance fund or use it to disburse however we may choose to disburse? Is that an idea that makes any sense to you?

Secretary MNUCHIN. Let me just say that most countries that have sovereign wealth funds, or in the case of Alaska, it is typically for future generations where they are focused on, in the case of many places, energy and things like that, that will not necessarily be around forever.

I don't necessarily think the U.S. should have a sovereign wealth fund. On the other hand, I think taking the profits and putting it into an account that is reserved for future emergencies is a very interesting idea, and I would be willing to explore it with you.

Mr. HIMES. Good. I am going to take you up on that offer. Again, I don't think any of us want to be in the persistent business of bailouts, but if we are going to do it, I think we should make sure that the American public is amply compensated for the use of their money.

Thank you. I yield back the balance of my time.

Chairwoman WATERS. Thank you very much.

I now recognize the gentlelady from Missouri, Mrs. Wagner, for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman.

Secretary Mnuchin and Chairman Powell, thank you for being here today.

I have been hearing from employers across the Second District of Missouri who desperately need Congress to do its job and pass coronavirus relief legislation so they can do their jobs and keep handing out paychecks to their hardworking employees.

Earlier this month, the Senate acted to pass relief legislation that could actually be signed into law. That package would have given relief to families, schools, child care providers, small businesses, and those who need it most. At a time when so many are struggling, we really do need to put America's families first.

And I am sick of the partisan politicking, the partisan wish lists. It should have no place in this conversation. Congress should be laser-focused on providing targeted and immediate relief.

The Senate Majority supports a second round of PPP money that would keep our small businesses afloat, and I call on my colleagues in the House to bring this to the Floor.

Secretary Mnuchin, I am grateful also, as the ranking member mentioned, for your due diligence and your work in negotiating this and what it means for our small businesses, including, as you said, restaurants, the travel and events industry, dentist offices, and so many others that keep Americans employed.

You talked a little bit about how passing the second round of the Paycheck Protection Program would keep America on track for a full economic recovery. How much money do you think we could repurpose from CARES in order to do this? And tell us again what this would mean in terms of economic recovery?

Secretary MNUCHIN. I agreed that we had approximately $450 billion that was allocated to work with the Fed on the Section 13(3) Facilities, and I agreed that I would reallocate $200 billion of that, that is not being used. That obviously needs congressional support, but we would reallocate that. And, again, our priorities are kids and jobs.

Mrs. WAGNER. Right.

Secretary MNUCHIN. I think there is very strong bipartisan support for the PPP. I know that both committees in the House and Senate have worked on revisions that are necessary revisions, and we would look forward to working with both parties on that.

Mrs. WAGNER. And that could be passed today and signed into law today. Is that correct?

Secretary MNUCHIN. The President would very much support signing into law additional PPP money immediately.

Mrs. WAGNER. We must act. It is clear that the best economic stimulus package we can give to the American people is a fully open economy. It brings people back to work, allows economic growth to begin, and will restore our economy.

Chairman Powell, do you agree that reopening has increased economic activity and jump-started the process of bringing the U.S. back to pre-pandemic prosperity?

Mr. POWELL. Yes, I do. We need to reopen the economy so people can go back to work, and we need to do it in a sustainable way. And that is why I always mention that a part of reopening quickly and effectively is to keep the virus under control, and that takes basic measures like wearing masks and things like that, and gets—the two things go together. A fast reopening and maintaining these sorts of measures actually go together.

Mrs. WAGNER. Absolutely.

The President's plan to reopen America has enabled States to tailor their reopening plans to address the specific challenges in their States and regions.

Chairman Powell, how does this State-by-State approach ensure success, especially when it comes to States that are responding differently to the pandemic? And are there any regulatory burdens you are aware of that should be removed to improve States' abilities to quickly and safely reopen?

Mr. POWELL. The question of how to reopen exactly and what policies to use, that is a question that is one for elected officials at the State and local level, not for the Federal Reserve, and so I wouldn't be a good judge of that.

I would say in terms of regulatory adjustments, we have made a number that have been designed to allow banks to serve their customers in this. We have relaxed a number of regulations temporarily, and we think that has really helped them serve their customers in a way that doesn't at all endanger safety and soundness.

We are open to doing more of that, but many of those things we have done. And, frankly, the economy is healing now, so—

Mrs. WAGNER. The economy is healing, and I do believe that many of the regulatory burdens that we have lifted are things that could be sustained even beyond this pandemic. So, I hope that this committee will be able to take a look at that as we go forward.

I thank you for your answer.

And I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you.

I now recognize the gentleman from Illinois, Mr. Foster, for 5 minutes.

Mr. FOSTER. Thank you, Madam Chairwoman. And I thank our witnesses, as well.

Chairman Powell, the Fed recently announced hypothetical scenarios for the second round of bank stress tests, and unlike the results of the sensitivity analyses conducted earlier this year, you will be releasing bank-by-bank results.

I appreciate this transparency and believe it is very important for markets, policymakers, and the banks themselves to have this information be public. One of the tragedies of the last financial crisis was that in the months prior to the crisis, as pressure built on financial institutions, they did not use this time to raise capital until it was too late. Hopefully, the prospect of publicly disclosed stress tests will help avoid a repeat of this behavior if the pandemic downturn continues.

Now, you are going to be using the results of these stress tests to determine whether the restrictions on shareholder dividends and the prohibition on buying back shares will continue through the fourth quarter. So my first question is, will you be making these determinations on a bank-by-bank basis or will all of the large banks be subject to the same restrictions?

Mr. POWELL. Yes, that is going to depend on a lot of things, and those are decisions we will make down the road, but I think we will be looking probably to use the bank-by-bank approach.

Mr. FOSTER. Thank you.

And given the continuing high unemployment, the failure of the Senate to pass any new COVID relief, and the uncertainty and volatility of a large number of economic indicators, will you err on the side of conservatism and safety in making these determinations?

Mr. POWELL. I think the stress tests themselves always err on the side of safety. We think of very extreme scenarios, severely adverse scenarios, and so that has generally been our approach overall.

Mr. FOSTER. I appreciate that.

Will you be reanalyzing the living wills of the giant banks to ensure that they could be executed properly at a time of COVID pandemic with, for example, most of the workforce at home?

Mr. POWELL. We don't have any plans that I know of to change the schedule of doing that. Banks have to resubmit those on a regular schedule, and I think we will just stick to that schedule.

Mr. FOSTER. Okay. I urge you to keep an eye on that, because if we have to execute them and it is not possible in the pandemic conditions, we will regret that.

Potential problems may not be confined to a small number of giant banks. For example, the savings and loan crisis was the result of losing bets made by over a thousand smaller institutions, and the taxpayers ended up on the hook for bailouts amounting to about 2 percent of GDP, which is huge compared to TARP, in which the taxpayers actually got their money back with at least some interest.

And given that the fates of small banks are more closely tied to the fates of small and medium-sized businesses, which are often most at risk of business failure during the failed response to this pandemic, what should we be worried about in regards to the potential need to bail out large numbers of smaller banks if the pandemic continues?

Mr. POWELL. I guess I would say we spent 10 years, and the banks spent 10 years strengthening their capital, their liquidity, and their understanding of the risks and their management of them, and so far, the banking system has held up well.

Now, we don't know where we are in this whole process, so we will be continuing to, as you can see from the stress tests, continuing to do those things that we need to do to continue to assess those things in the banking system. But so far, we don't see the kinds of problems you are talking about.

I think with smaller banks, the issue is that there has been a 30-year trend of consolidation and banks going out of business, and that is not a trend we want to do anything to exacerbate. I do think that smaller banks are going to probably bear too much of the burden here. They have more exposure to real estate and to smaller businesses, which are probably more vulnerable and have less resources to deal with this sort of stress.

I think we will be watching carefully to make regulatory adjustments, supervisory adjustments, to make sure that we give those banks every chance to serve their customers and to make it through this difficult time.

Mr. FOSTER. Yes. Thank you. One of the problems that we have in financial regulation is that we always seem to be fighting the last war, and we maybe should look two wars back in this.

In my limited amount of time left, you introduced a new strategic framework for conducting long-term monetary policy, and as part of that you discarded the idea of a fixed goal for full employment. Instead, you are going to consider a wide range of indicators in making an assessment of whether there are any shortfalls in employment. And I urge you to do that very publicly and transparently, because you can get different answers by choosing different measures, both for inflation and for unemployment.

Thanks. My time is up. I yield back.

Chairwoman WATERS. Thank you very much.

I now recognize the gentleman from Kentucky, Mr. Barr, for 5 minutes.

Mr. BARR. Thank you, Madam Chairwoman.

And I want to first start by responding to my friend Representative Himes' comments about bailouts, because I share my friends antipathy for what he describes as bailouts. But I do think it is important to point out that a bailout, at least the way I look at it, implies that the government is saving businesses from mismanagement or excessive risk-taking or the use of taxpayer funds for private use in a way that would promote moral hazard.

We saw some of that, I think, in the aftermath of the financial crisis, but that is not what we have here. What we have here is a congressional response to many State and local governments imposing restrictions. Now, some of those restrictions may be very warranted in response to a pandemic. Others may criticize some of those restrictions as being overzealous or draconian.

But, nevertheless, this congressional response in the CARES Act or the PPP program or the Main Street Lending Program or some of these liquidity Facilities seem to me more like a compensation for a regulatory taking. So, I think it is important to point out that distinction, a regulatory taking.

I do want to ask Chairman Powell about Main Street, and I do think there is interest among potential borrowers to participate in this program. But many businesses and lenders are reporting to us in Congress that the program is not working for them. To date, the Fed has committed less than one-half of 1 percent of the total available funds under the program, and so an argument can be made that the program isn't performing to its full potential.

Last week, the Fed issued updated FAQs about the program, and I have heard from banks in my district that the updates are unlikely to move the needle.

You mentioned that smaller loans for smaller businesses under a million dollars—that this program may not be right for them; it is more suited to a PPP. But, Chairman Powell, I would offer for your consideration that for some of those businesses that would need a smaller loan, the PPP program really doesn't help them because their payroll is fairly limited and they have larger amounts of debt.

So my question initially would be, is the Fed considering publishing more targeted guidance, underwriting standards, documentation requirements for the smallest Main Street loans?

Mr. POWELL. As you know, Mr. Barr, the limit now is $250,000, and we actually have very little demand below $1 million, as I told the Chair a while back. So, we are not seeing demand for very, very small loans. Because the nature of the Facility and the things you have to do to qualify, it tends to be sort of larger-sized businesses.

Lending at the very small end, under $100,000, it tends to involve a lot of personal guarantees—you are lending to a person and that person is guaranteeing what is a very small business, and that just is not a Facility that we currently have. We would have to start from scratch to develop that.

Mr. BARR. Fair point. Just the feedback we are getting is that, for those smaller loans, the lenders are telling us that they really would prefer to use their existing structuring, underwriting, and documentation and account monitoring processes in order for them to get into that smaller level of loan.

I want to talk about EBITDA restrictions in the program, too. The restrictions that we have in the program right now do prohibit many commercial real estate borrowers from accessing the program. In the FAQs released last Friday, you indicated the Fed had studied whether to allow for collateral-based calculations for asset-heavy borrowers but, "determined that conditions do not warrant such changes at this time."

How did you come to this conclusion? And are there ways to retool Main Street to work for commercial real estate borrowers?

Mr. POWELL. We have spent with Treasury a great deal of time looking, because we hear these things, too, probably from the same people, and we look for places where the banking system, the lending system is not working for commercial real estate.

And a big part of that, of course, is the commercial mortgage-backed securities (CMBS) market, and we don't have an answer to that, because there are a couple of problems with CMBS that make it impossible to make additional loans, for example, and the servicers have to pay. So, it's hard to get foreclosures.

So we look at other places in commercial real estate, and really it is not easy to find places where we could have much of an impact.

Mr. BARR. And I appreciated our conversation earlier where you said that the Fed's emergency lending powers may be not particularly suited for CMBS.

But, Secretary Mnuchin, I appreciate the communication with your team on this issue and particularly CMBS. Could you detail what Treasury is doing to monitor and respond to these challenges facing commercial real estate?

Secretary MNUCHIN. First of all, I am sympathetic to the issue, and we have spent a lot of time internally trying to figure out if there is a way we could structure a program with the Fed.

And as the Fed Chair said, unfortunately, there is a structural problem with limitations and additional debt and prepayment penalties. I think the best way to help many of these is with additional PPP funds so that people can pay rent, so that owners can pay their mortgage.

Mr. BARR. Thank you. I yield back.

Chairwoman WATERS. The gentleman's time has expired.

I now recognize the gentlelady from Ohio, Mrs. Beatty, for 5 minutes.

Mrs. BEATTY. Thank you, Madam Chairwoman. And I thank the witnesses, as well.

We have heard a lot today about reopening the economy. We have also heard a lot about the pandemic, health and safety. And, Chair Powell, you even used the words, "they go hand in hand" and actually used the words and pointed to your mask, by wearing a mask. All of that is a part of it.

So to you, Mr. Secretary, we recently learned that the White House had scrapped plans at the United States Postal Service to send approximately $650 million worth of masks through the mail. Maybe that is because President Trump sees no value and tweets about not wearing one. You have had a lot of involvement with the operations and governance of the U.S. Postal Service. Were you involved in that situation about scrapping the plans or are you aware of it?

Secretary MNUCHIN. Just to be clear, I think I read something in the press about that alleged situation. Never, in any of my task force meetings, do I recall that being discussed or any plan being scratched whatsoever. It may have occurred in a different part of the government. But, no, I have not heard anything about that.

Mrs. BEATTY. Would you be willing to look into it since we—most experts, not me, certainly, as a Congressperson, but certainly scientists and medical personnel have all stated that wearing a mask is helpful in preventing the spread now that we know over 200,000 people have died. Would you look into that, since you have had involvement with the U.S. Postal Service?

Secretary MNUCHIN. I would be happy to, and we will get back to your staff.

Mrs. BEATTY. Thank you very much.

My next question is, certainly we know that when we talk about reopening the government, would you both agree if people are healthy and if they have healthcare, then that, too, goes hand in hand with reopening the economy by having people be healthy enough to go back to work? That is a yes-or-no question.

Chair Powell?

Mr. POWELL. Yes. Sure.

Mrs. BEATTY. Mr. Secretary?

Secretary MNUCHIN. Yes. And I just would add that one of the reasons we liked the PPP is that it kept employees connected to their businesses, which in many cases allowed them to keep their healthcare.

Mrs. BEATTY. Okay. Earlier this year, the Trump Administration submitted a brief to the Supreme Court urging them to overturn the Affordable Care Act, which would strip roughly 20 million Americans of their healthcare in the midst of this historic pandemic that has already cost the lives of, we know today more than 200,000 Americans, including stripping protection for preexisting conditions, and kicking many of our younger adults off their plans. We are also hearing now about how great their numbers are. I have been in Congress for 8 years, and I have voted against it dozens of times.

Chairman Powell, what effect would stripping 20 million Americans of their healthcare in the midst of this COVID-19 pandemic have on the economy?

Mr. POWELL. I wouldn't want to comment on a particular Supreme Court case. But as you mentioned, healthcare is an important part of the support system that people need.

Mrs. BEATTY. Let me say it this way, Mr. Chairman. Do you think stripping healthcare or not having healthcare would be bad for the economy?

Mr. POWELL. As you started with, I think that having healthcare coverage is an important basis for people to go to work. It is one of the reasons people do work, and it helps in continuing your work.

Mrs. BEATTY. Would you say that is a yes? Then, would you say that is a yes, that having healthcare would certainly be a plus or a positive to having people—come on, 200 million people have died. Look at the numbers. If I look at African-Americans making up 13 percent of the population but having almost 30-some percent positive results, with 24 percent dying, don't you think healthcare plays into keeping people healthy, and the economy?

Mr. POWELL. Yes, I do.

Mrs. BEATTY. Thank you.

Chairman Powell, according to the transaction data of the Secondary Market Corporate Credit Facility that the Federal Reserve published on Sunday, the Fed purchased corporate bonds of dozens of companies that are in good financial condition, like Apple, which has more than $200 billion cash in hand.

How does buying corporate debt of large companies in good financial condition help further the Fed's mandate? And how does buying corporate debt of foreign-owned companies, like BP and Toyota, further the Fed's mandate?

Mr. POWELL. None of those secondary market corporate debt purchases extend any new credit to anybody, so that is just buying an outstanding bond. And the reason we are doing that is to have a footprint in the after market, which, should conditions deteriorate, would enable us to continue to have good financial conditions, which would support companies and allow them to keep workers on staff.

Mrs. BEATTY. Okay.

Chairwoman WATERS. Thank you. The gentlelady's time has expired.

I now recognize the gentleman from Texas, Mr. Williams, for 5 minutes.

Mr. WILLIAMS. Thank you, Madam Chairwoman.

As most of you know, I am a small business owner.

I want to thank both of you for coming before our committee today. Both the Treasury Department and the Federal Reserve have worked with incredible speed to implement the CARES Act and get resources in the hands of hardworking American businesses. I applaud you both for your leadership and your efforts during these uncertain times, and Main Street America also thanks you.

Some local governments in my district in Texas are sitting on the money they received from the corona relief fund because there is uncertainty surrounding what counts as an eligible expense. For example, one local government in my district would like to spend the money to buy food for a local food pantry since many of their citizens are seeing food insecurity as a result of the economic shutdowns, but they are unsure that this will be an eligible expense, since the cost was not accounted for in their annual budget prior to the pandemic.

So, Secretary Mnuchin, what advice would you give these local governments that are unsure if a use for the coronavirus relief funds will be deemed a qualified expense so we can get this money spent?

Secretary MNUCHIN. We will look into your specific question and get back to you, but I will say that we have tried to give as much flexibility as we can. And as part of additional congressional authorization to move forward, we are inclined to allow for additional flexibility on the money that has already gone out to State and local governments.

Mr. WILLIAMS. Thank you, and we will get something for you to look at.

Chairman Powell, I raised this issue with Vice Chairman Quarles back in May, but I wanted to get your perspective as well to make sure everyone at the Federal Reserve is on the same page regarding business interruption insurance.

Forcing private companies to cover business interruption claims for COVID-19 losses would be a terrible precedent of the government stepping in and retroactively changing the terms of an agreement between two private parties, and would decimate the insurance industry. I have said before, in Texas we say, "A deal is a deal."

And the last time you were in front of this committee in June, you mentioned you were aware of this issue as it relates to fiscal stability, and I am hoping we could get a little more substance on this issue since the Federal Reserve is involved in insuring Federal institutions, including the insurance companies that do not pose a risk for our financial systems.

So my question would be, can you please give us your thoughts on forcing insurance companies to retroactively cover business interruption claims?

Mr. POWELL. I don't think I have had a conversation about that since our last visit together in June, but let me check in on the current situation and come back to you.

Mr. WILLIAMS. Okay. That would be great. Thank you.

And both of you have discussed the potential need for another economic stimulus package to come through Congress. We have done that today. However, at the moment, much of the money that we allocated in the CARES Act and other aid packages has not yet been spent. The nonprofit Committee for a Responsible Federal Budget estimates that the government has allocated or disbursed $2.2 trillion of the $4 trillion that Congress has passed in COVID relief.

Mr. Secretary, you have been deeply involved in negotiating, as we very well know, the next COVID-19 relief package. And as we discuss spending new money, how would or how should we be viewing the economy to ensure that industries in most need of assistance receive it while the other money we have already allocated makes its way into the system?

Secretary MNUCHIN. I think we are in a very different situation than we were last time. I think last time, the entire economy was shut down and we had to act very quickly, and in many cases, that required us to do things across-the-board. I think this time it should be much more targeted to the industries that are most impacted by this situation.

Mr. WILLIAMS. Thank you. And I want to thank you again for your efforts and basically tell you, as somebody who is on Main Street, the economy is pretty good right now. It is getting better, and attitudes of people in startups are getting better. I hope one day we can look at liability toward a lot of small businesses and big businesses that could keep them from growing.

So, thank you again for your efforts. We appreciate it.

And I yield back. Thank you.

Chairwoman WATERS. Thank you.

I now recognize the gentleman from Washington, Mr. Heck, for 5 minutes.

Mr. HECK. Thank you, Madam Chairwoman.

Chairman Powell, I want to discuss fiscal support today, but before I do, I want to quickly address the announcement that the Fed made to take steps to make the inflation target more symmetric and emphasize the employment mandate, the new framework that Dr. Foster referred to.

I am not at all exaggerating when I say this new framework is the most important thing that has happened in monetary policy, indeed in economic policy, in 40 years in this country. It will have a bigger impact on absorbing heretofore marginalized [inaudible] Especially among communities of color. Your leadership in shepherding [inaudible] Needs to be acknowledged [inaudible].

Chairwoman WATERS. Excuse me. Mr. Heck, speak right into the microphone so that we can hear you clearly.

Mr. HECK. I hope he was able to hear all of my comments. Can you hear me now, Madam Chairwoman?

Chairwoman WATERS. Yes.

Mr. HECK. Thank you.

Chairman Powell, thank you very much for the new framework.

At the outset of this pandemic you declared that, "This is the time to use the great fiscal power of the United States to do what we can to support the economy and try to get through this." Congress responded by passing the CARES Act, and Congress continues to deliberate further fiscal support.

At your press conference on Wednesday, you said that the Federal Reserve's projections for growth, inflation, and employment were assuming more fiscal support. What size support were you assuming?

Mr. POWELL. Let me say that I think a big part of the good economic news that we have had results from the fiscal support that came with the CARES Act. So it deserves a lot of the credit for keeping people spending and keeping business confidence and household confidence high.

We don't agree on a forecast. Individuals make different assumptions. I think something like—most private sector forecasters are assuming that some kind of a package passes sometime in the next few months, but there isn't any particular number that I would give you that would come out of the Fed.

Mr. HECK. But is it not true, Mr. Chairman, that the Fed did itself make projections as to growth and inflation and employment? And if so, acknowledging that it assumed fiscal support, there must have been some assumption about the level of fiscal support.

Mr. POWELL. Actually—

Mr. HECK. How else would you arrive at your projections?

Mr. POWELL. Yes. I wish it were that simple.

The way we do it is we—what we publish is the individual projections of the 17 people who vote or who are, sorry, participants on the Federal Open Market Committee (FOMC), and they are free to make whatever assumptions they need. And we don't survey them on every little thing, but I would say most assumed some fiscal action. But we didn't create a table, and so I can't tell you exactly what was assumed, but fiscal action underlies many, many current forecasts.

Mr. HECK. Then, let me try this a different way. What happens to growth in employment if there isn't any fiscal support and it doesn't materialize?

Mr. POWELL. What has happened lately is that the economy has proved resilient, both to the broader spread of the disease over the summer in some of the southern and western States and also to the expiration of the CARES Act benefits. So, we don't really know what will happen.

I would just tell you what I think the risk is. As some have pointed out, savings are very high, and that is because of a number of things. Part of it is the CARES Act. But there are still 11 million people unemployed.

So the risk is that over time, they go through those savings, and they haven't been able to find employment yet because it is going to take a long time to get—or it is going to take a while to get 11 million people back to work. And so, their spending will decline. Their ability to stay in their homes will decline. And the economy will begin to feel those negative effects at some time.

At the same time, the economy is recovering, and that is a good thing. And it is very hard to have any certainty about the path forward because we don't know which of those two forces will dominate.

Mr. HECK. With all due respect, Mr. Chairman, unless you are arguing that fiscal stimulus has no impact, then is it not inescapable that if there is no additional fiscal support, growth will be lower?

Mr. POWELL. Yes. Certainly fiscal, and I have said that I think it will likely be needed. I do defer to the Administration and Congress, who actually have the responsibility for this. But I think that it is likely that more fiscal support will be needed.

Chairwoman WATERS. Thank you. The gentleman's time has expired.

Mr. HECK. Thank you, Madam Chairwoman.

Chairwoman WATERS. I now recognize the gentleman from Arkansas, Mr. Hill, for 5 minutes.

Mr. HILL. Thank you, Madam Chairwoman.

And of course, thank you, Secretary Mnuchin, for being with us here today.

And Chair Powell, it is terrific to see you.

I want to associate myself with the remarks of the ranking member, who outlined really the outstanding leadership we have obtained from the Treasury and from the Federal Reserve, particularly in the early days of fighting the virus. And we appreciate your commitment to our country, to restore the health of the American people, and renew our families' belief in the American Dream, and in your own ways, to rebuild the American economy.

I want to talk for a minute about this issue for smaller businesses, and I plan on signing the discharge petition in the House today to move Congressman Chabot's bill to the House Floor, which extends the PPP program and clarifies the forgiveness aspects of that.

This is something that should have been done at the end of July, and I was pleased that last week, Democratic Members of Speaker Pelosi's caucus were objecting to her leadership, or lack thereof, in trying to negotiate this COVID package. I hope my Democrat colleagues will join me in signing that discharge petition, because the PPP extension, as Secretary Mnuchin outlined, is a key component to having the tools necessary for the small business recovery.

Second, in my view, the proposal by Mr. Rubio that is in the Senate bill on the 7(a) loan program is critical because it allows us to take this embedded loss of the last 6 or 8 months, or that we think is coming, and put it on a 20-year am at a 1 percent rate as an SBA product. And it is a much better solution than the emergency loan program that the SBA has used during this pandemic, which is really geared towards a hurricane and not to a national pandemic.

But the third point is the Main Street Program, and both of you know my views on this as we have talked about it in an oversight commission hearing, as well as privately. On Friday at 1 p.m., in a typical Washington, D.C., fashion, the Fed released its frequently asked questions and dumped them out to the public on Friday afternoon, that you would not pursue this asset-based lending type approach for a different Main Street term sheet. Mr. Barr did a good job describing that.

I really think that can be done, Chairman Powell, to companies on sound footing, to companies that are not able to reach credit traditionally under reasonable terms, and in the concept of a backstop.

And so, I want to press both of you that while it doesn't fit the Main Street term sheet you have today, that took 4 months to stand up, I still believe that asset-based lending to a solvent company is important.

And you had a key component, another Washington key component in the frequently asked questions, where you said, "at this time."

So I would urge you to reconsider your position on asset-based lending and offer you each an opportunity to comment.

Mr. Powell?

Mr. POWELL. We have taken a very close look at it, as you know, and as the Secretary indicated, but we are happy to continue the conversation, and we will do that with you.

Mr. HILL. I really do believe it can be done in the right way. And I think the three things I commented on, the first two, the 7(a) program and the PPP loan where I addressed this lower loan size that the Chair mentioned, but I do believe there is a solvent niche out there of portfolio lending that can be done on a sound basis that would offer some liquidity for hospitality, particularly not CMBS per se, but portfolio lending where they have this gap that we saw after 9/11 and we saw after the financial crisis of very slow increases in business travel.

Secretary Mnuchin, you commented that you would like Congress to give you authority to incur risk as it relates to the $500 billion in funding for the Exchange Stabilization Fund, or particularly the 454 that was not related to airlines, and that you proposed to reprogram that money for other uses. But when we had a discussion of this in the oversight commission, we have issued in our fourth report that we don't believe that you need any additional congressional authority to reprogram that and take on additional risk.

Could you comment on that please?

Secretary MNUCHIN. Let me just be clear. I don't think we need authorization to take on additional risk. And let me clarify, I think on the Main Street loans, in general, we will be taking losses, because I think this is basically being underwritten on pre-corona EBITDA.

What I was suggesting is that we would like to spend that money on other areas of the economy that could be better served—kids, jobs, more PPP, SBA long-term loans—and that, unfortunately, we do need congressional authority to use it in other areas.

And again, I think, as you know, we have a lot of money left over in the PPP that has been appropriated by Congress, that with simple legislation, could allow many hardworking small businesses to get a second loan.

Mr. HILL. Thank you both for your leadership.

Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you.

I now recognize the gentleman from California, Mr. Vargas, for 5 minutes.

Mr. VARGAS. Thank you very much, Madam Chairwoman. I appreciate it.

I want to thank the Secretary, of course, and also the Chairman for being here today. I appreciate your testimony very much.

I have to say I have heard some pretty tortured language and tortured logic from some of my colleagues today. One Member said that we are not bailing out businesses, "compensation for a regulatory taking." That sounds a lot like, "use my words against me," when you say you won't vote for a Supreme Court Justice in an election year for President. The reality is when you talk in absolutes, you get into these situations where logic gets twisted to try to fit things.

And the other thing I heard today is that Congress should pass a second CARES Act. We did that. We passed it. It is called the Health and Economic Recovery Omnibus Emergency Solutions (Heroes) Act. It is languishing over in the Senate.

Then, I heard another colleague say we should do what the Senate did and pass what they did. They didn't pass anything. The Senate didn't pass a thing. They tried to pass something, but nothing passed.

The other thing I guess I heard today also was a pretty rosy picture of the economy. And I don't want to put words in people's mouths, but, Mr. Secretary, I believe you said that the economic recovery was strong.

I think that tens of millions of Americans would disagree with that and, in fact, would say that the stock market is not the only economy. We have 11 million Americans who are still out of work, who lost their jobs, more than in the financial crisis. So, I don't think that they would agree that we have had this strong recovery.

I do agree with what the Chairman said, that we won't get a full recovery until everyone feels that they are safe from this virus, and so I think it is very important that we do everything we can to defeat it. But unfortunately, up to now, I think the virus has been in charge.

So, I want to ask this. I have been watching what has been happening in Europe. It seems like they are starting to get a second wave. I am very concerned that we may have a second wave in our own country, and I am not sure that we are prepared for this.

I also went back and did a lot of reading on the Spanish flu and saw that their second wave was the more devastating one, not the first one, but the second wave of the Spanish flu.

Could you comment, either one of you, on how prepared we are? What is our plan in case this thing comes roaring back?

Secretary MNUCHIN. I would just first comment on—I did say there is a strong recovery, because when you close the economy and you reopen it, it is strong, but there is still more work to do.

As it relates to being prepared—and again, I am not a health professional, although I have sat on the task force—I think we have made major progress on vaccines, on virals, on testing, and, I think, on PPE. So, I think we have done a very good job at being prepared for the virus.

Mr. VARGAS. But do we have a plan? Do you have a plan in case it comes back? In fact, a virus usually has some seasonality to it, and you would expect in the winter for it to come roaring back. We have seen that before. If it does come back—assume it does—do we have a plan? Does the Administration have a plan?

Secretary MNUCHIN. First, from an economic standpoint, we do have a plan for the economy now, and that is why we want more congressional approval.

As it relates to health, yes, the Administration and the task force does have a plan. It is executing that plan. And a major component of that plan is the vaccine development, which is making great progress.

Mr. VARGAS. Thank you.

Mr. Chairman, if I may ask you, you said that until people feel that they are not at risk, the economy won't come back. Could you elaborate a little more on that?

Mr. POWELL. Sure. There are parts of the economy that involve people getting very close together in groups, and that is travel, hospitality, entertainment, things like that. And I think people will—not everybody, but some part of the population will be reluctant to continue in those activities until they feel confident that it will be safe, that they won't get sick from doing so.

And that is not most of the economy; that is a piece of the economy. It is a reasonably substantial piece of the economy, where a number of people, millions of people are still not working, and it will probably take some time for them to get back to work.

So, getting them back to work will depend on continued progress on the medical front, including, ultimately, a vaccine.

Mr. VARGAS. I think my time has expired, and I yield back. Thank you very much.

Chairwoman WATERS. Thank you.

I now recognize the gentleman from Georgia, Mr. Loudermilk, for 5 minutes.

Mr. LOUDERMILK. Thank you, Madam Chairwoman.

Secretary Mnuchin and Chairman Powell, thank you for being here. And let me also echo the thanks for early on in this pandemic, especially with the PPP program, the way our offices worked together and your offices worked with the banks in our communities to tailor this thing to where it would actually do something for the small businesses.

And as a result of that, one of the small banks in my district that only has two branches ended up making more PPP loans than one of the major national banks did nationwide. And that is just one of the many successes of the PPP, but it is because of the engagement there.

I have two questions, but first, I would like to respond to something my good colleague from California just brought up about the recovering economy. I think there are areas of this country where the economy is recovering strong, and the State of Georgia is one of those. Our revenue reports came out just a little over a week ago that tax revenues for 2020 are 7.7 percent higher than 2019. And it is because instead of using a heavy-handed government putting long-term restrictions on the people, we decided to trust the people that they would be safe and secure, and we opened our economy.

So I think if other States would like to see that type of economic recovery, maybe they should address the way that their States are being governed.

I know the Federal Reserve is looking at ways of broadening the Main Street Lending Program, which I think we all realize needs to be broadened. But there are some areas I would like to see us take a look at, and one of those industries that is interested in Main Street lending is specialized consumer finance firms, which are nonbanks that purchase credit card receivables from card-issuing banks and they securitize those assets, which enables consumers with subprime credit to access a credit card, which are some of the most vulnerable in society right now. But the earnings before interest, taxes, depreciation and amortization (EBITDA) requirements prevent them from obtaining a loan.

Chairman Powell, would you consider modifying Main Street lending to allow these firms to access this program?

Mr. POWELL. I would have to look at that in particular. EBITDA is a very standard cash flow measure. If you are going to make a cash flow loan in our markets, you are going to look at EBITDA. The alternative is something asset-based. And I don't know these companies to know exactly what we are talking about, but we are happy to take a look.

Mr. LOUDERMILK. I will make sure that our staff engages with yours to give you some of the folks who are looking to do that, and I think it would be wise.

Another issue, back to the PPP program, Mr. Secretary, is that the forgiveness of the PPP loans is very cumbersome, and it is putting some of the banks, such as the one I had brought up earlier, Vinings Bank, into a situation where they are keeping those loans on their books longer than they had intended to.

Is there something that we can do to streamline this forgiveness program so it is less cumbersome, so we can start getting those loans off the books of the small banks to open them up to make other, more traditional business loans?

Secretary MNUCHIN. We have tried to streamline the process for the smaller loans, as you outlined. I know that there are some proposals in Congress, and as part of legislation, we have worked with both committees on that, making sure we have the right balance of protecting for fraud with simplification.

Mr. LOUDERMILK. Okay. And I assume that you would be willing, if Congress took some action there, to work with us on that.

Thank you both. I know these have been challenging times, but I think the Administration has responded admirably and well, considering the severity of this crisis. And I think we just—if we keep on track and keep pushing forward, we can get through this and make our economy as strong as it was before, if not stronger.

And, Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you.

I now recognize the gentleman from Texas, Mr. Gonzalez, for 5 minutes.

Mr. GONZALEZ OF TEXAS. Thank you, Madam Chairwoman.

And thank you, Chairman Powell and Secretary Mnuchin.

Folks, I represent many small business hoteliers in my district, many of whom are first- and second-generation Americans who have worked hard to achieve the American Dream. As a result of COVID-19 and subsequent travel shutdowns, and through no fault of their own, family-owned and operated hotels in Texas and across the country are facing an unimaginable economic crisis with no ability to access a lifeline through the Main Street Lending Program.

Despite repeated requests from Congress, including my own, the MSLP facts released on September 18th state that conditions did not warrant changes to allowing lending to asset-based borrowers. There is nothing else for these people to turn to.

I want to make sure I understand your message to them. Right now, we have money on the table, programs that are not being used, and programs that are being used that are not quite compliant with the CARES Act, and programs that have been drained of funding because they worked. Your position is that these businesses should be allowed to fail, that hardworking Americans should lose their livelihoods, and that you will do nothing to help them.

You want to carefully follow the law, right, on the CARES Act? Well, we passed the CARES Act, and to the extent that you are not in compliance with the programs included there, it is time to get that done. Failure to do so would not constitute following the law. You either are or you are not complying with the law. And you do not have programs that comply with the CARES Act distribution of funding.

We may be in a crisis now, but I am sure you can imagine what will happen after the crisis when we start picking up the pieces and scrutinizing the actions of your agencies. Right now, we are using the powers given to you for explicitly this purpose, and you are using the powers for explicitly this purpose for both you, and so you can help the country.

Businesses need a lifeline, they are not even asking for bailouts, businesses like the ones I am talking about. Lending them money for 10 or 20 or 30 years at a low interest rate creates the liquidity that the markets need. And recognize that if all commercial properties start defaulting, we are looking at another wave of a crisis, aren't we? And what are we doing to prepare now and help them now and do the work now?

Secretary MNUCHIN. I would first say I think we are following the law, so let me just be clear on that.

The second thing I would say is that we want to help the types of businesses that you are talking about. In many cases they need grants and not loans. But as part of additional SBA appropriations, we very much support long-term loans, particularly for the types of businesses that you are focused on.

Mr. GONZALEZ OF TEXAS. What specific loans do you have available for folks like these small hoteliers?

Secretary MNUCHIN. Again, we support additional money to small hotels because that is what they need. Additional SBA loans are something that we have looked at as well as PPP loans. In many of the cases, these small hotels do not fit into Main Street because they already have additional—they already have other indebtedness, and in many cases they are either not allowed to take additional loans or they are too levered to begin with, to qualify.

Mr. GONZALEZ OF TEXAS. So, the small ones that do fit in, you are saying that the SBA has a program for them?

Secretary MNUCHIN. No, what I said is as part of additional legislation, the Small Business Committee has proposed additional money, long-term money for small businesses as part of a new program, and that is something that we have looked at and we would support.

Again, many of the small hotels that you are talking about don't have any revenues.

Mr. GONZALEZ OF TEXAS. Right.

Secretary MNUCHIN. So, those hotels would qualify for additional PPP loans. There is over $130 billion that has been appropriated by Congress that we just need authorization to use, and that would be the best solution for them.

Mr. GONZALEZ OF TEXAS. Thank you. I would just ask that we stay cognizant of these folks. They are good Americans. They are hardworking Americans. They are an important part of our economies, both locally and nationally, and they deserve our attention. Thank you very much.

Chairwoman WATERS. Thank you very much.

I now recognize the gentleman from Tennessee, Mr. Kustoff, for 5 minutes.

Mr. KUSTOFF. Thank you, Madam Chairwoman.

And I would like to thank the witnesses for your leadership during this crisis. I think you have both displayed tremendous leadership.

Secretary Mnuchin, if I could, we have talked a lot about the PPP program today and its success, and the ranking member talked about the 51 million jobs that it is estimated that it saved, with the caveat that maybe 12 million rural jobs in rural communities that it saved.

If I could, following up on what Mr. Loudermilk asked about a few moments ago as it relates to the forgiveness, what I have heard from small businesses throughout my district, and frankly, throughout the State of Tennessee, is that they are very thankful about the PPP; it literally saved their businesses. But there is a concern about the complexity of the forgiveness.

And so my question is, have you considered administratively forgiving certain loans, say, loans of $150,000 or less, again, through administrative action?

Secretary MNUCHIN. We have considered that. We don't think we have the authorization to do that in the context of the law. And we have tried to make it very simple for small businesses. But again, there were some proposals out of Congress that just said we should automatically forgive all of those loans, and to do that, we would need congressional action.

Mr. KUSTOFF. So your interpretation is that you don't have the authority to administratively forgive those certain loans, again, the smaller loans? I am using $150,000 or less. Administratively, you don't have the authority to do that?

Secretary MNUCHIN. We think we have the obligation to get the documents, have them fill out what is an easy form, and have the ability to audit those. I think, as you know, unfortunately, there has been some fraud, and we're working with our IG on that.

But, no, we don't think it would be appropriate, and we don't think we have the authorization to do a blanket forgiveness across-the-board.

Mr. KUSTOFF. If I can, again, we have heard from people, I think all of us have, about how PPP saved their businesses, kept their employees on the payroll. And, frankly, you all deserve credit for crafting that. And I do think, frankly, that Congress deserves credit for acting swiftly and in a bipartisan manner.

The one criticism I have heard from businesses, specifically in my district, is that they literally could not compete—some—with the enhanced unemployment benefit, that it was set too high. And so maybe in an area like Tennessee or Mississippi or Arkansas, maybe it was generous in other States. Maybe it was not. I don't want to get ahead of the negotiations, but if there is an additional enhanced unemployment benefit in the next package, is there a way to somehow tie that to locality?

Secretary MNUCHIN. Yes. At the time, we knew that there were certain places where it would be too high, and certain plaes where it would be too low. We thought the fair way of doing it was one number across-the-board.

As part of the President's executive action, he has now authorized that to go forward with up to $400, $300 if the State doesn't contribute, and we have proposed as part of additional legislation having it at something like 75 percent of wage replacement.

Mr. KUSTOFF. And would that be uniform across all 50 States or would it be based somehow on locality?

Secretary MNUCHIN. Ideally, it would be each State would take some time for them to implement that technology, but that it would be capped on 75 percent of previous wages.

Mr. KUSTOFF. Thank you, Mr. Secretary.

One more question for you, if I can, and I am going to touch on something that I don't think has been asked today, and that is on phase one of our agreement with China that was executed earlier in the year. Obviously, we know we faced a pandemic. Are you right now confident that China can meet its commitment to purchase $36.5 billion in agricultural products this year?

Secretary MNUCHIN. I believe they are on track for that, and Ambassador Lighthizer and I are monitoring that very carefully.

Mr. KUSTOFF. Thank you, Mr. Secretary.

With that, I yield back my remaining time.

Chairwoman WATERS. Thank you.

I now yield 5 minutes to the gentleman from Florida, Mr. Lawson.

Mr. LAWSON. Thank you, Madam Chairwoman. I would like to thank you and Ranking Member McHenry for hosting this hearing today.

And I would like to welcome the gentlemen to the meeting. It has been very good hearing you all speak this morning.

One of my colleagues, Representative Taylor from Texas, joined me in writing a letter to both of you regarding the impact of COVID-19 on the commercial real estate market, and I heard some of it talked about earlier.

The commercial real estate market continues to be hit hard due to the economic shutdown that has resulted in store closings and halted travel. The COVID-19 pandemic has turned the $4 trillion commercial real estate financial market upside down.

In June, I was joined by Representative Taylor and over 100 of our colleagues in requesting that the Department of the Treasury and the Federal Reserve urgently consider targeting economic support to bridge the temporary liquidity deficiencies facing commercial real estate borrowers created by the unforeseen crisis. We believe that this—and still do that the Federal Reserve has the ability to bridge the gap through various Facilities to help many businesses survive the economic disruption.

However, on Friday the Federal Reserve released an update on the Main Street Lending Program, which stated that conditions do not warrant changing this to allow the lender to assist the basic buyer.

Would you all care to comment on that for me?

Secretary MNUCHIN. First, let me say, again, Chair Powell and I both agree with you that the commercial real estate market has an issue.

I just want to clarify, when people talk about asset-based lending, they traditionally don't include real estate in that. The real estate market is its own market, so that wouldn't necessarily be part of an asset-based program.

There are structural problems. I know some people in the House tried to work on a proposal of preferred equity so that it could be going below the existing.

But Chair Powell and I will continue to work on this. It is an issue. We don't have a solution. We wish we did.

Mr. LAWSON. Okay. Does Chairman Powell want to comment, too? Because I was on a call with him several weeks ago about this issue, along with Representative Taylor.

Mr. POWELL. Yes. And both of us are very familiar with the letter that you sent and have studied it carefully and really looked hard at how we can reach the problem we are talking about.

And a lot of the problem just isn't with commercial mortgage-backed securities. Those loans contain a provision that says you can't incur additional debt. The Secretary referred to a way to get around that, but that wouldn't involve the Fed. It would require legislation.

And we do understand and appreciate that this is a significant problem in the economy, and we can keep looking for solutions. We don't really have a solution, though, with the tools we have.

Mr. LAWSON. And I understand that we don't have a solution.

I think one of the things that really bothers me as a lawmaker, is when we turned back about $130 billion in PPP funds, and then you find out that all of these people who are suffering tremendously, and they have coming up to maybe releasing something like a large group of employees who depend on them.

I had the opportunity to talk to Chairwoman Waters about some of the things that were happening even in her area out in California. And I am glad that you all are considering it and that we need legislation. I don't know how quickly we can get legislation through. I was certainly hoping that it could be included in negotiations on the HEROES Act and what is coming out of the Senate, but I know the Senate, which was stated today, still hasn't passed anything.

So I don't have much time left, but I am glad that you all were continuing to keep that at the forefront, because a lot of these employees are just everyday people who need help.

And with that, Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you.

I now recognize the gentleman from Indiana, Mr. Hollingsworth, for 5 minutes.

Mr. HOLLINGSWORTH. Good afternoon.

First to you, Chair Powell. I was recently excited by the news about creating a more symmetrical inflation target. I think that was great news. I know it is something that you and I had discussed at length privately, as well as publicly at these hearings. I am sure it had a lot of discussion and a lot of research underpinnings, and it wasn't just my annoyance that led to it. But, nonetheless, I really appreciate you doing that and I think it is going to be positive for the Fed and for the American economy going forward.

Specifically, I also wanted to turn to the temporary exclusion of Treasuries and deposits at Federal Reserve Banks from the SLR that was done through March of 2021, on some concerns that increased reserves during this period of time didn't want to count against them during SLR, but it was not extended to, nor does it flow through to the G-SIB size indicator. I was wondering why that was the case, and is there any further discussion or dialogue about extending that through the G-SIB size indicator?

Mr. POWELL. I have to go check on that for you. I am not aware of any of those discussions.

Mr. HOLLINGSWORTH. Okay. Great. If you wouldn't mind checking on this, because I think that is really important to us to make sure that we see that flow through, given that in the fourth quarter, I think many of our largest institutions are going to begin to see those impacts.

On to you, Secretary Mnuchin, what you said a few minutes ago. There has been a proposal around Congress potentially talking about preferred equity to some of our real estate borrowers that are most troubled. That, to me, is troubling, that proposal, and I think you said it doesn't feel like there is a good solution. Could you talk about why that isn't a good solution?

Secretary MNUCHIN. Ideally, we would rather lend as debt and not do preferred equity.

Mr. HOLLINGSWORTH. Evaluation issues, government ownership position issues, how do you get paid back issues, those sorts of things?

Secretary MNUCHIN. All of the above. Exactly.

Mr. HOLLINGSWORTH. Exactly.

And one of the things that I want to emphasize is that there is real distress in this community, there are real challenges in this community, but the longer that we continue to talk about solutions that aren't real solutions, I think the longer it will take to get to a legislative and administrative fix that will provide a real solution to those who are hurting across my district, across my State, and across this country. So, I appreciate your clarity on that.

With that, I will yield back.

Chairwoman WATERS. Thank you.

I now recognize the gentlelady from Michigan, Ms. Tlaib, for 5 minutes.

Ms. TLAIB. Thank you so much, Madam Chairwoman.

And thank you both so much for being here.

One of the questions or some of the basic ones I just want to review with both of you, Chairman Powell and Secretary Mnuchin, what do you think your primary role is during this pandemic?

And I will start with you, Chairman Powell.

Mr. POWELL. We are here to serve the American people.

Ms. TLAIB. It is to stabilize the economy?

Mr. POWELL. That is a big part of it right now, yes.

Ms. TLAIB. How about you, Mr. Secretary?

Secretary MNUCHIN. Yes, that's correct, and to operationalize what are obviously all of the responsibilities that the Treasury—

Ms. TLAIB. Like, prevent an economic collapse, right? You both agree that is kind of a—

Secretary MNUCHIN. Yes, for starters.

Ms. TLAIB. Yes. No, I hope so, too.

I am going to start with you, Chairman Powell. Every time I have asked you about State and local governments, you have insisted there is nothing that the Fed can do for States and cities in distress. But you did create a Municipal Liquidity Facility (MLF) to apparently do just that. However, the program is pretty restrictive. Is it true that only the State of Illinois has applied?

Mr. POWELL. No. We have done two loans. And of course, that Facility has resulted in $250 billion of borrowing in the private sector, where there was none taking place before the Facility was announced.

Ms. TLAIB. Do you think State and local government going bankrupt would create instability in our economy?

Mr. POWELL. I think that is an issue that is outside my bailiwick.

Ms. TLAIB. So you don't think it is an integral part to ensure that State and local government in the public sector is stabilized and will not go bankrupt like the City of Detroit did?

Mr. POWELL. States can't go bankrupt. They don't have a—there is no means for them to. Cities, of course, can, under Chapter 9.

Ms. TLAIB. Yes. The City of Detroit, when they went bankrupt, there was a huge—did you think there was an impact in the economy there?

Mr. POWELL. Yes.

Ms. TLAIB. I think so, too.

My district really hasn't benefited from the program, and one of the things that I want to point out to you, Chairman Powell, is you don't have to lend with penalty rates to State and local government. This regulation that you have there about penalty rates, that wasn't created by statute, correct? That was created by you all internally?

Mr. POWELL. It is in our regulation and in our practice.

Ms. TLAIB. But why not remove the penalty rate when there is heightened unemployment or when the State and local governments are at risk?

Mr. POWELL. What that Facility has accomplished is it has opened up the private market. So, State and local governments are borrowing in record amounts at record low yields, and that is across the yield curve and it is in various—

Ms. TLAIB. Only two States applied, correct?

Mr. POWELL. Excuse me?

Ms. TLAIB. Only two States have been able to qualify under the MLF program?

Mr. POWELL. Yes, but they are all borrowing in the public markets—

Ms. TLAIB. How many cities?

Mr. POWELL. They are borrowing in the public markets at much cheaper rates, which is at very cheap rates.

Ms. TLAIB. Okay. But, Chairman Powell, what I understand is for corporations, the Fed supports bonds within a 5-year maturity. Do you think corporations in debt are more important than local municipalities? Because I understand theirs is 5 years, and you have it for what, 3 years for local government?

Mr. POWELL. Yes. State and local governments generally are not allowed to borrow to finance deficits. And so there is—what it is, is their borrowing is for liquidity. And there is a part of the market which is zero to 3 years that is about liquidity, and that is where we have been willing to lend.

But there has been a lot going on, longer-term issues. Twenty-year bonds and 30-year bonds have been issued. And that is because of our backstop. Our Facility is performing its backstop function, and that has enabled the private market to work very well to serve State and local governments.

Ms. TLAIB. Yes. I don't think—honestly, just looking at what happened in the City of Detroit, I am really worried that we are not being flexible enough, that we are not able to accommodate for the fact that these State and local governments—you know that for much of the policies from within, to stabilize the economy, we have to uplift and make sure that the communities are protected. So, I would recommend that you check out the bill that I have, the Uplifting Our Local Communities Act. I really would appreciate that.

Secretary Mnuchin, we have to prevent an economic collapse, right? This is a huge issue. This is probably even deeper than the recession that we went through.

Yes or no, do you believe another stimulus check could help stabilize the economy?

Secretary MNUCHIN. I do.

Ms. TLAIB. However, you have been on record for not supporting the economic package that we passed in May, that included another round of stimulus checks for millions of Americans who are right now unable to afford their rent and so forth.

Can you explain what your position there is? Because I think the American people are a little confused. Does the Administration support another $1,200 stimulus payment?

Secretary MNUCHIN. The Administration does support another stimulus payment.

Ms. TLAIB. But you are willing to go ahead and support within the Heroes Act that payment and push back on what I call the, "let them go bankrupt bill," that the Senate has proposed?

Secretary MNUCHIN. Let me just say I take great pride that the last two bills we did passed with overwhelming bipartisan support. We obviously can't pass a bill in the Senate without bipartisan support. And our job is to continue to work with Congress to try to get additional help to the American public.

Ms. TLAIB. I think you need to be very clear with the Senators, Secretary, really clear that direct payments to individuals is critical to preventing an economic collapse in our country.

Chairwoman WATERS. Thank you very much.

We are going to move to the last Member who will be able to raise questions. Both of our guests have a hard stop at 12:30, and we are going to honor that.

I now recognize the gentleman from North Carolina, Mr. Budd, for 5 minutes.

Mr. BUDD. Thank you, Madam Chairwoman.

And Secretary Mnuchin, thanks for being here.

To date, less than 1 percent of the PPP loans nationwide have been processed through the SBA's forgiveness portal. Many small businesses, these PPP borrowers, are waiting to see if Treasury or Congress is going to act on some sort of bipartisan forgiveness proposals that we see in the House and the Senate.

Now, the current one, as I understand it, the current process is really confusing for a lot of these small business owners, and it is not what they expected when they first took out these loans.

The current process is also a real burden on community banks that have a lot less resources than our large banks.

The time for such a streamlined process to be put in place was a long time ago. It was weeks ago. But due to this delay, the situation with banks and borrowers is getting more and more urgent.

So under your current authority, would you and SBA Administrator Carranza be able to implement a streamlined process as outlined in the Paycheck Protection Small Business Forgiveness Act?

Secretary MNUCHIN. I'm sorry. I would have to look at the specifics of the Act and get back to you. But I believe the answer is that we don't have the authority to implement it the way it is in the Act.

But, again, I would just say the forgiveness portal is open. We are encouraging small businesses to apply. And we are working with SBA to make sure that they can process those as quickly as possible and we could provide small businesses tools to make it easy for them.

Mr. BUDD. Mr. Secretary, I am glad that the portal is open, and I am assuming that it is working. Do you consider it currently to be a streamlined process? And is there anything, any improvement you could do within your authority?

Secretary MNUCHIN. We developed an easy form, so we tried to make it significantly easier. And, again, we are happy to work on a bipartisan basis with Congress if they want to pass legislation that creates blanket authority for forgiveness.

Mr. BUDD. Thank you, Mr. Secretary.

Chairman Powell, thanks again for being here. At your last appearance before the committee you stated that our banking system is robust and it has been a source of strength throughout this pandemic. Specifically, you cited the unprecedented influx of deposits, forbearance measures taken by banks, and the continued ability to lend as evidence of the strengths of the U.S. banks in the COVID-19 environment.

Now, while many industries have understandably needed government support to continue operating during the forced economic shutdown, my view is that the financial system has been a crucial partner for the Fed and Congress in facilitating relief to businesses and to households.

I bring all this up because I have heard some call the recent actions taken by Congress and the Fed—they have actually called it, "a bailout for banks." So my question to you is simple: Has there been a bailout for banks during COVID-19?

Mr. POWELL. No, I wouldn't say that there has been.

Mr. BUDD. My office keeps hearing from companies that are unable to secure short-term financing, but they are using their working capital financing to run their operations. They were too large to take advantage of the PPP, and they don't have access to the capital markets.

So, how could the Fed use its Section 13(3) authority to provide assistance to these companies, many of whom provide services and supplies all up and down the supply chain that are critical to our nation's economy? What can the Fed do to provide assistance to them?

Mr. POWELL. On working capital, in looking at the idea of an asset-based Facility, we did a good deal of work in that sector, and we came away thinking that working capital financing was pretty broadly available. So I am surprised, and it is not a good thing that I am hearing that it is difficult for some. So, we will go back and look at that.

Mr. BUDD. Chairman Powell, is there something that I should relay to these mid-sized businesses, that maybe they haven't found or they are not aware of that they should look to for support?

Mr. POWELL. We have the Main Street Facility, of course, which has three different portals—or three different loan products—and all companies are welcome to borrow there. We have, as I mentioned, growing interest there. There is the PPP program—

Mr. BUDD. Mr. Chairman, do you think there might be a gap—

Mr. POWELL. —the Paycheck Protection Program.

Mr. BUDD. I'm sorry. Do you think there might be a gap between the PPP and the Main Street Lending Facility, where some could get caught sort of in the lurch?

Mr. POWELL. We have been looking for gaps, honestly, and we did look at the working capital, at working capital and finance, and did not see a big problem to solve there. But we will go back and take another look at that.

Mr. BUDD. Thank you, Chairman Powell.

I yield back.

Chairwoman WATERS. Thank you very much.

I would like to thank our distinguished witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 12:23 p.m., the hearing was adjourned.]

A P P E N D I X

September 22, 2020

Statement of Secretary Steven T. Mnuchin
Department of the Treasury
Before the Financial Services Committee
U.S. House of Representatives
September 22, 2020

Chairwoman Waters, Ranking Member McHenry, and members of the Committee, I am pleased to join you today to update you on how the Department of the Treasury and the Federal Reserve have been partnering over the last six months to provide relief for American workers and liquidity to credit markets, businesses, non-profit organizations, state and local governments, and households. We are fully committed to getting every American back to work as quickly as possible.

Economic Recovery

America is in the midst of the fastest economic recovery from any crisis in U.S. history. The August jobs report showed that the economy has gained back 10.6 million jobs since April—nearly 50% of all jobs lost due to the pandemic. The unemployment rate has also decreased to 8.4%, a notable achievement considering some people were expecting up to 25% unemployment at the height of the pandemic. Thanks to the programs provided through the CARES Act, we never got close to that figure.

I believe we will see tremendous third-quarter growth, fueled by strong retail sales, housing starts and existing home sales, manufacturing growth, and increased business activity. The September Blue Chip survey increased its projection for third-quarter GDP growth by 5.3 percentage points to 24%.

The recovery has been strong because the Administration and Congress worked together on a bipartisan basis to deliver the largest economic relief package in American history. The Federal Reserve has also been instrumental to the recovery by implementing 13 unique 13(3) lending facilities.

Economic reopenings, combined with the CARES Act, have enabled a remarkable economic rebound, but some industries particularly hard hit by the pandemic require additional relief.

Phase IV Relief

The President and I remain committed to providing support for American workers and businesses. We continue to try to work with Congress on a bipartisan basis to pass a Phase IV relief package. I believe a targeted package is still needed, and the Administration is ready to reach a bipartisan agreement.

Transparency

Treasury has been working hard to implement the CARES Act with transparency and accountability. We have released a significant amount of information to the public on our website, Treasury.gov, and on USAspending.gov. In many instances, we have released more information than what is required by the statute. The Federal Reserve has also posted information on its website regarding its lending facilities.

We have provided regular updates to Congress, with this marking my sixth appearance before Congress for a CARES Act hearing. Additionally, we are cooperating with various oversight bodies, including the new Special Inspector General for Pandemic Relief, the Treasury Inspector General, the Treasury Inspector General for Tax Administration, the new Congressional Oversight Commission, and the Government Accountability Office (GAO).

We appreciate Congress's interest in these issues and have devoted significant resources to responding to inquiries from numerous congressional committees and individual Members of Congress on both sides of the aisle. We remain committed to working with you to accommodate Congress's legislative needs and to further our whole-of-government approach to defeating COVID-19.

Conclusion

I would like to thank the members of the Committee for working with us to provide critical economic support to the American people. I am pleased to answer any questions you may have.

For release at
4:30 p.m. EDT
September 21, 2020

Statement by

Jerome H. Powell

Chair

Board of Governors of the Federal Reserve System

before the

Committee on Financial Services

U.S. House of Representatives

September 22, 2020

Chairwoman Waters, Ranking Member McHenry, and other members of the Committee, thank you for the opportunity to update you on our ongoing measures to address the hardship wrought by the pandemic. The Federal Reserve, along with others across government, is working to alleviate the economic fallout. We remain committed to using our tools to do what we can, for as long as it takes, to ensure that the recovery will be as strong as possible, and to limit lasting damage to the economy.

Economic activity has picked up from its depressed second-quarter level, when much of the economy was shut down to stem the spread of the virus. Many economic indicators show marked improvement. Household spending looks to have recovered about three-fourths of its earlier decline, likely owing in part to federal stimulus payments and expanded unemployment benefits. The housing sector has rebounded, and business fixed investment shows signs of improvement. In the labor market, roughly half of the 22 million payroll jobs that were lost in March and April have been regained as people return to work. Both employment and overall economic activity, however, remain well below their pre-pandemic levels, and the path ahead continues to be highly uncertain. The downturn has not fallen equally on all Americans; those least able to bear the burden have been the most affected. The rise in joblessness has been especially severe for lower-wage workers, for women, and for African-Americans and Hispanics. This reversal of economic fortune has upended many lives and created great uncertainty about the future.

A full recovery is likely to come only when people are confident that it is safe to reengage in a broad range of activities. The path forward will depend on keeping the virus under control, and on policy actions taken at all levels of government.

Since mid-March, we have taken forceful action, implementing a policy of near-zero rates, increasing asset holdings, and standing up 13 emergency lending facilities. We took these measures to support broader financial conditions and more directly support the flow of credit to households, businesses of all sizes, and state and local governments. Our actions, taken together, have helped unlock more than $1 trillion of funding, which, in turn, has helped keep organizations from shuttering, putting them in a better position to keep workers on and to hire them back as the economy continues to recover.

The Main Street Lending Program (Main Street) has been of significant interest to this Committee and to the public. Many of the businesses affected by the pandemic are smaller firms that rely on banks for loans, rather than public credit markets. Main Street is designed to facilitate the flow of credit to small and medium-sized businesses. In establishing the facility, we conducted extensive outreach, soliciting public comment and holding in-depth discussions with lenders and borrowers of all sizes. In response to feedback, we have continued to make adjustments to Main Street to provide greater support to small and medium-sized businesses and to nonprofit organizations such as educational institutions, hospitals, and social service organizations.

Nearly 600 banks, representing well more than half of the assets in the banking system, have either completed registration or are in the process of doing so. About 230 loans totaling roughly $2 billion are either funded or in the pipeline. Main Street is intended for businesses that were on a sound footing pre-pandemic and that have good longer-term prospects but which have encountered temporary cash flow problems due to the pandemic and are not able to get credit on reasonable terms as a result. Main Street loans may not be the right solution for some businesses, in part because the CARES Act states clearly that these loans cannot be forgiven.

Our credit facilities have improved lending conditions broadly, including for potential Main Street borrowers. The evidence suggests that most creditworthy small and medium-sized businesses can currently get loans from private-sector financial institutions.

Many of our programs rely on emergency lending powers that require the support of the Treasury Department and are available only in unusual circumstances. By serving as a backstop to key credit markets, our programs have significantly increased the extension of credit from private lenders. However, the facilities are only that—a backstop. They are designed to support the functioning of private markets, not to replace them. Moreover, these are lending, not spending powers. Many borrowers will benefit from these programs, as will the overall economy, but for others, a loan that could be difficult to repay might not be the answer. In these cases, direct fiscal support may be needed.

Our economy will recover fully from this difficult period. We remain committed to using our full range of tools to support the economy for as long as is needed.

Thank you. I look forward to your questions.

Summary of Section 13(3) Facilities Using CARES Act Funding

The Municipal Liquidity Facility

The Municipal Liquidity Facility (MLF) helps state and local governments better manage the extraordinary cash flow pressures associated with the pandemic, in which expenses, often for critical services, are temporarily higher than normal and tax revenues are delayed or temporarily lower than normal. This facility addresses these liquidity needs by purchasing the short-term notes typically used by these governments, along with other eligible public entities, to manage their cash flows. By addressing the cash management needs of eligible issuers, the MLF was also intended to encourage private investors to reengage in the municipal securities market, including across longer maturities, thus supporting overall municipal market functioning.

Under the MLF, the Federal Reserve Bank of New York lends to a special purpose vehicle (SPV) that will directly purchase up to $500 billion of short-term notes issued by a range of eligible state and local government entities. Generally speaking, eligible issuers include all U.S. states, counties with a population of at least 500,000 residents, cities with a population of at least 250,000 residents, certain multistate entities, and revenue-bond issuers designated as eligible issuers by their state governors. Notes purchased by the facility carry yields designed to promote private market participation—that is, they carry fixed spreads based on the long-term rating of the issuer that are generally larger than those seen in normal times. With funding from the CARES Act (Coronavirus Aid, Relief and Economic Security Act), the Department of the Treasury has committed to make a $35 billion equity investment in the SPV.

As of September 18, the facility had purchased two issues for a total outstanding amount of $1.7 billion.

The MLF has contributed to a strong recovery in municipal securities markets, which has facilitated a historic issuance of more than $250 billion of bonds since late March. State and local governments and other municipal bond issuers of a wide spectrum of types, sizes, and ratings have been able to issue bonds, including long maturity bonds, with interest rates that are at or near historical lows. Those municipal issuers who do not have direct access to the Federal Reserve under the MLF have still benefited substantially from a better-functioning municipal securities market.

The Main Street Lending Program

The Federal Reserve established the Main Street Lending Program (Main Street) to support lending to small and medium-sized businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic and that have good longer-term prospects but which have encountered temporary cash flow problems due to the pandemic, and are not able to get credit on reasonable terms as a result. In addition to providing loans for borrowers in current need of funds, Main Street offers a credit backstop for firms that do not currently need funding but may if the pandemic continues to erode their financial condition.

Under Main Street, the Federal Reserve Bank of Boston has set up one SPV to manage and operate five facilities: the Main Street New Loan Facility (MSNLF), the Main Street Priority Loan Facility (MSPLF), the Main Street Expanded Loan Facility (MSELF), the Nonprofit Organization New Loan Facility (NONLF), and the Nonprofit Organization Expanded Loan Facility (NOELF). The SPV will purchase up to $600 billion in Main Street loan participations, while lenders retain a percentage of the loans. Main Street loans have a five-year maturity, no principal payments in the first two years, and no interest payments in the first year. Businesses with less than 15,000 employees or 2019 revenues of less than $5 billion are eligible to apply for Main Street loans. Available loan sizes span from $250,000 to $300 million across the facilities and depend on the size and financial health of the borrower. With funding from the CARES Act, the Department of the Treasury has committed to make a $75 billion equity investment in the SPV.

The business facilities (MSNLF, MSPLF, and MSELF) and nonprofit facilities (NONLF and NOELF) have broadly similar terms, but differ in their respective underwriting standards.

The business facilities use the same eligibility criteria for lenders and borrowers and have many of the same terms, while other features of the loans extended in connection with each facility differ. The loan types also differ in how they interact with the borrower's outstanding debt, including with respect to the level of pre-crisis indebtedness a borrower may have incurred. Similarly, the nonprofit facilities have many of the same characteristics, but some features of the loans extended in connection with each facility differ. Eligible lenders may originate new loans under MSNLF, MSPLF, and NONLF or may increase the size of existing loans under MSELF and NOELF.

Main Street became operational on July 6. The Federal Reserve and Treasury have modified the program several times to reflect extensive consultations with stakeholders. As of September 18, nearly 600 lenders representing more than half of U.S. banking assets have registered to participate in the program, and the program has purchased over $1 billion in participations.

Since Main Street became operational, the number of registered lenders and the amount of loan participations continue to increase. Program usage, will depend on the course of the economy, the demand for credit by small and medium-sized businesses, and the ability of lenders to meet credit needs outside the Main Street program. Demand for Main Street loans may increase over time if the pandemic continues to affect the ability of businesses and nonprofits to access credit through normal channels and as other support programs expire.

The Secondary Market Corporate Credit Facility

The Secondary Market Corporate Credit Facility (SMCCF) is designed to work alongside the Primary Market Corporate Credit Facility (PMCCF) to support the flow of credit to large investment-grade U.S. companies so that they can maintain business operations and capacity during the period of dislocation related to COVID-19. The SMCCF supports market liquidity by purchasing in the secondary market corporate bonds issued by investment-grade U.S. companies, U.S. companies that were investment grade before the onset of the pandemic and remain near-investment-grade, and U.S.-listed exchange-traded funds (ETFs) whose investment objective is to provide broad exposure to the market for U.S. corporate bonds.

Under the SMCCF, the Federal Reserve Bank of New York lends to an SPV that purchases in the secondary market both corporate bond portfolios in the form of ETFs and individual corporate bonds to track a broad market index. The SMCCF purchases ETF shares and corporate bonds at fair market value in the secondary market and avoids purchasing shares of ETFs when they trade at prices that materially exceed the estimated net asset value of the underlying portfolio. The pace of purchases is a function of the condition of the U.S. corporate bond markets. With funding from the CARES Act, the Department of the Treasury has committed to make a $75 billion equity investment in the SPV for the PMCCF and SMCCF, with a $25 billion allocation toward the SMCCF.

The SMCCF staggered its launch of ETF and bond purchases in order to act as quickly and effectively as possible. Through ETF purchases beginning on May 12, the SMCCF provided liquidity to the corporate bond market relatively quickly. The Federal Reserve began direct corporate bond purchases under the broad market index purchase program on June 16. In its first week of bond purchases, the SMCCF was purchasing about $370 million per day. As of

September 18, purchases have been slowed to a current daily pace of approximately $20 million of bonds and no ETFs, and the total SMCCF outstanding value has reached $12.8 billion.

The SMCCF's announcement effect was strong, quickly improving market functioning and unlocking the supply of hundreds of billions of dollars of private credit. Since late March, more than $800 billion in corporate bonds have been issued without direct government or taxpayer involvement. The SMCCF has materially reduced its pace of purchases over the past few months as a result of the substantial improvements in the functioning of the U.S. corporate bond markets. The pace of purchases going forward will continue to be guided by measures of market functioning, increasing when conditions deteriorate and decreasing when conditions improve.

The Primary Market Corporate Credit Facility

The Primary Market Corporate Credit Facility (PMCCF) is designed to work alongside the Secondary Market Corporate Credit Facility (SMCCF) to support the flow of credit to large investment-grade U.S. companies so that they can maintain business operations and capacity during the period of dislocation related to COVID-19. The PMCFF supports market liquidity by serving as a funding backstop for corporate debt.

Under the PMCCF, the Federal Reserve Bank of New York lends to an SPV. The SPV will purchase qualifying bonds and syndicated loans with maturities up to four years either as the sole investor in a bond issuance or as a participant in a loan or bond syndication at issuance, where the facility may purchase a maximum of 25 percent of the syndication. With funding from the CARES Act, the Department of the Treasury has committed to make a $75 billion equity investment in the SPV for the PMCCF and SMCCF, with a $50 billion allocation toward the PMCCF.

As of September 18, there have not been any PMCCF transactions, nor have any indications of interest been received.

The dual announcement of the SMCCF and PMCCF was well received by the market. Between March 23 and April 6, credit spreads for investment-grade bonds declined substantially. While the PMCCF has not purchased any bonds since it opened, it serves as a backstop should markets enter another period of stress.

The Term Asset-Backed Securities Loan Facility

The Term Asset-Backed Securities Loan Facility (TALF) supports the flow of credit to consumers and businesses by enabling the issuance of asset-backed securities (ABS) guaranteed by newly and recently originated consumer and business loans.

Under the TALF, the Federal Reserve Bank of New York lends to an SPV. The SPV will make up to $100 billion of three-year term loans available to holders of certain triple A-rated ABS backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (SBA), and certain other assets. The Federal Reserve lends an amount equal to the market value of the ABS less a haircut and the loan is secured at all times by the ABS. With funding from the CARES Act, Treasury has committed to make a $10 billion equity investment in the SPV.

As of September 18, the TALF has extended $2.9 billion in loans since its launch on May 20. Loans have been collateralized by SBA-guaranteed ABS, commercial mortgage-backed securities (CMBS), and premium-finance and student-loan ABS.

The announcement and presence of the TALF has helped improve substantially liquidity in the ABS markets, including those for CMBS and collateralized loan obligations, with spreads in some ABS sectors returning close to normal levels. The TALF interest rates are attractive to borrowers when market conditions are stressed, but not in normal conditions. While the facility is authorized to extend up to $100 billion in loans, total take-up will likely be much less unless ABS market conditions worsen.

Questions for the Record
Full Committee Hearing, "Oversight of Treasury Department's and Federal Reserve's Pandemic Response"
September 22, 2020

Questions from Chairwoman Maxine Waters

Question:

Secretary Mnuchin and Chair Powell, recently Dr. Douglas Holtz-Eakin, a Republican witness, stated before this Committee that according to his estimates states had an unfilled $230 billion budget gap and that he didn't understand why Treasury and Federal Reserve resources to provide credit to states were so underused. Furthermore, in recent testimony before the Congressional Oversight Commission, Mark Zandi of Moody's estimated an even higher state and local government budget gap and stated that the Municipal Liquidity Facility (MLF) should be made "much more generous" by slashing interest rates and extending the term of loans to ten years, in order to prevent massive layoffs and cuts in services. In the same hearing we also had the president of the nonpartisan Government Finance Officers Association tell us that the current terms of the MLF meant that it was "not a practical solution" for many states and localities, and he also recommended lower rates, longer terms of loans, and extending the underwriting deadline for the program beyond December 31st of this year. The Fed lowered the penalty rate on bonds purchased in the MLF by fifty basis points, and a senior Federal Reserve official confirmed to the Congressional Oversight Commission that your agencies could make all of these changes on your own authority tomorrow, with no need for Congressional action. The already committed 7% equity of the program would still be more than adequate to cover any expected credit losses, since we know from over a century of experience that municipal debt default rates are extraordinarily low. Will you consider lowering penalty rates further or eliminating them altogether?

Response:

As you know, under Section 13(3) of the Federal Reserve Act and the Federal Reserve Board's Regulation A, the interest rate must be a rate that is a premium to the market rate in normal circumstances, that affords liquidity in unusual and exigent circumstances, and that encourages repayment and discourages use of facility as the unusual and exigent circumstances that motivated the program recede and economic conditions normalize. The rates cannot be eliminated altogether, and have been lowered once, on August 11, 2020, when the Federal Reserve revised the pricing to reflect the trend of normalization of rates in the market. Due in part to the Municipal Liquidity Facility, the municipal bond markets have stabilized and state and local governments have access to credit. While Treasury does not currently believe the rates should be decreased, Treasury will continue to monitor market stability and issuer market access in case the need arises.

Question:

Secretary Mnuchin, as part of the CARES Act, Congress established several oversight bodies, including the Office of the Special Inspector General for Pandemic Recovery (SIGPR), to oversee the expenditure of government funds in response to the Covid-19 pandemic in the United States. But according to SIGPR's initial report to Congress on August 3, 2020, the inspector general is not guaranteed to receive the information it needs to effectively oversee Covid-19 stimulus funds. According to the report, the Treasury Department drafted loan agreement language that did not require borrowers receiving direct loans under the CARES Act to provide documentation to SIGPR. SIGPR needs full and unfettered access to all such documentation in order to fulfill its congressionally mandated oversight role. According to correspondence between SIGPR and Treasury, SIGPR recommended Treasury amend the language of the loan agreement to guarantee unfettered access and Treasury agreed to do so as of July 30, 2020. Has the Department of the Treasury changed the language in their loan agreement for direct loans to require borrowers to provide information to SIGPR when requested?

Response:

Yes.

Question:

Secretary Mnuchin and Chair Powell, since July, $10 billion has been paid out to the corporate owners through the issuance of more debt, courtesy of the Fed's backstop for other parts of the corporate debt market, with little going to the company itself in such deals. How concerned are you about money from the CARES Act being diverted by private equity firms to pay themselves instead of being invested into the factories and workers of companies they own?

Response:

In the Main Street Lending Program, eligible lenders are limited to U.S. federally insured depository institutions, U.S. branches or agencies of a foreign bank, U.S. bank holding companies, U.S. savings and loan holding companies, U.S. intermediate holding companies of foreign banking organizations, or U.S. subsidiaries of any of the foregoing. Moreover, all borrowers must undertake to comply with the restrictions on payment of dividends, stock repurchases, and executive compensation under Section 4003(c)(3)(ii) of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In addition, a borrower's employees and 2019 annual revenues are calculated by aggregating the employees and the 2019 annual revenues of the borrower itself with those of its affiliated entities in accordance with the affiliation test set forth in 13 CFR 121.301(f) (1/1/2019 ed.). This affiliation test applies to private equity-owned businesses in the same manner as any other business subject to outside ownership or control.

Question:

Secretary Mnuchin and Chair Powell, we already know that the leveraged lending market was overheated even before the current economic crisis. What risks to financial stability are created by further debt issuance simply to pay off already wealthy owners and executives of these companies? Are you concerned that your various corporate credit programs, especially the secondary market corporate credit purchases, are fueling this kind of behavior?

Response:

The Main Street Lending Program places restrictions on borrowers' executive compensation, stock repurchases, and capital distributions. The Main Street Lending Program is 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 and have good post-pandemic prospects, but now need loans to help maintain their operations until they have recovered from, or adapted to, the impacts of the pandemic. Borrowers must fulfill program criteria and eligible lenders' customary underwriting processes.

The Primary Market and Secondary Market Corporate Credit Facilities (PMCCF and SMCCF, respectively) require eligible issuers to be rated at least BBB-/Baa3 as of March 22, 2020, by a major nationally recognized statistical rating organization. An issuer that was rated at least BBB-/Baa3 as of March 22, 2020, but was subsequently downgraded, must be rated at least BB-/Ba3 as of the date on which the PMCCF or SMCCF makes its purchase. These ratings requirements help to mitigate the risks to financial stability that could arise out of the issuance of debt by eligible entities.

Question:

Secretary Mnuchin and Chair Powell, what plans do you have for strengthening supervision and regulation of financial institutions, especially the too-big-to-fail banks, now that the Fed has settled on a course of a long-term, highly accommodative monetary policy? Though we can only laud your stepped-up focus on unemployment, the country needs a strong defense against the creation of asset bubbles and financial instability. Does the Fed's new monetary policy framework also entail a rethink of the deregulatory approach outlined in numerous reports from the Treasury Department and implemented by the Fed over the last three years? Has the Fed considered development a set of financial stability tools that will ensure to complement its more long-term commitment to accommodative monetary policy?

Response:

In its 2017 report *A Financial System that Creates Economic Opportunities: Banks and Credit Unions*, Treasury offered a number of recommendations to improve the strength, efficiency, and effectiveness of the banking system, including by tailoring stress-testing requirements based on the size and complexity of banks. We are encouraged that the Federal Reserve's recent tests indicated that the U.S. banking system remains strong, and we will continue to closely monitor the banking sector during the ongoing challenges posed by the COVID-19 global pandemic. Treasury continues to support tailoring financial regulation based on financial institutions' risk profiles while seeking to maintain their strength. Additionally, the Financial Stability Oversight Council continues to monitor risks to the financial stability of the United States. Treasury is committed to working with the regulators to promote market liquidity and credit provision while addressing potential risks to financial stability.

Question:

Secretary Mnuchin and Chair Powell, in the Federal Reserve's June monetary policy report, the data showed that this recession is having a disastrous impact on economic inequality. The Fed found that jobs losses are by far greater among low income workers, less educated workers, and communities of color. Indeed, the Fed found that high-wage workers had lost only a few percentage points of employment while low wage workers had seen declines in employment of 40 percent or more. Now, three months later, with economic weakness continuing and potential evictions and foreclosures looming on the horizon, what further information does Treasury or the Fed have about the impact of this recession on economic and racial inequality?

Response:

It is unfortunately true that the service sector has been hard hit by this recession, a sector that typically pays lower wages and employs many minority workers. However, that is why the Administration's response has been extremely progressive and focused on working class households and those hardest hit. The CARES Act offered Economic Impact Payments that phased out starting at $75,000 income for singles and $150,000 for married couples filing jointly, so that the payment was a much larger share of income for lower-wage households. The CARES Act also offered $600 supplemental Federal Pandemic Unemployment Compensation, which raised unemployment insurance benefit replacement rates above 100% for over two-thirds of the workforce, with the highest replacement rates for lowest-wage individuals. The Paycheck Protection Program (PPP) supported over 80% of eligible small business payroll, nationally. The 20% of counties with the highest share of racial minorities received 47% of PPP funds, larger even than their 41% share of the national population. This proportion of the funding supports 21.8 million workers, indicating PPP has been enormously beneficial for minority communities. Thanks to the Administration's focus on helping low-wage and minority households, personal income in April surged over 10% above its level as of February and the unemployment rate has been cut in half since the height of the pandemic.

Question:

Secretary Mnuchin and Chair Powell, in the House-passed Heroes Act, a provision allowed for certain nonprofit organizations to have their Main Street Lending Program loans forgiven by the Department of Treasury to maintain payroll and operations. Nonprofits are on the frontlines of responding to COVID-19, and they play a critical role in helping re-open the country. Vulnerable individuals, families, and communities are relying on the expertise, services and resources of nonprofits to aid in the fight against COVID-19, and will continue to depend on this support in the recovery efforts. Would you support providing loan forgiveness to small and mid-sized nonprofits through the Main Street Lending Program, or otherwise provide direct support to these nonprofits?

Response:

While we recognize the important role that nonprofits play in the economy, Main Street loans are full-recourse loans and are not forgivable. Under section 4003(d)(3) of the CARES Act, the principal amount of a Main Street loan cannot be reduced through loan forgiveness.

Question:

Secretary Mnuchin, COVID-19 is taking a major toll on emerging markets. Trade is falling and new capital has dried up as investors have pulled back. For the first time in 60 years, emerging market economies are poised to collectively shrink. This will set back decades of progress in alleviating global poverty. It also means that many countries don't have any ability to boost health spending to combat the effects of the pandemic, leading to the loss of countless lives across the globe. The United States needs to lead the international response and there are a number of tools we can use to help these countries regain economic footing. One won't cost the United States a single penny. The IMF can issue "special drawing rights"--a reserve currency that can help stabilize a country's economy and that can be exchanged for dollars. The IMF authorized a $250 billion SDR allocation during the global financial crisis in 2009. It's past time to issue another SDR allocation that is sizeable enough to help mitigate the economic and public health crises that the world faces today. This is a measure that has broad international and domestic support, as it would help both developing countries and – by boosting global demand for US exports – our own economy.

a. **Secretary Mnuchin**, will you commit to working with the IMF to get an SDR allocation out the door as quickly as possible?

Response:

I continue to view a new SDR allocation as an ineffective tool for providing targeted support. Almost 70% of any new allocation would go to G20 countries, most of which can access financing from global markets, while just 3% would go to low-income countries. Further, SDRs are not costless to use, as a country must still pay interest on any SDRs that it uses to the extent the country holds fewer SDRs than its net cumulative allocation. I strongly support efforts to increase International Monetary Fund (IMF) financing to low-income countries, including concessional lending through the Poverty Reduction and Growth Trust and, for those with IMF debt obligations in the near term, debt relief through the Catastrophe Containment and Relief Trust. I welcome efforts to contribute to these trust funds, including through the use of existing SDRs, to help support low-income countries.

Question:

The Hardest Hit Fund (HHF) was created administratively by the Department of Treasury in 2010 under the Troubled Asset Relief Program (or TARP) to help prevent home mortgage foreclosures in the wake of the Great Recession. HHF provided 19 State Housing Finance Agencies, including in the District of Columbia, with funding to design locally tailored initiatives to prevent home foreclosures. In December 2015, Congress authorized an additional $2 billion in unused TARP funds to be made available to the HHF, bringing total program funding to $9.6 billion. Treasury allocated this additional $2 billion in funding to the 19 states that were already participating in the HHF. Participating states have used their funds for a variety of programs, including mortgage modifications, helping unemployed homeowners with mortgage payments, facilitating short sales and other foreclosure alternatives, and removing blighted homes, among other programs. While many of the temporary programs that were established to help households facing foreclosure have since ended, the HHF remains active and participating states have until December 31, 2020 to use their HHF funds. As of March 30, 2020, $515.4 million in HHF funding was available to be spent by FY22. This figure includes $84.5 million in funds that were returned by the State of California and $6.5 million that the State of Florida sent back to Treasury when they closed their HHF programs this year. On April 8, 2020, SIGTARP recommended that Treasury use the $91 million in funds returned from California and Florida to "help with the recent significant rise in unemployment."

b. **Secretary Mnuchin**, can you please tell us how you plan to reallocate unspent Hardest Hit Funds? We have heard that states like Arizona are using their funds to help homeowners remain current on their mortgage payments. Are you aware of these efforts and will you commit to use unspent Hardest Hit Funds to help renters and homeowners become current on their housing payments?

Response:

Treasury understands your support for HHF and allowing states to fully utilize their funds to assist homeowners suffering financial hardships due to COVID-19 or its effects. To this end, Treasury has extended the deadline for HHF states to approve new borrowers for assistance from December 31, 2020 to June 30, 2021. Treasury continues to work with HHF states to assist families and communities during the pandemic.

Treasury's initial statutory authority to allocate funding and select new TARP participants expired on October 3, 2010. In 2015, Congress passed the Consolidated Appropriations Act of 2016, which authorized Treasury to allocate an additional $2 billion to HHF. Treasury's statutory authority to allocate these additional funds expired on December 31, 2017. Currently, Treasury does not have the authority to obligate additional funds or reallocate funds between participants.

<u>Questions from Representative Stivers</u>

Question:

Could the Department of the Treasury please clarify if a company must demonstrate harm in order to receive funds under the Payroll Support Program (PSP)? If not, does the Department plan to require proof of coronavirus-related harm for future applicants? Could you describe the guardrails that are in place currently that ensure companies in need of relief are prioritized?

Response:

The CARES Act requires Treasury to provide payroll support to all air carriers and contractors that meet the statutory eligibility requirements.

The Department of the Treasury expects all participants in the Payroll Support Program to comply with the requirements of the CARES Act, which are also incorporated into the terms of each carrier's Payroll Support Program Agreement. Treasury has posted program guidance on its website, including a form of Payroll Support Program Agreement setting forth statutory requirements and other terms under which payroll support is provided.[1] The CARES Act does not require recipients to demonstrate harm in order to receive funds; as such, the Payroll Support Program agreement does not include such a requirement.

Questions from Representative Kustoff

Question:

A recent study conducted by The Becker Friedman Institute at University of Chicago found that the economic impacts resulting from COVID-19 have led to a wave of earlier than planned retirements. According to the study's findings, the share of Americans not actively looking for work because of retirement increased by 7 percent between January and early April.

Secretary Mnuchin, Do you think an RMD freeze in 2021 would be helpful to those retirees and older Americans who have incurred significant losses in their retirement accounts?

Response:

Yes, an RMD freeze in 2021 would be helpful to those retirees and older Americans who have incurred significant losses in their retirement accounts, in order to give them additional flexibility over when to incur taxes on distributions from their retirement accounts.

Question:

[Follow Up] What are some other ways we can provide individuals more flexibility in their retirement plans during these economically uncertain times? Are there any specific policies you think Congress should consider?

Response:

The Secretary remains committed to working with Congress on a bipartisan basis to implement additional, targeted economic assistance to those sectors of the economy still reeling from the impacts of the pandemic.

[1] *See* https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry.

Questions from Representative Tulsi Gabbard

Question:

Supporting the Tourism Industry: a. Secretary Mnuchin: As Chairman Powell noted in his written testimony, "a full economic recovery is likely to come only when people are confident that it is safe to re-engage in a broad range of activities". For states with a large tourism industry to fully recover, this means public confidence in the safety of traveling to another state.

a. Do you have plans to stimulate the tourism economy after a vaccine has been safely developed and made available to the public?

Response:

Once a vaccine has been developed and made available to the public, we anticipate resurgent, pent-up demand to be released in sectors like tourism, and we expect demand to be sufficiently healthy that these sectors will not need additional policy stimulus.

Question:

b. Is the administration still considering vacation tax credits to incentivize people to travel in future stimulus programs?

Response:

If Congress enacts legislation that adds a tax credit to the Internal Revenue Code designed to incentivize vacation and travel, we would work to quickly and effectively implement it.

Question:

2. **U.S. Sanctions: a.** Secretary Mnuchin: Economic sanctions have become a central part of the Administration's foreign policy and national security agenda. Currently, the U.S. has economic sanctions in place on a number of foreign governments, including some that have been in place for more than half a century. Yet, some economic sanctions have arguably been ineffective and counterproductive.

    a. Does the Department of Treasury work with other federal departments and agencies to assess the effectiveness of economic sanctions in achieving U.S. foreign policy and national security goals?

Response:

Economic and financial sanctions are critical tools in U.S. national security and foreign policy designed to change the behavior of malign actors and protect the U.S. financial system from abuse. When deciding whether and how to impose sanctions, in addition to policy direction, the U.S. Government relies upon all-source intelligence to identify targets and assess the projected impacts and risks of the proposed sanctions, including impacts on other foreign policy interests and tools, as well as implications for the U.S. and global economies. Treasury leverages economic analysis conducted by its relevant components and interagency partners, such as the Departments of Commerce, State, and Energy, and the U.S. Agency for International Development. Similarly, Treasury works with the interagency to assess the effectiveness of sanctions in achieving U.S. foreign policy and national security goals. This includes constant interagency dialogue through formal and informal meetings, ongoing assessment of all-source intelligence related to sanctions, and specialized research and analysis from relevant departments and agencies on issues related to the effectiveness and impact of our sanctions.

Treasury also works closely with our allies and partners to understand and take into account their viewpoints with respect to our sanctions programs. When possible, Treasury seeks to amplify its sanctions through complementary sanctions or non-sanctions actions by international partners, including the UN and EU. Our outreach also includes engagement with the private sector to ensure we know the concerns of the financial and other relevant sectors, both domestically and internationally, so we are able to better understand the impacts of our sanctions.

Sanctions are just one of many tools to help address policy objectives and are most effective when pursued with complementary intra- and inter-agency and inter-governmental actions (e.g., law enforcement investigations, engagement with foreign governments, collaboration with Congress).

Question:

b. If not, do you agree that regularly assessing the efficacy of economic sanctions by reporting on benchmarks, as well as unintended negative consequences, would benefit the effective implementation of U.S. foreign policy and national security?

Response:

See above.

Questions from Representative Andy Barr

Question:

Section 4003 of the CARES Act authorized the Secretary of the Treasury to make loans, loan guarantees or other investments in support of eligible businesses, including airlines and qualified service providers to the airline industry. Many applicants for aid under Section 4003 were in time-sensitive need of assistance. However, I have heard reports of applicants waiting weeks for review of an application by Treasury. Further, I have heard reports of a lack of transparency in the criteria for evaluating the eligibility of an applicant and the absence of an explicit process for applicants to request reconsideration of an initial determination by Treasury.
Secretary Mnuchin:

1. **1.** On average, how long did Treasury take to respond, either affirmatively or negatively, to loan applications submitted pursuant to Section 4003?
2. **2.** On average, how much time did Treasury give applicants to respond to due diligence requests before making a final determination of eligibility?
3. **3.** Did Treasury provide an avenue for applicants to request reconsideration of an application's rejection?

Response:

Since enactment of the CARES Act, Treasury has worked expeditiously to establish the Payroll Support Program and the loan program, review and process over a thousand applications, and disburse funds to approved participants. Treasury's grant and loan application review processes involved significant interaction with applicants to ensure that the information on which Treasury based its decisions was correct. A list of closed loans can be found at: https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses. Treasury expects to finalize all loans to qualifying businesses who choose to participate in the loan program in November 2020.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

February 26, 2021

The Honorable Maxine Waters
House of Representatives
Washington, D.C. 20515

Dear Madam Chairwoman:

Enclosed are my responses to questions 1 through 16 and 18, 19, 21 through 27 that you submitted following the September 22, 2020,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. My response to your remaining question will be forthcoming.

Please let me know if I may be of further assistance.

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on October 2, 2020.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Waters:

1. Chair Powell, by early July, about 400 lenders had registered or were in the process of registering to participate in the Main Street program. As of early September, that number was up to about 575, but a single lender in Florida accounted for 50% of the loans to date. By contrast, the PPP has over 5,400 financial institutions participating as lenders. Why do banks appear to be reluctant to participate in the Main Street Lending Program and what is the Federal Reserve doing to actively engage larger banks to explore ways to increase their participation in the Main Street facilities?

When the Main Street Lending Program (Main Street) was in operation, it grew in terms of number of lenders and volume of loan participations. As of October 30, 2020, over 600 lenders of various sizes across the United States had completed the registration process, and the facilities had purchased nearly $4 billion in loan participations. There are many distinctions between the Paycheck Protection Program (PPP) and Main Street. Most importantly, while the PPP is a loan forgiveness program, Main Street loans cannot be forgiven pursuant to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). As such, the program was designed such that banks were required to use their established underwriting practices—in addition to program standards—to assess a borrower's credit risk. To help ensure appropriate underwriting, banks were required to retain five percent of the risk of such loans and share risk with the Main Street special purpose vehicle (SPV) on a *pari passu* basis.

To raise awareness and engage lenders of all sizes, the Federal Reserve conducted extensive outreach about Main Street. Federal Reserve staff held more than a dozen webinars targeted at lenders, including a series of question-and-answer sessions from late September 2020 through early November 2020.

In addition, the Federal Reserve made changes to program terms and clarified program expectations in an effort to incentivize lender participation. In the Main Street Frequently Asked Questions, the Federal Reserve addressed questions from lenders regarding underwriting expectations by clarifying that the lender was expected to conduct an assessment of each potential borrower's pre-COVID-19 financial condition and post-COVID-19 prospects, taking into account the payment deferral features of Main Street loans. Additional changes to Main Street on October 30, 2020, doubled the origination and servicing fees that lenders could collect in connection with Main Street loans that have a principal amount of $100,000 to $250,000. This helped offset the higher costs incurred by lenders to make such loans.

As you are aware, in accordance with section 1005 of the Consolidated Appropriations Act, 2021, Main Street ceased extending credit on January 8, 2021.

2. Chair Powell, the Federal Reserve currently purchases 95% participation in Main Street loans while banks retain 5% interest in the loans. For some banks, that structure simply may not be worth participating in if the loan amounts are relatively small. What steps is the Federal Reserve taking or considering to incentivize banks to make smaller loans in

order to help meet the needs of small business borrowers? Will you consider lowering the minimum loan threshold below $250,000, as Secretary Mnuchin was open to?

On October 30, 2020, the Federal Reserve Board (Board) and the U.S. Department of the Treasury (Treasury) reduced the minimum loan size for the Main Street Priority Loan Facility (MSPLF), Main Street New Loan Facility (MSNLF), and Nonprofit Organization New Loan Facility (NONLF) from $250,000 to $100,000 to enable more small and medium-sized for-profit businesses and nonprofit organizations to access the program. In light of the higher relative cost of making Main Street loans with a principal amount of $100,000 to $250,000, the Board and Treasury announced a new fee structure that doubled the rate lenders would receive for originating and servicing such loans, without requiring borrowers to pay higher fees.

As noted above, in accordance with section 1005 of the Consolidated Appropriations Act, 2021, Main Street ceased extending credit on January 8, 2021.

3. Chair Powell, Senate Republicans have proposed clawing back all uninvested funds and terminating the authority to make new loans under Section 4003 of the CARES Act in January 2021. During his testimony, Treasury Secretary Mnuchin endorsed that concept and supported "re-allocating" $200 billion in Section 4003 funds. What has the effect of having uninvested CARES Act money been on the financial markets? Has the Fed produced an analysis of conditions in financial markets such as corporate credit and municipal bond markets if Congress enacts such a proposal and withdraws remaining funds from the Section 13(3) emergency lending facilities?

The emergency facilities created under section 13(3) of the Federal Reserve Act have generally served to unlock credit markets, allowing borrowers to issue debt normally through private markets.

As you know, in accordance with section 1005 of the Consolidated Appropriations Act, 2021, Main Street ceased extending credit on January 8, 2021.

4. Chair Powell, does the Federal Reserve have an estimate of economic conditions if the remaining emergency lending funds are re-allocated to other purposes?

Please see response to question 3.

5. Chair Powell, in recent months, the municipal bond market has stabilized, and after a brief downturn, new issuances have picked back up. When the New York MTA did not receive $12 billion in needed federal assistance, the private market failed to make it an attractive offer, forcing the MTA to sell notes to the municipal liquidity facility. If Congress does not provide more assistance to state and local governments, does the Federal Reserve expect what happened with MTA will play out in other jurisdictions, resulting in a surge of activity in the municipal liquidity facility?

Conditions in the municipal bond market stabilized after the establishment of the MLF. However, many issuers remained unable to meet their financing needs through the capital markets. In these cases, eligible issuers could sell eligible notes to the MLF special purpose vehicle through December 31, 2020.[2]

6. Secretary Mnuchin and Chair Powell, recently Dr. Douglas Holtz-Eakin, a Republican witness, stated before this Committee that according to his estimates states had an unfilled $230 billion budget gap and that he didn't understand why Treasury and Federal Reserve resources to provide credit to states were so underused. Furthermore, in recent testimony before the Congressional Oversight Commission, Mark Zandi of Moody's estimated an even higher state and local government budget gap and stated that the Municipal Liquidity Facility (MLF) should be made "much more generous" by slashing interest rates and extending the term of loans to ten years, in order to prevent massive layoffs and cuts in services. In the same hearing we also had the president of the nonpartisan Government Finance Officers Association tell us that the current terms of the MLF meant that it was "not a practical solution" for many states and localities, and he also recommended lower rates, longer terms of loans, and extending the underwriting deadline for the program beyond December 31st of this year. The Fed lowered the penalty rate on bonds purchased in the MLF by fifty basis points, and a senior Federal Reserve official confirmed to the Congressional Oversight Commission that your agencies could make all of these changes on your own authority *tomorrow*, with no need for Congressional action. The already committed 7% equity of the program would still be more than adequate to cover any expected credit losses, since we know from over a century of experience that municipal debt default rates are extraordinarily low. Will you consider lowering penalty rates further or eliminating them altogether?

The pricing methodology under the MLF met the legal requirements under section 13(3) of the Federal Reserve Act and the Board's Regulation A. This regulation states that an interest rate on eligible notes must be a rate that is a premium to the market rate in normal circumstances, affords liquidity in unusual and exigent circumstances, and encourages repayment of the eligible notes and discourages use of the facility as the unusual and exigent circumstances that motivated the program recede and economic conditions normalize.

On August 11, 2020, the Federal Reserve announced revised pricing for the MLF, which reduced the interest rate spread for each credit rating category by 50 basis points and further reduced the amount by which the interest rate for taxable notes was adjusted relative to tax-exempt notes.

As you know, in accordance with section 1005 of the Consolidated Appropriations Act, 2021, the MLF ceased extending credit December 31, 2020.

7. Chair Powell, after Dodd-Frank required the Federal Reserve to revise its rules around Section 13(3) emergency lending, the Fed sought comment on its notice of proposed rulemaking (NPR) for 13(3) lending procedures ("Regulation A") in December 2013. The NPR did not mention any penalty rates on emergency loans, although a requirement to apply penalty rates to emergency lending was included in the final rule in 2015. Now, steep penalty rates are preventing the Fed from offering attractive rates to states and cities,

[2] See the MLF term sheet, effective as of August 11, 2020, at www.federalreserve.gov/newsevents/pressreleases/files/monetary20200811a1.pdf.

which largely explains why the municipal liquidity facility has only been used by two entities since it became operational in May. The Fed's regulation seems very flexible and amenable to a more attractively priced MLF, as evidenced by the reduction of penalty rates across the board by fifty basis points on August 10. Have you considered reducing the penalty rates further? If not, have you considered revising the rule that requires a penalty rate?

Please see response to question 6.

8. Chair Powell, discussing how estimates of further fiscal stimulus by Congress influenced the Federal Open Market Committee's forecasts for the economy, you told Rep. Denny Heck that "Most private sector forecasters are assuming some kind of a package passes sometime in the next few months." However, Wall Street analysis released the morning of your testimony concluded that "We now view the chances of a new stimulus prior to the election to be effectively zero." How would a lack of additional funding for state and local governments impact the municipal liquidity facility?

The purpose of the MLF was to enhance the liquidity of the primary short-term municipal securities market through the purchase at issuance of Tax Anticipation Notes (TAN), Tax and Revenue Anticipation Notes (TRAN), Bond Anticipation Notes (BAN), Revenue Anticipation Notes (RAN), and similar short-term notes from eligible issuers. Following the announcement and implementation of the MLF, conditions in the municipal bond market improved, with spreads on general obligation bonds steadily decreasing and primary issuance activity picking up in recent months. The MLF continued to make new loans and asset purchases through December 31, 2020.

9. Chair Powell, attendees of the Federal Reserve's August policy symposium discussed a new paper co-authored by a Federal Reserve researcher, which found that economic growth is slowing, in part because "market concentration has risen" and "market concentration and labor share [of income] are negatively associated." Some surveys of small businesses have estimated that roughly half of small businesses are at risk of closing next year. Meanwhile, the Fed's corporate credit facilities have empowered large business borrowing, and the five largest tech firms have come to comprise roughly 25% of the S&P 500. What data and analysis exists showing how economic concentration might constrain this recovery?

It is highly uncertain how market concentration might be constraining the recovery. The extent to which market concentration is increasing in the United States and the effects of any increase in concentration on economic activity are subjects of much research currently, but a consensus view on these questions has not yet emerged.[3] While some research points to increased industry concentration at the national level, other research suggests that concentration at more disaggregated levels (i.e. by industry and geography) has not increased. In addition, while some

[3] Furman (2018) summarizes some of the research and outstanding questions on this topic.

research finds that increased concentration has led to higher price markups and profits, other research questions these findings.[4]

Much more certain is the importance of small businesses to a full recovery. As I have stated before, preserving small businesses is critical to limiting the lasting economic damage from the downturn, as is ensuring that individuals most affected by the downturn receive the support they need. Fiscal policy has been extremely helpful in this regard. Research has shown that the PPP, for example, saved millions of small-business jobs.[5] The new PPP program in the most recent stimulus package will provide addition support to small companies. Highly accommodative monetary policy and the Federal Reserve's actions to promote smooth market functioning have also supported the recovery. Together, containment—and eventual eradication—of the virus, timely fiscal support, and highly accommodative monetary policy can promote a full economic recovery.

10. Chair Powell, what are the Fed's plans with the corporate debt portfolio that you have assembled through the Secondary Market Corporate Credit Facility? What is going to be your strategy for unwinding the portfolio at the right time? What are you looking at in terms of performance on the assets you've acquired and continue to acquire?

Since beginning direct purchases of corporate bonds on June 16, 2020, the Secondary Market Corporate Credit Facility (SMCCF) assembled a broad and diversified portfolio of U.S. corporate bonds. The pace of SMCCF purchases was dictated by market conditions.

The SMCCF only purchased bonds of issuers that were creditworthy at the time of purchase. The facility used credit ratings to identify which bonds it could purchase and how much Treasury equity would be allocated to protect against losses from those bonds. In particular, the SMCCF only purchased bonds of (1) issuers that were rated investment grade (i.e., at least BBB-/Baa3) as of March 22, 2020 by a major nationally recognized statistical rating organization; or (2) bonds of issuers that were rated at least BBB-/Baa3 as of March 22, 2020 and were subsequently downgraded, but are rated at least BB-/Ba3 as of the date on which the SMCCF makes a purchase. The SMCCF did not purchase bonds of issuers that had filed for bankruptcy protection or bonds of issuers that no longer met the facility's minimum rating or other requirements.[6] For these reasons, the SMCCF expects that the majority of bonds in its portfolio will continue to perform and pay interest. If a bond held by the SMCCF were to default, the facility would evaluate the actions taken by the issuer in response to the default and the potential avenues for repayment available to bondholders.

As noted in the SMCCF's reports to Congress pursuant to Section 13(3) of the Federal Reserve Act, bonds included in the SMCCF portfolio have already begun to mature and will continue to

---

[4] On the debate about whether market concentration is rising and what the implications are, see for example, CEA (2016), Rossi-Hansberg, Sarte, and Trachter (2018), De Loecker, Eeckhout, and Unger (2020), and Karabarbounis and Neiman (2018).

[5] See Autor et. al. (2020).

[6] See the SMCCF Term Sheet released June 28, 2020, at www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a1.pdf.

do so in the future.[7] We will evaluate the full range of options for unwinding SMCCF positions based on the facts and circumstances as economic and financial conditions continue to evolve.

As you know, in accordance with section 1005 of the Consolidated Appropriations Act, 2021, the SMCCF ceased extending credit on December 31, 2020.

11. Chair Powell, in June, the Fed announced the creation of a "Broad Market Index" to ensure that purchases in the secondary market corporate credit facility (SMCCF) are fulfilling the Fed's legal obligation to ensure that emergency lending is "broad-based." However, purchases to date in the secondary market corporate credit facility appear to be skewed toward the fossil fuel industry, and a staff analysis by the Select Committee on the Coronavirus Crisis found that "a disproportionate number of fossil fuel companies, which accounted for 10% of the Fed's bond purchases but employ just 2% of workers at larger companies." Is the Broad Market Index achieving its objective or are you overweight in the fossil fuel sector?

In March 2009, the Board and Treasury issued a joint statement on the role of the Federal Reserve in preserving financial and monetary stability. That statement affirmed that "[a]ctions taken by the Federal Reserve should aim to improve financial or credit conditions broadly, not to allocate credit to narrowly-defined sectors or classes of borrowers. Government decisions to influence the allocation of credit are the province of the fiscal authorities."[8] All of the Federal Reserve's emergency lending facilities, including the SMCCF, are consistent with this statement. In particular, the SMCCF's bond purchases were designed to track the current composition of the U.S. corporate bond market as closely as possible and not over or underweight any particular borrower or group of borrowers. To achieve that objective, the SMCCF purchased a corporate bond portfolio that tracks a broad market index developed for the SMCCF (the Broad Market Index). The Broad Market Index generally tracked the composition of the broad, diversified universe of secondary market bonds that met the criteria specified in the term sheet, subject to generally applicable issuer-level caps.[9] The index was recalculated at least every 4-5 weeks, and the list of bonds that were eligible for purchase was refreshed more frequently to add or remove those bonds that newly met or no longer met the eligibility requirements.

Each time the index was refreshed, the SMCCF identified all of the secondary market bonds that met the term sheet criteria. Next, limits relevant to each issuer, calculated on a par basis as the lesser of the cap of 10 percent of an issuer's maximum historical outstanding bonds and 1.5 percent of the maximum combined Corporate Credit Facility size, were applied to generate the index contribution for each eligible issuer. These contributions were then aggregated, and the proportion of each issuer's bonds in the aggregate formed their weight in the index. Individual issuer weights formed the basis of sector weights, with each issuer mapped to one of 12 sectors (basic industry, capital goods, communications, consumer cyclical, consumer non-cyclical, energy, insurance, non-bank/insurance financials, real estate investment trusts, technology,

---

[7] See https://www.federalreserve.gov/publications/reports-to-congress-in-response-to-covid-19.htm.
[8] https://www.federalreserve.gov/newsevents/pressreleases/monetary20090323b.htm.
[9] See the SMCCF Term Sheet released June 28, 2020, at www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a1.pdf.

transportation, and utilities).

Purchases tracked as closely as possible the sector weights in the index, and any overage or shortfall during a month were addressed in the following month's purchases. The composition of the index could vary from month to month as newly issued eligible corporate bonds were added and bonds that become ineligible were removed. If sufficient bonds became eligible or ineligible for the index prior to a recalculation date to cause any sector weight to deviate from the existing index weight by more than 50 basis points, the index was recalculated as soon as practicable.

The SMCCF's monthly report to Congress has provided metrics assessing how closely the facility's bond purchases are tracking the Broad Market Index. These metrics indicated that the SMCCF was achieving its objective and successfully tracking the Broad Market Index with precision, taking into account other factors that prevented the facility from perfectly tracking the index, such as bond illiquidity or other difficulties with sourcing particular bonds.

In accordance with section 1005 of the Consolidated Appropriations Act, 2021, the SMCCF ceased purchasing eligible assets as of December 31, 2020.[10]

12. Chair Powell, a staff analysis of the secondary market corporate credit facility (SMCCF) by the Select Committee on the Coronavirus Crisis found that "a disproportionate number of fossil fuel companies, which accounted for 10% of the Fed's bond purchases but employ just 2% of workers at larger companies." SMCCF purchases include $3 million to Diamondback Energy, which has had a junk bond rating from Moody's since 2013, and $15 million to ExxonMobil, which warned about "prolonged negative market impacts" in a recent email to shareholders previewing layoffs. The Fed's own analysis suggests that the oil and gas sector is facing unique challenges, and its most recent financial stability report found that "corporate default rates were likely to increase sharply, with acute stress in the energy sector." What criteria are you using to ensure that the public isn't exposed to the risk of defaults by companies in the Broad Market Index?

The Federal Reserve designed the Broad Market Index and set the parameters for the SMCCF's Broad Market Index bond purchases to implement a fundamental goal of the corporate credit facilities, which is to support the availability of credit to large U.S. employers. The Federal Reserve's aim was to improve credit conditions in the economy broadly, not to allocate credit to or away from narrowly defined sectors or classes of issuers.

The SMCCF only purchased bonds of issuers that were creditworthy at the time of purchase. The facility used credit ratings to identify which bonds it could purchase and how much Treasury equity would be allocated to protect against losses from those bonds. In particular, the SMCCF only purchased bonds of (1) issuers that were rated investment grade (i.e., at least BBB-/Baa3) as of March 22, 2020, by a major nationally recognized statistical rating organization; or (2) bonds of issuers that were rated at least BBB-/Baa3 as of March 22, 2020 and were subsequently downgraded, but are rated at least BB-/Ba3 as of the date on which the SMCCF made a purchase. The SMCCF did not purchase bonds of issuers that had filed for

[10] H.R. 133: Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, H.R. 133, 116th Cong. (2020).

bankruptcy protection or bonds of issuers that no longer met the facility's minimum rating or other requirements.[11] The bond issuers that you have identified met the SMCCF's eligibility criteria at the time of purchase, including the facility's rating requirements.

The historical default rates of companies rated below investment grade are higher than those of companies rated above investment grade, but the SMCCF adjusted for heightened credit risk by allocating more Treasury equity to support purchases of companies rated below investment grade. In particular, the SMCCF leveraged the Treasury equity at 10 to 1 when acquiring corporate bonds of issuers that were investment grade but only at 7 to 1 when acquiring corporate bonds of issuers that were previously rated investment grade but later rated one rating grade below investment grade.

13. Chair Powell, in July 2011, GAO found that emergency lending facilities created in response to the 2007-2009 financial crisis did not adequately manage high-risk borrowers during that particular crisis. The agency released several recommendations for implementing emergency lending facilities in the future. In the July 2011 report, GAO recommended, among other things, that the Federal Reserve "strengthen procedures in place to guide the Federal Reserve Banks' efforts to manage access to the programs by high-risk borrowers." This recommendation remains relevant because of similar lending facilities created in response to the Coronavirus pandemic. The GAO website shows this recommendation remains open, which is unfortunate considering how many similar lending facilities have been created by the Federal Reserve and supported by the CARES Act and how many borrowers continue to need help. Please describe actions taken by the Federal Reserve to improve the management of high-risk borrowers' access to Fed facilities.

In authorizing the establishment of a facility, the Board and Treasury approved a set of terms and conditions for the facility (Term Sheet). These terms and conditions, of course, include the requirements in section 13(3) of the Federal Reserve Act, as amended by the Dodd-Frank Act, that a program or facility cannot be for the purpose of aiding a failing company and participants cannot be insolvent. Each facility's Term Sheet specifies the eligibility criteria for participants, pricing, and other relevant terms that define the facility's risk tolerance. The Reserve Banks established and operate the facilities in accordance with the criteria stipulated in the Term Sheet, including eligibility requirements for participants. The Reserve Banks do not have discretion to operate or approve transactions outside the scope of the Term Sheet. When questions arise in the implementation or operation of the facilities regarding eligibility criteria or other issues of risk tolerance, the Reserve Banks consult with the Board and Treasury. In addition, any frequently asked questions are reviewed by Board and Treasury staff before publication.

14. Chair Powell, another recommendation made by GAO in its July 2011 report encouraged the Federal Reserve to "document a plan to estimate and track losses that could occur under more adverse economic conditions within and across all emergency lending activities and to use this information to inform policy decisions." Please describe all efforts at the Federal Reserve to implement this recommendation. Assuming the Federal

[11] See the SMCCF Term Sheet, as of June 28, 2020, at www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a1.pdf.

Reserve conducted loss estimation and tracking since the 2007-2009 financial crisis, please describe how the Federal Reserve used this information during the creation of the emergency lending facilities created in response to the COVID-19 pandemic.

Before an emergency facility is operational, the Board undertakes loss modeling to analyze the extent to which the facility might experience losses in a range of scenarios, including in one or more severely adverse economic outcomes. The exercises explore losses in deep tail scenarios, and the analysis varies from facility to facility because of differences in data availability and experiences with actual losses. This analysis is used to help inform decisions regarding the terms of the facility, including risk exposure, and to determine the amount of Treasury equity contributed to the facility. After the facility is operational, the Board monitors usage of the facility along with other indicators in the target market. In some cases, the Federal Reserve produces additional analysis of assets held in the facilities. This approach was followed with all the facilities the Federal Reserve created last year.

15. Chair Powell, HR 6934 requires the Federal Reserve treat all the national credit agencies uniformly so that creditworthy companies not rated by the big three credit rating agencies could still access those programs. Can you provide a rationale for why the Federal Reserve is not treating all the rating agencies equally as it relates to access to the Fed's Emergency Lending Facilities? Would you be willing to revisit the current criteria on rating agencies and expand it to all rating agencies immediately?

The emergency lending facilities were established to support the flow of credit to employers, households, and businesses. In addition, under the law, the loans the Federal Reserve extends must be satisfactorily secured and sufficiently protect taxpayers from loss.

The Federal Reserve's initial priority was to announce the establishment of these facilities as quickly as possible, and therefore the facilities first used credit ratings from just the three largest nationally recognized statistical rating organizations (NRSRO), given that the most widespread credit ratings used are from these three NRSROs.

Consistent with our objectives to promote the flow of credit in a manner consistent with the law, the Federal Reserve undertook an analysis to determine whether to expand the list of eligible NRSROs. As part of this analysis, the Federal Reserve considered the design and focus of each facility, and the role that each NRSRO plays in the relevant market. Specifically, the Federal Reserve sought to balance the benefits of using ratings from the NRSROs most relied on by investors with the need to ensure broad access to our programs. That analysis led the Federal Reserve to include three additional NRSROs in its facilities. The approach taken by the Federal Reserve in continuing to require a rating from one of the three largest NRSROs balances the investor usage of these three NRSROs with the benefit of expanding eligibility to other NRSROs that are used by investors to a material extent in a way that is relevant for each of our facilities.

While we understand the interest in ensuring that no unnecessary distinctions are made among registered NRSROs, inclusion of all NRSROs could impair, not improve, the effectiveness of the facilities. If we had included all NRSROs, absent any other eligibility criteria, we would have accepted ratings issued by NRSROs that are not used to a material extent by investors in that market. Accordingly, we may have had to include additional eligibility criteria, or conduct additional credit underwriting, to ensure that taxpayers are protected from losses and that we are satisfactorily secured.

16. Earlier this year it was announced that BlackRock was selected as the sole manager for its emergency lending programs. What was the process for selecting BlackRock and were there any other firms considered, such as minority or women-owned firms? Are there any guidelines in the Federal Reserve's investment management agreements with these investment managers to use minority- and women-owned firms as sub-advisors or broker dealers?

The Primary Market Corporate Credit Facility (PMCCF) and the SMCCF (together with PMCCF, the CCFs) ceased purchasing eligible assets as of December 31, 2020. When the facilities were announced in March 2020, the Federal Reserve Bank of New York (FRBNY) retained the services of BlackRock Financial Markets Advisory (BlackRock) as the initial investment manager for each of the CCFs without a competitive bidding process due to exigent circumstances that required the swift implementation of the CCFs to support market functioning. The FRBNY did so with a view that, once the immediate need to commence operations of the facilities had passed, BlackRock's role would be subject to a competitive procurement process.

The FRBNY has terminated the PMCCF investment management agreement with BlackRock effective February 5, 2021. No transactions occurred under the PMCCF while it was operational, and the PMCCF currently has no assets in its portfolio. Therefore, in view of the termination of that agreement with BlackRock, the FRBNY will not procure new investment management services for the PMCCF.

The investment management agreement between BlackRock and the FRBNY for the SMCCF is still active, but on October 5, 2020, the FRBNY announced that it was beginning the competitive procurement process for all services provided by BlackRock. On February 8, 2021, the FRBNY announced the selection of a cash manager, Payden & Rygel, a majority women-owned investment management firm, to replace BlackRock in performing cash management services for the CCFs.[12] Additionally, on February 1, 2021, the FRBNY announced the launch of a prequalification process for the remainder of the investment management roles for the SMCCF, taking into account that the SMCCF has ceased purchasing eligible assets.[13]

The contractual relationship between BlackRock and the FRBNY regarding BlackRock's role as the investment manager for the CCFs is detailed and memorialized in the investment management agreements for each facility. These agreements continue to be public and can be found on the FRBNY's public website.[14] The investment management agreement between BlackRock and the FRBNY for the SMCCF includes a number of provisions intended to support

[12] For the press release, see www.newyorkfed.org/newsevents/news/markets/2021/20210208.
[13] For the press release, see www.newyorkfed.org/newsevents/news/markets/2021/20210201.
[14] For the Primary Market Corporate Credit Facility Investment Management Agreement, see www.newyorkfed.org/medialibrary/media/markets/pmccf/PMCCF-Investment-Management-Agreement.pdf. For the Secondary Market Corporate Credit Facility Investment Management Agreement, see www.newyorkfed.org/medialibrary/media/markets/SMCCF_Investment_Management_Agreement.pdf.

the inclusion of minority-, women-, and veteran-owned business enterprises (MWVBEs). In particular, section 32.2 requires BlackRock to take reasonable measures to ensure MWVBEs have an equal opportunity to participate in the facilities and as service providers to the facilities. When the PMCCF investment agreement was active, it included the same contractual provisions mentioned above.

Finally, as announced on July 23, 2020, the FRBNY sought expressions of interest for counterparties and agents for various emergency lending facilities, including broker-dealers in the SMCCF, and strongly encouraged smaller firms and MWVBEs to serve as counterparties and agents for these facilities.[15] The FRBNY ultimately added 18 additional eligible sellers for the SMCCF through this process, including eight MWVBEs.[16] BlackRock assisted the FRBNY's efforts to expand the list of broker-dealers eligible to transact with the SMCCF. By widening the eligibility criteria for counterparties, and engaging in outreach to MWVBEs and encouraging them to apply for these roles, the FRBNY took affirmative steps directed at expanding the pool of counterparties for the SMCCF.

18. Secretary Mnuchin and Chair Powell, since July, $10 billion has been paid out to the corporate owners through the issuance of more debt, courtesy of the Fed's backstop for other parts of the corporate debt market, with little going to the company itself in such deals. How concerned are you about money from the CARES Act being diverted by private equity firms to pay themselves instead of being invested into the factories and workers of companies they own?

The SMCCF supported market liquidity by purchasing 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. The SMCCF did not extend new credit to U.S. corporate issuers; rather, the facility purchased debt instruments that already existed in the secondary market. Through secondary market purchases, the SMCCF helped stabilize the U.S. corporate bond market and improved conditions for new issuances but did not directly transfer funds to specific issuers or investors.

The Federal Reserve's purpose in undertaking the emergency lending facilities is to support the availability of credit to households, businesses, and state and local governments, and to create an environment in which the millions who have lost work have the best chance to return to employment. A key component to this strategy is to provide greater assurance to both issuers and investors that firms will be able to access efficient, liquid corporate credit markets. The SMCCF has been successful in this endeavor and has had beneficial effects on the corporate bond market, as indicated by narrower bid-ask spreads, increased trading volumes, lower price volatility, and resumed primary market issuance. The stabilization of the corporate bond market since the onset of the crisis helped large employers to finance their operations effectively and to maintain employment and payroll levels.

[15] See https://www.newyorkfed.org/newsevents/news/markets/2020/20200723.

[16] The FRBNY's website lists all broker-dealers that were selected. See www.newyorkfed.org/markets/secondary-market-corporate-credit-facility/secondary-market-corporate-credit-facility-eligible-sellers#smccf-agents.

19. Secretary Mnuchin and Chair Powell, we already know that the leveraged lending market was overheated even before the current economic crisis. What risks to financial stability are created by further debt issuance simply to pay off already wealthy owners and executives of these companies? Are you concerned that your various corporate credit programs, especially the secondary market corporate credit purchases, are fueling this kind of behavior?

As discussed in the November 2020 Financial Stability Report, vulnerabilities arising from business debt, which were already elevated at the start of COVID-19, have grown further. Debt owed by businesses, which was already historically high relative to gross domestic product (GDP) before COVID-19, has risen sharply as businesses increased borrowing to weather the period of weak earnings. The general decline in firms' revenues associated with the severe reduction in economic activity has weakened the ability of businesses to service these obligations. However, some of that debt was extended through the PPP and may be eligible for forgiveness, and the low level of interest rates means that businesses can carry more debt. So far, strains in the business sector have been mitigated by significant government lending and relief programs and by low interest rates. That said, some businesses have been substantially more affected to date than others, suggesting that the sources of vulnerability in these sectors are unevenly distributed.

At the onset of COVID-19, corporate credit markets were severely impaired, with many lending markets commonly used by businesses effectively shut. The announcements of the PMCCF and SMCCF in late March 2020 led to rapid improvements in corporate bond markets well ahead of the facilities' actual opening. Spreads across a variety of debt markets quickly narrowed, permitting businesses to borrow at sharply lower costs. Although bond purchases by the facilities was small, corporate bond markets continued to reap large benefits from the facilities; through December 31, 2020, the PMCCF has had no take up and the SMCCF purchased about $14.1 billion—just over 0.2 percent of the $5.5 trillion of outstanding nonfinancial corporate bonds. However, since the announcement of the backstop facilities and funding market stabilization measures, more than $1 trillion in new nonfinancial corporate bonds have been issued, purchased almost entirely by the private sector.

The net issuance of riskier forms of business debt—high-yield bonds and institutional leveraged loans—had remained high overall through 2019 but slowed during the acute market strains earlier in 2020. In the second quarter of 2020, net issuance of high-yield bonds rebounded, while leveraged loan net issuance contracted. However, in the third quarter of last year both high-yield bond and leveraged loan issuances returned to roughly average historical levels.

Vulnerabilities in the leveraged loan market appear to have lessened somewhat since May 2020, especially for sectors less affected by COVID-19 and for larger firms. The share of newly issued loans to large corporations with high leverage—defined as those with ratios of debt to earnings before interest, taxes, depreciation, and amortization greater than 6—dropped in the first quarter but returned in the second quarter to the historical highs reached in recent years. While realized defaults have increased since May 2020, there is some evidence that over this timeframe that expected future defaults have decreased. Moreover, downgrades of leveraged loans, which rose sharply in the second quarter of 2020, slowed significantly in last July and August, and have returned to pre-COVID-19 levels. This evidence suggests a more stable outlook for future defaults than in May 2020.

21. Secretary Mnuchin and Chair Powell, in the Federal Reserve's June monetary policy report, the data showed that this recession is having a disastrous impact on economic inequality. The Fed found that jobs losses are by far greater among low income workers, less educated workers, and communities of color. Indeed, the Fed found that high-wage workers had lost only a few percentage points of employment while low wage workers had seen declines in employment of 40 percent or more. Now, three months later, with economic weakness continuing and potential evictions and foreclosures looming on the horizon, what further information does Treasury or the Fed have about the impact of this recession on economic and racial inequality?

The COVID-19 recession has had uneven effects on different groups of workers and, like previous recessions, has generally exacerbated preexisting disparities in labor market outcomes. In the June 2020 Monetary Policy Report, we reported some results from staff analysis using data on employment and wages from the payroll provider Automatic Data Processing (ADP). The ADP data received since then continue to show that employment losses have been largest among jobs at the bottom of the distribution of wages. Particularly, the latest data show that, for jobs in the bottom quartile of the pre-pandemic wage distribution, employment in December 2020 was roughly 20 percent lower than it was in February 2020. For jobs in higher-paying quartiles, by comparison, employment was 5 percent or less below pre-COVID-19 levels.

The disparate effects of the crisis can also be seen in the official employment statistics published by the Bureau of Labor Statistics (BLS). BLS data through December 2020 show that the employment-to-population ratio for "prime age" (i.e. 25-54) White workers was 3.8 percentage points lower in December 2020 than in February 2020. The corresponding decline in the prime-age employment-to-population ratio since February 2020 for Black or African American workers was 4.8 percentage points, and for Hispanic/Latino workers it was 6.1 percentage points.

22. Chair Powell, findings from a spot-check survey of larger nonprofits conducted by Independent Sector between May and June 2020 show that approximately 67% had furloughed employees and 51% had laid off employees since the start of the COVID-19 pandemic. More recently, the Johns Hopkins University Center for Civil Society Studies found that nonprofit employment had declined by nearly one million jobs from February 2020 through August 2020. Can you share the number of nonprofits that have applied for the Fed's nonprofit lending facility, how much money has been allocated, and how many jobs this is expected to retain?

Pursuant to section 1005 of the Consolidated Appropriations Act, 2021, Main Street ceased purchasing participations on January 8, 2021. During the term of the program, the Main Street SPV purchased fifteen participations from nonprofit organizations, with the total principal amount of such loans equal to $42.015 million. Because borrowers applied for NONLF and NOELF loans with banks, and not with the Federal Reserve, we do not have information on the number of applications that banks received. Under the applicable program term sheets, a nonprofit borrower that received a NONLF or NOELF loan should make reasonable efforts to maintain its payroll and retain its employees during the time the loan is outstanding.

23. Chair Powell, we've heard from multiple organizations that they are unable to access the Fed's nonprofit lending facility due to a requirement that eligible borrowers have total non-donation revenues equal to or greater than 60% of expenses from 2017 through 2019. Have you heard comments to this effect from nonprofit organizations? Has the Federal Reserve done any analysis on which types of nonprofit organizations are not eligible to apply due to this requirement? Would the Fed consider eliminating this requirement?

The non-donation revenues test was established to ensure that nonprofit organizations that received Main Street loans have stable sources of funding, such as longer-term contracts or fees earned for services provided, to repay the loan over time. This requirement was intended to address the risk that the current uncertain economic situation may create temporary or permanent shifts in philanthropy.

In response to public feedback to proposals released for comment on June 15, 2020, the non-donation revenues requirement was lowered from 70 percent to 60 percent of expenses. The revised NONLF and NOELF term sheets also amended the definition of "donations" to reduce the stringency of this test and make it easier for nonprofit organizations to calculate. Additionally, the term sheets apply the test using a 3-year average to avoid disadvantaging nonprofits that had a large, one time donation in 2019.

We believe the revised non-donation revenues test sufficiently balanced our desire to support the flow of credit to nonprofit organizations that play a vital role in providing critical services to our communities, while also safeguarding taxpayer funds.

24. Secretary Mnuchin and Chair Powell, in the House-passed Heroes Act, a provision allowed for certain nonprofit organizations to have their Main Street Lending Program loans forgiven by the Department of Treasury to maintain payroll and operations. Nonprofits are on the frontlines of responding to COVID-19, and they play a critical role in helping re-open the country. Vulnerable individuals, families, and communities are relying on the expertise, services and resources of nonprofits to aid in the fight against COVID-19, and will continue to depend on this support in the recovery efforts. Would you support providing loan forgiveness to small and mid-sized nonprofits through the Main Street Lending Program, or otherwise provide direct support to these nonprofits?

The Federal Reserve's role under section 13(3) is to provide liquidity in unusual and exigent circumstances; it is not authorized to make grants or forgivable loans. Emergency loans made in connection with facilities established under section 13(3) of the Federal Reserve Act must meet certain requirements, including being appropriately secured and designed with policies and procedures that ensure protection for the taxpayer.[17] In the case of Main Street, the equity supplied by the Treasury provided credit protection to help meet these requirements and secure the Federal Reserve's discount window advances to the Main Street SPV. The $75 billion

---

[17] Further, under the express terms of the CARES Act, Main Street loans cannot be forgiven without a statutory change.

invested by the Treasury in the Main Street SPV enabled the Federal Reserve Bank of Boston (FRBB) to continue to lend to the Main Street SPV in order to fund its purchases of participations in loans to eligible for-profit businesses and nonprofit organizations.

The question of providing direct support to nonprofit organizations is a fiscal decision outside the Federal Reserve's authority.

25. Chair Powell, collectively, charitable nonprofits are the third largest employers in the US economy, representing 10% of the US workforce. Why does the nonprofit loan facility impose certain liquidity, asset, and reserve requirements that are not required in Main Street New Loan Facilities available to for-profit businesses?

The eligibility criteria for nonprofit organizations generally mirrored those used in the Main Street for-profit facilities. For example, to be considered an eligible borrower, a nonprofit organization must have had 15,000 employees or fewer, or 2019 annual revenues of $5 billion or less.

The nonprofit organization facility term sheets include several additional criteria aimed at ensuring nonprofit organizations, which may not typically use debt to fund their operations, have sufficient capacity to manage the debt burden. The financial eligibility criteria in these term sheets are commonly used by lenders in underwriting loans to nonprofit organizations. The financial metrics were adjusted in response to public comments to accommodate a wider range of nonprofit operating models. We believe the revised set of metrics sufficiently balanced our desire to support the flow of credit to nonprofit organizations that play a vital role in providing critical services to our communities, while also safeguarding taxpayer funds.

26. Chair Powell, the IRS includes a public support test on the annual Form 990 that requires nonprofits to maintain a rate above 33(1⁄3)% in order to ensure that nonprofits are relying more heavily on donations from the public, rather than other funding sources like investment income. Why does the Federal Reserve's criteria require organizations to have revenues from donations that are less than 40%, which would be a significant barrier to many nonprofits in being eligible for the loan facility? Would the Fed consider eliminating this requirement that no more than 40% of an organization's 2019 revenues come from donations?

As stated in response to question 23, the non-donation revenues test was established to ensure that nonprofit organizations that receive Main Street loans have stable sources of funding, such as longer-term contracts or fees earned for services provided, to repay the loan over time. This requirement is intended to address the risk that the current uncertain economic situation may create temporary or permanent shifts in philanthropy.

In response to public feedback to proposals released for comment on June 15, 2020, the non-donation revenues requirement was lowered from 70 percent to 60 percent of expenses. The revised NONLF and NOELF term sheets also amended the definition of "donations" to reduce the stringency of this test and make it easier for nonprofit organizations to calculate.

Additionally, the term sheets apply the test using a 3-year average to avoid disadvantaging nonprofits that had a large, one time donation in 2019.

We believe the revised non-donation revenues test sufficiently balanced our desire to support the flow of credit to nonprofit organizations that play a vital role in providing critical services to our communities, while also safeguarding taxpayer funds.

27. Chair Powell, one of the eligibility criteria for borrowers is that they must have "a ratio of adjusted 2019 earnings before interest, depreciation, and amortization ("EBIDA") to unrestricted 2019 operating revenue, greater than or equal to 2%." This criteria requires nonprofits to essentially have a 2 percent profit. Nonprofits function in a model that does not turn a profit, and where any surpluses are used fund critical services to the public such as social services and health research. Would the Fed consider eliminating this requirement which would be disqualifying for many nonprofits?

As mentioned in response to question 25, the nonprofit organization facility term sheets included several additional criteria aimed at ensuring nonprofit organizations, which may not typically use debt to fund their operations, have sufficient capacity to manage the debt burden. One of these additional metrics is the ratio of earnings before interest, depreciation, and amortization (EBIDA) to unrestricted 2019 operating revenue. EBIDA is a standard financial metric that lenders use in originating loans to nonprofit organizations.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 7, 2021

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
House of Representatives
Washington, D.C. 20515

Dear Madam Chairwoman:

Enclosed is my response to question 20 that you submitted following the September 22, 2020,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. This concludes my responses to your questions.

Please let me know if I may be of further assistance.

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on October 2, 2020.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Chairwoman Waters:

20. Secretary Mnuchin and Chair Powell, what plans do you have for strengthening supervision and regulation of financial institutions, especially the too-big-to-fail banks, now that the Fed has settled on a course of a long-term, highly accommodative monetary policy? Though we can only laud your stepped-up focus on unemployment, the country needs a strong defense against the creation of asset bubbles and financial instability. Does the Fed's new monetary policy framework also entail a rethink of the deregulatory approach outlined in numerous reports from the Treasury Department and implemented by the Fed over the last three years? Has the Fed considered development a set of financial stability tools that will ensure to complement its more long-term commitment to accommodative monetary policy?

My colleagues and I on the Federal Open Market Committee are aware of concerns that some have raised about the relationship between low interest rates and excessive risk taking in the financial system. It is important to note that the potential linkages between low interest rates and financial stability are complicated and can run in different directions. Some research has pointed to the potential for low interest rates to create incentives for excessive risk taking. On the other hand, low interest rates may be necessary and appropriate to bolster economic activity and that, in turn, can help to strengthen the balance sheets of households and business, and thereby support financial stability. A box titled "The Recent Decline in Interest Rates and Implications for Financial Stability" in the November 2019 Financial Stability Report (FSR) discusses some of the potential effects of a low interest rate environment on the profitability and risk-taking behavior of financial institutions.[1] More broadly, in assessing financial stability, we take a range of considerations into account. Our semiannual FSRs discuss in detail our assessment of vulnerabilities in four key areas: asset valuations, borrowing by businesses and households, leverage in the financial sector, and funding risk. We continue to monitor how a sustained low interest rate environment, as well as other risks related to financial stability, interact with these vulnerabilities.

The Federal Reserve has tools to address vulnerabilities in the banking system, should they emerge. Moreover, we have strengthened those tools over the past few years, and continually evaluate ways to further improve the efficacy and efficiency of our supervisory and regulatory approaches. Our stress-testing regime remains one of the most comprehensive and stringent in the world, and we continue to evaluate the appropriate level of the Countercyclical Capital Buffer in a manner consistent with the framework detailed in the Board's policy statement for setting this buffer. The stress tests help ensure that large banks are able to lend to households and businesses even in a severe recession. The 2020 stress tests showed that large banks had strong capital levels, but the Federal Reserve placed additional temporary restrictions on bank payouts due to continuing economic uncertainty related to the pandemic and to preserve the strength of the banking sector.

---

[1] https://www.federalreserve.gov/publications/2019-november-financial-stability-report-leverage.htm.

In addition to the flexibility and rigor we brought to our COVID-19 response, the Federal Reserve made several changes to bank supervision and regulation over the past several years that were designed to tailor the stringency of oversight to the risks of a particular institution. We also maintained the core elements of the post-crisis financial reforms for the largest banks. Last year, we completed the implementation of the original Basel III reforms in the United States by finalizing the Net Stable Funding Ratio (NSFR) rule. The NSFR rule requires large banks to maintain a minimum level of stable funding, relative to each institution's assets, derivatives, and commitments. As a result, the NSFR rule supports the ability of banks to lend to households and businesses in both normal and adverse economic conditions by reducing liquidity risk and enhancing financial stability. Prudential regulations for large regional banks and foreign banks operating in the United States remain much more stringent than they were prior to the Global Financial Crisis. In contrast to the Global Financial Crisis, the largest banks entered this crisis with high levels of capital and liquidity, recording $1.3 trillion in common equity and $2.9 trillion in high quality liquid assets. As a result, the banking system served as a source of strength during the recent crisis.

For vulnerabilities that arise outside the banking system, such as those that we saw in money market mutual funds in the spring of 2020, more work needs to be done. In a box titled "Federal Reserve Actions to Stabilize Short-term Funding Markets during the COVID-19 Crisis" in the November 2020 FSR, we discuss how the onset of the pandemic disrupted these key funding markets and steps that the Federal Reserve, with the support of the U.S. Department of the Treasury, took to address the sudden market instability.[2] Members of the Financial Stability Oversight Council and international bodies, such as the Financial Stability Board, are working to develop recommendations that will increase resilience in nonbank financial institutions. Additionally, as part of the President's Working Group on Financial Markets, the Federal Reserve contributed to a report outlining potential reforms to address the risks stemming from the money market fund sector.[3]

[2] https://www.federalreserve.gov/publications/2020-november-financial-stability-report-overview.htm.
[3] https://home.treasury.gov/news/press-releases/sm1219.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

March 5, 2021

The Honorable Anthony Gonzalez
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the September 22, 2020,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on October 2, 2020.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Gonzalez:

1. Chairman Powell, you announced a new monetary policy framework just the other day, which targets inflation above 2% for some period of time. Along with that, the pandemic has brought on new levels of money and an expanded fed balance sheet. As you know, Milton Friedman and many others have believed inflation is always a monetary phenomenon. What do you say about this and what tools are you willing to use to achieve that greater than 2% target that you have not been using to date? So, in other words, from an application standpoint, what is going to change?

Milton Friedman's insight that central banks, through the conduct of monetary policy, are central to the control of inflation endures, and consistent with this, the Federal Reserve Act establishes the Federal Reserve as the sole entity tasked with maintaining aggregate price stability in the United States. Conventional wisdom also embraces Friedman's views that the relationship between inflation and monetary policy is imprecise and subject to long and variable lags, and that, in the short run, inflation is affected by many factors besides monetary policy. In the longer run, however, inflation is primarily determined by monetary policy. Hence, our Statement on Longer-Run Goals and Monetary Policy Strategy (consensus statement) specifies a 2 percent inflation rate as a longer-run objective.

In many ways, the revisions to the consensus statement that were introduced last August are consistent with the way that the Federal Reserve has been conducting policy in recent years and reflect the Federal Reserve's strong commitment to achieving its statutory goals. There is also much in the way of continuity with the previous consensus statement. At the same time, there are important changes, whose most concrete implications will be easiest to see after the economy has recovered from the disruption caused by COVID-19. In particular, in the pandemic, inflation has been running below 2 percent and the revised consensus statement indicates that following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time. Similarly, when the economy is robust, high employment, in the absence of unwanted increases in inflation or the emergence of other risks that could impede the attainment of the Federal Open Market Committee's (Committee) goals, will not by itself be a cause for policy concern.

Consistent with these and other changes to the consensus statement, the Committee enhanced its forward guidance in September 2020, conveying its intention to maintain the federal funds rate near zero "until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time." At its recent meeting in January, the Committee said that "the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals."

2. Chairman Powell, I think you and Secretary Mnuchin have done a truly remarkable job and I hope someday you will receive the credit that you so rightly deserve. That said, I do have concerns about the Secondary Market Corporate Credit Facility in that the US gov't now owns individual bonds that could default at some point. Two questions. 1. What would we do in the event that this happened? 2. What is the long-term plan to unwind these positions post-crisis?

In accordance with section 1005 of the Consolidated Appropriations Act, 2021, the Secondary Market Corporate Credit Facility (SMCCF) ceased purchasing eligible assets as of December 31, 2020.[1] As a protection against excessive default risk, the facility used credit ratings to identify which bonds to purchase and how much Treasury equity should be allocated to protect against losses from those bonds. The SMCCF did not purchase bonds of issuers that had filed for bankruptcy protection or bonds of issuers that no longer met the facility's minimum rating or other requirements. If a bond held by the SMCCF were to default, the facility would evaluate the actions taken by the issuer in response to the default and the potential avenues for financial recovery available to bondholders.

There are several options for how the positions held by the SMCCF could be unwound, depending on the facts and circumstances. Notably, bonds included in the SMCCF portfolio have already begun to mature, with the first maturations in the portfolio having been reported in the SMCCF's Report to Congress Pursuant to Section 13(3) of the Federal Reserve Act that was released to the public on November 9, 2020. It is anticipated that bonds held by the SMCCF will continue to mature over time, and thus exit the facility's portfolio in that manner. We will continue to evaluate the other available options as the response to the public health crisis progresses over time and economic and financial conditions continue to evolve.

[1] H.R. 133: Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, H.R. 133, 116th Cong. (2020).

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

February 16, 2021

The Honorable French Hill
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question that you submitted following the September 22, 2020,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on October 2, 2020.

<u>Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Hill</u>:

I appreciate that the Federal Reserve is seeking input on modernization of the CRA, and in particular that the Fed is seeking input on how it could expand what constitutes a "qualifying activity" for purposes of receiving CRA credit. As you are well aware, small business investment companies, or SBICs, play a huge part in financing small businesses and community development, and bank investments in SBICs can count under the CRA. Can you confirm that the Fed continues to recognize the importance of SBICs and that disincentivizing bank investment in SBICs would result in a lack of capital for small businesses?"

The Federal Reserve Board (Board) issued an Advanced Notice of Proposed Rulemaking (ANPR) for the Community Reinvestment Act (CRA) on September 21, 2020, which is out for public comment until February 16, 2021. The ANPR seeks to increase certainty about what counts for CRA consideration and retain a focus on activities that benefit low- and moderate-income communities. It is based on a balanced package of ideas that incorporates views from banks and consumer and community organizations provided through meetings, roundtables, and comment letters, while building on sound ideas advanced by all of the banking regulatory agencies responsible for administering the CRA. The ANPR seeks comment on proposals to strengthen CRA while increasing clarity, consistency, and transparency.

We believe that putting forward a proposal that reflects extensive stakeholder feedback and provides an extended comment period builds a foundation for the agencies to ultimately develop a consistent approach that has broad support.

With respect to the financing for Small Business Investment Companies (SBIC), under current CRA guidance, the Board presumes that any bank loan or service to or investment in an SBIC that finances small businesses or small farms promotes economic development and, as a result, such activity is eligible for CRA consideration. As we review comments on the ANPR, the Board looks forward to learning about ways to provide any additional clarity and certainty in a revised CRA regulation on how to define economic development activity supporting small business loans and investments, including through any greater clarity that SBIC investments do qualify under CRA.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

March 5, 2021

The Honorable David Kustoff
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question you submitted following the September 22, 2020,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

Enclosure

[1] Questions for the record related to this hearing were received on October 2, 2020.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Kustoff:

1. A recent study conducted by The Becker Friedman Institute at University of Chicago found that the economic impacts resulting from COVID-19 have led to a wave of earlier than planned retirements. According to the study's findings, the share of Americans not actively looking for work because of retirement increased by 7 percent between January and early April.

Chairman Powell, Is this an issue that you're aware of, and what are the implications of an increase in early retirements for the labor market in the long term, and our economic recovery?

The public health crisis caused by the spread of COVID-19 led to a very sudden and severe deterioration in labor market conditions—with payroll employment plummeting, the unemployment rate soaring, and the labor force participation rate falling abruptly. The Becker Friedman Institute (BFI) study you cite used household survey data from the Nielsen Homescan panel for the months of January and April in 2020 to provide an early estimate of the expected effects of the pandemic on the labor market.[1] The study projected a very sharp drop in labor force participation and a staggering increase in retirements.

Since the time when the study was produced, we have learned much more about the effects of the pandemic on the labor market. In particular, official statistics published since then by the Bureau of Labor Statistics (BLS) indicate that the decline in participation in the early months of the pandemic—while very large—was a fair bit smaller than indicated by the BFI study, and that the contribution of increased retirements to the drop in participation was much smaller than those early estimates suggested. The official BLS statistics show that the labor force participation rate fell 3.2 percentage points from January to April 2020 (from 63.4 percent to 60.2 percent), while the microdata underlying those statistics show that increased retirements explain about 0.4 percentage point of the 3.2 percentage point drop. Since April, the participation rate has retraced some of its initial drop, to 61.4 percent in January 2021, 2 percentage points below its January 2020 level, and the underlying microdata show that increased retirements explain about 0.8 percentage point of the 2 percentage point decline.

Typically, periods of weak labor markets result in a large number of workers dropping out of the labor force for a variety of reasons—including increased retirements. Although the existing data do not point to increased retirements as having played a particularly large role so far, we are concerned that if labor market conditions were to remain weak for a prolonged period, this may result in an increasing number of workers dropping out of the labor force—which would have negative effects on the livelihoods of Americans as well as on the productive capacity of the economy. My colleagues and I at the Federal Reserve are keenly aware of this risk. Since the beginning of the pandemic, we have taken forceful actions to provide relief and stability, to

[1] See "Labor Markets During the COVID-19 Crisis: A Preliminary View" by Olivier Coibion, Yuriy Gorodnichenko, and Michael Weber, at https://bfi.uchicago.edu/insight/finding/covid-19-results-in-wave-of-early-retirement/.

ensure that the recovery will be as strong as possible, and to limit lasting damage to the economy. At the most recent meeting of the FOMC, my colleagues and I kept interest rates near zero and maintained our sizable asset purchases. These measures, along with our strong guidance for interest rates and our balance sheet, will ensure that monetary policy will continue to deliver powerful support to the economy until the recovery is complete.

○