

THE QUARTERLY CARES ACT REPORT TO CONGRESS

HEARING

BEFORE THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

SECOND SESSION

ON

EXAMINING TESTIMONY FROM THE SECRETARY OF THE TREASURY
AND THE CHAIRMAN OF THE FEDERAL RESERVE, AS REQUIRED
UNDER TITLE IV OF THE CARES ACT

MAY 19, 2020

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THE QUARTERLY CARES ACT REPORT TO CONGRESS

TUESDAY, MAY 19, 2020

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met by videoconference at 9:59 a.m., Hon. Mike Crapo, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN MIKE CRAPO

Chairman CRAPO. This hearing will come to order.

We are all becoming more familiar with remote hearings, but let me offer a few videoconferencing reminders.

Once you start speaking, there will be a slight delay before you are displayed on the screen.

To minimize background noise, please click the “mute” button until it is your turn to speak or ask questions.

If there is a technology issue, we will move on to the next Senator until it is resolved.

Because we have a hard stop at 12:15, all Senators and witnesses need to be especially mindful of the 5-minute clock, and this time I will do my very best to tap the gavel at about 30 seconds before the 5 minutes is up. And I ask everyone to please honor our timeframes today.

You should all have one box on your screen labeled “clock” that will show how much time is remaining.

To simplify the speaking order, Senator Brown and I have again agreed to go by seniority.

With that, today we welcome to this virtual hearing the Honorable Steven T. Mnuchin, Secretary of Department of Treasury; and the Honorable Jerome H. Powell, Chairman of the Board of Governors of the Federal Reserve System.

We will receive testimony from the Secretary of the Treasury and the Chairman of the Federal Reserve, as required under Title IV of the CARES Act.

Congress has appropriated nearly \$3 trillion to protect, strengthen, and support Americans, to fight the pandemic, and also to stabilize the infrastructure of our economic system.

A large portion of this funding is authorized under Title IV of the CARES Act, which provides significant resources for loans, loan guarantees, and other investments from Treasury and the Federal Reserve’s 13(3) emergency lending facilities and programs in support of eligible businesses, States, municipalities, and tribes.

Title IV of the CARES Act provided \$454 billion as an infusion into the Exchange Stabilization Fund to support the Federal Reserve's emergency lending facilities that facilitate liquidity in the marketplace and support eligible businesses, States, local governments, and tribes.

This unique lending authority, known as "13(3) authority," is authorized under Section 13 of the Federal Reserve Act and plays a critical role in stabilizing markets.

Both prior to and after the enactment of the CARES Act, the Federal Reserve announced the establishment of or its intent to establish several emergency lending facilities to support financial markets and businesses, including some that are supported and funded by the CARES Act.

Last week, other members of this Committee and I had a robust discussion with Vice Chairman Quarles on these facilities and stressed the importance of getting facilities like the Main Street Lending Programs and the Municipal Liquidity Facility up and running quickly to provide a lifeline to struggling businesses, States, and local governments.

Again, I stress the importance of setting these facilities up quickly and allowing broad access.

There was also a discussion about whether it is acceptable for the Treasury to take any losses on investments put into the special purpose vehicles that the Fed will lend to for various programs.

The 13(3) facilities are a critical component of a strong economic recovery, which reinforces the need to have them quickly operational, broadly available, and as flexible as possible.

Title IV also contains robust oversight provisions, especially the one that brought us here today, Section 4026.

It is critical that each Federal agency follow all reporting and oversight requirements in the CARES Act.

Other steps are already being taken to ensure appropriate oversight.

Last week, this Committee voted the Special Inspector General for Pandemic Recovery favorably out of Committee, and yesterday the Congressional Oversight Committee published its initial report on oversight of Title IV.

The CARES Act is the biggest rescue package in the history of Congress, and we need to make sure the dollars and program quickly find their mark.

During this hearing I look forward to hearing more on an update of the status of the Treasury loan programs, 13(3) emergency facilities, and the Paycheck Protection Program; steps the Fed and Treasury have taken, and will continue to take, to provide transparency into the loans and loan guarantees under the CARES Act; and how the unused funds from Title IV will be prioritized and leveraged to provide additional liquidity to the economy.

While not part of Title IV of the CARES Act, SBA and Treasury have worked around the clock to ramp up the Paycheck Protection Program that has approved over 4.3 million loans to small businesses that amount to about \$513 billion.

According to the SBA, the overall loan size for the PPP is \$118,000, and during the second round of PPP funding, the average loan size has been around \$70,000.

On April 28, Treasury and SBA announced that the SBA would review all PPP loans in excess of \$2 million to make sure that the borrowers' self-certification for the loans was appropriate.

Last week, SBA and Treasury provided a safe harbor for loans under \$2 million.

Finally, on May 8, 2020, Commerce Committee Chairman Wicker and I sent a letter to Secretary Mnuchin on the Payroll Support Program requesting a detailed report on the status of the program, and on May 12, Treasury announced the new transparency measures with regard to the PSP.

I encourage you to continue your work with the applicants and update the information as additional funds are disbursed.

I commend each of you and your staff for the hard work and extraordinary actions you have taken to stabilize the economy and provide support to Americans during this trying time.

Thank you for joining us today to share your agencies' activities and plans in response to COVID-19.

Senator Brown.

OPENING STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman.

I would like to thank Chairman Crapo for following the best advice of health experts and holding a virtual hearing to prevent the spread of coronavirus.

I welcome Secretary Mnuchin and Chairman Powell to the Senate Banking and Housing Committee. Thank you for joining us.

I am still outraged by Leader McConnell's reckless decision to keep the Senate in session, putting Capitol Hill workers—including Capitol police officers, custodial staff, floor staff, and cafeteria workers—putting all workers at risk.

Leader McConnell has forced workers to go against public health authorities' advice for 3 weeks now; he still has no plan to get additional help to families and communities. The House passed a bill that incorporates many of our plans. The American people are rising to the challenge. Their leaders are failing them. Leader McConnell says he sees no urgency. Those are his words: "no urgency."

Before we begin, I would like to pause for a moment to recognize all the workers who have lost their lives on the job during this pandemic.

[Pause.]

Senator BROWN. The coronavirus has been the great revealer. It has brought out the best in our communities. We remember the spirit of solidarity that created our social safety net during the New Deal and inspired World War II victory gardens and powered the civil rights movement. Today that spirit of solidarity reveals itself in hand-sewn masks and fire escape applause for hospital workers and videoconference play dates, as millions of individual Americans pull together to do their part to flatten the curve.

But this pandemic also lays bare how corporations that now claim their workers are "essential" have for too long treated them as more of a cost to be minimized.

Since the bailouts of the financial crisis, many of us have been concerned about how our country rewards Wall Street and too often ignores the people who make our country work.

Whenever we have asked why wages for these essential workers are stagnant, we are told we cannot afford it. Companies would have to raise prices if they paid people more. Never mind that CEOs were getting huge raises and Wall Street investors huge payouts. Never mind that low prices do not do you a lot of good if your wages stay low right along with them.

Our economy has been paying the price for that—with a shrinking middle class, with rising inequality, with lower economic growth.

Now it is pretty clear: When millions of American workers are laid off or have their hours cut or were making low wages to begin with and are now worried about their future, our economy grinds to a halt.

In fact, the only thing keeping our society running in the middle of this crisis is American workers—those who stock our shelves and deliver our packages and fill our prescriptions and prepare food and care for loved ones.

A grocery store worker in Ohio told me recently, “I do not feel safe at work and they do not pay me much. I do not feel essential. I feel expendable.”

We are asking people to show up to work and risk their health and risk their families’ safety—perhaps finally realizing the words of Dr. King ringing true, that “One day our society will come to respect the sanitation worker . . . for the person who picks up our garbage, in the final analysis, is as significant as the physician, for if he does not do his job, diseases are rampant. All labor has dignity.”

Yes, all labor has dignity.

You might think that at a time when we are demanding more from essential workers than ever before, that people who punch a clock or swipe a badge, people who take care of our families and our elderly—mostly women, often black and brown workers—you might think they would all be getting a huge raise.

Our economy is supposed to reward people whose talents are in high demand. That is what we are taught. That is what CEOs tell us, right?

But that is not happening. Workers are getting left behind again.

As essential workers go home to their families—think about this—after a long, stressful day, they are wondering how they are going to pay the rent, they are wondering how they are going to afford another week of groceries. And they wonder whether they are going to infect their families after going to work.

Those are the ones that are working. How about the 35 million Americans who have been laid off from their jobs because of this crisis?

When we passed the CARES Act, we tried to address this. We tried to make sure that the trillions of dollars in spending would not just go to Wall Street like it usually does. We wanted to make sure the Fed and the Treasury got this money directly into workers’ pockets.

We did not want to see it go to gas and oil companies, whose activities frankly pose an existential threat to essential workers and our whole economy.

Chairman Powell, I appreciate your recent comments about how Congress needs to do more to put money directly in workers' pockets. I agree, of course, with that.

If Congress does not act now to put money in the hands of the people who actually power our economy—in workers, their families, and Main Street businesses in struggling communities—we risk making the economic crisis worse.

Leader McConnell needs to let the Senate take up the House bill immediately. Debate it, negotiate it, argue with us, fight over it, but do something.

Congress has an important responsibility also to make sure the \$500 billion we have already approved for the Fed and Treasury is actually getting to workers. And from what we know so far, it does not appear that this Administration or the Federal Reserve are making workers their priority.

Today I look forward to hearing from both of you, Mr. Secretary and Chairman Powell, not about what you are doing for big banks or big corporations—we already know that—and how you expect that money to trickle down, but how you are making sure the money and the authority Congress gave you actually help the people who make this country work.

I want to hear how it is going to be different this time.

I want you to explain what you will do to transform our economy so that it works for everyone—not just the wealthy and the powerful.

I want to hear about your plans to make our economy work for essential workers now and in the future and how to safely get those who have lost their jobs back to work.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you, Senator Brown.

We will now move to the testimony. Secretary Mnuchin and Chairman Powell, your full written statements will be made a part of the record. We will now go to your oral testimony, and we will start with you, Secretary Mnuchin.

STATEMENT OF STEVEN T. MNUCHIN, SECRETARY, DEPARTMENT OF THE TREASURY

Secretary MNUCHIN. Thank you. Chairman Crapo, Ranking Member Brown, and members of the Committee, thank you for this opportunity to highlight how the Department of Treasury and the Federal Reserve are working together to provide liquidity to the financial system. Our programs support the flow of much-needed credit to American workers, families, businesses, States, and municipalities.

I am testifying today on camera at the request of the Committee. I look forward to testifying in person going forward in a safe way with proper social distancing according to medical guidelines.

I want to begin by acknowledging the unprecedented challenges the American people are experiencing due to the COVID-19 pandemic. This disease is impacting families and communities across the Nation. Through no fault of their own, the American people are also enduring economic challenges. I am inspired by our Nation's medical professionals and first responders on the front lines taking care of our fellow citizens. Thanks to their efforts and unwavering

commitment to their communities, I am confident that our Nation will emerge from the pandemic stronger than ever before.

President Trump and the entire Administration are committed to providing necessary relief to help people get through this time. The Treasury Department is working hard to implement the CARES Act. We appreciate Congress working with us to enact this statute, which is the single largest economic relief effort in the history of our country. We also appreciate the feedback we have received from Members of Congress on both sides of the aisle as we implement a number of the critical programs established by the CARES Act.

We have worked closely with the Small Business Administration on the Paycheck Protection Program to ensure processing of over 4 million loans for over \$500 billion to keep tens of millions of hardworking Americans on the payroll. We are proud that nearly 400 Community Development Financial Institutions and Minority Depository Institutions and many small banks and nonbanks are participating in this program.

We have issued more than 140 million Economic Impact Payments for over \$240 billion to provide direct relief to millions of Americans. The typical family of four received approximately \$3,400.

We have distributed about \$150 billion to State, local, and tribal governments through the Coronavirus Relief Fund for essential services. We have also approved nearly \$25 billion in payroll support to the airline industry to protect this critical sector of our economy.

Turning to the central focus of the hearing today, the CARES Act also provided authority for \$454 billion in support for the Federal Reserve lending facilities to provide liquidity to the system.

Since March 17th, I have approved the following facilities: the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, the Money Market Mutual Fund Liquidity Facility, the Term Asset-Backed Securities Loan Facility, the Primary Market Corporate Credit Facility, the Secondary Market Corporate Credit Facility, the Main Street Business Lending Program, the Municipal Liquidity Facility, and the PPP Lending Facility.

We have committed approximately \$200 billion in credit support under the CARES Act. We have the remaining money to create or expand these programs as needed, and we continue to monitor a variety of economic sectors closely and are prepared to support these programs with the Federal Reserve as we need to move forward.

We are sympathetic to hardworking Americans and businesses enduring tremendous challenges due to COVID-19. We have had to take unprecedented steps to shut down significant parts of the economy in the interest of public health. As a result, in the second quarter of this year, we are continuing to see large unemployment and other negative indicators. It is important to realize that the large numbers represent real people. This is why it is so important to begin bringing people back to work in a safe way.

As we listen to medical experts, we are optimistic about the progress being made on vaccines, antiviral therapies, and testing. Working closely with the Governors, we are beginning to open the

economy in a way that minimizes risks to workers and customers. We expect economic conditions to improve in the third and fourth quarter and into next year.

I want to conclude by thanking the hardworking people at the Treasury, the Federal Reserve, and throughout the Administration. Under the leadership of President Trump, I am proud to have worked with all of you, on a bipartisan basis, to get relief into the hands of hardworking Americans and businesses as quickly as possible. While these are unprecedented and difficult times, these programs are making a major positive impact on people's lives. Together we will destroy the COVID-19 virus, and our country will emerge from this pandemic stronger than ever.

Thank you for the opportunity to discuss these efforts today, and I look forward to your questions.

Chairman CRAPO. Thank you, Secretary Mnuchin.
Chairman Powell.

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

Mr. POWELL. Chairman Crapo, Ranking Member Brown, and other Members of the Committee, thank you for the opportunity to testify today at the first quarterly hearing on the CARES Act. This is a worldwide public health crisis, and health care workers have been the first responders, showing courage and determination and earning our lasting gratitude. So have the legions of other essential workers who put themselves at risk every day on our behalf.

As a Nation, we have temporarily withdrawn from many kinds of economic and social activities to help slow the spread of the virus. Some sectors of the economy have been effectively closed since mid-March. People have put their lives and livelihoods on hold, making enormous sacrifices to protect not just their own health and that of their loved ones, but also their neighbors and the broader community. While we are all affected, the burden has fallen most heavily on those least able to bear it.

The sacrifices we are all making represent an investment in our individual and collective health. As policymakers, we should continue to do what we can to help cushion the blow.

The scope and speed of this downturn are without modern precedent, significantly worse than any recession since World War II. We are seeing a severe decline in economic activity and employment, and already the job gains from the last decade have been reversed. Well more than 20 million people have lost their jobs, and recent Fed research shows what others have also found: that people earning less are the ones being hardest hit. This reversal of economic fortune has caused a level of pain that is hard to capture in words, as lives are upended amid great uncertainty about the future.

The Federal Reserve is committed to using our full range of tools to support the economy in this challenging time. Our actions so far fall into four categories:

First, outright purchases of Treasuries and agency mortgage-backed securities to restore functionality in these critical markets;

Second, liquidity and funding measures, including discount window measures, expanded swap lines with foreign central banks,

and several Treasury-backed facilities to support smooth money market function;

Third, with additional Treasury-backing facilities to more directly support the flow of credit to households, businesses, and State and local governments;

Fourth, temporary regulatory adjustments to encourage and allow banks to expand their balance sheets to support household and business customers.

So far, we have created 11 facilities under Section 13(3) of the Federal Reserve Act to support liquidity, funding, and the flow of credit. All of these facilities have been undertaken with the approval of the Treasury Secretary, and many of them are supported by funding from the CARES Act. I discuss these facilities in greater length in my written statement which I provided to the Committee.

At the Fed, we are committed to transparency, particularly in deploying our emergency powers. Public faith in our operations depends on that transparency.

Thank you, and I will be happy to answer your questions.

Chairman CRAPO. Thank you, Chairman Powell. I will begin with you.

Mr. Chairman, as you know, with regard to the Municipal Liquidity Facility, the thresholds for cities and counties are established, but they are established at such a level that many of the small cities and counties across the United States cannot apply for individual loans. You have indicated that it would be contemplated that the States be able to apply for loans for these smaller cities and counties, and there is a lot of concern out there about this. I would like to ask you to clarify that it is intended that these dollars do reach these small cities and counties, and tell us the process by which that can be accomplished.

Mr. POWELL. Thank you, Mr. Chairman. As you have seen, we have been gradually expanding the scope of potential borrowers in this world. There are 50,000 entities capable of borrowing, so we need to draw some lines to be able to handle this.

But in the first instance, we have said that we will always be willing to lend to a State with the purpose of downstreaming to counties, cities, and other subdivisions of governmental authority within that State. So that is one thing.

We also lowered the size of the city, and I would tell you we are continuing to look at ways to accommodate further borrowers, including perhaps in the case of States with relatively low populations where the only borrower with access may be the State Government itself. We are looking at ways to make sure that in those States we address the needs of potentially another borrower or two, and that is something we will be working on going forward.

Chairman CRAPO. Well, thank you very much.

Secretary Mnuchin, to you, with regard to the 13(3) facilities, the CARES Act appropriates, if I recall correctly, \$500 billion to be utilized through the Exchange Stabilization Fund to help facilitate the implementation of these Section 13(3) facilities by the Federal Reserve. Most of that has not yet played out. Am I correct?

Secretary MNUCHIN. So of the \$500 billion, approximately \$50 billion was in direct lending programs from the Treasury and \$450 billion was available for the 13(3) facilities. I have allocated about

half of that, and let me be clear. I am prepared to allocate the rest of that. The only reason I have not allocated it fully is we are just starting to get these facilities up and running. We want to have a better idea as to which one of the facilities needs more capital as well as the potential for adding additional facilities. So I expect to allocate all the capital as needed, as was given to us.

Chairman CRAPO. And so that the listening public can be clear about this, the way these facilities work is once the money is allocated as you have just indicated to a particular facility and the Fed implements that facility, then that money can actually be leveraged into much greater amounts of liquidity for whatever market or situation that is addressed. Is that correct?

Secretary MNUCHIN. That is correct, depending upon the credit risk; it depends on the leverage. We have allocated the existing capital up to about \$2.3 trillion in existing facilities. And, Mr. Chairman, let me just make a comment because I know there has been a lot of questions as to whether the Treasury is willing to take risk with that. I would say the answer is absolutely yes. The way these facilities work is in the facilities that do not have any credit risk, such as the PPP, I approve those without capital allocated. By definition any facility that the Fed believes puts them at risk, I do put up capital. So by definition, that capital is at risk. And we are fully prepared to take losses in certain scenarios on that capital.

Chairman CRAPO. Well, thank you. And I have just about 50 seconds left, and I want to stay with the time. But there have been some allegations that just big companies are being benefited by these facilities. Could you quickly address that, Secretary Mnuchin?

Secretary MNUCHIN. Well, let me just comment. The announcement of the Corporate Bond Facility, without putting up \$1 of taxpayer money, unlocked the entire primary and second market for corporate bonds. So companies such as Boeing that I had expected would need to borrow from us on a direct basis were able to borrow \$25 billion in the primary markets. So I would say in the best-case scenario, the markets open up and we do not need to use these facilities.

In the case of the Main Street Facility and the Municipal Facility, which we expect both to be up and running by the end of the month, we expect these to have a big impact on both those markets.

Chairman CRAPO. Thank you very much.

Senator Brown.

Senator BROWN. The workers who have kept our country running during this public health emergency, the essential workers that we all pay lip service at least to, are often the lowest-paid workers in our economy. They are usually women. They are disproportionately black and brown workers. Too often they do not have a union. They are low-wage workers who do the laundry at hospitals, who prepare our food. They put their lives on the line to keep our country running. They are still worried about paying the bills, staying afloat, and staying healthy.

Mr. Secretary, do you think that is fair?

Secretary MNUCHIN. Mister Senator, I apologize. Due to the technical issues, I did not hear the beginning of your question. I heard, “Do you think that is fair?” But I did not hear the question.

Senator BROWN. The people who we call the “essential workers” and we call out and thank, those essential workers are often the lowest-paid workers. They do the laundry; they are the custodians, the security people. They prepare our food. They put their lives on the line for very low wages. They are still worried about paying the bills. Is that fair?

Secretary MNUCHIN. Well, Mr. Senator, I just want to thank all the essential workers, whether it be the health care people or—

Senator BROWN. Well, the thanking is great, but these are people—is it fair that our economy pays the essential workers so little in such work conditions?

Secretary MNUCHIN. Mr. Senator, some of those people are paid less than others. Again, I—

Senator BROWN. Well, my question is: Is that fair?

Secretary MNUCHIN. Again, Mr. Senator, I do not know what specific workers you are referring to—

Senator BROWN. Well, I can lay them all out. I will try the Chairman of the Federal Reserve. Mr. Chairman, is it fair that those workers who are exposing themselves to this virus that are making low wages—we call them “essential” by all of our definitions. Is that fair?

Mr. POWELL. You know, those are workers who are basically in the service sector. That is what is unusual about this, that it is all about the service sector, and particularly those parts of the service sector where there are lots and lots of in-person contact, and those tend to be lower-paid workers, and they are definitely the most affected. And I would just say that, you know, all of our efforts are to do what we can to help those people and create conditions so that they will have the best possible chance to get back to work.

Senator BROWN. Well, some of the best things you both could do is to support pandemic pay for these workers and support another recovery act that included more dollars for these low-paid workers, who we continue to celebrate as essential.

Mr. Secretary, we passed the CARES Act to help millions of workers who make our country work. You have set up CARES Act programs to lend trillions of dollars to companies. Am I right that you are not requiring companies to use the money they borrow to keep their workers on the payroll?

Secretary MNUCHIN. Mr. Senator, I am following what was the exact letter and spirit of the law that we negotiated with you and others on a bipartisan basis. In some of these facilities, there are specific requirements, and I assure you that the Chair and I are absolutely enforcing those requirements as required in both the literal and spirit of the negotiations.

Senator BROWN. Well, that was nice-sounding words, but the Administration is willing to send people to work without regard for their safety, but the Administration is unwilling to make sure that these trillions of dollars in taxpayer money will help these workers directly.

Secretary Mnuchin, let me go somewhere else. Public health experts have told us it is not safe to reopen the economy until we

have worker protections in place that will control the spread of COVID, things like testing, contact tracing, protective equipment, efforts that the President has clearly failed to lead to help our country.

Secretary Mnuchin, you said there is considerable risk of not reopening, that keeping some businesses closed could cause permanent economic damage. How many workers will die if we send people back to work without the protections they need, Mr. Secretary?

Secretary MNUCHIN. Senator, we do not intend to send anybody back to work without the protections, and I would say I was prepared to come there today. I thought it was safe to testify. As a matter of fact, I already was at the Senate this morning wearing a mask. And I assure you both myself and everybody on the task force, the Vice President and others, are following the best medical advice, and I could not be more proud of the medical advice that we are getting and the way the economy is opening up in a safe way.

Senator BROWN. So how many workers should give their lives to increase our GDP by half a percent? That you are pushing people back into the workplace, there has been no national program to provide worker safety. The President says reopen slaughterhouses, nothing about slowing the line down, nothing about getting protective equipment. How many workers should give their lives to increase the GDP or the Dow Jones by a thousand points?

Secretary MNUCHIN. No workers should give their lives to do that, Mr. Senator, and I think your characterization is unfair. We have provided enormous amounts of equipment. We have worked with the Governors. We have done a terrific job of getting—

Senator BROWN. Mr. Secretary, I am not going to let you make a political speech about what a great job—we hear that from the President in his news conferences—when, in fact, this country—the President has still not led an effort to scale up testing. He has played State after State, State against State. He has played hospital against hospital to get protective equipment. Everybody in the country, your comments notwithstanding, knows that.

Chair Powell, you said last week the additional fiscal support could be costly but worth it if it helps avoid long-term economic damage and leaves us with a stronger economy. So Congress needs to think about more than just the national debt right now. It is less costly to act today to help people than to pay for our failure to act in the future. Is that right, Mr. Chairman?

Chairman CRAPO. And if you would answer quickly, Mr. Chairman.

Mr. POWELL. Sure. Well, that is what I said. I said it could be. This is really a question for Congress to weigh. I wanted to call out the risk there, which was the risk of longer-term damage to the economy. And that is what I was doing, and I said we may need to do more and Congress may as well.

Senator BROWN. Thank you. And, Mr. Chairman, one brief comment. The Administration thinks we should put more workers at risk to juice the stock market. They have not come up with a basic plan for how to protect workers when they go back to work. When President Trump and Leader McConnell want to give away trillions and tax breaks to billionaires, the price tag did not matter a couple

years ago when that happened. But we need to spend money now to keep workers safe in spite of the comments of some in the Administration and some in Senate leadership.

Thank you, Mr. Chairman.

Chairman CRAPO. Well, thank you. I think that I would disagree with that characterization as well, but let us move on to Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. Thanks for joining us this way.

I just want to follow up on this discussion about additional spending and remind everybody, while we authorized something on the scale of \$3 trillion, to round things off, of direct spending and lending and then authorized the Fed to complement that with another roughly \$3 trillion, that could be—\$6 trillion, that is like 30 percent of our entire annual economic output. And, in fact, actually more than half of it has not yet been spent or lent, so I think you can make a pretty strong case that before we rush out and do another spending bill, we actually let some of this stuff go to work and understand the consequences of what we have already done.

I appreciate the Chairman observing that his comment—while I think it was often mischaracterized as calling on Congress to pass a new bill, in fact, it was much more nuanced than that, and it acknowledged, among other things, the potential cost of new spending. The comment that you made at the Peterson Institute, Mr. Chairman, do you still stand by that comment?

Mr. POWELL. I do, I do. Would you like me to expand on that, Senator?

Senator TOOMEY. You know, I think we have covered it, so I appreciate that. Let me move on to follow up on something the Secretary said about reopening.

I think it is worth remembering why we shut down our economy in the first place. It was a very specific reason, and that was to prevent the virus from spreading so rapidly that so many people would get sick so quickly that we would overwhelm our hospitals. Well, it has been clear for weeks now that we are not going to overwhelm our hospitals, certainly not in Pennsylvania, and I know not in most of the country. And so I think it is essential that we begin the process of carefully, thoughtfully, and safely reopening the economy.

Secretary Mnuchin, the longer that we continue a shutdown, when weeks turn into months, doesn't that necessarily increase the risk that some businesses will fail, some jobs will not be there to go back to if a lockdown and a shutdown continues indefinitely?

Secretary MNUCHIN. That is absolutely the case, Mr. Senator. There is the risk of permanent damage. And as I have said before, we are conscious of the health issues, and we want to do this in a balanced and safe way.

Senator TOOMEY. Thank you. I guess for either of you on this one, I want to talk a little bit about the Main Street programs.

First, give us your best estimate of when we can expect borrowers to actually be able to access funds from these programs?

Mr. POWELL. I will go ahead. So on Main Street and, frankly, on all of the other facilities, we expect all of them to be stood up and ready to go by the end of this month. I do not say that it will not

be a day or two into June, but that is our expectation, and the funds should be flowing directly after that.

Senator TOOMEY. And very briefly, would it be possible to characterize the remaining hurdles you have got to get over in order to start actually being operational?

Mr. POWELL. Sure. So all of them are complex and challenging, but Main Street is in a class by itself, really. It is not the bond market. These are small and medium-size companies. They live in a world of bank lending. That is a world of negotiated documents, and we are trying to enter that world and make loans to qualifying buyers. So we set up, you know, big operations at the Federal Reserve Bank of Boston and hired service providers, and we are doing all of that to be ready to face off against it. It is very diverse, small, medium, and large companies, very different industries, very different credit needs, some of them asset-based, some of them cash-flow-based. So it is a really complex undertaking, and people are working literally around the clock, and have been for weeks, to get it ready by the end of this month.

Senator TOOMEY. Thank you for that.

I also observe that one of the terms, one of the conditions of these facilities is that the banks who are acting as lenders—and, by the way, I am hoping that nonbanks can participate as well. Business development companies and others I think would be effective conduits for these funds. But the lender is going to be required to keep some of the risk on their own books, and I am wondering what kind of reaction you have gotten from lenders and potential borrowers. What kind of participation are you anticipating? Do you think there will be strong demand for these facilities given the way they have been structured?

Mr. POWELL. There are three facilities. We have had a lot of outreach—to borrowers, lenders, everybody—going back over the last couple of months. And the three facilities will probably attract different levels of demand. We are getting a good deal of interest and inquiry on them, and I think we will find out fairly quickly.

You should know that we will continue to be prepared to adapt, as we have shown, if the uptake is not what we would hope, and we will be prepared to go after that and try to find ways to address the needs of this area of the economy.

Senator TOOMEY. All right. Thank you very much.

Thanks, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Reed.

Senator REED. Chairman Powell, thank you for your great leadership. I think you recognize that State and local governments are absolutely critical to our response to COVID but also to our economy. It has been estimated, for example, that there are 20 million jobs in State and local government, that State and local governments contribute 8.5 percent of national GDP, and we all know they are facing dire economic circumstances, projected 10 percent budget losses this year, 25 percent next year.

How likely will it be for us to have robust recovery if our States do not receive additional and flexible fiscal relief, not a loan from the Fed which increases their leverage, but fiscal grants to the

States? How robust can our recovery be if this key sector is out of play?

Mr. POWELL. Senator, I do not want to get too into individual fiscal proposals. Those are really for you. I have tried to stay at a fairly high level on this. I will just echo, though, that I think something like 13 percent of the workforce is in State and local government. A lot of the critical services that people rely on day to day are, you know, provided at the State and local level. With balanced budget provisions in State Constitutions, that means that when revenue goes down sharply, it can mean job cuts and service cuts. So those are all important things to consider in going forward.

Senator REED. Well, thank you.

Secretary Mnuchin, I just want to make a comment, because I made this comment to you repeatedly. That is, I do believe that within the Coronavirus Relief Fund that we passed, you do have the flexibility to provide support for the States when it comes to lost revenue. This lost revenue was not anticipated in their budgets. Far from that. And, second, it is directly related to the COVID virus. If you go to most States, it is directly related.

So I would urge you to relook, as you have done with PPP, and you have tailored that several times, look back again and reconsider the ability to use flexibility in this Coronavirus Relief Fund. So that is just a comment, Mr. Secretary. Let me return back to Chairman Powell.

Chairman Powell, we know that unemployment is going to be something that will be with us for a while. It is about 15 percent now. I have seen estimates as high as 20 or 25 percent next year. And yet our unemployment insurance programs are keyed to a date. They will end at a certain time.

Do you think it is important for us to have the confidence and give confidence to people that they can still receive funds like this, even if the date is surpassed, the economy is still in disarray, States are still looking at 10 percent unemployment rates? Don't they need that certainty so we would have to build in some type of test—not a date, but a test for unemployment compensation?

Mr. POWELL. Senator, again, that is a question about a specific fiscal policy, and that really falls to you. You know, we try not to get into too many specifics. I will say, though, that the risk that I called out last week and that I have been concerned about, and others have, is that long periods of unemployment can really affect people's ability to go back to work because they lose their networks, they lose their skills, they lost contact with the job market. So I think anything that keeps people intact hopefully in their job, but in the meantime, keep them out of insolvency and things like that, should the expansion start later or take longer to get going, those are appropriate things for you to look into.

Senator REED. Just a final point, Chairman Powell. I think we are missing the boat once again. This is sort of like *deja vu*. I was here in 2008, 2009, and 2010, and we leaped in to help the mortgage market with both feet, but we did not help people avoid foreclosure. It seems to me that that is what we will do again unless we have a fiscal program that provides resources to keep people in their homes. When they cannot pay their rent, when they miss their mortgage payments, that will put pressure on the mortgage

communities, and you and the Fed and the Treasury will rush to help. Wall Street will get the help. Main Street will be left behind. There will be, as there was in 2008, 2009, and 2010, thousands and thousands of people without homes. And any economic recovery is going to be slowed by people in those conditions.

So I would just ask whether you consider this fiscal response to the core problem—people cannot pay their rent, they cannot pay their mortgage—is probably the best response rather than filling in later.

Mr. POWELL. I think you are right. Waves of foreclosures can undermine household finances, obviously, and as a result, bad household finances are troubled. But, of course, in this case there has been some significant forbearance on that, and I think, you know, that is, again, something to continue to consider.

Senator REED. Thank you very much, Mr. Chairman. I thank Chairman Powell and Chairman Crapo. Thank you.

Chairman CRAPO. Thank you.

Senator Scott.

Senator SCOTT. Thank you, Mr. Chairman. To the panel, thank you all for being with us this morning.

This is a really important time in our country. There is no doubt that the global pandemic has shocked the world and, frankly, shuttered a lot of businesses. And because of the Paycheck Protection Program, I think the two tranches of the Paycheck Protection Program have saved, from my understanding, somewhere near 50 million jobs—the first tranche, about 30 million jobs; the second tranche, about 20 million jobs. And we still have about \$100 billion left that we can deploy into our communities.

With that said, thinking about the backdrop of \$100 billion left in the Triple P, Mr. Secretary, I think you know that I feel really passionate about helping the underserved communities, whether that is Horry County in South Carolina or West Virginia and some of the rural parts of West Virginia. Very often, small and minority businesses are the lifeblood in those small rural communities, and, frankly, we have the Minority Business Development Agency that has done a really good job of helping to deploy some of the resources from the Triple P into those underserved communities.

My question is: How can we use the MBDA or some other mechanism to get more of those resources in our rural communities or, frankly, in our inner-city communities where perhaps the Paycheck Protection Program has been more intimidating for smaller businesses, like barbershops and beauty salons, some of the rural gas stations that may not have the banking relationship that was necessary at the beginning of the program, or their 1099, which means that basically they had to wait a week before they were able to get in the cycle? How can we help those organizations and agencies like the MBDA actually provide the marketing so that more people understand the benefits and understand the program of the Triple P? Mr. Secretary?

Secretary MNUCHIN. Well, Senator Scott, first of all, thank you, because we appreciate the work you have done with us on this issue already, and we will continue to work with you and others.

One of the things we are very pleased about the additional money is that the average loan size has come down considerably.

I think we all had certain concerns about in the first tranche how larger companies were prioritized. I believe that has now been corrected.

I also could not be more pleased how we have been able to get sole proprietors and others into the program. And as I have said, fortunately right now we still have a significant amount of money left, but we are very much willing to consider the bipartisan request of reserving money for CDFIs at the end to make sure that the underserved communities are properly served in this program. Thank you.

Senator SCOTT. Thank you. Mr. Secretary, once again let me just say to you, since I can see you on the screen, you have done a fabulous job under intense pressure, and without any questions, America recognizes the valuable service that you have provided to our country, and I am personally thankful for your accessibility. Under pressure, you have still been very receptive and responsive, and that is to say a lot under the current conditions. So thank you very much on that.

Chair Powell, I heard you talk about forbearance very quickly there, and this is an issue that continues to grow in importance and really in urgency, whether it is a small business, whether it is the residential market or the commercial market.

The one concern I have that continues to grow would be commercial mortgage-backed securities. There are a number of shopping centers in South Carolina and, frankly, throughout the country where, having spoken to some of the folks who own those shopping centers, like 20 to 22 percent of the folks are able to pay their rent, which means that we are looking at a domino effect in the mortgage market, whether it is commercial and, frankly, residential, the same concern. I am not sure what the answers are. Certainly it is either forbearance or, frankly, bankruptcy for many firms.

What should we expect, what should we anticipate from the Fed and from the Treasury as it relates to creating more liquidity in that market? And I do not know that there is a silver bullet. I do not see a panacea. But what would you both suggest that I should tell my constituents on this really important issue? Thank you.

Mr. POWELL. It is an important market. As you know, we have supported the CMBS market with our open market purchases, and that did help that market to keep functioning. In addition, legacy CMBS are eligible for our Term Asset Loan Facility, which is an asset-backed security. It is an important market. We continue to monitor it. You know, the 13(3) facility is a lending facility, and that is the tool we have. Not every problem can be successfully addressed with such a facility, but where it can be, we are willing to take a hard look.

Senator SCOTT. OK. Thank you.

Mr. Secretary, anything to add to that, sir?

Chairman CRAPO. Quickly, please.

Secretary MNUCHIN. Again, I would just add both working with the FHFA as well as Ginnie Mae on the agency side and then working with the Fed on the securitization side, unfortunately, securitizations have certain limitations, but we continue to do this. Thank you.

Senator SCOTT. Thank you, Mr. Chairman. I may be over my time. I cannot see the clock, so I assume that I have 5 more minutes left.

[Laughter.]

Chairman CRAPO. I have been trying to tap. I am not sure if everybody is hearing the taps, but I will do something loud.

Senator SCOTT. Thank you, sir.

Chairman CRAPO. All right. Thank you.

Senator Menendez.

Senator MENENDEZ. State and local governments are facing unprecedented budget challenges. We are looking at enormous wave of budget shortfalls about to crest, which will lead to a devil's cocktail of devastating layoffs, dangerous cuts to public safety and essential services, and massive local tax increases. Any one of those ingredients alone threatens to make this economic crisis even worse, and the combination of all three is almost unthinkable.

The Bureau of Labor Statistics just reported that State and local governments laid off nearly 1 million workers in the month of April. That is almost 1 million firefighters, police officers, teachers, emergency health personnel that should be on the front lines of the public health crisis but are sidelined instead.

So, Chairman Powell, let me just start by asking, do you agree that our economy will get worse if State and local governments are forced to lay off even more firefighters, police officers, teachers, and emergency health personnel?

Mr. POWELL. Well, let me say what we are doing, Senator. You know, we have a Municipal Liquidity Facility that is there to address the short-term liquidity needs that these entities have because of their loss of revenue due to the effects of the pandemic, and that is really the tool that we have to—

Senator MENENDEZ. Well, I appreciate that, but that is not my question. My question is: If States, counties, municipalities continue on the path to lay off—you know, we have a million laid off—even more, just from an economic situation, doesn't that make the economic recovery even worse?

Mr. POWELL. Essentially yes, Senator, and we have the evidence of the global financial crisis and the years afterward where State and local government layoffs and lack of hiring did weigh on economic growth during that period.

Senator MENENDEZ. Well, one of the tools that we have to alleviate this problem is by using the money Congress provided in the CARES Act to bring down borrowing costs for our State and local governments so they can set the stage for a strong recovery. I was glad to see the Federal Reserve support local governments through the Municipal Lending Facility, but, frankly, I do not think it is enough.

In a letter that I and Senators Tillis, Brown, and Murkowski sent to you and Secretary Mnuchin last week, we called on the Fed to establish another facility, one that would purchase medium- and long-term municipal bonds, both directly from issuers as well as on the secondary market and thereby ensure our State and local governments can continue to finance key public services and invest in infrastructure and other areas to jump-start our economy and get Americans back to work.

Will you commit to work on that proposal that the Senators sent to you?

Mr. POWELL. Yes, we will take a look at that, Senator. I will say, though, that generally with 13(3), what we are trying to do is address liquidity needs, and those are really longer-term funding needs. But notwithstanding that, we are taking a look.

Senator MENENDEZ. I appreciate that. In a speech last week, Mr. Chairman, you said, "Additional fiscal support could be costly, but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery. The tradeoff is, of course, for our elected representatives." You know, I agree. The hit to our States, cities, and counties is tremendous, and it is not just specific to my State of New Jersey. Projections released by Moody's reveals that every State in the Nation is already or will soon face historic budget shortfalls. Just to pick a few examples, they found that Ohio and Arizona are each facing a fiscal shock totaling about 20 percent of their entire State budget. And for some States, the numbers are even worse, like West Virginia, which is facing a 40-percent fiscal shock. Like you said, the Fed cannot be expected to solve all of our problems.

Yesterday I introduced the SMART Act, which is a bipartisan bill—three Republicans, three Democrats—to provide \$500 billion in direct support to our State and local governments. It is the first bipartisan bill of its kind in the Senate, and I think when we have colleagues from Mississippi, Louisiana, and Maine on the Republican side, it is not a partisan issue.

Would that be the type of solution that can get us back in terms of the States into fiscal recovery?

Mr. POWELL. Senator, we try to stick to our knitting over here, and you know that we have done what we can with the Municipal Liquidity Facility. But those questions are really for elected representatives.

Senator MENENDEZ. Well, let me just close on this. A lot of minority-owned businesses are not getting access to the Paycheck Protection Program as we in Congress intended. I know the Secretary has been receptive, I hope you will be receptive as well to allowing community development financial institutions and minority development institutions get greater access to these programs and to the lending facilities set up in the CARES Act so these funds can reach businesses in low-income and underserved areas of our country. It is just still not happening, and I urge—the Secretary, I believe, has been rather receptive about this. I would urge you, Mr. Chairman, to be receptive as well.

Chairman CRAPO. Thank you.

We will next move to Senator Sasse, who will be with us by telephone. And, Senator Sasse, I will tap at about 30 seconds left of your 5 minutes. You can proceed.

Senator SASSE. Thank you, Chairman. And, gentlemen, thank you both for being here. Sorry, but I am in the hallway outside of a Judiciary Committee hearing, so I do not have the Zoom camera here, but I am grateful for both of your time and responsiveness on this.

I want to start by asking about some of the recent cyber attacks. We have obviously seen an increase in schemes directed at finan-

cial institutions that have been active in trying to help with corona response, and I am just curious as to if you have any update for us on the cybersecurity attacks we see in this space.

Secretary MNUCHIN. Well, I would just comment on that that we have a Department within Treasury that is actively working on all these issues and coordinates and makes sure that our infrastructure—I will just give a pitch for our Secret Service bill, moving the Secret Service back to the Treasury because the issues I think they can help with is on these cyber-related issues. But I can assure you we have all the resources working on this jointly and take it very seriously.

Senator SASSE. [Inaudible] —institutions that do not have the scale to have huge cyber defenses on their own, and when we see foreign actors doing stuff like this, it is obviously critical that we view this as a whole-of-society problem, not just these institutions alone. So thank you for your pledge to keep looking at that.

Chairman Powell, the Fed has done a series of announcements over the last 2 months about the 13(3) funding facilities. And in the announcement of April 9th, the Fed announced that the Term Asset-backed Securities Loan Facility would be expanded to include commercial mortgage-backed securities as well as static collateralized loan obligations. The *Wall Street Journal* described that expansion as “the Fed will in effect be buying the worst shopping malls in the country and some of the most indebted companies.”

Could you give us your perspective on the *Wall Street Journal*’s characterization of this expansion? And are they right about the risk levels with some of the commercial properties? Obviously, as America goes through this experience of corona time, lots and lots of people are not just doing telecommuting and distancing for the present, but we see in Silicon Valley lots of companies planning to migrate their long-term strategy, and I would assume that is a bellwether of what we are going to see for commercial property across America. The taxpayers should not be on the hook for flooding into that space. Can you help us understand how you would respond to the *Wall Street Journal*’s argument?

Mr. POWELL. Sure. First, in TALF we are supporting asset-backed securities markets broadly, which that is consumers, that is car loans, that is credit card loans, things like that, in addition to the CMBS you mentioned. Now, we are only buying the Triple A-rated piece, and we are only buying it with a good-sized hair cut. So the credit risk is actually very, very low on this to us, and the same thing is true of the CLOs.

Senator SASSE. That is helpful, the Triple A point. Thanks, Chairman.

Secretary Mnuchin, I want to go back to some China IP issues that you and I have discussed before. Obviously, the Chinese Government has been stealing American intellectual property for decades to fuel its economic rise, and while we have indicted companies and individuals for cyber espionage and for some of the theft of this intellectual property, we rarely see any sanctions for these crimes. For instance, we have indicted Huawei and its subsidiaries and its CFO for a long list of crimes, from the theft of trade secrets

to sanctions of Asians' money laundering, but we have not placed any sanctions on Huawei itself.

How do you and the Treasury Department assess the costs and benefits of utilizing sanctions against some of the Chinese Communist Party's economic champions like Huawei that obviously are not really private sector companies? They built the business die, sort of the ostensible private sector side of the organization by stealing IP, but the back end of Huawei is obviously hooked in not just to the Communist Party but to military intelligence. So why do we continue to treat these "companies" as if they are really private sector? Where do you come down on the cost-benefit analysis on utilizing sanctions?

Secretary MNUCHIN. Well, I think as a matter of policy, you know—and I have said this before—I do not comment on future sanctions actions, nor do I comment on specific sanctions on specific companies, although I will tell you that the issues related to Huawei we do discuss on an interagency basis and do coordinate. I would also just comment that I have worked very closely with Ambassador Lighthizer obviously on the China agreements, and forced technology transfer is a major issue that we have been combating.

Senator SASSE. Fair, Secretary, but we have heard U.S. Government officials of both Administrations for two decades talk about, you know, agreements that are eventually going to have teeth, and they almost never do. Ambassador Lighthizer has been a bit of a pit bull on this piece of it, but discussing it in the interagency process is not really the same as us pushing to help Huawei and their state-based backers understand that IP theft has real consequences, not just press releases. So I am glad that it is a topic for interagency discussion, but I would just say—and I know that the Chairman's gavel there implies that I am at time, but I would just say in the intelligence community, oversight community in the legislature, this is an increasingly bipartisan issue that Republicans and Democrats believe that it is important for us to be holding these faux private sector companies in China to more account, and the Chinese Government needs to know that we mean it, not just say eventually, you know, somebody is going to come up the stairs if you guys keep stealing IP and they continue to do it. So for what it is worth, I think the Article I perspective here on an increasingly bipartisan basis is serious.

Thanks, Chairman.

Chairman CRAPO. Thank you.

Senator TESTER.

Senator TESTER. Thank you, Mr. Chairman and Ranking Member Brown. I want to thank both Secretary Mnuchin and Chairman Powell for being on the call today. We have all seen what has transpired over the last couple months as far as Inspectors General go.

My question is quite simple: Can I get both of your commitments, individually of course, that if an IG submits a request to you, you would provide any information to them and do so in a timely manner?

Secretary MNUCHIN. Yes.

Mr. POWELL. Yes.

Senator TESTER. Good. Secretary Mnuchin, can you tell me from your perspective how active has the Congressional Oversight Commission been?

Secretary MNUCHIN. I have seen the recent report. I cannot comment on what meetings they have had or what they have done on that.

Senator TESTER. OK. And you guys, I would assume, comply with any requests that they may make, correct?

Secretary MNUCHIN. I see no reason why we would not.

Senator TESTER. OK. Well, I value that and I appreciate that from both of you. I think the President has a bit of a different opinion, and I say that by what he has said, not by what I think about the values of Inspectors General.

Secretary Mnuchin, do you think it is right to be able to remove public servants that their job is independence and holding the Government accountable?

Secretary MNUCHIN. I think that—if you are referring to the removal of the IG, again, which I only know from what I have heard the President say, but, yes, that is within his authority.

Senator TESTER. Even if they are doing their job?

Secretary MNUCHIN. Again, that is an appointed position. He has the right to withdraw, just as he has nominated a new Special Inspector General to work with the CARES Act, which we look forward to the Senate confirming so we can work with that person.

Senator TESTER. I have a totally different perspective on that, and I will tell you why. I know he has the authority to remove anybody, including yourself, and I would say that if you are doing your job, in the case the Inspector General has been doing it on an independent basis, I think it is just—I think it is a clear misunderstanding of the three branches of Government.

So I talked to you a little bit about reporting to the IGs, and I will tell you, I learned something today I did not know before, that nearly half—this is by Senator Toomey—of the dollars that we have allocated, the \$3 trillion, has neither been spent nor lent. So can you guys—we need more transparency in these programs, and I think you would agree with that. When can we see full information about who is getting the dollars?

Secretary MNUCHIN. Well, let me just comment. When we negotiated this bipartisan deal, we agreed to unprecedented transparency. So we agreed to release things that are not required by 13(3), so I do not know why you have not seen that. Everything is posted on our website or the Fed's website. We take great pride in the transparency that we have provided and we have agreed to as part of the CARES Act.

Senator TESTER. Secretary, you are saying that the information about who is getting the dollars and who is getting the money is already posted on your website?

Secretary MNUCHIN. Again, what I have said is every single commitment we have made is listed on the website, every single term sheet, and, yes, it—

Senator TESTER. So every dollar that has gone out is listed on your website is what you said. That is what I heard.

Secretary MNUCHIN. Again, within the CARES Act facilities with the Fed, when we do individual transactions through them, they are listed.

Senator TESTER. Chairman Powell—I look forward to seeing that list, by the way, Secretary Mnuchin, and I am going to go online and I am going to search it, because I am going to tell you that as much transparency as you have said is with this program, as the Senator from Montana, as a member of the Banking Committee, I am not seeing any of it, quite frankly. I am seeing general numbers. I am not seeing any of it. We will deal with that at a later date.

Chairman Powell, I have a question for you. There has been \$3 trillion that has been put out. Can you give me an idea how many dollars, because of the leveraging that the Fed used, has actually been infused in the economy?

Mr. POWELL. Well, Senator, our facilities, the big facilities to which the equity has been committed, are really just coming online, so it is all ahead of us. You know, we have taken some time to set these facilities up, so the amount that has gone out so far is, in the context of the U.S. economy, fairly modest. We have committed, though, to disclose all of the borrowers and the amounts in a timely way.

Senator TESTER. I appreciate that. There is \$200 billion that I believe Secretary Mnuchin said would be leveraged to \$2.3 trillion. Do you agree with that?

Mr. POWELL. Yes, potentially. We cannot be precise about these numbers, but we can leverage their equity at about that rate.

Senator TESTER. What is \$100 billion among friends? Thank you very, very much. I appreciate you both being here. I look forward to being able to find the information Secretary Mnuchin said was online. Take care. God bless.

Chairman CRAPO. Senator Cotton.

Senator COTTON. Thank you, Mr. Chairman. Secretary Mnuchin, Chairman Powell, thank you both for being here.

I want to speak about the Primary and Secondary Corporate Credit Facilities. As of today, those facilities are available to companies that have ratings from public rating agencies like S&P and Moody's. As you know, that can be a very expensive process. Some companies do not want to go through the cost or the rigmarole of getting those ratings but are highly creditworthy. These companies often tend to be privately owned, sometimes family owned. They can have very large employee bases. We have some in Arkansas. In aggregate, they are employing thousands of workers. I think probably all the Senators on this Committee, maybe all 50 States, have companies that are in this category. Oftentimes they sell loans directly to insurance companies like life insurers that are rated by the National Association of Insurance Commissioners. Those ratings are high quality. They are the functional equivalent of a public rating agency like an S&P or Moody's.

Secretary Mnuchin, what is the possibility of opening up those facilities to companies that are selling those kind of loans with those kind of creditworthiness ratings from the NAIC?

Secretary MNUCHIN. Senator Cotton, I have appreciated the opportunity that you brought this to our attention, and as I have sug-

gested, I am working with the Fed very closely to see if we can accommodate using those NAIC ratings, and if indeed there is some private ratings that can be done on a level that is not costly to the companies. But we are committed to make sure that these companies can use the facilities as well.

Senator COTTON. Chairman Powell, can I get your perspective on that question?

Mr. POWELL. Yes. If I understood your description of the companies, they sound more like Main Street companies than primary or secondary credit market. Those are for investment grade issuers who issue public bonds. If I misunderstood, I am sorry. But—

Senator COTTON. On the Main Street Facility, Mr. Chairman, I think the limitation that some companies might face is that they exceed the employee cap, which I understand to be 10,000. It would be similar to the Main Street Lending Facility.

Mr. POWELL. Well, I would just echo what Secretary Mnuchin said. We are working on this problem.

Senator COTTON. Thank you for that. And, Mr. Secretary, any thoughts on when that decision might be made so these companies can get the certainty on whether they will have access to that facility or another facility or perhaps a brand-new facility?

Secretary MNUCHIN. I understand the importance of this, and I will commit to try to get back to you within the next week. And we want to make sure that if there are companies that slip through these two facilities, the Chair and I will work together to make sure that we deal with those issues so that they have funding.

Senator COTTON. OK. Thank you both for that, and thank you for your work on this question over the last couple weeks.

Secretary Mnuchin, I now want to turn to a question about the Paycheck Protection Program. It is a very specific question, but I got it coming in my office this morning from one of our small community lenders in Arkansas. I suspect many other lenders have the same question. I suspect that banks across all of our States have this question. The note we received said, "We are required to file a PPP version of SBA Form 1502 by Friday for all the loans we funded, yet the guidance and format of the reporting requirements have not been issued. We are reaching a critical point in time. As you know, banks have to extract this information from our core, and that can be both time-consuming and tedious. We ask for a little more detail. That detail is as follows: Banks will have to extract these data points from our primary core software system. This will require programming to mine these data points, then merging into the required formats. Then we have to inspect for accuracy. This will require several days to accomplish. It is not as simple as pushing a button and the data is populated."

Mr. Secretary, given that this is Tuesday, the deadline for this is Friday, what is the prospect of getting more detailed guidance from the SBA as soon as possible or perhaps pushing that deadline back a little bit for all of these lending institutions to comply with what you need?

Secretary MNUCHIN. Mr. Senator, I believe we have already pushed that date back, but I will check on that and confirm it. And if there is a specific institution that has a problem, please let me know the name, and we will figure out how to accommodate that.

We want to make sure that we get the information, but where there are small and medium-size banks that have issues, we will obviously try to figure out how to accommodate them.

Senator COTTON. Thank you very much, and I thank you again for Treasury and SBA's willingness to work with all of us over these last 2 months to iron out all of these wrinkles as the CARES Act is applied in so many different situations. Thank you, gentlemen.

I yield back my time, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Warner.

Senator WARNER. Can you hear me?

Chairman CRAPO. Yes.

Senator WARNER. OK, great. Thank you. And thank you, gentlemen.

I want to start, Chairman Powell, from the comments I think you have made, and I want to reinforce them. I think we all realize and understand that losing a job at any point in your lifetime is an enormous challenge. Losing a job in the midst of a recession or depression could be devastating. I point to the survey that the Fed put out last week that literally said 40 percent of our fellow Americans who make less than \$40,000, 40 percent of those folks had their jobs disappear between February and March. We all know as well that 36 million Americans were unemployed. We are Depression levels of unemployment. And I think statistics have always shown that particularly losing a job during a recession could actually incur long-time income losses, up to 19 percent over the coming decade, some of the statistics that I have seen.

So I would again like you to take a moment to say—you know, we have to measure overdoing versus underdoing, but with this type of devastation, with this type of pain disproportionately hitting low- and moderate-income Americans, can you speak to us of the results and the long-term scars this would present if we do not take aggressive action?

Mr. POWELL. Thank you. I would be glad to. So there is clear evidence that we are going to have a situation where people are unemployed for long periods of time. That can permanently weigh on both their careers and their ability to go back to work and also weigh on the economy for years, equally so with small and medium-size businesses, which are the jobs machine of our great economy. If we allow unnecessary, avoidable insolvencies because of effectively a natural disaster, that, too, will destroy the work of many families and generations, but it will weigh on the economy. So those are things to keep in mind.

As I said earlier, this is the biggest response by Congress ever and the fastest and the biggest from us, and still this is the biggest shock wave seen in living memory, and the question looms in the air: Is it enough? We will have to—

Senator WARNER. I would argue that historically, whether it is our country or other Nations, Governments tend to undershoot during these periods, and we now have 36 million Americans without work, and 40 percent of the folks under \$40,000 a year losing their work, that this scar could be deep and wide.

One of the reasons—I am going to turn to you, Secretary Mnuchin, and we have discussed this. I think a number of our colleagues on both sides of the aisle understand this. You know, we did some aggressive things for folks in the airline industry. We did some aggressive things for folks under 500. But that middle market that the Main Street Facility is supposed to address, I am gravely concerned that we need to both get that out and we need to be very aggressive with it. I did a letter to you all, to you, Secretary, yesterday, outlining some of the ideas that I hope you would be willing to lean into. But I want to—and you made mention earlier that you were willing to have some of that \$75 billion at risk in this facility. But I would like you to speak to that a little bit more, specifically in terms of, as you build out the baseline of this facility, how much risk and how much of that capital did you expect to potentially lose, and I would love to have then the Fed Chairman very quickly echo whether he is willing to relook at some of the penalty fees that are, to my understanding, Fed regulations but not legislatively mandated. Secretary Mnuchin, you first, please.

Secretary MNUCHIN. Thank you. Well, Senator Warner, first of all, I want to personally thank you for the time that you spent with us during the legislative process in helping to craft these different pieces and your availability since then to work with us, so we appreciate your thoughts and will continue to work with you.

As it relates to risking capital, as I have said, almost by definition, anytime that the Fed thinks they need capital, there is a risk to us. We obviously model our various different scenarios. We have obviously continued to adapt the Main Street Program to let more and more companies into it, and although we refer to it as one program, it effectively has three subprograms. So we run different scenario analysis. There are scenarios within Main Street where we could lose all of our capital, and we are prepared to do that. There are scenarios where the world gets better and we could actually make a small amount of money. But, again, as I have said, no different than Secretary Paulson during the TARP period. They did not think they were going to make money. Our intention is that we expect to take some losses on these facilities. That is our base-case scenario.

Senator WARNER. Mr. Chairman, do you want to address it in terms of the penalty rate?

Mr. POWELL. I would be glad to. So what we are doing here with these programs is we are making loans in times of severe stress, where markets are not working, not providing credit on reasonable terms, the original purpose of central banks. So what rate should we charge? And what we do is we charge a rate that is a little bit higher than the normal rate, but in most cases much below what the market is currently providing. That encourages prompt repayment. It helps those who cannot get credit, but not those who want credit from us to save a few basis points. And if markets are functioning reasonably well, we do not want to replace them. We want to be a backstop to those markets.

Senator WARNER. I think, Mr. Chairman, my time is up, but I would just urge you, these are extraordinary times, and I hope you will lean into this as much as possible.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator ROUNDS.

Senator ROUNDS. Thank you, Mr. Chairman.

Gentlemen, first of all, thanks. I appreciate the work that you have done and your organizations have done in making this whole thing work as well as it has in a very short period of time.

I would ask, first of all, to Secretary Mnuchin, in discussing with our local lenders, they have got a number of questions coming in with regard to PPP, and specifically two different sections: Number one was the rule in which we asked that these loans be literally divvied out and accepted within 10 days of the time of approval; and, second of all, how that relates to a June 30th date for the execution or completion of the use of those loans. And, Mr. Secretary, I do not find where there is actually a June 30th end date where that has happened in order to facilitate forgiveness of that loan.

Can you talk a little bit about your option or the flexibility you have with regard to the PPP and the forgiveness of loans and that June 30th date that so many people have concerns about?

Secretary MNUCHIN. Well, let me just comment, I think the concern that people have, it is even bigger, that we would like to get a bipartisan technical fix. As you said, there is the 10 days to disburse it. We have then given banks another 10 days if people have not sent back the documents. And then there is the 8-week period. So companies are really having issues with not necessarily being able to use it during that 8 weeks. They do not want more money, but want flexibility that they can use it in longer than an 8-week period. And as it relates to the June 30th issue, we are happy to follow up with your staff and talk about where that fits into the bill.

Senator ROUNDS. Thank you.

Chairman Powell, I noted with interest a letter from Vice Chair Quarles recommending that Congress give regulators discretion to loosen certain capital requirements prescribed by Section 171 of Dodd-Frank. Do you share the Vice Chair's thinking? And what additional measures do you think Congress and the Federal Reserve should consider?

Mr. POWELL. I do share that. So the idea is temporarily during this period, unusual, unique period in our history, the banks have been strong. They have been making loans. They have been taking in deposits. And because of the growth in their balance sheet, they are constrained by some of these regulations because they are taking on board very low risk assets. So we have tried to provide relief so they can continue to do what they are doing. So I do support that, and we have done a number of things, and, you know, we will let you know as we see the need for other adjustments.

Senator ROUNDS. Thank you, Mr. Chairman.

Secretary Mnuchin, one thought with regard to—in the middle of this COVID-19 pandemic, we still have a discussion about and on a regular basis get questions from taxpayers here about the amount of money that we have borrowed and what we are going to do about it. You are going to play a key role in how we lay out that repayment plan. Can you talk a little bit about the tools available to you specifically with regard to long or ultra-long Treasury bonds? I know it has been a hot topic, and I know that most re-

cently you launched a 20-year bond. Can you talk about the maturities, how you plan on laying that out, the strategy that you are using to best accommodate our needs for the immediate liquidity, but also recognizing that you have got some tools available? And with these ultra-low interest rates that we are at right now, it may very well work to our benefit to feather this out over an extended period of time?

Secretary MNUCHIN. Well, thank you. I am glad you asked that question because I think it is very important. First, I would just answer prior to this we spent a lot of time looking at 50- and 100-year bonds and determined that there just was not enough demand to make it worth it given borrowing sizes. We did get advice on a 20-year, so we have added the 20-year. That gives us the ability to both extend the duration as well as to raise a significant amount of funds. So it is my intention, as you have described, to borrow a lot of money in a short term to have the funding, but then to expand our financing in 10-, 20-, and 30-year bonds. What I would like to do is lock in a significant amount at very low interest rates so that the money we are borrowing can be paid back and dealt with over a long period of time.

Senator ROUNDS. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

Today's hearing takes place in the worst economic crisis of our lifetimes. Unemployment is now at Great Depression levels. Nearly 40 percent of people making less than \$40,000 lost their jobs in March alone. Businesses are shuttered and they may never reopen.

Congress passed the CARES Act and put nearly half a trillion dollars worth of taxpayer money in corporate bailout money in your hands. This is not the PPP or the Small Business Fund, but half a trillion dollars for midsize and giant corporations. So I want to talk a little bit about where that money is going.

The law gives Treasury and Federal Reserve the authority to write detailed rules determining which companies get taxpayer relief and how they can spend that money. And over the past few weeks, the Fed has been putting out these rules in the form of what you call "term sheets."

So, Secretary Mnuchin, you have said that the jobs numbers will improve. In fact, on Fox News, you said, "We will have a better third quarter, we will have a better fourth quarter, and next year is going to be a great year."

Now, to make that happen, people are going to need jobs. So does this mean that you will require companies that receive the bailout money from taxpayers to keep their workers on payroll?

Secretary MNUCHIN. So let me just comment. I have said publicly and I will say again I think the job numbers will get worse before they get better. So I just want to be very clear that I think that June will be a very difficult quarter.

As it relates to the CARES Act, I take great pride in the bipartisan support on these bills, and these specifics were negotiated on a bipartisan basis very clearly in each one of these programs, and it is our intent in the 13(3) facilities to fulfill both the spirit and

the details of the law. So different facilities have different requirements.

Senator WARREN. So, I am sorry, Secretary Mnuchin, that is not quite right. What the law specifically does is gives you the specific authority to determine the terms on which these loans are made and who is going to be able to get them for these midsize and giant corporations. And so I have a very simple question for you. You say the economy is going to recover. It is going to take jobs in order for that to happen. So what I want to know is: Are you going to require companies that receive money from this half a trillion dollar slush fund to have to keep people on payroll? It is a simple question. Yes or no, are you going to require that?

Secretary MNUCHIN. First, let me say that our number one objective is keeping people employed.

Senator WARREN. Good. So are you going to require that—

Secretary MNUCHIN. I want to be very clear.

Senator WARREN. —of people who are getting taxpayer money? That is my question.

Secretary MNUCHIN. Again, we negotiated very significant restrictions on employee compensation, on dividends, on buybacks, and in the Main Street Facility we have put in a provision that we expect people to use their best efforts to support jobs. But—

Senator WARREN. But—I am sorry. I have very limited time here, Mr. Secretary. Let me understand what you are saying. In all the facilities that are not the Main Street Facility, you are not putting in any requirement for payroll, and the Main Street Facility is something about commercial reasonable effort to be able to maintain jobs. In other words, if somebody fires, if a corporation fires a bunch of people, then gets Federal taxpayer money, you are fine with that; or if they take a bunch of Federal taxpayer money, and, well, it did not work out commercially for us, then they can fire people.

So I take it your answer to my question whether or not you are going to require as part of the terms of the loan that people be kept on payroll is no? Isn't that right, Secretary Mnuchin?

Secretary MNUCHIN. That was discussed with people on both sides of the aisle, and the determination was made—

Senator WARREN. I am talking about term sheets.

Secretary MNUCHIN. —at the time—

Senator WARREN. I am sorry, Secretary Mnuchin. I am talking about your term sheets that you are putting out, and you are telling me you are not going to require the payroll—let me ask you one more question. Taxpayers are on the hook here for nearly half a trillion dollars. You are not going to require that they keep a single person on payroll. There are some rules, though, in the term sheets, as you identified earlier, like prohibiting companies from getting bailout money, from double-dipping in other CARES programs. And by law, companies that get this money are going to have to sign agreements certifying that they are in compliance.

So, Secretary Mnuchin, here is what I want to know. Will you create a certification process that ensures that executives are held personally liable and are subject to criminal penalties if they provide false information or misuse bailout funds?

Chairman CRAPO. And if you could be brief, Mr. Secretary.

Secretary MNUCHIN. We will review that, and, again, I would just comment on programs like the airline programs had very specific requirements to keep jobs, which was the intent of Congress.

Senator WARREN. That is right, and the rest was left up to you, and what you are saying is that you will not do it. You know, we are in a situation where 35 million Americans have filed for unemployment. You are in charge of over half a trillion dollars. You are boosting your Wall Street buddies, and you are leaving Americans behind. I think that—

Secretary MNUCHIN. Senator Warren, I think that is a very unfair characterization, and these issues were discussed with both Republicans and Democrats at the time. You were not necessarily part of those discussions, but these were completely discussed.

Senator WARREN. You were given the authority to determine the terms. You have said it yourself. You are putting out term sheets, and those term sheets do not require that a single corporation—

Chairman CRAPO. Senator—

Senator WARREN. —getting billions of dollars in taxpayer money retain one job.

Chairman CRAPO. Senator Perdue.

Senator PERDUE. Thank you, Mr. Chairman. Thank you both for being here today. I look forward to these quarterly updates.

Chairman Powell, when you took this responsibility, the Fed had about a \$5 trillion balance sheet. You worked it down to about 3.8. It was about 4 when the COVID-19 crisis hit. With the money supply increasing from \$3.8 to \$5 trillion recently, with the debt being at \$23 trillion, and with about two-thirds of what we have done so far in the \$3 trillion relief package it looks like goes to debt, and with the potential for more movement by the Fed that would take the balance sheet now from \$4 trillion just in March, the five moves you made takes it up to potentially \$13.5 trillion. It is around probably \$7 trillion today, and it could go north of 14 if, in fact, the Main Street Program is fully levered up. Help us understand, I mean, how do you put this genie back in the bottle? Help us understand how you are thinking about this demand on capital, demand for capital and what it might do to interest rates in the short term and the long-term implications of what we have just done. This is not a criticism at all. It is just I would love to get your thoughts of how we should be thinking about that balance sheet given that China, Japan, EU, all the other big central banks are doing fairly similar moves, just not as dramatically as we have done.

Mr. POWELL. So when we expand our balance sheet, when we bought securities, as you know, Senator, so we bought a lot of Treasury and MBS securities to get those markets working. As these facilities grow, we will also expand our balance sheet, and those also—you know, that expands the money supply. I would expect that over time—and that time will probably not be very soon, but over time the assets that we have on our balance sheet from this era will come to maturity. They will roll off, and the balance sheet will again very gradually return. This will be some years down the road, I would think.

Senator PERDUE. If I could interrupt, I watched how hard it was to get us from this 4.1 to 3.8 in the latter stages of that and the

consternation it had both politically and economically. So you are confident that over time we will be able to manage that size balance sheet?

Mr. POWELL. So what really matters is the size of the balance sheet relative to the size of the economy, and that came down quite significantly from the end of 2014 until 2017 just by holding the balance sheet constant. So it can be done in a way that is sort of passive and gradual, and it was for about 3 years. We came down from, what, 25 percent of GDP to 16 or 17 percent of GDP. So it can be done over time.

In the meantime, I would say it does not have implications for inflation. It does not have particularly problematic implications. I am not saying there are no limits to this, but it is not something that raises financial stability or inflation concerns today.

Senator PERDUE. Thank you.

Secretary Mnuchin, I just want to thank you and echo what Tim Scott said earlier, and that is about your availability through this crisis. I know you are recently married, and I do not know where your wife is these days, sheltering in place. I am sure you have not seen much of her. Thank you for all your sacrifice in making this thing happen.

I want to correct the record. We have been told in this meeting that there is no data out there, but I want to highlight some numbers for us here. First of all, the Dodd–Frank bill killed about 4,000 community banks in about 6 years. There was a bipartisan bill done in January of 2018 that modified the most onerous parts of that and saved our community banks, and they are the rock stars in this process, in the PPP program, anyway. I have a question, Secretary. Eight hundred banks were approved under the SBA system prior to this; almost 5,000 banks made 4.3 million loans and so far put out \$520 billion to companies under 500 employees. And, by the way, 99.8 percent of that \$520 billion went to companies with fewer than 500 employees, so it did what we wanted to do. And 93 percent of those loans are \$350,000 or less.

My problem is this, Secretary: I think we have on two levels, one in the bill itself and one that is happening now in what we have done here, is that we have disincented people to come back to work. Even now my State is beginning to open up, and, by the way, safely. We have two constituent groups out there, the military and essential workers, to look at how they have managed their protocols and so forth while they manage through this crisis. It gives me great confidence that we can open the economy up. The unemployment premium is keeping people from coming back to work. There are employers in my State who really want people to come back to work, but they are saying, “No. Why would I do that? I am going to enjoy this premium right now, and then call me back in a couple of months.”

The second thing is a lot of small employers actually encouraged a few weeks ago their employees to go on unemployment even though they were getting money and they were hoping that they would—when the revenues started when they opened up, they would begin to then bring the people back and then use the loan to pay salaries. How would you help us think about how to deal with that? The Labor Department at one point said they were

going to put some rules out about this premium. And the second thing is the enforcement behind if an employer wants an employee to come back to work, the employee should no longer be qualified for unemployment insurance. Would you address that?

Chairman CRAPO. And if you could be brief, please.

Secretary MNUCHIN. Thank you. And let me just say, you know, we are aware of the technical problem here, and we want to have a technical fix on the unemployment insurance. But, specifically, let me just comment on the PPP. If you offer back a worker and they do not take that job, they will be required to notify the local unemployment insurance agency because that person will no longer be eligible for unemployment.

Chairman CRAPO. Thank you.

Senator Schatz.

Senator SCHATZ. Thank you to all of the testifiers and panelists.

Chairman Powell, I want you to take us through two very simple scenarios. The first is if Congress takes no additional action in the next couple of months, and the other is if Congress steps into the breach and passes another fiscal policy bill.

I know you are loath to weigh in on specific policy recommendations, but I want you to talk in terms of the overall economy about the impact on quarters 3 and 4 should we decide to say that the bills that we have passed are enough.

Mr. POWELL. I think it really depends on the path of the economy, honestly. As I said, my concern has been the risk and possibility of longer-run damage to the economy through unnecessary insolvencies on the part of households and businesses and long-term unemployment, and that if we find ourselves in that place, we may have to do more, and it could also be something that Congress would want to do. I think—go ahead.

Senator SCHATZ. So according to census data, about half of small businesses are going to run out of cash within a month. States are slowly reopening the economies, but consumer behavior is not going to rebound to normal within a month. Do you think that there is going to be a strong enough rebound in economic activity in the next 1 to 3 months for that alone, from what we have already done alone, to prevent thousands of small businesses from going under? Or do you think there is a need for additional fiscal policy?

Mr. POWELL. I think we are going to see here fairly quickly how the reopening goes, and it is very hard to know. We have not done this thing before. No one has done this sort of thing before. So I think you are going to be getting a lot of information fairly quickly here in terms of what may be needed. I make my comments on fiscal policy at a general level. I am reluctant to talk about timing and specific provisions. It is really not the Fed's role. We do try to stick to our knitting.

Senator SCHATZ. So why don't you go ahead? I will give you an open-ended question. Please provide the panel with some comments about the importance of fiscal policy over the next 6 to 9 months.

Mr. POWELL. So it is a combination of a couple things. First, just, as I mentioned, the risk of lasting damage to the productive capacity of the economy through the labor force because of longer-term unemployment and through unnecessary, avoidable insolvencies on

the part of small and medium-size businesses. Those two things create a real risk.

The other thing I will point to is what we do is we address liquidity problems, not solvency problems. We have lending powers, not spending powers. So over time—and this is not a certainty; this is a possibility. Over time, solvency problems emerge from liquidity problems. Liquidity problems can develop into solvency problems with the passage of time. That all depends on the path of the economy, how well the reopening goes, and, you know, which path we find ourselves on.

So I think what Congress has done to date has been remarkably timely and forceful. I think you could say the same about what we have done. I do think we need to take a step back and ask, over time, is it enough? And we need to be prepared to act further, and I would say we are if the need is there.

Senator SCHATZ. It seems to me that the distinction between a solvency problem and a liquidity problem applies to big institutions, big corporations, even Governments. But when you are talking about a small business or a family, there is not much of a difference between having a cash-flow problem and simply being flat broke. And it seems to me that that distinction, which you are able to make and rightly do as the head of the Federal Reserve, is a rather abstract one for the companies that are eight persons and the families that are sort of at economic death's door. They do not distinguish between a solvency problem and a liquidity problem. They have run out of money.

Secretary Mnuchin, Section 4114 of the CARES Act states that carriers receiving payroll grants shall “refrain from conducting involuntary furloughs or reducing pay rates and benefits until September 30, 2020.” But on April 21st, United Airlines received \$4.9 billion, and on May 1st, United announced that it would reduce 28,000 workers from full-time to part-time within 2 weeks. Was that announcement a violation of the terms of the Payroll Support Program?

Chairman CRAPO. And, again, please be brief.

Secretary MNUCHIN. We believe right now that they are in compliance with the program.

Senator SCHATZ. Right now. Were they violating this when they first announced it?

Secretary MNUCHIN. Again, I do not want to go through specific situations with specific companies. I will say right now we believe they are in compliance with the agreement.

Senator SCHATZ. Thank you.

Chairman CRAPO. Senator Tillis.

Senator TILLIS. Thank you, Mr. Chairman. And, Chairman Powell and Secretary Mnuchin, thank you for your, I think, heroic work. Your teams have done a great job under immense pressure, and I appreciate it.

One thing I want to go back to that was mentioned by some of my colleagues about the CMBS, I like the fact that the Administration expanded TALF to cover legacy CMBS. I think that is a good step. I personally believe that commercial real estate is under severe stress and is likely to get worse before we start seeing a turn

and a more positive growth, more positive indicators from the economy.

One thing that I am concerned with, Secretary Mnuchin, is right now it looks like we have only got about 15 percent from the American Hotel and Lodging Association, about 15 percent of forbearances of any kind from the CMBS servicers or service providers. That seems like a low number to me. One, I would be curious if you think that that is low given the circumstances right now, and then what more we may need to do congressionally to get the servicers and the borrowers to the table.

Secretary MNUCHIN. It does seem a bit low to me as well. We do have a structural problem of loans that are in securitizations and how they have to be dealt with with the special servicers. So, obviously, as it relates to the banks, the banks have much more flexibility, but this is a technical issue, and we may need to come back to Congress to work with you on a technical fix.

Senator TILLIS. Well, thank you. I would like to hear about that. I think that we need to do it because I am gravely concerned with the retail shopping, the hotel/lodging industry, and those are industries that are largely going to lag behind some of the business startups that we are seeing in some States. So I would be interested in your feedback.

I was also kind of curious about the TALF Program and potentially other areas where we should expand. I am thinking about new issues, CMBS, RMBSSs, installment loans. Have you thought about that? And have you also thought about less than Triple A?

Secretary MNUCHIN. We have thought about——

Senator TILLIS. And that would be——

Secretary MNUCHIN. We have thought about all of those, and I would just say, you know, I want to thank the people at the Fed and the Treasury who have worked around the clock to get these facilities up and running. We have prioritized these. But I assure you as the Fed Chair and I have said, we will look at all of our options to make sure we support jobs across the spectrum.

Senator TILLIS. I would particularly be interested—you do not have to expand on it here, but on new issues, I am very interested in that, to see what you are gaining, what you think is within the realm of possibilities.

Chairman Powell, do you have anything to add to that?

Mr. POWELL. No; just our commitment, as the Secretary suggested, to keep our minds open and looking at evolving those facilities as we learn more.

Senator TILLIS. Secretary Mnuchin, I have one question for you and then a final question for the both of you. I am thinking about more about the tax burden right now on middle-class households. Do you think any of our future work here should include a treatment for maybe a reduction in the tax burden on middle-class households and whether or not that would be helpful?

Secretary MNUCHIN. I think that is something that should be seriously considered.

Senator TILLIS. Now, the final one that I have—Chairman, I am going to keep to the time. I have a growing sense that we have a bit of a donut hole, those that are not quite right for the Paycheck Protection Program because of their size but not quite big enough

or the nature of their business to be eligible for the upcoming Main Street Lending Facility. So have you all looked at—and, Secretary Mnuchin, I appreciate what you said about the 8-week covered period. I think there are lot of mechanics in there and what can be included as a forgivable portion of the proceeds. All of that we need to look at; we need to know fairly quickly. We know the covered period is going to take congressional action. But when we massage the PPP, that may fix the problem for some of these people I describe as being in the donut hole. But are you seeing that now, I mean, we do not have the full information on the Main Street Lending Act, but I get a sense that there are going to be some people caught in between. What are your thoughts about more we need to do there? That final question is for both you and Chairman Powell.

Secretary MNUCHIN. I would say our objective is to make sure that there are people that do not fall out in between. So between the PPP, the EIDL loans, and the Main Street Program, it is our objective to try to cover as many of those companies as possible.

Mr. POWELL. In fact, that is one of the reasons why we went to a smaller minimum loan level on the Main Street Lending Program in the last turn of the term sheet.

Senator TILLIS. Thank you, Chairman Powell and Secretary Mnuchin. I also look forward to seeing the Main Street Lending Act mobilized in the coming couple weeks. Thank you.

Thank you, Mr. Chair.

Chairman CRAPO. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman.

Secretary Mnuchin, Chairman Powell recently acknowledged the need for additional fiscal relief and just in this hearing acknowledged in response to Senator Menendez that State and local layoffs of police and firefighters, first responders, and teachers will make a bad economic situation even worse. Do you agree with that assessment?

Secretary MNUCHIN. Well, I have recently provided guidance on the \$150 billion we sent to the States that they can use that money for police, fire, and first responders without restrictions. So I hope there would be no layoffs as a result of that relief. That was our objective.

Senator VAN HOLLEN. Right. But in addition to them—so that just moves the burden onto other public service providers, including teachers, health care workers, public health workers. Wouldn't you agree that layoffs of those workers or any workers just takes a bad situation and makes it worse?

Secretary MNUCHIN. I think it does, but I think the question that Congress and the Senate need to address is who should pay for that, which taxing authority, whether it is the State or the Federal Government. And I look forward to working with the Senate on a bipartisan basis to—

Senator VAN HOLLEN. Well, Secretary Mnuchin, you said which taxing authority. As you know, States have balanced budget requirements. The Federal Government does not. It just borrowed \$3 trillion. It seems to me we need to take action here to prevent a bad situation from getting even worse.

Let me ask you about the PPP program. A bipartisan group of Senators has written and spoken to you about some of the unilateral and unnecessary conditions the Treasury regulations imposed on PPP. In fact, the Small Business Administration IG recently said that the 25 percent limit on forgiveness for fixed costs did “not align with the language in the statute.”

Senator Rounds just raised another issue, which is not a design flaw in the statute, in my view, regarding the June 30th deadline for qualifying for full forgiveness. The House in the HEROES Act reformed both of these provisions. Do you agree with the changes that the House made in the HEROES Act with respect to PPP?

Secretary MNUCHIN. I am not familiar with their specific language, but I am happy to look at it. But I do want to comment on the 75-percent issue, and SBA wrote back to the IG to disagree with that. And I have spoken to both Cardin and Rubio on this. The program was designed for 8 weeks plus overhead—

Senator VAN HOLLEN. Mr. Secretary, I know what your position is. I just wanted to highlight the position of the Inspector General of the SBA, and in my view, you cannot find that 25-percent limitation anywhere in the statute. I challenge anyone to take a look and find it there.

I would ask you to take a look at the Rebuilding Main Street Initiative that a number of us had put forward. I do think it can get bipartisan support, and I look forward to your responses there.

Let me turn to Chairman Powell and just say that I believe that overall the Fed has acted quickly and for the most part necessarily and appropriately. But I have serious concerns about the actions you have taken with respect to the Secondary Market Facility with respect to junk bonds.

In response to Senator Sasse, you emphasized that, at least with the TALF Program, you were essentially helping those with Triple A ratings. But when you look at the Secondary Market Facility, you have purchased junk bonds, and we have this strange situation where the same day we had unprecedented damage in terms of unemployment numbers, the stock market was, in fact, going up. And you pointed out that, you know, most of the people being hurt are those earning less than \$40,000 a year. In fact, 40 percent of them have lost jobs. And it is not clear to me why putting money into junk bonds is helping folks on Main Street. In fact, it puts the public in a first loss position behind even the most subordinated bond holder and uses public funds to take on years and even decades of future cash-flows with the price risk.

Can you respond to that concern?

Mr. POWELL. Thanks. I would be glad to. So the only high-yield bonds that we can buy are those of companies that were investment grade on March 22 but have been downgraded, so-called fallen angels. These are in many cases some very large U.S. companies with many, many thousands of employees, and we made them eligible for the Primary Market Corporate Credit Facility, and we do not want to have, you know, a cliff there where the investment grade markets are working well but the non-investment-grade markets are not. So we made a very limited, narrow set of actions to support market function in those markets, including buying ETFs, exchange-traded funds. That is a portfolio effect, and that has had

an effect to improve market function. We may have to be lending money to those companies, but even better, they can borrow themselves now, and a lot of that has been happening, and that is a really good thing.

So that is kind of why we did it, and it is a fairly narrow intervention. We are not buying junk bonds generally across the board at all.

Senator VAN HOLLEN. Mr. Chairman, if I could just follow up briefly. I think a lot of those bonds were already in trouble before the intervention, and their troubled was not directly related to the pandemic. And if you could get back to me and just show me where the Fed has the authority to purchase this kind of below investment-grade instruments, I would appreciate it.

Thank you.

Chairman CRAPO. Senator Kennedy.

Senator KENNEDY. Chairman Powell, do you believe that States and cities are going to experience revenue shortfalls as a result of the economic lockdown to try to contain the spread of the coronavirus?

Mr. POWELL. Yes, Senator, I do think that is what we are seeing.

Senator KENNEDY. Do you think they are going to be substantial?

Mr. POWELL. Yes, I do.

Senator KENNEDY. Is your Municipal Liquidity Facility set up?

Mr. POWELL. Well, we are probably 10 days away, 2 weeks away from it actually being operational. Not quite yet is the answer.

Senator KENNEDY. And as I understand it, you basically will buy short-term paper like revenue anticipation notes from the States, which will allow those States to issue that short-term paper at a lower interest rate? Am I correct?

Mr. POWELL. Well, they will be able to issue it at all in many cases, so, yes, we are supporting market function there. By the way, that should support market function across the municipal markets in longer-term maturities, too.

Senator KENNEDY. Do you know how many States are prohibited by their Constitution from borrowing money to pay for operating expenses?

Mr. POWELL. I think 49 States have a balanced budget requirement.

Senator KENNEDY. Yes, sir, but a lot of States have—in their State Constitutions they are prohibited from borrowing money to operate Government. They can borrow money to build things, but not to operate Government. Are you aware of that?

Mr. POWELL. Well, I thought most States could borrow during the course of a year for maturities of less than a year to smooth out the inflow of cash, revenue anticipation notes, tax anticipation notes.

Senator KENNEDY. Right. Have you had a lot of inquiries about the Municipal Liquidity Facility?

Mr. POWELL. Yes, Senator, we sure have.

Senator KENNEDY. OK. Secretary Mnuchin, do you agree with what the Chairman said?

Secretary MNUCHIN. Yes.

Senator KENNEDY. OK. Let me offer you an observation, Mr. Secretary. I am not expecting you to comment on it. It looks to me like

the game plan is to have Senator McConnell, Senator Schumer, Leader McCarthy, Speaker Pelosi, and you go off and negotiate a deal on the next package, if there is one. And you will bring that deal back to the Republicans and Democrats in both Houses. And if the past is any indication, the Republicans and Democrats in both Houses who do not get to participate in the negotiations will moan and groan and complain and then boo, and follow their leaders into the chute like cattle.

I am not sure that is going to work this time. I think that whatever deal you all come up with is going to receive serious pushback from both Republicans and Democrats in both Houses for a variety of reasons. I could, of course, be wrong, but I doubt it.

Why would we not agree to allow the States to use the \$150 billion that we have already appropriated to them to address shortfalls in their revenue base as a result of the coronavirus?

Secretary MNUCHIN. Well, Senator Kennedy, I just want to comment on the first thing. I have no intention of doing what you have just described, nor do I—

Senator KENNEDY. Well, I do not want to debate—

Secretary MNUCHIN. —think that happened in the past.

Senator KENNEDY. —that, Mr. Secretary. It has been done in the past. It was done the last time. I am not being critical—

Secretary MNUCHIN. Senator, there were at least 20 or 30 Senators, both Republicans and Democrats, that participated in the detailed analysis of the last bill.

Senator KENNEDY. Well, I understand, but there are a lot more Members in the House than the Senate. And I am not being critical. I am just telling you. That is the way it works around here, and we all know it.

Why would you not be supportive—we have already spent \$150 billion in the CARES Act. The States have it. We know they are going to have shortfalls. We may not be able to pass another bill. I think it is less than 50 percent chance of passing another bill. Why would we not allow States, without appropriating any new money, to use that money to address revenue shortfalls that you and the Chairman of the Fed both agree are going to exist and be substantial? And why would we not do that today?

Secretary MNUCHIN. Well, Senator Kennedy, I appreciate your bill, and I know I had the opportunity to meet with you and other Senators with the President. And if there is bipartisan support for that, I am sure that the President and I would look forward to that.

Senator KENNEDY. What would it take for you to agree to support it? How do I demonstrate bipartisan support?

Secretary MNUCHIN. Again, I think I have a call scheduled with you later today, so I am happy to talk to your more about it. But, again, I think the President and I have said if there is bipartisan support for this and the money has already been allocated, that is something that I assume we would very seriously go along with. But, again, there has to be broad bipartisan support.

Senator KENNEDY. Right. How about if there were 60 votes in the Senate? Would you consider that bipartisan support?

Chairman CRAPO. And would you please be brief?

Secretary MNUCHIN. Again, I would just say I appreciate—

Senator KENNEDY. How much time do I have?

Chairman CRAPO. You are a minute and 15 seconds over.

Senator KENNEDY. I am sorry. I cannot see my clock.

Chairman CRAPO. We are going to have to figure that out. Several have had that problem.

Senator KENNEDY. Would you have him answer that one for me, Mr. Secretary, Mr. Chairman?

Secretary MNUCHIN. Again, I leave the details of that up to you and the Senators there. I appreciate the unanimous support we had previously, but I will leave that to you.

Senator KENNEDY. I am sorry I went over, Mr. Chairman.

Chairman CRAPO. No problem.

Senator Cortez Masto, can you see your clock? Go ahead.

Senator CORTEZ MASTO. Thank you for joining us. Let me start with Chairman Powell.

Chairman Powell, it was an interesting conversation you were having with Senator Schatz on liquidity problems versus the solvency problems. I do know that you have highlighted that some of the sectors—airlines and hospitality—are in rough financial shape. Because I come from Nevada and it is a hospitality-generated State where we get most of our revenue, can you speak to the challenges that hospitality and tourism sectors face right now?

Mr. POWELL. Sure. So I think sectors of the economy like that where the business model is to gather people in one place and entertain them, feed them, fly them around, whatever you are going to do, those are sectors where it will take some time for, I think, the public to return. That will happen, but it will take some time for the public to regain confidence and adapt to the new world and start traveling, taking vacations, going to restaurants, things like that.

Senator CORTEZ MASTO. And I am glad you brought that up because that is one thing that we have not talked about, was this notion that when we looked over our businesses—and I think we all and I personally, that is what we want. We have got to find this balance about opening our businesses in general. But they are only going to be as successful as the customer confidence that is there to patronize those businesses. And that is not just true for the hospitality industry. That is true for all businesses.

I do know that the service and retail has been hardest hit, that business, and my understanding from some of the data that I have seen is over 2 percent of those businesses have closed permanently already. And so how are we to address this consumer confidence issue? Because I know that is something that you have thought about and talked about publicly, I have seen. What should we be doing?

Mr. POWELL. You know, one thing I will say is it affects different sectors of the economy differently. The ones we talked about are the ones where it is most important. Other sectors of the economy may be able to recover much more quickly, and we certainly hope so. But, you know, the number one thing, of course, is people believing that it is safe to go back to work, to go out, and that is about having a sensible, thoughtful reopening of the country, something we all want and something that we are in the early stages of now. That is what it will take for people to regain confidence,

I think, and resume their activities—again, at a different pace depending on the nature of the business, the nature of the activity.

Senator CORTEZ MASTO. Right. And the health care piece of it, right? That they will feel safe going back out if they feel safe at—or they are going to be healthy and safe when they go into an establishment. Isn't that true?

Mr. POWELL. Yeah, it is the combination of getting the virus under control, development of therapeutics, development of a vaccine, all of those things, and also just, I think, you know, seeing what your eyes are telling you. You can feel it already, that people are doing things that they would not have done 2 months ago, a little bit at a time, and I just think that process will take time.

Senator CORTEZ MASTO. Yeah, and until that happens, many people are relying on local governments and State governments as their social safety net, right? They are telling them—looking to local government and State Government to tell them how they can stay safe, they are opening businesses, where the health care facilities are, how they can get testing that is needed and contact tracing. Isn't it true that is where they rely on their local governments first off?

Mr. POWELL. Yes, and I think that is where the decisions will be made, is at State and local government. Also businesses, individual businesses. We talked to a lot of businesses and nonprofits and leaders in all those areas, and what I feel like is certainly for the larger ones, there is a very thoughtful process going on about this. But, ultimately, people will make their own minds up. You know, you can change the formal social distancing measures, but ultimately people are going to decide what they should and should not do with themselves and with their families. And I think that will boil down to having pretty good confidence that it is safe to go out.

Senator CORTEZ MASTO. Yeah, and I agree with you. I also know at least in my State that many are waiting and relying on their State and local governments to weigh in and help them make those determinations and set those guidelines and make sure their communities are safe. That is why funding for our State and local governments is so important, and I cannot stress that enough, not only in the next fiscal package that needs to come into State and local governments, but you also touched on the Municipal Lending Facility. I would like to see more of that available to smaller populated States and local governments. Nevada has 3 million population. There has to be a way to also give them the opportunity to get the liquidity or the funds that they need to ensure that they are providing that safety net, that social safety net to consumers in general.

I know my time is up. Secretary Mnuchin, I have questions for you as well. I will submit those for the record. Thank you both for joining us today.

Chairman CRAPO. Thank you.

Before I move to Senator McSally, I will announce to those remaining that a vote started about 10 minutes ago, and we still have a number left to go, so I ask you to please pay attention to the clock. Sorry that it just turns out this way at the end of these hearings.

Senator McSally.

Senator MCSALLY. Thank you, Mr. Chairman. And, Chairman Powell, Secretary Mnuchin, good to see you virtually.

I want to talk about China. As we know, they unleashed this virus on America and the world with their classic Communist coverup, deception, continued propaganda campaign, costing now over 90,000 American lives, 35 million Americans losing their jobs so far. We do not know who Patient Zero is. They destroyed samples. They silenced doctors. They kicked out journalists, impacted travel, international travel to seed this, and their reckless behavior continues to be at the root of all this.

As you know, this is why we are here today. We are talking about the economy, which was very strong, now really struggling. People all over Arizona are really struggling because of the calamity that has come from this virus.

I do not think anybody, I should say—actually, let me just ask. I do not think either of you think there is any reason that we should be rewarding China or Chinese State-owned enterprises, or individuals or entities that want China to prosper as we implement these massive initiatives to support the American economy. Is it fair to say neither of you want that to happen?

Secretary MNUCHIN. That is correct.

Senator MCSALLY. Chairman Powell.

Mr. POWELL. Senator McSally, that is really not a question for me. We are working on the economic response to this.

Senator MCSALLY. I know. But none of us as Americans want to see, you know, China or Chinese-owned enterprises prospering. So I want to talk about a company called “BlackRock.” On March 24th, the Federal Reserve Bank of New York retained BlackRock as the financial agent to operationalize and transact with primary dealers in the Primary Market Corporate Credit Facility and the Secondary Market Corporate Credit Facility. As you know, these facilities serve as markets for companies to sell bonds and obtain loans during this situation, this downturn.

Typically, there is a competition, a competitive bidding process, but BlackRock was selected for this one. As you probably know, BlackRock is one of the leading investment banks in Chinese funds, including helping Chinese companies list and go public on American stock exchanges. Chinese companies listed on American exchanges prohibit the Public Company Accounting Oversight Board, or the PCAOB, from reviewing their audit reports.

On BlackRock’s website they have a page titled “Five Myths and Realities about Investing in China.” According to BlackRock, one of the biggest myths about China is that Chinese State-owned enterprises do not control their economy. BlackRock even tries to back that up with data. I will not go into all of it, but it is ridiculous. BlackRock’s ode to China does not mention anything about human rights abuses, military responses to the Hong Kong democracy protests, or even that the country is ruled by a Communist Party. Ironical that one of the world’s largest investment banks and allegedly a staple of free markets neglects to mention the fact that Communists actually run China, and all while refusing to invest in a number of legitimate and legal industries here in America, but that is a separate issue.

So my question is: How and why did BlackRock get selected as a financial agent for these facilities? How much money do they stand to make as the agent? And what, if anything, will prevent BlackRock from taking their profits that they earn to invest in their interests in China and Chinese State-owned enterprises?

Mr. POWELL. So I guess I will take that. We hired BlackRock for their expertise in these markets. They are actually an asset manager. They are a very large asset manager which is active in the markets that we are concerned with, with the Primary Market and Secondary Market Credit Facilities. It was done very quickly due to the urgency and the need for their expertise. We will rebid the contract as we in practice do going forward, and so that is where that is.

The fees are a matter of public record, and we will be happy to supply those to you.

Senator MCSALLY. So what, if anything, can we do to prevent any of their profits from this to actually benefiting China and Chinese State-owned companies, which they are severely invested in?

Mr. POWELL. I would just say this: All large asset managers buy Chinese securities. These are global asset managers. It is in no way—I am not here to defend or criticize them for that. It is not really relevant to the work we want them to do. What we are trying to do is create conditions in which U.S. workers can keep their jobs or return to them, and that is what our sole focus is. We are not trying to reach out for other public policy objectives or deviate from that. We have really a laser focus on that, and we concluded that this company was the right one to be our fiscal agent in this place. Their views on anything else are really not important. What is important is that we do everything we can to support employment in the United States.

Senator MCSALLY. Well, let me just say it is important to all of us—and thank you for your leadership on this—to support our economy, to support jobs, to get our economy back on track. But it is also important that we wake up as Americans and that we hold China accountable and that they do not—they are not allowed to profit because of these investments taxpayers have made. So I am going to follow up with you on these issues. I really think BlackRock and others need to also wake up and do their patriotic duty, see what is going on here. China, Communist China, should not be profiting off of unleashing this calamity on the world, and that should be something that should unite all Americans, even if they work at BlackRock.

Chairman CRAPO. Thank you.

Senator JONES.

Senator JONES. Thank you, Mr. Chairman.

Quickly, I will follow up. I agree that we need to hold all people accountable. China, the WHO, folks in this Administration—everybody needs to be held accountable if they had deficiencies in what was going on in this pandemic.

Secretary Mnuchin, let me say I saw recently that the Treasury is going to begin issuing debit cards for Americans for their direct payments. You will recall that Senator Cotton and I sent a letter shortly after the passage of the CARES Act encouraging that. So I appreciate your willingness to do that. I think it is going to quick-

ly get money to millions of Americans that have not received those direct payments as of yet.

I wanted to also ask you about the Payroll Protection Program. As we have talked about a little bit early on, in the first round of funding, there were some problems with the banks, and there were underserved communities that are not getting their funds. And I think we have tried to correct that and are doing much better. But the SBA Inspector General issued a report in the wake of that that recommended that the agency start collecting demographic information on who got those loans.

Can you commit to work with the SBA Administrator to make collecting demographic information mandatory for these PPP loans so that there is that much-needed transparency?

Secretary MNUCHIN. Well, I can tell you in the forms that the lenders are required, there is demographic information. We have been advised to make that optional and not mandatory, but we very much hope that people provide that. And let me just say we are very much committed to make sure that we serve the underserved communities with the money we have left.

Senator JONES. Great. Thank you.

Chairman Powell, you know, I also saw your speech and read your—saw the “60 Minutes” piece, and it kind of reminds me, in listening to some of the comments about this, of what Judge Taylor in “To Kill a Mocking Bird” said, that, you know, people are going to hear what they want to hear and they are going to see what they want to see. What I saw is a call to action from that. And one of the things that was talked about, that 40 percent of Americans that have lost their jobs and how it is affecting our minority communities, not only in their health and the disparities, what is being shone, a spotlight, is the disparities on so many things.

You mentioned how this pandemic can exacerbate the existing gap of wealth and assets and ownership between minorities and even just poor people in general. We started this pandemic with about 40 million poor people. It is going to get much bigger than that, and it is going to be across racial lines.

What can we do to try to narrow that gap, to make sure that the wealth gap does not get even greater as we open back up this economy?

Mr. POWELL. Well, the job losses that have been happening have been happening in the service economy, particularly in those parts where you are dealing directly with people, and that is a lot of less-well-paying jobs and that sort of thing. So if you look at the industries that have been really hard hit with job losses, it is those industries. It is restaurants, it is hotels, it is travel, things like that, and retail.

I recommend, by the way, that report, “Survey of Household Economics and Decisionmaking,” which we release annually. We just released it, and that is where those statistics come from. There is a lot in there. And it is stunning how quickly households get into financial trouble, how little many lower-income households have in the way of financial resources. These are longer-term problems to deal with. I think for now, you know, this very much calls on us to do what we can to support the economy. And as I mentioned earlier, we have 20-some million people out of work. We want to do

everything we can to create a world where they can go back to their jobs or find new jobs. And I think that is something all of us as policymakers should be strongly focused on.

Senator JONES. Well, thank you for that. And it seems to be connected to your comments of also making sure that we keep people in their livelihoods, to keep the unemployment numbers down. You know, I think from our standpoint we have been focused on both saving lives and saving livelihoods. And while we do not want to give folks incentives to stay on unemployment, we certainly do want to give incentives to businesses to open carefully.

I would encourage you, if you have not, to look at the Paycheck Security Program that Senator Warner and others and I are going to be filing this week so that we can give these opportunities, because I am assuming that the more opportunities we can give employers to keep people on their payroll with benefits, that would aid in opening up the economy safely and trying to keep us from getting into that long-term recession. Would that be fair?

Mr. POWELL. I will be happy to take a look at your legislation, your proposed legislation.

Senator JONES. Well, thank you, Mr. Chairman. I appreciate the opportunity. Thank you for coming, Mr. Secretary and Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Moran.

Senator MORAN. Mr. Chairman, thank you. Had I had more time, I would extol the virtues of both the Secretary and the Chairman in their efforts, their team, their public service during this crisis. In the absence of that time, I hope you understand the sentiments that that sentence expresses.

I want to focus, I guess, Secretary Mnuchin. We have talked about PPP, and we have seen the consequences, the positive consequences that have come from the program. There are large businesses, Main Street, in which the facilities are being developed to assist, but I am worried about other businesses. I would use an example. Not that I am lobbying for any company, but an example that comes to my mind in Kansas is Yellow Roadway Trucking Company. It employs almost 30,000 people. It is not investment grade. It has leverage, and it is a company that, in the absence of assistance, the jeopardy of its employees is significant. I think there are a lot of companies out there like that. I think there are a number of other companies in Kansas like that. And I want to make certain that we are doing the things that are necessary to prepare to be of assistance to them.

I think Senator Toomey and Senator Warner earlier indicated that very few of us expected Treasury not to have to take losses, that there needs to be some risk taking here. And I want some kind of assurance that under the B4 program, the B4 facilities, that these kind of companies that are hugely important to the economy can receive some assistance with the facilities at Treasury and the Fed.

Secretary Mnuchin, is there some level of comfort I can have?

Secretary MNUCHIN. You have my assurance that we will go back and look at that specific company and see what we can do and get back to you.

Senator MORAN. I hope it is more than that, because it is not just that company. There are a number of companies across the country, not just in Kansas, that this is——

Secretary MNUCHIN. We will look at companies like that, and as I said before, we want to make sure that there are facilities that companies do not fall through the cracks. So between all the different facilities, we are trying to do as much as we can within our powers.

Senator MORAN. Let me suggest to you that timing is of the essence, just as it was in PPP. The circumstances companies face today and lay off and furloughing employees are present and around the corner. So I encourage the precipitous but thoughtful action in addressing these circumstances.

Let me see if I can get two other questions in. One, do we have a timeframe, Mr. Secretary, for further guidance regarding PPP loan forgiveness?

Secretary MNUCHIN. There is some guidance that just came out on loan forgiveness that we believe deals with most of the major issues.

Senator MORAN. And then a second question, Secretary Mnuchin. Does Treasury and SBA plan to issue guidance that would allow 501(c)(3) organizations to utilize the alternative size standards for PPP eligibility?

Secretary MNUCHIN. We are reviewing that specific request, so we have had that request, and we are reviewing it.

Senator MORAN. Is that something a decision is close to being imminent?

Secretary MNUCHIN. We are going to decide one way or another whether we can do that, so yes.

Senator MORAN. OK. Thank you very much. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Secretary MNUCHIN. Thank you.

Chairman CRAPO. Thank you. And you get a gold star, Senator Moran, for yielding back a minute or two.

[Laughter.]

Chairman CRAPO. Our final Senator for questions is Senator Smith.

Senator SMITH. Thank you, Mr. Chair, and thank you, Ranking Member Brown. And thanks to both of you for being here today.

Chair Powell, you have talked about how we will not be able to solve the economic crisis without solving the public health crisis, which I agree with. And, Secretary Mnuchin, you have said that we need to reopen the economy, and I quote, “in a thoughtful way,” which I also agree with. So it seems to me that a really important part of being thoughtful is to make sure that Americans have accurate information about what is going on. So I have no doubt that you will be surprised to hear that a lot of us were taken aback when, I do not know, a couple of days or so ago, we heard President Trump’s son, Eric Trump, acting as a surrogate for his father, say this, he said: “They think”—meaning they, the Democrats—“that they are taking away Donald Trump’s greatest tool, which is to be able to go into an arena and fill it with 50,000 people every single time, right? So that they will, and you watch, they will milk it every single day between now and November 3. And guess what?

After November 3, coronavirus will magically all of a sudden go away and disappear and everybody will be able to reopen.”

So this is the kind of misinformation that concerns me greatly. Secretary Mnuchin, are you aware of any evidence that what Eric Trump said, that his assessment is accurate?

Secretary MNUCHIN. I did not see Eric’s comments, nor do I think in this setting it is appropriate for me to comment on it one way or another.

Senator SMITH. Well, I do not think it is accurate, and I think it is exactly the kind of misinformation that is so damaging to and undermining of both our economic approaches and our policy approaches here.

But let me ask you, Chairman Powell, even before the COVID-19 crisis, many Minnesotans were struggling to find an affordable place to live. And last year, I spoke with hundreds and hundreds of Minnesotans and family community leaders about this challenge, housing developers as well, and they all told us that at every part of the housing continuum, from housing for homeless people and supportive housing, all the way up to workforce housing, that this is a significant problem and a significant affordability challenge. And so now we have this coronavirus challenge.

So I along with many of my colleagues on this Committee have been pushing for support for housing, \$11.5 billion for homeless assistance, \$100 billion for rental assistance, and \$75 billion to stabilize homeowners.

Chair Powell, could you talk a little bit about the importance of the housing sector in our economy right now and what challenges you see ahead for us as we are living through this crisis? And I appreciate what you said. The most important policy objective should be to keep people in their homes and keep them paying the bills.

Mr. POWELL. These are longer-running problems which are, of course, under particular pressure right now. But as an example, a lot of the jobs are in big urban areas more and more. That is where the job creation is. And yet the cost of living in those places is higher and higher, very high, and often people who are in the service industries providing their services have to commute very long times to be able to afford to live in a place. So, you know, it is an issue that has been with us for a while. It is not one really that the Fed can affect much other than by affording, you know, fair lending laws and things like that. But we cannot really directly affect those, but they are important to our economy.

Senator SMITH. I realize that you do not want to comment specifically on the specific policy issues that we have confronting us here in Congress, but in general, do you see a risk to the housing market as the economy continues to take a downturn in the months ahead?

Mr. POWELL. Well, I think there are multiple risks. One is just to the extent forbearance does not do the job, you may have people losing their homes. Given that this is a natural disaster in a way, that is something that would be great to avoid. You also see the housing industry coming—I will not say to a halt, but under great pressure, activity being slowed, that is a lot of jobs right there. So I think, you know, really it comes down to sensibly, thoughtfully opening up the economy in a way that builds confidence and keeps

people safe. I think that is really important that we do that well, and if we do, you know, these other things will take care of themselves over time.

Senator SMITH. This is an issue that I think we should continue to work on and talk about, the challenges that people will have if they do lose their home. The ripple effect of people not being able to pay their rent or their mortgage and then the impact that that has all the way up through the housing continuum I think is a grave concern. And if you do not have a safe place to live, then nothing else in your life works. I believe that this is something that is really important for us to address in the next package.

Thank you very much, Mr. Chair.

Chairman CRAPO. Thank you, Senator Smith.

And we have also been joined now by Senator Sinema, so she will be the last questioner. She will be with us on audio only, and thank you, Senator Sinema. If you finish in your 5 minutes, I may make it to the vote.

Senator SINEMA. Well, thank you, Mr. Chairman, and thank you to our witnesses for being here today.

Every day Arizonans from every corner of my State are worried about their health and their future, and that is why my office has doubled our State team to better serve Arizonans during this difficult time. Our goal is to offer top-notch constituent services connecting Arizonans with resources and going the extra mile to ensure they get the assistance they need.

I am glad that we are having an oversight hearing today because robust congressional oversight is critical to ensuring we know where the CARES Act money is going and how it is going to be spent. It is also vital to ensuring that Arizonans are not stuck in Government bureaucracy. I am focused on cutting through that red tape to help Arizonans.

My first question is for Secretary Mnuchin. Let us start with the Economic Injury Disaster Loans. I sent you and Administrator Carranza a letter on April 17th outlining my concerns with how the Administration has run this program. I have not received a response. The CARES Act promises small businesses a \$10,000 loan advance within 3 days of their application. I know Arizonans who went through this process. None of them got their loan advance within 3 days, and no one received the full \$10,000.

Why aren't they getting that full amount? And why aren't they getting it on time?

Secretary MNUCHIN. Well, first of all, let me just apologize that you have not received a response. I will look into that after this and get back to you.

As it relates to the EIDL Program, again, that is within the SBA, but let me just comment that the SBA had significant systems issues getting the EIDL Program up and running. I thought the grants were doing much better than the loans, so I will follow up and look at that.

On the loans they are rebuilding the entire system. I think, as you know, we have over 5 million loans to process. But we will follow up with you.

Senator SINEMA. As you know, the SBA internally changed the policy of EIDL to only issue a \$1,000 loan advances per employee

up to \$10,000. The original plan was \$10,000 per company. Who authorized the change? And why was it made?

Secretary MNUCHIN. I believe the SBA Administrator made that change, and I believe her thought on that was that there was limited money and tried to spread it out amongst as many companies as possible.

Senator SINEMA. And she did not think to herself let us go back and ask Congress to authorize more funding to pay for that which they appropriated and called for in the legislation?

Secretary MNUCHIN. Well, there was additional money in the second phase, and we appreciate that Congress reacted to that.

Senator SINEMA. OK, but, Secretary, my question is that the SBA made this internal change without getting authorization from Congress, and if they are saying they did it because they did not have enough money, we then gave more money, and they still have not used it to give that money to people as promised as the \$10,000 in the original legislation.

Secretary MNUCHIN. As I said, I am more than happy to follow up with you. I am not involved in some of the direct specifics of that, so let me follow up with your office.

Senator SINEMA. I appreciate that, Secretary.

The last thing I will say about the EIDL loans, my office is right now working on over 300 outstanding EIDL cases. Some of them are dating all the way back to early and mid-March. Can your team commit to working with mine to get these cases moved through quickly?

Secretary MNUCHIN. I commit we will work with the SBA to follow up. That is not acceptable, so we will follow up with the SBA with you.

Senator SINEMA. I appreciate that. I have some questions about the Paycheck Protection Program as well. Small business owners in Arizona are asking for guidance on how the loan forgiveness works, and the lack of guidance has made it difficult for small businesses to plan. We received some guidance last Friday, and there is more still to come.

Could you tell me why it is taking so long to get guidance for small businesses on the loan forgiveness aspect of PPP?

Secretary MNUCHIN. Well, I would just comment I think you know this was a very complicated program that we set up in a short period of time. I thought that the guidance we put out dealt with all the issues. But if there are specific issues that you are hearing from, we will follow up with you and provide that clarity.

Senator SINEMA. I appreciate that. We would like to follow up specifically.

As you know, the application to get your PPP loan was only one-page long, but the forgiveness application is 11 pages long and, according to my staff, requires a minimum of 3 hours to complete. This is a real problem for mom-and-pop shops in Arizona.

What efforts can we offer to assist small businesses in filling out the complex form?

Secretary MNUCHIN. Well, I can assure you I spent a lot of time on the complexity of that. We tried to get it as short as we could under the requirements of the law. I hope it does not take 3 hours

for small business. But, again, we tried to make it as short as possible.

Senator SINEMA. I appreciate that.

Mr. Chairman, I see that my time has expired. I would like you to make it to the vote. I have many more questions. I will submit some of them in writing.

Senator SINEMA. Thank you so much, Mr. Chairman.

Chairman CRAPO. Thank you, Kyrsten. I really appreciate that.

I understand Senator Brown wants to make a 60-second statement. You can do so.

Senator BROWN. I will do 60 seconds. Thank you, Mr. Chairman. Another successful hearing. Thank you, Chair Powell and Secretary Mnuchin.

I wear on my lapel, as I have said before, a pin depicting a canary in a bird cage instead of the official Senate pin. You all know the story. The mine workers took the canary down in the mines to warn of poisonous gas. They did not have a union strong enough to protect them in those days or a Government that cared enough. That is why we had the New Deal with worker protections and public health.

Now, a century later, it is starting to feel like we are back in the mines. Millions of American workers do not have a union to protect them. After decades of corporate attacks and based on the responses we have heard today and what we have heard especially from the President over the past few months, it seems that once again workers do not have a Government that cares enough to protect them. Look at how the Administration treats essential workers, women, especially African American and Latino workers, putting their lives on the line. Look at who they are willing to spend money on. This Administration tells us everything we need to know. That is why Congress needs to stand up for workers. That is why workers need unions, so we can fight back for economic security and safety protections and the dignity they deserve and for American values.

So, Mr. Chairman, thank you for allowing me a last minute or so.

Chairman CRAPO. Well, thank you. And I also want to thank you, Senator Brown, for your cooperation and working with us to have this hearing and help it to work out. I appreciate the cooperative way in which we have been able to work on these hearings.

I do disagree with the notion that our Secretary and our Chairman here are not working very hard to make sure that the support we have voted on gets out to those very people, those who have these lower-paying jobs, those who are in the service industry, the small businesses, the medium-size businesses, and those places that will be needed to stand up our economy as we have the opportunity to do so. So we may have a different point of view on that, but I do appreciate your support in helping me get this hearing set up and working.

And to our witnesses, Secretary Mnuchin, Chairman Powell, I again appreciate your cooperation and work with me as we have put together this hearing. We are plowing new ground here in the Senate, as is happening across this Nation while we deal with

COVID-19, and your cooperation in working to get us through this hearing and get your report to us is deeply appreciated.

With that, I will say that for Senators who wish to submit questions for the record, those questions are due on Tuesday, May 26th, and I ask you, our witnesses, to respond to those questions as quickly as possible.

Again, thank you each for participating today, and this hearing is adjourned.

Secretary MNUCHIN. Thank you very much to both of you.

[Whereupon, at 12:32 p.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIRMAN MIKE CRAPO

We are all becoming more familiar with remote hearings, but let me offer a few videoconferencing reminders.

Once you start speaking, there will be a slight delay before you are displayed on screen.

To minimize background noise, please click the mute button until it is your turn to speak or ask questions.

If there is a technology issue, we will move to the next senator until it is resolved.

Because we have a hard stop at 12:15, all senators and witnesses need to be especially mindful of the five minute clock.

You should all have one box on your screens labeled “clock” that will show how much time is remaining.

At 30 seconds remaining, I will gently tap the gavel to remind senators their time has almost expired.

To simplify the speaking order process, Senator Brown and I have again agreed to go by seniority.

With that, today we welcome to this virtual hearing the honorable Steven T. Mnuchin, Secretary, Department of the Treasury; and The Honorable Jerome H. Powell, Chairman, Board of Governors of the Federal Reserve System.

We will receive testimony from the Secretary of the Treasury and Chairman of the Federal Reserve, as required under Title IV of the CARES Act.

Congress has appropriated nearly \$3 trillion to protect, strengthen and support Americans, to fight the pandemic, and also to stabilize the infrastructure of our economic system.

A large portion of this funding is authorized under Title IV of the CARES Act, which provides significant resources for loans, loan guarantees, and other investments from Treasury and the Federal Reserve’s 13(3) emergency lending facilities and programs in support of eligible businesses, States, municipalities, and Tribes.

Title IV of the CARES Act provided a \$454 billion infusion into the Exchange Stabilization Fund to support the Federal Reserve’s emergency lending facilities that facilitate liquidity in the marketplace and support eligible businesses, States, local governments, and Tribes.

This unique lending authority, known as 13(3) authority, is authorized under section 13 of the Federal Reserve Act, and plays a critical role in stabilizing markets.

Both prior to and after the enactment of the CARES Act, the Federal Reserve announced the establishment of or its intent to establish several emergency lending facilities to support financial markets and businesses, including some that are funded by the CARES Act.

Last week, other members of this Committee and I had a robust discussion with Vice Chairman Quarles on these facilities and stressed the importance of getting facilities like the Main Street Lending Programs and the Municipal Liquidity Facility up and running quickly to provide a lifeline to struggling businesses, States and local governments.

Again, I stress the importance of setting these facilities up quickly and allowing broad access.

There was also a discussion about whether it is acceptable for the Treasury to take any losses on investments put into the special purpose vehicles that the Fed will lend to for various programs.

The 13(3) facilities are a critical component of a strong economic recovery, which reinforces the need to have them quickly operational, broadly available and as flexible as possible.

Title IV also contains robust oversight provisions—specifically the one that brought us here today, Section 4026.

It is critical that each agency follow all reporting and oversight requirements in the CARES Act.

Other steps are already being taken to ensure appropriate oversight.

Last week, this Committee voted the Special Inspector General for Pandemic Recovery favorably out of committee, and yesterday, the Congressional Oversight Committee published its initial report on oversight of Title IV.

The CARES Act is the biggest rescue package in the history of Congress and we need to make sure the dollars and program quickly find their mark.

During this hearing, I look forward to hearing more about the status of Treasury loan programs, 13(3) emergency facilities, and the Paycheck Protection Program; steps the Fed and Treasury have taken, and will continue to take, to provide transparency into the loans and loan guarantees under the CARES Act; and how the unused funds from Title IV will be prioritized and leveraged to provide additional liquidity to the economy.

While not part of Title IV of the CARES Act, SBA and Treasury have worked around the clock to ramp up the Paycheck Protection Program that has approved over 4.3 million loans to small businesses that amounts to about \$513 billion.

According to SBA, the overall loan size for the PPP is \$118,000, and during the second round of PPP funding, the average loan size has been around \$70,000.

On April 28, Treasury and SBA announced that the SBA would review all PPP loans in excess of \$2 million to make sure borrowers' self-certification for the loans was appropriate.

Last week, SBA and Treasury provided a safe harbor for loans under \$2 million.

Finally, on May 8, 2020, Commerce Committee Chairman Wicker and I sent a letter to Secretary Mnuchin on the Payroll Support Program (PSP) requesting a detailed report on the status of the program and on May 12, Treasury announced new transparency measures with regards to the PSP.

I encourage you to continue to work with the applicants and update the information as additional funds are disbursed.

I commend each of you and your staff for the hard work and extraordinary actions you have taken to stabilize the economy and provide support to Americans during this trying time.

Thank you for joining us today to share your agency's activities and plans in response to COVID-19.

PREPARED STATEMENT OF SENATOR SHERROD BROWN

I'd again like to thank Chairman Crapo for following the best advice of health experts, and holding a virtual hearing to prevent the spread of coronavirus.

I am still outraged by Leader Mitch McConnell's reckless decision to keep the Senate in session, putting Capitol Hill workers—including Capitol police officers, custodial staff, floor staff, and cafeteria workers—putting all workers at risk.

Leader McConnell has forced workers to go against public health authorities' advice for three weeks now, and he still has no plan to get additional help to families and communities. The House passed a bill that incorporates many of our plans. The American people are rising to this challenge—and their leaders are failing them. Leader McConnell says he sees no urgency—his words, no urgency.

Before we begin, I'd like to pause here for a moment to recognize all the workers who have lost their lives on the job during this pandemic.

The coronavirus has been the great revealer. It's brought out the best in our communities—we remember the spirit of solidarity that created our social safety net during the New Deal, and inspired World War II victory gardens, and powered the Civil Rights movement. And today that spirit of solidarity is now revealing itself in hand-sewn masks, and fire escape applause for hospital workers, and video conference play-dates, as millions of individual Americans pull together to do their part to flatten the curve.

But this pandemic is also laying bare how corporations that now claim their workers are "essential," have for too long treated them as more of a cost to be minimized.

Since the bailouts of the financial crisis, many of us have been concerned about how our country rewards Wall Street, but ignores the people who make our country work.

Whenever we've asked why wages for these essential workers are stagnant, we're told we can't afford it—companies would have to raise prices if they paid people more. Never mind that CEOs were getting huge raises and Wall Street investors huge payouts. Never mind that low prices don't do you a lot of good if your wages stay low right along with them.

Our economy has been paying the price for that—with a shrinking middle class, rising inequality, and lower economic growth.

Now it's pretty clear: when millions of workers are laid off, or have their hours cut, or were making low wages to begin with and are now worried about their future, our economy grinds to a halt.

In fact, the only thing keeping our society running in the middle of this crisis is American workers—those who stock our shelves and deliver our packages and fill our prescriptions and care for our loved ones.

A grocery store worker in Ohio told me recently, "I don't feel safe at work and they don't pay me much. I don't feel essential—I feel expendable."

We are asking people to show up to work and risk their health, and their families' safety—perhaps finally realizing that the words of Dr. King ring true—that "One day our society will come to respect the sanitation worker for the person who picks up our garbage, in the final analysis, is as significant as the physician, for if he doesn't do his job, diseases are rampant. All labor has dignity."

ALL labor has dignity.

You might think that at a time when we're demanding more from our essential workers than ever before, that people who punch a clock or swipe a badge, people who take care of our families and our elderly—mostly women, often black and brown workers—you might think they'd all be getting a huge raise.

Our economy is supposed to reward people whose talents are in high demand. That's what we're all taught and that's what the CEOs tell us, right?

But that's not happening. Workers are getting left behind, again.

As essential workers go home to their families after a long, stressful day, they're wondering how they're going to pay the rent, or how they're going to afford another week of groceries. And they wonder whether they're going to infect their families.

And those are the ones that are working—how about the 35 million Americans who have been laid off from their jobs because of this public health crisis?

When we passed the CARES Act, we tried to address this. We tried to make sure that the trillions of dollars in spending wouldn't just go to Wall Street like it always does. We wanted to make sure that the Federal Reserve and the Treasury got this money into workers' pockets.

We certainly didn't want to see it go to oil and gas companies, whose activities pose an existential threat to essential workers and our whole economy.

Chairman Powell—I appreciate your recent comments about how Congress needs to do more to put money directly in workers' pockets—I agree.

If Congress does not act now to put money in the hands of the people who actually power our economy—in workers, their families, and Main Street businesses in struggling communities—we risk making the economic crisis worse.

Leader McConnell needs to let the Senate take up the House bill immediately.

Congress also has an important responsibility to make sure the \$500 billion we've already approved for the Fed and Treasury is actually getting to workers. And from what we know so far, it does not appear that this Administration or the Federal Reserve are making workers their priority.

Today I look forward to hearing from both of you, Mr. Secretary and Chair Powell, not about what you're doing for big banks or big corporations and how you expect that money to trickle down, but how you're making sure the money and authority Congress gave you actually help the people who make this country work.

I want to hear how it's going to be different this time.

I want you to explain what you will do to transform our economy so that it works for everyone—not just the wealthy and powerful.

I want to hear about your plans to make our economy work for essential workers, and how to safely get those who have lost their jobs back to work.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF STEVEN T. MNUCHIN

SECRETARY, DEPARTMENT OF THE TREASURY

MAY 19, 2020

Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for this opportunity to highlight how the Department of the Treasury and the Federal Reserve are working together to provide liquidity to the financial system. Our programs support the flow of much-needed credit to American workers, families, businesses, States, and municipalities.

I want to begin by acknowledging the unprecedented challenges the American people are experiencing due to the COVID-19 pandemic. This disease is impacting families and communities across the Nation. Through no fault of their own, the American people are also enduring economic challenges. I am inspired by our Nation's medical professionals and first responders on the front lines taking care of their fellow citizens. Thanks to their efforts and their unwavering commitment to their communities, I am confident that our Nation will emerge from the pandemic stronger than ever before.

President Trump and the entire Administration are committed to providing necessary relief to help people get through this time. The Treasury Department is working hard to implement the CARES Act. We appreciate Congress working with us to enact this statute, which is the single largest economic relief effort in the history of our country. We also appreciate the feedback we have received from Members of Congress on both sides of the aisle as we implement a number of critical programs established by the CARES Act.

CARES Act Programs

We have worked closely with the Small Business Administration on the Paycheck Protection Program (PPP) to ensure the processing of more than 4.2 million loans for over \$530 billion to keep tens of millions of hardworking Americans on the payroll. We are proud that nearly 400 Community Development Financial Institutions and Minority Depository Institutions, and many more small and nonbank lenders, are participating in this program.

We have issued more than 140 million Economic Impact Payments for over \$240 billion to provide direct relief to millions of Americans. The typical family of four received \$3,400.

We have distributed almost \$150 billion to States, local, and tribal governments through the Coronavirus Relief Fund for essential services. We have also approved nearly \$25 billion in payroll support to the airline industry to protect this critical sector of our economy.

Exchange Stabilization Fund

Turning to a central focus of this hearing, the CARES Act also provided authority for \$454 billion in support for Federal Reserve lending facilities to provide liquidity to the financial system.

Since March 17, I have approved the following facilities:

- The Commercial Paper Funding Facility
- Primary Dealer Credit Facility
- Money Market Mutual Fund Liquidity Facility
- Term Asset-Backed Securities Loan Facility
- Primary Market Corporate Credit Facility
- Secondary Market Corporate Credit Facility
- Main Street Business Lending Program
- Municipal Liquidity Facility, and the
- PPP Lending Facility.

We have committed up to \$195 billion in credit support under the CARES Act. We have the remaining \$259 billion to create or expand programs as needed, as we continue to monitor a variety of economic sectors closely.

Economic Environment

We are sympathetic to hardworking Americans and businesses enduring tremendous challenges due to the COVID-19 pandemic. We have had to take unprecedented steps to shut down significant parts of the economy in the interest of public health. As a result, in the second quarter of this year, we are continuing to see large unemployment and other negative indicators. It is important to realize that the large numbers represent real people. This is why it is so important to begin bringing people back to work in a safe way.

As we listen to medical experts, we are optimistic about the progress being made on vaccines, antiviral therapies, and testing. Working closely with governors, we are beginning to open the economy in a way that minimizes risks to workers and customers. We expect economic conditions to improve in the third and fourth quarters.

Conclusion

Under the leadership of President Trump, I am proud to have worked with all of you, on a bipartisan basis, to get relief into the hands of hardworking Americans and businesses as quickly as possible. While these are unprecedented and difficult times, these programs are making a positive impact on people. Together we will destroy the COVID-19 virus, and our country will emerge from the pandemic stronger than ever.

Thank you for the opportunity to discuss our efforts today, and I look forward to your questions.

PREPARED STATEMENT OF JEROME H. POWELL

CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

MAY 19, 2020

Chairman Crapo, Ranking Member Brown, and other Members of the Committee, thank you for the opportunity to discuss the extraordinary steps the Federal Reserve has taken to address the challenges we are facing.

I would like to begin by acknowledging the tragic loss and tremendous hardship that people are experiencing both here in the United States and around the world. The coronavirus outbreak is, first and foremost, a public health crisis, with the most important responses coming from those on the front lines in hospitals, emergency services, and care facilities. On behalf of the Federal Reserve, let me express our sincere gratitude to those individuals who put themselves at risk day after day in service to others and to our Nation.

The forceful measures that we, as a country, are taking to control the spread of the virus have substantially limited many kinds of economic activity. Many businesses remain closed, people have been advised to stay home, and basic social interactions have been greatly curtailed. People have put their lives and livelihoods on hold at significant economic and personal cost. All of us are affected, but the burdens are falling most heavily on those least able to carry them.

It is worth remembering that the measures taken to contain the virus represent an investment in our individual and collective health. As a society, we should do everything we can to provide relief to those who are suffering for the public good.

Available economic data for the current quarter show a sharp drop in output and an equally sharp rise in unemployment. By these measures and many others, the scope and speed of this downturn are without modern precedent and are significantly worse than any recession since World War II. Since the pandemic arrived in force just two months ago, more than 20 million people have lost their jobs, reversing nearly 10 years of job gains. This precipitous drop in economic activity has caused a level of pain that is hard to capture in words, as lives are upended amid great uncertainty about the future. In addition to the economic disruptions, the virus has created tremendous strains in some essential financial markets and impaired the flow of credit in the economy.

The Federal Reserve's response to this extraordinary period has been guided by our mandate to promote maximum employment and stable prices for the American people, along with our responsibilities to promote stability of the financial system. We are committed to using our full range of tools to support the economy in this challenging time even as we recognize that these actions are only a part of a broader public-sector response. Congress's passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was critical in enabling the Federal Reserve and the Treasury Department to establish many of the lending programs that I discuss below.

In discussing the actions we have taken, I will begin with monetary policy. In March, we lowered our policy interest rate to near zero, and we expect to maintain interest rates at this level until we are confident that the economy has weathered recent events and is on track to achieve our maximum-employment and price-stability goals.

In addition to monetary policy, we took forceful measures in four areas: open market operations to restore market functioning; actions to improve liquidity conditions in short-term funding markets; programs in coordination with the Treasury Department to facilitate more directly the flow of credit to households, businesses, and State and local governments; and measures to allow and encourage banks to use their substantial capital and liquidity levels built up over the past decade to support the economy during this difficult time.

Let me now turn to our open market operations and the circumstances that necessitated them. As tensions and uncertainty rose in mid-March, investors moved rapidly toward cash and shorter-term Government securities, and the markets for Treasury securities and agency mortgage-backed securities, or MBS, started to experience strains. These markets are critical to the overall functioning of the financial system and to the transmission of monetary policy to the broader economy. In response, the Federal Open Market Committee undertook purchases of Treasury securities and agency MBS in the amounts needed to support smooth market functioning. With these purchases, market conditions improved substantially, and thus we have slowed our pace of purchases. While the primary purpose of these open market operations is to preserve smooth market functioning and effective policy transmission, the purchases will also foster more accommodative financial conditions.

As a more adverse outlook for the economy associated with COVID-19 took hold, investors exhibited greater risk aversion and pulled away from longer-term and riskier assets as well as from some money market mutual funds. To help stabilize short-term funding markets, we lengthened the term and lowered the rate on discount window loans to depository institutions. The Board also established, with the approval of the Treasury Department, the Primary Dealer Credit Facility (PDCF) under our emergency lending authority in section 13(3) of the Federal Reserve Act. Under the PDCF, the Federal Reserve provides loans against good collateral to pri-

mary dealers that are critical intermediaries in short-term funding markets. Similar to the large-scale purchases of Treasury securities and agency MBS I mentioned earlier, this facility helps restore normal market functioning.

In addition, under section 13(3) and together with the Treasury Department, we set up the Commercial Paper Funding Facility, or CPFF, and the Money Market Mutual Fund Liquidity Facility, or MMLF. Both of these facilities have equity provided by the Treasury Department to protect the Federal Reserve from losses. Indicators of market functioning in commercial paper and other short-term funding markets improved substantially and rapid outflows from prime and tax-exempt money market funds stopped after the announcement and implementation of these facilities.

In mid-March, offshore U.S. dollar funding markets also came under stress. In response, the Federal Reserve and several other central banks announced the expansion and enhancement of dollar liquidity swap lines. In addition, the Federal Reserve introduced a new temporary repurchase agreement facility for foreign monetary authorities. These actions helped stabilize global U.S. dollar funding markets, and they continue to support the smooth functioning of U.S. Treasury and other financial markets as well as U.S. economic conditions.

As it became clear the pandemic would significantly disrupt economies across the world, markets for longer-term debt also faced strains. The cost of borrowing rose sharply for those issuing corporate bonds, municipal debt, and asset-backed securities (ABS) backed by consumer and small business loans. Effectively, creditworthy households, businesses, and State and local governments were unable to borrow at reasonable prices, which would have further reduced economic activity. In addition, small and medium-sized businesses that traditionally rely on bank lending faced large increases in their funding needs as they struggled with possible closure or substantially curtailed revenues.

To support the longer-term, market-based financing that is critical to economic activity, the Federal Reserve took a number of bold steps. These steps were designed to ensure that credit would flow to borrowers and thus support economic activity. With credit protection provided by the Treasury Department, on March 23 the Board announced that it would support consumer and small business lending by establishing the Term Asset-Backed Securities Loan Facility (TALF). The TALF will lend against ABS backed by newly issued auto loans, credit card loans, and other consumer and small business loans. In turn, these loans will support consumers seeking to obtain these important types of credit.

The Federal Reserve also took action with the Treasury Department under section 13(3) to support the credit needs of large employers through the Primary Market Corporate Credit Facility and the Secondary Market Corporate Credit Facility. These facilities primarily purchase bonds issued by U.S. companies that were investment grade on March 22, 2020. By purchasing these bonds, the Federal Reserve is able to lower the borrowing costs for investment-grade companies and thus facilitate economic activity.

The Federal Reserve is also preparing to launch the Main Street Lending Program, which is designed to provide loans to small and medium-sized businesses that were in good financial standing before the pandemic. Importantly, with these and other facilities that the Federal Reserve has not employed before, public input has been crucial in their development. For example, in response to comments received, we lowered the minimum loan size and raised the maximum loan size across the three lending facilities within the program; in addition, we expanded the size of firms allowed to borrow under the program to companies with up to 15,000 employees. These changes should help the program meet the needs of a wider range of employers that may need bridge financing to support their operations and the economic recovery. We will continue to adjust facilities as we learn more.

To bolster the effectiveness of the Small Business Administration's Paycheck Protection Program (PPP), the Federal Reserve is supplying liquidity to lenders backed by their PPP loans to small businesses. And to help State and local governments better manage cash flow pressures in order to continue to serve households and businesses in their communities, the Federal Reserve, together with the Treasury Department, established the Municipal Liquidity Facility under section 13(3) authority to purchase short-term debt directly from U.S. States, counties, cities, and certain multistate entities. The two corporate credit facilities, the Main Street Lending Program, and the Municipal Liquidity Facility all have equity provided by the Treasury Department to protect the Federal Reserve from losses. The passage of the CARES Act by Congress was critical in enabling the Federal Reserve and the Treasury Department to establish these real economy emergency lending programs that have the capacity to make more than \$2.6 trillion in loans.

The tools that the Federal Reserve is using under its 13(3) authority are for times of emergency, such as the ones we have been living through. When economic and financial conditions improve, we will put these tools back in the toolbox.

The final area where we took steps was in bank regulation. The Board made several adjustments, many temporary, to encourage banks to use their positions of strength to support households and businesses. Unlike the 2008 financial crisis, banks entered this period with substantial capital and liquidity buffers and improved risk-management and operational resiliency. As a result, they have been well positioned to cushion the financial shocks we are seeing. In contrast to the 2008 crisis when banks pulled back from lending and amplified the economic shock, in this instance they have greatly expanded loans to customers. Federal Reserve Board Vice Chair for Supervision Randal Quarles spoke to you about these topics last week.

The Federal Reserve has been entrusted with an important mission, and we have taken unprecedented steps in very rapid fashion over the past few months. In doing so, we embrace our responsibility to the American people to be as transparent as possible. We are deeply committed to transparency, and recognize that the need for transparency is heightened when we are called upon to use our emergency powers. This is particularly the case when Congress appropriates taxpayer funds to back lending programs that the Fed administers. In connection with the CARES Act facilities—including the two corporate credit facilities, the Main Street Lending Program, the Municipal Liquidity Facility, and the TALF—we will be disclosing, on a monthly basis, names and details of participants in each facility; amounts borrowed and interest rate charged; and overall costs, revenues, and fees for each facility.

Thank you, I'd be happy to take your questions.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR BROWN
FROM STEVEN T. MNUCHIN**

Q.1. The Administration has identified a range of needs among companies in the U.S. defense industrial base for urgent financial assistance. Section 4003(b)(3) of the CARES Act made available \$17 billion specifically to address the needs of businesses critical to maintaining national security. Some of businesses identified by the Administration may also be eligible to receive forgivable loans under the Paycheck Protection Program. In the CARES Act, Congress also appropriated funding for activities under the Defense Production Act to bolster the domestic production of urgently needed medical supplies and equipment.

What steps are you taking, in coordination with Defense Secretary Esper, to ensure that defense industrial base companies in need of financial assistance receive aid first out of the national security or PPP funding Congress provided, rather than out of the DPA funding Congress provided primarily to bolster additional production of medical supplies and equipment?

A.1. Under section 4003(b)(3) of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, “businesses critical to maintaining national security” may be eligible for a loan from Treasury, subject to certain conditions and restrictions set forth in the statute. Treasury consulted with the Department of Defense, as well as the Office of the Director of National Intelligence, regarding the implementation of this statutory eligibility requirement. Based on input received in that consultation, Treasury issued guidance that a business is eligible for a loan if (1) it is performing under a “DX”-priority rated contract or order under the Defense Priorities and Allocations System regulations (15 CFR part 700); (2) it is operating under a valid top-secret facility security clearance under the National Industrial Security Program regulations (32 CFR part 2004); or (3) based on a recommendation and certification by the Secretary of Defense or the Director of National Intelligence that the applicant business is critical to maintaining national security, the Secretary of the Treasury determines that the applicant business is eligible. Treasury has been working diligently to review the applications submitted by all companies that meet these criteria.

With respect to the Paycheck Protection Program (PPP), Treasury and the Small Business Administration (SBA) have worked closely with Congress, lenders, and other stakeholders to ensure that as many workers and small businesses as possible can readily participate in the opportunities afforded by this program. Treasury has posted to its website a series of documents, including interim final rules that implement the PPP, a set of frequently asked questions, fact sheets, and other documents to address specific lender and borrower questions about eligibility and the application process, among other topics.

Q.2. How many nondepository CDFIs that were not SBA-approved 7(a) lenders prior to the CARES Act have been approved to participate in PPP? Of these, how many have participated in PPP? For each nondepository CDFI lender that was not a 7(a) lender prior to the CARES Act that has been approved to participate in PPP, please provide the amount of business loans or other commercial fi-

nancial receivables the CDFI originated, maintained, and serviced during a consecutive 12 month period in the past 36 months.

A.2. Treasury and SBA have undertaken extensive and ongoing efforts to encourage lending to underserved and rural borrowers. These efforts have included recruiting lenders that operate in underserved communities to participate in PPP and facilitating their approval of PPP loans, as well as educating underserved borrowers about the opportunities that exist for them through PPP. Guidance was issued to all lenders asking them to redouble their efforts to assist eligible borrowers in underserved and disadvantaged communities. This was done to ensure that individuals, businesses, and other entities in underserved and rural markets, including veterans and members of the military community, small business concerns owned and controlled by socially and economically disadvantaged individuals, women, and businesses in operation for less than two years, all benefited from PPP.

Treasury and SBA have worked closely with Congress, regional and community banks, fintech lenders, Community Development Financial Institutions (CDFIs), Minority Depository Institutions (MDIs), the Department of Agriculture, and other stakeholders to ensure that as many workers and small businesses as possible can readily participate in the opportunities afforded by this program, with particular focus on underserved borrowers, including minorities, women, and rural entrepreneurs. Treasury and SBA extensively recruited lending institutions that typically operate in underserved communities to participate as PPP lenders. An important focus of our efforts to serve underserved communities has been to harness the role of CDFIs and MDIs. Hundreds of CDFIs were contacted and advised of their eligibility to participate in the PPP. As of August 8, 2020, when the PPP closed to new loan applications, 432 CDFIs and MDIs had participated and provided 221,000 loans totaling more than \$16.4 billion (308 CDFIs provided over 114,000 loans totaling more than \$7.5 billion).

Q.3. Are Treasury or the Federal Reserve requiring the companies, including the banks' customers which use loan programs to report payroll information that will allow Congress to assess whether funds are being used to keep workers employed and paid? If not, how do you intend to assess whether funds are being used to keep workers employed and paid?

A.3. Main Street Lending Program borrowers undertake to make commercially reasonable efforts to retain employees during the term of the Main Street loans. Specifically, borrowers should undertake good-faith efforts to maintain payroll and retain employees, in light of their capacities, the economic environment, available resources, and need for labor. Main Street does not require specific recordkeeping or reporting regarding employment.

Q.4. Highly leveraged energy sector companies were already facing downgrades prior to the coronavirus outbreak, yet you recently made revisions to lending programs that will allow many of these companies to receive bailouts. Why is it appropriate to provide funds to prop up businesses that were failing regardless of the impacts of the coronavirus outbreak? In your role as Chair of the Financial Stability Oversight Council, did you consider the ramifica-

tions of further subsidizing an industry that contributes to climate change given the likelihood that the effects of climate change will lead to more volatile and less stable financial markets? If so, please provide your analysis. The Administration opposes the spending package recently passed by the House. Why does it make sense to spend billions propping up failing companies that put our economy at risk but not to spend money on workers that need to feed their families and pay rent?

A.4. In April, at the direction of the President, Secretary Mnuchin and Energy Secretary Brouillette began working together to consider ways in which to support the oil and gas sector and the many thousands of hardworking Americans it employs. Although the U.S. energy industry is of critical and strategic importance to the U.S. economy, and U.S. energy independence is a key policy priority of the Administration, Secretary Mnuchin was clear in stating that any such support must not be a “bailout” and—unless specifically directed otherwise by Congress—should be available under terms that are consistent with the CARES Act and broadly applicable to all businesses and industries across the U.S. economy.

The changes made to the Main Street Lending Program (Main Street) were made in response to over 3,500 comments received from the public representing a diversity of stakeholders. On April 30, 2020, in response to concerns from the public regarding the breadth of availability of Main Street loans for small and medium-sized businesses, the Federal Reserve amended the program’s initial terms to expand the available loan options as well as the pool of businesses eligible to borrow. The changes to the Main Street were designed to allow an even wider range of American companies and industries to access the program in order to help support their workers and operations, without favoring any particular sectors.

Q.5. Over the past several decades, the number of small banks in the United States has decreased, while larger banks continue to increase in number and size. Recent laws and regulations have made it easier for big banks to buy smaller banks and out compete the remaining banks in the local community. This makes the disparity between small banks and large banks much more pronounced, and also has the effect of reducing the number of communities that have access to a bank. We have seen this disparity play out in Treasury and SBA’s rollout of the PPP program. How is the Treasury Department addressing the distribution of PPP loans based on the location and size of participating lenders? What is Treasury doing to ensure that small lenders in rural and low- and moderate-income are able to issue PPP loans in their communities on an equal footing with larger banks?

A.5. Treasury and SBA have posted information about the size of lenders in the PPP program and the number and volume of loans they have made. As of August 8, 2020, when the program closed to new loan applications, lenders with more than \$50 billion in assets were responsible for 36 percent of PPP lending amount, lenders with between \$10 billion and \$50 billion in assets were responsible for 19 percent of PPP lending amount, and lenders with less than \$10 billion in assets were responsible for 45 percent of PPP amount. No single lender has comprised more than 4.4 percent.

Treasury and SBA have undertaken extensive and ongoing efforts to encourage lending to underserved and rural borrowers. These efforts have included recruiting lenders that operate in underserved communities to participate in PPP and facilitating their approval of PPP loans, as well as educating underserved borrowers about the opportunities that exist for them through PPP. Guidance was issued to all lenders asking them to redouble their efforts to assist eligible borrowers in underserved and disadvantaged communities. This was done to ensure that individuals, businesses, and other entities in underserved and rural markets, including veterans and members of the military community, small business concerns owned and controlled by socially and economically disadvantaged individuals, women, and businesses in operation for less than two years, all benefited from PPP.

Treasury and SBA have worked closely with Congress, regional and community banks, fintech lenders, CDFIs, MDIs, the Department of Agriculture, and other stakeholders to ensure that as many workers and small businesses as possible can readily participate in the opportunities afforded by this program, with particular focus on underserved borrowers, including minorities, women, and rural entrepreneurs. Treasury and SBA extensively recruited lending institutions that typically operate in underserved communities to participate as PPP lenders. An important focus of our efforts to serve underserved communities has been to harness the role of CDFIs and MDIs. Hundreds of CDFIs were contacted and advised of their eligibility to participate in the PPP. As of August 8, 2020, when the PPP closed to new loan applications, 432 CDFIs and MDIs had participated and provided 221,000 loans totaling more than \$16.4 billion. The program has resulted in \$106 billion provided to businesses in Historically Underutilized Business Zones (HUBZones), accounting for more than 20 percent of all PPP funding. Data also show that the loans have been broadly distributed and made across diverse areas of the economy, with 27 percent of the funds going to low- and moderate-income communities, which is in proportion to their percentage of the population.

Q.6. Please provide the following data related to the Paycheck Protection Program:

The name of each lender participating in PPP and the number and dollar amount of loans it made under the PPP, including a breakout of loans by borrower State, borrower ZIP code, industry, loan size, and, as available, borrower demographic information.

The total amount of lender compensation fees paid to each PPP lender.

The total amount each lender paid in broker fees.

A.6. Treasury and SBA are committed to implementing the CARES Act with transparency and accountability. Information regarding approved PPP loans and program participation is provided on our websites, including data to help inform your and the public's understanding of borrower participation, such as the number and dollar amount of loans, number of loans by amount, distribution by lender size and type, list of top lenders, average loan size, and loan distribution across industries and States.

Additionally, SBA has made additional data regarding PPP loans publicly available in a manner that balances the interests of transparency with protections for small businesses, sole proprietors, and independent contractors. SBA disclosed the business names, addresses, NAICS codes, zip codes, business types, demographic data, jobs supported, and loan amount ranges as follows: \$150,000-350,000; \$350,000-1 million; \$1-2 million; \$2-5 million; and \$5-10 million. These categories account for nearly 75 percent of the loan dollars approved. For loans below \$150,000, SBA disclosed the specific loan amounts along with NAICS codes, zip codes, business types, demographic data, and jobs supported, but no personally identifiable borrower information.

This approach to public disclosure will allow Americans to see how their tax dollars are being spent while ensuring that America's entrepreneurs and job creators are able to compete fairly as our economy safely reopens. Unlike other SBA loans, PPP loan amounts are calculated based on payroll data, which employers typically treat as commercially sensitive or proprietary. In general, a borrower's specific PPP loan amount will reveal the borrower's nonpublic payroll information-including the personal income of independent contractors and sole proprietors that received PPP loans.

In addition to these public disclosures, SBA worked with congressional committees and the Government Accountability Office to provide full access to all PPP loan-level information-including, but not limited to, all borrower names and loan amounts-in a manner that afforded appropriate confidential treatment for nonpublic personally identifiable and commercially sensitive business information.

We respectfully refer you to SBA for additional information on the fees paid to lenders.

Q.7. The CARES Act authorized the United States Postal Service to borrow up to \$10 billion from the Treasury to cover operating expenses at terms mutually agreed upon by the Treasury and the USPS. Please provide an update on the negotiations with the USPS on the status of the loan's disbursement. Will you commit to providing the loan to USPS without imposing any unrelated conditions requiring changes to USPS postal management or operations?

A.7. On July 28, 2020, Treasury and the USPS agreed on terms regarding the additional \$10 billion in lending authority included in the CARES Act. As mandated in the CARES Act, the USPS may only use such borrowed funds for operating expenses. No conditions requiring changes to USPS postal management or operations were included. Additionally, this term sheet has been provided to the House Oversight Committee and publicly released.

Q.8. As you know the CARES Act provided both loans and payroll support funding to air carriers. Both the loans and payroll support funding required air carriers to meet certain conditions. Is there any air carrier that you believe is not in compliance with the terms and conditions of the CARES Act?

A.8. The Department of the Treasury expects all participants in the Payroll Support Program (PSP) 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 As with each of the CARES Act programs Treasury is implementing, we will continue to work to ensure that the PSP is efficient and effective. To that end, Treasury's agreement with each recipient of payroll support or a Treasury loan requires the company to comply with the requirements under the CARES Act and to provide reporting to enable Treasury to monitor compliance. When Treasury identifies a participant in these programs that is not complying with its obligations under the CARES Act, we will take appropriate action.

Q.9. I have heard of instances where pilots and flight attendants have been downgraded in hours or position and status, and therefore pay, as a result of a change in the aircraft. These instances include scenarios where flight attendants or pilots, for example, are moved off of international flights or, in the case of pilots, moved from captain to first officer because they were assigned to a narrow-body aircraft instead of a wide-body international aircraft. Are reductions in pay due to a downgrade in aircraft violations of the CARES Act?

A.9. Treasury incorporated the requirements of the CARES Act into a PSP agreement that must be executed by each PSP recipient and Treasury. Each PSP agreement reflects the requirements in section 4114(a) of the CARES Act, which prohibits recipients from "conducting involuntary furloughs or reducing pay rates and benefits until September 30, 2020." Treasury has also imposed reporting requirements to enable it to monitor PSP recipients' compliance with the PSP agreements, and each recipient is required to provide quarterly certifications that it is in compliance with the terms and conditions of the agreement. The agreement also makes clear that PSP funds must be used exclusively to continue paying employee salaries, wages, and benefits-the funds may not be used for any other purpose.

Q.10. The President recently stated he supports "looking into" banks committed to no longer investing in oil and gas drilling in the Arctic. Has the President discussed this with you or someone at your agency? Have you or anyone at your agency started any investigation, or initiated any proceeding to "look into" banks which have committed to not investing in Arctic oil and gas development?

A.10. Treasury has not initiated any investigation or proceeding with respect to this issue.

Q.11. Have you limited funds appropriated by Congress through the CARES Act, or any other law, to banks that have committed to stop financing Arctic oil and gas development?

A.11. No, Treasury has administered the programs Congress provided for under the CARES Act in a manner consistent with the text of the statute.

Q.12. Have you been directed by anyone, up to and including the President, to use the authorities and resources at your disposal to

¹ See <https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry>.

tip the scales in any way regarding banks or other investors with commitments to not finance new development in the Arctic?

A.12. Treasury has not taken any action with respect to a bank or other investor with respect to this issue.

Q.13. To what extent has Treasury studied the degree to which State and local revenue needs have been met by the Coronavirus Relief Fund in the CARES Act? How great is the unmet need among State and local governments and how does the Administration intend to help meet it? Please provide any Treasury analyses on State and local revenue.

A.13. Treasury endeavored to establish maximum flexibility in developing guidance for the Coronavirus Relief Fund; however, the CARES Act does not allow the use of CRF funds to supplement lost revenue.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TOOMEY
FROM STEVEN T. MNUCHIN**

Q.1. Many in Congress have expressed concern about the impact of job loss and unemployment upon low-income workers, and the Federal Reserve's Report of the Well Being of US Households in 2019 found that 39 percent of Americans with a household income of less than \$40,000 had seen at least one job loss in March. However, the report also stated that most workers expected their job losses to be temporary, with nine in 10 people who were furloughed or who had lost a job saying that their employer indicated that they would return to their job at some point.

As you stated in the hearing, "where people are unemployed for long periods of time, that can permanently weigh on both their careers and their ability to go back to work, and also weigh on the economy for years." While unemployment benefits are an important source of needed liquidity for displaced workers and can smooth consumption, having workers continue to be unemployed for longer than necessary may be harming our ability to quickly recover and restore long-term income stability. A recent University of Chicago working paper found that 68 percent of unemployed workers who are eligible for UI will under the CARES Act receive benefits which exceed lost earnings, and that the median wage replacement rate under the CARES Act is 134 percent of prior wages.

How would you expect long-term (beyond July 31st, 2020) wage replacement rates above 100 percent to impact efficient labor reallocation and an eventual economic recovery?

Would you expect a targeted proportional system of unemployment benefits that caps wage replacement rates at 100 percent to sufficiently smooth consumption for displaced workers?

A.1. Economists believe that in most cases, increased benefit generosity leads to reduced likelihood of unemployed workers looking for and finding new work. There is not much evidence that enhanced UI benefits deterred job search early in the recession, as labor demand problems clearly dominated labor supply problems. However, since the spring, the economy has created over 10.6 million jobs in as little as four months, and there is now no question that labor demand has come roaring back. Thus, if unemployment

insurance benefits were continued at very high replacement rates, we would expect this to meaningfully slow down job creation as some workers preferred to stay home receiving benefits in excess of their earned wages from work.

A further problem with replacement rates at 100 percent or above is that since FICA taxes are not withheld from UI benefits, and in many States UI benefits are not taxed as income, pretax replacement rates of 100 percent can wind up being meaningfully higher than 100 percent in after-tax terms.

A targeted proportional system of benefits that, when factoring in benefits from the underlying unemployment insurance (UI) program (including CARES Act programs) and any Federal supplement to the weekly benefit amount, caps replacement rates at 100 percent or lower would be preferred to a fixed benefit amount. This approach would not have as large negative labor supply effects as having two-thirds of workers receive benefits in excess of their previous wages. Capping wages at a level somewhat below 100 percent would be even more effective at achieving the dual goals of helping households pay for essentials and getting America back to work.

Note that UI is a State and Federal partnership, and State laws individually set wage replacement rates, which typically are targeted at a 50 percent wage replacement up to a specified weekly benefit amount. A 100 percent wage replacement structure would create downward pressure on the labor market supply by acting as a disincentive to return to work and increase employer costs by making it harder for employers to hire more workers. Especially now, with State economies reopened and robust job growth, any potential restructuring of the fundamental premises of the UI system must align with the States, the U.S. Department of Labor, and must balance both the tax and benefit implications of the changes.

Q.2. On May 15th, 2020, the Small Business Administration and Treasury Department released the Paycheck Protection Program loan forgiveness application. The 11-page application is quite extensive and lengthy as it reflects the various forgiveness requirements implemented over the past several weeks. Many small businesses, some of whom received very small loans, may have to hire or rely on an outside source to complete the application accurately.

Secretary Mnuchin, will SBA and Treasury consider releasing a revised and shortened version for borrowers with smaller loans?

A.2. SBA published an EZ version of the forgiveness application that requires fewer calculations and less documentation for eligible borrowers. In addition, Treasury has posted to its website a series of documents, including interim final rules that implement the PPP, a set of frequently asked questions, fact sheets, program reports, and other documents to address specific lender and borrower questions about eligibility and the application and forgiveness process, among other topics. This includes guidance to reflect the PPP Flexibility Act's amendments to the PPP to, among other things, extend the covered period for loan forgiveness to 24 weeks after the date of loan disbursement and to lower the percentage of a borrower's PPP loan proceeds that must be used for payroll costs. This also includes a set of frequently asked questions on loan forgiveness.

Treasury and the SBA will continue to provide additional guidance, as appropriate, to help small businesses and other eligible borrowers get the assistance they need.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR ROUNDS
FROM STEVEN T. MNUCHIN**

Q.1. The CARES Act created a tax credit known as the Employee Retention Credit to encourage businesses to keep employees on their payroll. I understand that with this new credit, along with a similar tax credit created by previous COVID relief legislation, employers are able to request an advance payment of the credit using the IRS Form 7200. Unfortunately, I've heard that it may take up to four weeks to receive these advance payments.

A number of legislative proposals would significantly expand the Employee Retention Credit but I am concerned that this would further delay advance payments. Is the current system underpinning the Form 7200 process capable of expansion? In lieu of the Form 7200, is the Treasury considering other systems that would be capable of handling an increased volume, and if so, how long would those systems take to implement?

A.1. Eligible employers that pay qualified wages for purposes of the Employee Retention Credit are able to retain an amount of all Federal employment taxes equal to the amount of the qualified wages paid, rather than depositing them with the IRS. The Federal employment taxes that are available for retention by these employers generally include Federal income taxes withheld from employees, the employees' share of Social Security and Medicare taxes, and the employer's share of Social Security and Medicare taxes with respect to all employees.

If the Federal employment taxes yet to be deposited are not sufficient to cover the employer's cost of qualified wages, the employer is able to file a request for an advance payment from the IRS using Form 7200, Advance Payment of Employer Credits Due to COVID-19. While the IRS has established a manual system for processing the Form 7200, which does place constraints on the volume that can be handled, the process for employers to retain amounts of employment taxes, rather than deposit them, is not subject to those same constraints.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR PERDUE
FROM STEVEN T. MNUCHIN**

Q.1. *Bans on Merger and Acquisitions*—Secretary Mnuchin, as you know some in Congress are urging passage of legislation that would prohibit merger and acquisition activity. Merger and acquisitions are an important part of economic activity, and in a crisis like the one we are facing, it may provide a life line for some business who may not have means of staying operational. Ensuring these businesses have the ability to partner with others also preserves jobs and important services in all of our States. Further, there are already sufficient government tools to protecting against inappropriate merger activity. Even, President Obama's CEA Advisor, Jason Furman, agreed recently by saying that a merger prohibition

was “particularly misguided when some mergers can save jobs in the midst of an economic crisis”.

Secretary Mnuchin, would you agree that a prohibition on mergers would be misguided, and would you agree there are already appropriate tools to manage these mergers to ensure workers and markets are protected?

A.1. A blanket prohibition on all merger and acquisition activity in the economy would be inappropriate. For further information, I respectfully refer you to the Justice Department.

Q.2. *U.S. Listing of Chinese Companies*—Secretary Mnuchin, recently US-listed Chinese companies have been in the headlines for accounting scandals that have wiped away hundreds of millions in shareholder equity. Many members of Congress have voiced their view that Chinese companies are inherently risky to U.S. investors because they are not subjected to PCOAB oversight. While I share concerns that these companies are not subjected to PCAOB oversight, I disagree that the solution to the problem is to force the delisting of all Chinese companies on U.S. exchanges. Afterall, delisting Chinese firms off U.S. stock exchanges not only would remove the soft power we have over these companies, but we wouldn’t protect U.S. investors since asset managers, mutual funds, and retail investors will continue to purchase them wherever they are listed regardless if they are listed on a U.S. exchange or not.

I am interested in your view on this situation, do you believe delisting all Chinese companies is the best solution to tackling this problem?

A.2. Under the Sarbanes–Oxley Act of 2002, the Public Company Accounting Oversight Board (the PCAOB) is charged with ensuring the integrity of the work of audit firms. A cornerstone of this is allowing the PCAOB to examine the work papers of an auditing firm related to its audit of a U.S.-listed company. However, China unfortunately prohibits the PCAOB from accessing audit work papers for Chinese companies listed in the U.S. This is a problem that must be addressed for two reasons. First, if the PCAOB cannot examine the work of auditing firms as required by Sarbanes-Oxley, U.S. investors are exposed to a greater risk of fraud. Second, high-quality financial reporting and auditing are the bedrock of our financial system and have made U.S. capital markets the most robust in the world. It is imperative that we maintain the highest standards.

On June 4, President Trump issued a memorandum tasking the President’s Working Group on Financial Markets (the PWG) with examining risks to investors in U.S. financial markets from China’s failure to allow the PCAOB to do its job. In response, the PWG issued a report unanimously recommending five actions that U.S. government agencies can take to protect investors in U.S. financial markets relating to this audit issue. These recommendations considered the impact on investors and the continued fair and orderly operation of U.S. financial markets.

The first recommendation touches on your question most directly. The PWG recommends that the Securities and Exchange Commission enhances listing standards to require, as a condition to initial and continued exchange listing in the United States, PCAOB ac-

cess to work papers for the audit of a listed company. For companies from noncooperating jurisdictions (so-called “NCJs”) that are unable to satisfy that standard as a result of governmental restrictions, this standard may be satisfied by providing a co-audit from an audit firm where the PCAOB has sufficient access to audit work papers. For example, if a current auditor is a Chinese subsidiary of an international accounting firm, the U.S. entity of the international accounting firm could agree to undertake a co-audit and provide access of its work papers to the PCAOB. To reduce market disruption, the recommended new listing standards could provide for a transition period until January 1, 2022 for currently listed companies to come into compliance. However, there would be no transition period for new listings. I would like to emphasize that we are simply leveling the playing field, holding Chinese firms listed in the U.S. to the same standards as everyone else.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TILLIS
FROM STEVEN T. MNUCHIN**

Q.1. As I mentioned in the hearing, I am concerned that companies in need of financial assistance do not meet the eligibility criteria for the existing Federal Reserve (Fed) and Treasury programs. The Fed’s programs are largely limited to investment grade (IG) companies with certain leverage criteria that gets harder to satisfy the longer the pandemic goes. These programs have excluded otherwise well run companies that are not IG, or somehow don’t fit the specific criteria—companies that are sometimes even deemed essential by the Cybersecurity and Infrastructure Security Agency within the Department of Homeland Security.

What is the Federal Reserve and Treasury doing to help well-managed non-IG companies that have weathered the initial storm without any government assistance, but may need access to liquidity in the next couple of months?

A.1. The Main Street Lending Program provides bridge financing to small- and medium-sized businesses with up to 15,000 employees or \$5 billion in revenue. Main Street does not have a rating requirement, and most borrowers are not Investment Grade.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR KENNEDY
FROM STEVEN T. MNUCHIN**

Q.1. Section 1102 of the CARES Act, requires eligible borrowers to make good faith certifications for both loan eligibility and loan forgiveness and seeks to hold lenders “harmless.” An interim final rule notes, “The lender does not need to conduct any verification if the borrower submits documentation supporting its request for loan forgiveness and attests that it has accurately verified the payments for eligible costs . . . The Administrator will hold harmless any lender that relies on such borrower documents and attestation from a borrower.” While it is understandable that normal processes and verifications are set aside during these unprecedented times, we must also utilize tools and technologies that are available to assess for potential fraud.

Do you agree that the government should be looking at ways to deter fraud in these programs and can you please explain and detail how Treasury is working to deploy fraud management tools and technologies to deter bad actors and help with loan approvals and forgiveness decisions? Can you also detail what lookback procedures are in place to protect taxpayer dollars?

A.1. On July 23, 2020, SBA issued a procedural notice to lenders that included procedures for forgiveness loan reviews. I respectfully refer you to the SBA for more information.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR MCSALLY
FROM STEVEN T. MNUCHIN**

Q.1. Short-term funding provisions are essential for nonprofits right now, especially those with more than 500 employees that are not eligible for the Paycheck Protection Program. Nonprofits provide critical services to the most vulnerable. Nonprofits often lack the ability to raise funds the way for-profit enterprises can, and taking on additional debt can severely affect the services nonprofit organizations provide. What actions is Federal Reserve and Treasury considering for nonprofits employers with between 500 and 10,000 employees?

A.1. On September 4, the Federal Reserve Bank of Boston announced that two new Main Street Lending Program loan facilities for nonprofit organizations were fully operational. These new facilities are designed to help credit flow to small- and medium-sized nonprofit organizations that were in sound financial condition prior to the pandemic and have solid post-pandemic prospects.

Q.2. As an investor in the Federal Reserve facilities (through the Exchange Stabilization Fund) and as the Chairman of the Financial Stability Oversight Council (FSOC), you have a broad perspective to consider this issue and act to provide liquidity assistance. Can you provide the indicators you are using to guide your decision making as it relates to the necessity for a mortgage servicer liquidity facility?

A.2. Treasury is actively monitoring the mortgage market and the associated impact of COVID-19. We have focused considerable resources on delivering authorized support to households and businesses struggling as a consequence of the necessary public health response. On March 26, 2020, Secretary Mnuchin announced the creation of a Financial Stability Oversight Council Task Force on Nonbank Mortgage Liquidity, which first convened on March 30 to discuss conditions and activities in the mortgage servicing markets and remains in regular discussions. Treasury will continue to work to promote stable markets, including for residential mortgage lending.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR MORAN
FROM STEVEN T. MNUCHIN**

Q.1. You mentioned during the hearing that between the PPP, the EIDL loans and the Main Street programs, it is your objective to help as many companies as possible and to ensure that companies

do not “fall through the cracks” of these programs. As you know there are many companies that are doing all that they can to support their local economy, to keep their doors open, workers employed, including those that are helping to serve first responders but unfortunately due to the employee threshold, investment grade requirement and/or asset threshold, these great companies are falling through the cracks and as a result do not benefit from these programs.

What are you doing to ensure that these companies are getting the help that they need to stay in business and when should we expect to see some additional changes to the programs so that these companies no longer have to decide whether or not to close their doors for good?

A.1. With respect to the PPP, Treasury has posted to its website a series of documents, including interim final rules that implement the PPP, a set of frequently asked questions, fact sheets, program reports, and other documents to address specific lender and borrower questions about eligibility and the application and forgiveness process, among other topics. This includes guidance to reflect the PPP Flexibility Act’s amendments to the PPP, including by:

- Extending the covered period for loan forgiveness from eight weeks after the date of loan disbursement to 24 weeks after the date of loan disbursement, providing substantially greater flexibility for borrowers to qualify for loan forgiveness. Borrowers who have already received PPP loans retain the option to use an eight-week covered period.
- Lowering the requirements that 75 percent of a borrower’s loan proceeds must be used for payroll costs and that 75 percent of the loan forgiveness amount must have been spent on payroll costs to 60 percent for each of these requirements. If a borrower uses less than 60 percent of the loan amount for payroll costs during the forgiveness covered period, the borrower will continue to be eligible for partial loan forgiveness, subject to at least 60 percent of the loan forgiveness amount having been used for payroll costs.
- Increasing to five years the maturity of PPP loans that are approved by SBA (based on the date SBA assigns a loan number) on or after June 5, 2020.

In addition, the SBA published an EZ version of the forgiveness application that requires fewer calculations and less documentation for eligible borrowers. Treasury and the SBA will continue to provide additional guidance, as appropriate, to help small businesses and other eligible borrowers get the assistance they need.

The Main Street Lending Program provides bridge financing to small and medium-sized businesses and nonprofit organizations. Businesses and nonprofit organizations with less than 15,000 employees or less than \$5 billion in 2019 revenue have access to 5 year loans under five Main Street loan facilities, with loan sizes ranging from \$250,000 to as high as \$300,000,000. The Federal Reserve and the Treasury are continuously evaluating feedback from borrowers, lenders, and other stakeholders to determine how to adapt the Main Street facilities so as to make them accessible to

an even broader spectrum of American businesses and nonprofit organizations.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAMER
FROM STEVEN T. MNUCHIN**

Q.1. On April 28, 2020, Eighteen of my colleagues and I sent you a letter in opposition to the increasing tactic of the Nation's large financial institutions discrimination or debanking of legal and complaint industries such as the firearms, oil and gas, and coal industry based on politics or social popularity, not financial standing. Our letter focused specifically on what efforts were being made at the SBA and other regulatory agencies to ensure equal access to Federal recovery and stimulus funds. Have you seen this letter? Do you have any thoughts?

But this question leads up to a more important question which I have been wanting to ask—Mr. Secretary, do you believe a financial institution which accesses or utilizes the taxpayer's Federal Reserve's Open Window, Federal Deposit of Insurance (FDIC) or Automated Clearing House (ACH) should be allowed to discriminate against a legal and complaint business based on social or political policy?

A.1. The Secretary shares your interest in making stimulus programs available to as many of America's job creators and their employees as feasible, and expects that participating lenders will not discriminate against particular companies or industries that are otherwise eligible under program rules.

Q.2. Recent reports have been published saying the Treasury Department is considering extending the safe harbor by one-year for wind and solar tax credits. Yesterday, I sent you a bipartisan letter asking in light of these reports will you consider a similar one-year extension for companies wanting to use the 45Q tax credit? I noted in my letter, these are the same companies that have been waiting for the final rules on 45Q two years after the deadline has passed.

A.2. We recently extended deadlines for the production tax credit and investment tax credit that were due to expire in 2020 or 2021. Although the section 45Q credit is similar to the production tax credit and investment tax credit in terms of the beginning of the construction framework and safe harbors, the potential deadlines are still several years away. That said, we will continue to monitor the situation because we understand how important certainty is in the planning and development of these projects. We also encourage stakeholders to submit comments on the recently issued proposed regulations and include recommendations for changes or flexibility in the rules that could be helpful during unforeseen circumstances.

Q.3. You recently announced that Treasury and the SBA will audit any PPP loans in excess of \$2 million to verify whether the business "really" needed the loan. Many small businesses, including those in the manufacturing industry, have payroll costs that necessitated a loan of \$2 million or more to keep their workers paid during the crisis. How are Treasury and the SBA going to ensure that these companies' loans are not retroactively put at risk?

A.3. Borrowers with loans of \$2 million or more may have an adequate basis for making the required good-faith certification, based on their individual circumstances in light of the language of the certification and SBA guidance. On June 1, the SBA issued an interim final rule describing its loan review procedures and related lender and borrower responsibilities. Treasury and SBA have also posted guidance on frequently asked questions on loan forgiveness, as well as on procedures for lenders' submissions of PPP loan forgiveness decisions to SBA and SBA loan forgiveness reviews. Treasury and SBA will continue to provide additional guidance, as appropriate, to help small businesses and other eligible borrowers get the assistance they need.

Q.4. The CARES Act makes clear that PPP loan forgiveness should be tax free—yet recent IRS guidance would deny the deductibility of business expenses paid with PPP funds, which is contrary to congressional intent. This guidance makes it harder for small businesses to keep workers on payroll during this crisis. Will you commit to reversing this guidance, pursuant to congressional intent in the CARES Act, and allow small manufacturers to receive the full benefit of the PPP? Also on the PPP issue, are you considering allowing companies to renew their loans instead of reapplying? Will you allow companies extra time to use unspent funds?

A.4. Neither the initial receipt of the borrowed cash under a PPP loan nor the forgiveness of a PPP loan result in taxable income. The IRS has issued guidance¹ that section 265 of the Internal Revenue Code denies a double benefit if:

1. a PPP loan borrower uses the cash from the loan to pay business expenses that would otherwise be tax deductible (payroll, rent, mortgage interest, utilities, etc.); and
2. the PPP loan is forgiven.

That is, section 265 applies to deny a deduction for the otherwise deductible expenses up to the amount of the loan forgiveness. In addition, the IRS guidance identifies long-established authorities that deny deductions for otherwise deductible payments for which the taxpayer receives reimbursement. Otherwise deductible expenses that give rise to PPP loan forgiveness are reimbursed by the forgiveness of the PPP loan and therefore would not be deductible for this reason as well.

Treasury and the SBA will continue to provide additional guidance, as appropriate, to help small businesses and other eligible borrowers get the assistance they need.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED FROM STEVEN T. MNUCHIN

Q.1. As you may know, CNBC has reported that the “Congressional Budget Office projects GDP dropping 38 percent in the second quarter as 26 million Americans remain unemployed.”

In light of these projections, are the Federal Reserve and the Department of the Treasury considering either expanding the forthcoming Main Street Lending Program or creating a different pro-

¹ <https://www.irs.gov/pub/irs-drop/n-20-32.pdf>

gram to facilitate lending to U.S. businesses with more than 15,000 employees so that they may also get assistance with keeping workers on the job?

A.1. The purpose of the Main Street Lending Program is to provide bridge financing for small- and medium-sized businesses and non-profit organizations to help them through the COVID-19 crisis. Other Federal Reserve facilities focus on the financing needs of large businesses and State and local governments.

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR MENENDEZ FROM STEVEN T. MNUCHIN**

Q.1. The Small Business Administration (SBA) Inspector General found that the SBA and Treasury failed to direct lenders to prioritize underserved communities, including minority- and female-owned businesses, as mandated by Congress when the agencies implemented the Paycheck Protection Program (PPP) under the CARES Act. Compounding SBA and Treasury's failure to release guidance prioritizing underserved borrowers, Treasury took almost a month after passage of the CARES Act to release guidance for non-SBA approved CDFIs to participate in the PPP program. As you know, CDFIs offer financial services to underserved communities.

Why was the CDFI guidance delayed for almost a month?

A.1. In light of the urgency to launch the program, SBA and Treasury determined that the most effective way to ensure PPP loans could reach underserved communities was to make sure that we had a substantial number of lenders participating that were positioned to reach borrowers who had had less well-established banking relationships. These efforts included issuing an Interim Final Rule before the program launched detailing who is eligible to make PPP loans (including hundreds of CDFIs, among other types of lenders).

Q.2. How is Treasury working with CDFIs to ensure they are prepared to offer PPP loans to underserved small businesses, including women and minority-owned small businesses?

A.2. Treasury and SBA have undertaken extensive and ongoing efforts to encourage lending to underserved and rural borrowers. These efforts have included recruiting lenders that operate in underserved communities to participate in PPP and facilitating their approval of PPP loans, as well as educating underserved borrowers about the opportunities that exist for them through PPP. Guidance was issued to all lenders asking them to redouble their efforts to assist eligible borrowers in underserved and disadvantaged communities. This was done to ensure that individuals, businesses, and other entities in underserved and rural markets, including veterans and members of the military community, small business concerns owned and controlled by socially and economically disadvantaged individuals, women, and businesses in operation for less than two years, all benefited from PPP.

Treasury and SBA have worked closely with Congress, regional and community banks, fintech lenders, CDFIs, MDIs, the Department of Agriculture, and other stakeholders to ensure that as many

workers and small businesses as possible can readily participate in the opportunities afforded by this program, with particular focus on underserved borrowers, including minorities, women, and rural entrepreneurs. Treasury and SBA extensively recruited lending institutions that typically operate in underserved communities to participate as PPP lenders. An important focus of our efforts to serve underserved communities has been to harness the role of CDFIs and MDIs. Hundreds of CDFIs were contacted and advised of their eligibility to participate in the PPP. As of August 8, 2020, when the PPP closed to new loan applications, 432 CDFIs and MDIs had participated and provided 221,000 loans totaling more than \$16.4 billion. The program has resulted in \$106 billion provided to businesses in HUBZones, accounting for more than 20 percent of all PPP funding. Data also show that the loans have been broadly distributed and made across diverse areas of the economy, with 27 percent of the funds going to low- and moderate-income communities, which is in proportion to their percentage of the population.

Q.3. It is my understanding that while Treasury has attempted to identify and reach all citizens eligible for a direct payment under the CARES Act, significant challenges remain to ensuring that unbanked Americans get their payment in a fast, safe and efficient manner.

What specific actions has Treasury taken to identify and deliver payments to underbanked and unbanked citizens?

A.3. The IRS launched the Non-Filers tool and a substantial communications effort that together have helped millions of individuals, including the unbanked and underbanked, who are not otherwise required to file a tax return, to provide the information the IRS needed to issue an Economic Impact Payment. The Treasury Department, Fiscal Service, and the IRS also collaborated with other Federal agencies, including the Consumer Financial Protection Bureau, the Social Security Administration, and the Federal Deposit Insurance Corporation (FDIC) to provide information on the Non-Filers tool. With regard to the FDIC, information included instructions on how to find, open, and provide new bank account information to the IRS for the purpose of receiving an Economic Impact Payment. The Treasury Department and the IRS initially prioritized mailing checks to people with low AGI, starting with individuals with an AGI of less than \$10,000, then mailed checks to individuals with progressively higher AGI amounts.

In addition, 2.1 million payments were automatically delivered electronically to Direct Express cardholders, who are mostly unbanked and use the Direct Express card program to electronically receive their monthly benefit payments. The Treasury Department has issued approximately four million Economic Impact Payments on Economic Impact Payment debit cards (EIP Cards), through the Treasury Department's safe, convenient, and secure U.S. Debit Card program. The U.S. Debit Card program provides debit card services to Federal agencies for electronic delivery of certain payments. To facilitate the use of these EIP Cards, the IRS has provided general information and FAQs at <https://www.EIPcard.com> and on IRS.gov. To inform payees on how to receive their Economic Impact Payment on an existing general pur-

pose reloadable debit card (GPR Card), the IRS included information in FAQs regarding how an account and routing number of a GPR Card can be provided to the IRS through the Get My Payment portal or the Non-Filers tool.

Q.4. How many Americans are still owed a payment under the CARES Act?

A.4. As of September 18, 2020, Treasury and the IRS have issued more than 163 million Economic Impact Payments totaling more than \$273 billion to individuals for whom the IRS has the necessary information. Treasury and the IRS have worked extensively to identify and reach out to eligible individuals who have not received an Economic Impact Payment.

Q.5. Is Treasury developing additional efforts to reach these people?

A.5. The IRS has engaged other Federal agencies to assist in outreach efforts to Federal program beneficiaries who may not have a filing obligation to use the Non-Filer portal¹ on the IRS website to claim an Economic Impact Payment. In addition, on September 8, the IRS announced that they will be sending letters to roughly 9 million Americans who typically do not file Federal income tax returns and may be eligible for, but have yet to claim, an Economic Impact Payment.

Q.6. Has the Administration considered using digital payments as potential means of disbursing these funds? If so, please describe any hurdles to implementation that have been identified. If not, please explain why this solution has not been considered.

A.6. As of September 18, 2020, Treasury and the IRS have issued more than 163 million Economic Impact Payments totaling more than \$273 billion to individuals for whom the IRS has the necessary information. The IRS and Fiscal Service accelerated the rate of delivery of Economic Impact Payments to many eligible Americans by successfully shifting such delivery away from paper checks and to:

1. Direct deposit through information obtained through the Get My Payment portal and Non-Filers tool on IRS.gov (where the taxpayer can input their bank account information).
2. Debit cards (which are funded electronically).
3. Bank accounts based on information provided by the Bureau of the Fiscal Service, Social Security Administration, and the Department of Veterans Affairs.

Treasury and the IRS found that these methods of disbursement provided payment in a safe, secure, convenient, and timely fashion.

Q.7. If there is a second round of direct payments, will the Administration consider digital disbursement technologies to ensure the vulnerable are not delayed in receiving their payments, nor be forced to pay unfair fees to access their money?

A.7. If there is a second round of direct payments, Treasury and the IRS would make those payments in a safe, secure, convenient, and timely fashion. The use of digital disbursements technologies

¹ See <https://www.irs.gov/coronavirus/non-filers-enter-payment-info-here>.

can be further evaluated, specifically with respect to how the Federal Government would balance fraud protection requirements against ease of access to funds for consumers. In addition, if the payment mechanism requires the Federal Government to sponsor an account for the recipient, reasonable fees may be required for optional services to ensure that taxpayers do not unfairly bear the costs of digital account ownership by individual citizens.

Q.8. As you know, State and local governments are under tremendous financial strain. Many of us in Congress believe that direct assistance from the Federal Government and support in the form of lending facilities under Section 4003 of the CARES Act are critical to preventing additional layoffs of public workers, dangerous cuts to public safety and essential services, and large local tax increases. It is also important that we consider how the private sector can assist State and local governments to better manage their cash and serve as a source of financing for infrastructure and other public services.

Has the Treasury identified any impediments to greater investment by the private sector in the municipal bond market?

A.8. One impediment concerns disclosures. Greater investment in the municipal market by the private sector can be achieved if bond issuers commit to the disclosure of important financial and operational information in a format that is timely, complete, and comparable. As you know, the disclosure requirements and practices in the municipal bond market are not as stringent as in corporate funding markets. Another impediment is scale. Municipal infrastructure projects and associated processes are characterized by factors that may make it difficult for private investors to meaningfully scale local investments into broader business practices. For example, idiosyncratic and often small proposed projects, combined with bespoke State and local government processes (e.g., procurement, permitting, contracting), may contribute toward a challenging environment for scalable private investment practices. Finally, there is often a mismatch between a municipal project need and the expertise and availability of private market operators willing to assume the risks in a public-private partnership.

Q.9. Is the Treasury currently seeking any legislative changes to enable the private sector to provide additional capital to State and local governments? If so, please share those proposals.

A.9. Treasury is not currently seeking any legislative changes related to this topic.

Q.10. We are now 3 months into the COVID-19 pandemic and our economy is under massive strain. More than 100,000 small businesses have closed their doors forever. Additionally, three out of four businesses have experienced declines in revenue. Our businesses are in a free fall and the Main Street lending facility could be a life line for businesses, if implemented properly.

With the roll-out of the Paycheck Protection Program (PPP), we saw how lending institutions and the Small Business Administration's systems were overwhelmed by the loan demand. How are you preparing banks for the volume of Main Street loan applications

they will receive? What are you doing to prepare your own systems for the massive loan volume?

A.10. The Federal Reserve and the Department of Commerce, in conjunction with SBA, have conducted webinars to explain the Main Street Lending Program to eligible lenders. All five Main Street facilities are operational and have the capacity to process the loan volume.

Q.11. Are you allowing banks to limit loan applications to existing customers? And, if so, will they be allowed to prioritize their biggest customers?

A.11. The Federal Reserve is encouraging banks to accept applications for Main Street loans from new customers. More than 550 banks have registered for the Main Street Lending Program. Approximately, 180 banks in all 50 States and U.S. territories have agreed to be listed on the Federal Reserve Bank of Boston website as accepting new customers for Main Street loans. Many other banks accept Main Street loan applications from new customers but have asked not to be listed on the website.

Q.12. I have heard concerns that the earnings metrics the Federal Reserve and Treasury intend to use for the Main Street lending facilities are ill-suited for important sectors of our economy that employ hundreds of thousands of Americans.

As you develop final guidance for these facilities, are you examining whether the Federal Reserve and Treasury could use additional metrics for different industries to ensure that as many sectors of our economy as possible can utilize the program?

A.12. The Federal Reserve and the Treasury are continuously evaluating feedback from borrowers, lenders, and other stakeholders to determine how to adapt the Main Street facilities so as to make them accessible to an even broader spectrum of American businesses and nonprofit organizations.

Q.13. Borrowers from commercial mortgage-backed securities (CMBS), like hotels, shopping centers, and housing complexes, attest that they are under significant financial hardship. In many cases, their tenants are not able to pay rent and their mortgage servicers are not offering flexibility. Several affected entities are concerned about their ability to meet their financial obligations over a protracted period of time.

Does the Treasury or Federal Reserve have plans to address these concerns in the CMBS market, and if so, how?

A.13. Treasury and the Federal Reserve continue to monitor the market impact of the COVID-19 pandemic on commercial real estate borrowers, including those whose loans are in CMBS. Treasury continues to work with the Federal Reserve to assess the efficacy of existing facilities established under the Federal Reserve's 13(3) emergency lending authority, and will evaluate appropriate changes necessary to promote the flow of credit and support a robust economic recovery.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TESTER
FROM STEVEN T. MNUCHIN**

Q.1. Tribes have experienced a number of issues so far with the Coronavirus Relief Fund including questions about the formula, data breaches, and lack of clarity on guidance.

How will you ensure Tribes have the guidance they need to respond to community needs using Tribal Coronavirus Relief funds in the coming months?

A.1. Treasury has worked closely with tribes throughout the application process. Prior to and during the first round of funding, Treasury and BIA held two joint tribal consultations and provided a written comments period from March 31, 2020, through April 13, 2020. Treasury also held discussions with Native American associations and tribal financial experts to consider a process that would be familiar to tribes, and provide verifiable and objective information.

Treasury has provided extensive guidance in response to requests from tribes for clarification as to the permissible uses of CRF funds.

Q.2. What measures has Treasury put in place to prevent another Tribal Coronavirus Relief data breach from occurring again?

A.2. Treasury will endeavor to continue to only provide data with those essential to implementing Title V of the CARES Act within their official duties.

Q.3. Recent data on the availability of credit suggests that it has not been this difficult to obtain a mortgage since 2014, and constraints on the availability of credit are particularly acute for borrowers of non-QM loans and jumbo loans. Because these mortgages are frequently packaged and sold as residential mortgage-backed securities (RMBS) to private investors, the recent illiquidity in secondary market private RMBS exacerbates the lack of funding for such mortgages.

Non-agency RMBS is the largest asset class by volume within all ABS, comprising approximately 30 percent of the market, but is one of the few asset classes which is not currently eligible under the Term Asset-backed Lending Facility (TALF) program.

Are there plans to allow AAA RMBS securities as eligible collateral under TALF?

As many States move forward with reopening, Montana being one of them, what assistance and guidance are you providing PHAs in regards to reopening?

Would jumbo AAA RMBS and non-QM RMBS be eligible? Would other sub asset classes—such as reperforming loans for borrowers coming off a credit event—be eligible as well?

What support can Treasury lend to the Fed under TALF to support the housing market so that financing is available for self-employed or nontraditional borrowers who rely on non-QM mortgages, or to borrowers who live in high-cost areas who rely on jumbo financing?

What metrics will you use in making these determinations?

A.3. Treasury and the Federal Reserve are actively monitoring the mortgage market and the associated impact of COVID-19. We have

focused considerable resources on delivering authorized support to households and businesses struggling as a consequence of the necessary public health response. Treasury will continue to monitor the market, including the residential mortgage lending market. Treasury continues to work with the Federal Reserve to assess the efficacy of existing facilities established under the Federal Reserve's 13(3) emergency lending authority, and will evaluate appropriate changes necessary to promote the flow of credit and support a robust economic recovery. No decision has been taken to expand the eligible collateral for TALF at this time.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN
FROM STEVEN T. MNUCHIN**

Q.1. Airline Assistance—The CARES Act provided \$50 billion in taxpayer funds to assist passenger airlines. The CARES Act specifies that, as a condition of receiving financial assistance, carriers must “refrain from conducting involuntary furloughs or reducing pay rates and benefits until September 30, 2020.” A small number of carriers, including Delta Air Lines, have received financial assistance and subsequently cut the hours of full-time workers. Why has Treasury taken no action against companies that accepted payroll assistance and then cut worker hours, thereby reducing take home pay for workers?

A.1. Treasury incorporated the requirements of the CARES Act into a PSP agreement that must be executed by each PSP recipient and Treasury. Each PSP agreement reflects the requirements in section 4114(a) of the CARES Act, which prohibits recipients from “conducting involuntary furloughs or reducing pay rates and benefits until September 30, 2020.” Treasury has also imposed reporting requirements to enable it to monitor PSP recipients’ compliance with the PSP agreements, and each recipient is required to provide quarterly certifications that it is in compliance with the terms and conditions of the agreement. The agreement also makes clear that PSP funds must be used exclusively to continue paying employee salaries, wages, and benefits—the funds may not be used for any other purpose.

Q.2. Treasury has issued guidance in a series of Q&A documents that clarify the Department’s view of how carriers and contractors can comply with many terms of the payroll assistance program, including the rules on stock buybacks, dividends, and executive compensation. That guidance states that the assistance is “intended to preserve aviation jobs and compensate air carrier industry workers by providing continuation of payment of employee wages, salaries, and benefits.” However, even after public reports have emerged that some carriers have begun cutting hours of workers, Treasury has not issued guidance on whether cutting employee hours or mandating unpaid time off for employees violates the CARES Act. Does the Treasury Department plan to issue guidance regarding whether cutting employee hours violates Section 4114 of the CARES Act for airlines receiving financial assistance under the payroll relief provisions? If yes, when will you release this guidance? If no, why not?

A.2. Treasury incorporated the requirements of the CARES Act into a PSP agreement that must be executed by each PSP recipient and Treasury. Each PSP agreement reflects the requirements in section 4114(a) of the CARES Act, which prohibits recipients from “conducting involuntary furloughs or reducing pay rates and benefits until September 30, 2020.” Treasury has also imposed reporting requirements to enable it to monitor PSP recipients’ compliance with the PSP agreements, and each recipient is required to provide quarterly certifications that it is in compliance with the terms and conditions of the agreement. The agreement also makes clear that PSP funds must be used exclusively to continue paying employee salaries, wages, and benefits—the funds may not be used for any other purpose.

Q.3. Have you, or any person in the Treasury Department, consulted with any representatives of Delta Air Lines regarding compliance with Section 4114 of the CARES Act, and did Treasury Department provide Delta Air Lines with any guidance regarding complying with CARES Act provisions? If so, when did this take place, who was involved, and what guidance was provided?

A.3. Treasury has not provided guidance to Delta Air Lines regarding compliance with the CARES Act’s prohibition on involuntary furloughs or reducing pay rates and benefits, other than Treasury’s publicly issued guidance and the requirements set forth in the PSP agreement.

Q.4. Did any airline receiving financial assistance for payroll relief under the CARES Act seek guidance from the Treasury Department regarding whether reducing employee hours, or implementing unpaid mandatory time off, complies with Section 4114 of the CARES Act? Did anyone at Treasury provide that guidance? If so, when did this take place, who was involved, and what guidance was provided?

A.4. The guidance Treasury has provide regarding compliance with section 4114 of the CARES Act is set forth in the terms of the PSP agreement and in the guidance documents that Treasury has publicly issued.

Q.5. *CARES Act Oversight*—Will you commit to provide the Congressional Oversight Commission with any documents or materials it requests in a timely manner?

A.5. We have dedicated teams of people working around the clock responding to near-daily requests from Congress and six oversight bodies, including the Congressional Oversight Commission, related to either the CARES Act or the COVID-19 pandemic more generally. Treasury is and will continue working with the Congressional Oversight Commission to timely accommodate the Commission’s interests, including by providing documents and materials in a manner consistent with the Executive Branch’s constitutional tradition of accommodation among our branches.

Q.6. Will you commit to provide the Special Inspector General for Pandemic Relief with any documents or materials he requests in a timely manner?

A.6. We have dedicated teams of people working around the clock responding to near-daily requests from Congress and six oversight

bodies, including the Special Inspector General for Pandemic Relief (SIGPR), related to either the CARES Act or the COVID-19 pandemic more generally. Treasury is and will continue working with the SIGPR to ensure that office has access to the information necessary to fulfill its obligations under the law.

Q.7. Will you commit to provide the Pandemic Response Accountability Committee with any documents or materials it requests in a timely manner?

A.7. We have dedicated teams of people working around the clock responding to near-daily requests from Congress and six oversight bodies, including the Pandemic Response Accountability Committee (PRAC), related to either the CARES Act or the COVID-19 pandemic more generally. Treasury has worked diligently to accommodate oversight needs from all of our oversight bodies, including the PRAC, and will continue to provide information to accommodate their various interests related to the CARES Act.

Q.8. Will you commit to submit to the Senate Banking Committee majority and minority a weekly list of any instances in which you have denied the Special Inspector General for Pandemic Relief or the Pandemic Relief Accountability Committee information in the course of their oversight?

A.8. We have dedicated teams of people working around the clock responding to near-daily requests from Congress and six oversight bodies, including the Special Inspector General for Pandemic Relief and PRAC, related to either the CARES Act or the COVID-19 pandemic more generally. Treasury has worked diligently to accommodate oversight needs from all of our oversight bodies. Treasury will work with the Senate Banking Committee to timely accommodate requests by the Committee in a manner consistent with the Executive Branch's constitutional tradition of accommodation among our branches.

Q.9. Will you commit to requiring companies that participate in lending facilities backstopped with CARES Act money to disclose detailed information regarding how they use this financial assistance?

Will you commit to requiring companies to disclose compensation and workforce data, including the mean, median, and minimum wages of all non-executive employees; the number of workers before and after the receipt of assistance; and the salaries of executives, including bonuses and capital distributions?

Will you commit to making this information public?

A.9. Treasury is committed to transparency when implementing the CARES Act provisions. Among other voluntary measures, Treasury and SBA agreed with the bipartisan leaders of the U.S. Senate Small Business Committee to make public additional data regarding PPP, ensuring that the interests of both transparency and protections for small businesses are served. Treasury has also implemented transparency measures for the Payroll Support Program, including making available online a list of participants, with amounts of assistance provided and, where applicable, financial instruments provided to the Federal Government as appropriate compensation for the provision of financial assistance. Further, the

Federal Reserve Board is reporting substantial amounts of information on a monthly basis for the liquidity and lending facilities using CARES Act funding, including the:

- Names and details of participants in each facility;
- Amounts borrowed and interest rate charged; and
- Overall costs, revenues, and fees for each facility.

Treasury will continue to work to ensure they fulfill their statutory reporting requirements, and will continue administering the programs Congress provided for under the CARES Act in a manner consistent with the text of the statute, which was the result of earnest bipartisan negotiations that resulted in overwhelmingly bipartisan support in both the House and the Senate.

Q.10 *Conflicts of Interest*—Please describe how are you working with the Treasury Department ethics officials to address and manage or to prohibit conflicts of interest that may arise in connection with the Administration and execution of the authorities provided under the CARES Act?

A.10. The Department has a robust ethics program, which I fully support. Department ethics officials acted swiftly to educate employees on potential conflicts of interests that could arise from changes to or expansion of their official duties due to implementation of the CARES Act. This included the provision of general and targeted advice on the criminal conflict of interest statute, 18 U.S.C. §208, the impartiality and misuse of position provisions of the Standards of Ethical Conduct for Employees of the Executive Branch, 5 CFR part 2635, subparts E and G, and the Ethics Pledge, EO 13770.

Q.11. How is the Treasury Department prohibiting or addressing conflicts arising in the selection or hiring of contractors or advisors?

A.11. Department ethics officials have been involved in the provision of ethics advice to prospective and new employees and detailees with CARES Act implementation responsibilities, with the aim of detecting facially problematic ethics issues prior to appointment or assignment, so that critical CARES Act work could be readily accomplished. Employees involved in the selection or hiring of contractors have also received guidance on the criminal conflict of interest statute, 18 U.S.C. §208, and the impartiality provisions of the Standards of Ethical Conduct for Employees of the Executive Branch, 5 CFR part 2635, subpart E.

Q.12. How is the Treasury Department prohibiting or addressing conflicts arising in the management, administration, or distribution of funds, grants, loans, loan guarantees, or other investments authorized under Section 4003 of the CARES Act?

A.12. All Treasury employees who work on CARES Act implementation duties, including under Section 4003, are expected to comply with the criminal conflicts of interest statute, the Standards of Ethical Conduct, the Ethics Pledge (as applicable), and other ethics laws and regulations.

Department ethics officials have educated employees on the need to remain vigilant for potential conflicts arising from new or ex-

panded duties and have provided individual ethics advice to employees. Treasury ethics officials remain as a resource to employees on all ethics matters.

Q.13. Please describe any post-employment restrictions or guidelines beyond 18 U.S.C. §207 the Treasury Department is implementing to safeguard against conflicts and to ensure Treasury Department employees and officials are administering the CARES Act without regard to future employment opportunities.

A.13. The Department has not issued restrictions or guidance beyond 18 U.S.C. §207 and the Ethics Pledge with respect to post Federal employment activities. Employees seeking or negotiating for non-Federal employment, or who otherwise have an arrangement concerning prospective employment, must abide by the refusal and other requirements in the conflicts statute, 18 U.S.C. §208, the Standards of Ethical Conduct, 5 CFR part 2635, subparts D and F, and the STOCK Act.

Q.14. After your term as Secretary, will you commit not to work for—or accept compensation from—any company with which you made a loans, loan guarantee, and other investment authorized under Section 4003 of the CARES Act?

A.14. After my term as Secretary, I will abide by the restrictions in 18 U.S.C. §207 and the Ethics Pledge.

Q.15. Will you commit to not make any loans, loan guarantee, and other investment authorized under Section 4003 of the CARES Act to any company with which you have a personal financial interest?

A.15. During my term as Secretary, I will abide by all applicable ethics laws and regulations, the terms of my Ethics Agreement, and the conflicts of interest provisions of the CARES Act. I will seek guidance from Treasury ethics officials should any potential conflict of interest arise.

Q.16. *Lobbying*—Will you commit to monthly, public disclosures of all lobbying related to CARES Act spending or lending?

A.16. Treasury has been following and will continue to follow applicable law regarding contact with the public related to the CARES Act.

Q.17. Please provide a list of all lobbying contacts between any political appointee at the Treasury Department and any company seeking funds or loans made available under the CARES Act, including:

- Date of contact,
- Names of Treasury Department officials receiving the contact,
- Name of entity making the contact, and
- Any electronic or physical documents or communications related to such lobbying contacts.

A.17. Treasury has been following and will continue to follow applicable law regarding contact with the public related to the CARES Act.

Q.18. Will you commit to restrict any future CARES Act-related lobbying activity to public, written submissions and prohibit closed door meetings and phone calls between Treasury Department offi-

cials and companies seeking relief (beyond general policy clarification)?

A.18. Treasury has been following and will continue to follow applicable law regarding contact with the public related to the CARES Act.

Q.19. *Whistleblowers and Other Issues*—Will you commit to take no retaliatory action against any whistleblowers at the Treasury Department (including any contractors or employees of contractors) who attempt to report waste, fraud, corruption, or abuse or be victims of misconduct?

A.19. The Department is aware of its responsibilities under the Whistleblower Protection Act and other relevant laws and takes its compliance obligations seriously.

Q.20. How will you ensure that taxpayer money received by companies won't be shifted into tax havens, eroding our tax base and further deepening our debt?

A.20. Treasury is administering the programs Congress provided for under the CARES Act in a manner consistent with the text of the statute, which was the result of earnest bipartisan negotiations that resulted in overwhelmingly bipartisan support in both the House and the Senate.

Q.21. *Student Loans*—The Department of Education has been subject to scrutiny by members of congress and litigation brought by individual borrowers due to its repeated illegal garnishment of student loan borrowers' wages in violation of the CARES Act.¹ The Treasury Department, as the administrator of the Debt Collection Improvement Act and the Treasury Offset Program, as well as the recipient of all funds collected through Administrative Wage Garnishment (AWG), has played a key role in this scandal. Please answer the following questions regarding the status of borrowers and their debts as of March 13, 2020, broken down by account assigned to each private collection agency:

How many borrowers were under an AWG order when the stop collections order went into effect? Please provide demographic breakdowns by the State, county, age, race, and gender of borrowers.

How many borrowers were making payments under AWG when the stop collections order went into effect? Please provide demographic breakdowns by State, county, age, race and gender of borrowers.

What was the total debt volume of these borrowers under an AWG order when the stop collections order went into effect?

What was the average dollar amount garnished from borrowers' wages (please provide this amount per month and per pay period, if available) under the AWG orders then in effect?

A.21. The Department of Education manages all aspects of AWG to collect its student loans. Fiscal Service does not conduct AWG to collect the Department of Education's student loan debts and

¹ <https://www.booker.senate.gov/news/press/sen-booker-rep-pressley-lead-colleagues-in-rebuking-administration-for-unlawful-wage-garnishment>

has no information on which student loan borrowers are subject to wage garnishment.

Q.22. Please provide a week-by-week analysis of the following question about the total amount of money collected through an AWG order after the stop collections order went into effect, beginning March 13, 2020, through the date these responses are provided [broken up by accounts assigned to each private collection agency]:

What is the total amount of payments that have been received by the Department of Treasury under an AWG order since the stop collections order began?

What is the total number of borrowers that the Department of Treasury has received garnished wages from since the stop collections order began?

A.22. Fiscal Service does not conduct AWG to collect student loan debts and has no information regarding payments received as a result of the Department of Education garnishing wages.

Q.23. According to the Department of Education's FAQs published on April 1, 2020, borrowers who have had their wages improperly garnished after March 13, 2020 will see a refund of those monies. Please provide a week-by-week analysis of the following questions about refunds returned to borrowers by the Department of Treasury as a result of improper garnishments after the stop collection order, beginning March 13, 2020 through the date these responses are provided [broken up by private collection agencies]:

How many borrowers were issued refunds?

What was the total dollar amount of refunds issued to borrowers?

What is the average time it took for each refund to be issued after the Department of Education received payments made by employers?

How many borrowers have claimed their refunds either through a deposited check or direct deposit into a bank account?

What is the number of borrowers and the total dollar amount of unclaimed refunds issued to borrowers?

A.23. Federal agencies determine if any funds in their possession need to be refunded. Fiscal Service's role in the process is limited to disbursing any such funds pursuant to the certification that the Federal agency provides when it requests disbursement. In that capacity, Fiscal Service has limited information regarding the underlying purpose for the payment and has no means of determining whether a certified payment is for the purpose of refunding monies. Only the Department of Education can provide information regarding any refunds it has made.

Q.24. Please provide any guidance the Department of Treasury has provided to the Department of Education and/or employers regarding the suspension of AWG?

A.24. Fiscal Service conducts AWG and other debt collection actions on behalf of several Federal agencies through its Cross-Servicing Program. The Department of Education does not refer debts to the Cross-Servicing Program, and Fiscal Service has provided no guidance to it regarding suspension of AWG. With regard to other Federal agencies, Fiscal Service has advised that it will suspend all

collection tools, to include AWG, if a Federal agency makes its own independent determination that it has the authority to suspend the laws and regulations governing collection of its debts, including the relevant portions of the Federal Claims Collection Standards (31 CFR Parts 900-904).

Q.25. *Climate Change*—Earlier this year, the Canadian government announced a program to provide financing for businesses in response to the ongoing novel coronavirus 2019 disease (COVID-19) pandemic. As one of the conditions for receiving funds, Canada is requiring that companies receiving assistance under this program “commit to publish annual climate-related disclosure reports consistent with the Financial Stability Board’s Task Force on Climate-related Financial Disclosures, including how their future operations will support environmental sustainability and national climate goals.”²

Despite the significant economic impacts of the climate crisis,³ “U.S. regulators have been slow to respond to the threats that a warming planet can pose to financial assets.”⁴ Would you support requiring major corporations to disclose climate-related risks so investors and the public can accurately assess climate-related threats as a condition for receiving Federal bailout funds?

A.25. Treasury is administering the programs Congress provided for under the CARES Act in a manner consistent with the text of the statute, which was the result of earnest bipartisan negotiations that resulted in overwhelmingly bipartisan support in both the House and the Senate. With respect to the CARES Act programs that Treasury administers, Treasury is committed to ensuring that participating businesses comply with all of their statutory reporting requirements.

Q.26. Recent studies estimate that climate change may cause “permanent damage that would far eclipse the scale of the 2007–2008 financial crisis.”⁵ A 2018 report by 13 Federal agencies also found that without significant climate action, as much as ten percent of the American economy may be wiped out by 2100.⁶ Additionally, a separate report argued climate change may lead to tens of trillions of dollars in global damages and will “universally hurt worker

²Justin Trudeau, Prime Minister of Canada, “Prime Minister announces additional support for businesses to help save Canadian jobs”, press release, May 11, 2020, <https://pm.gc.ca/en/news/news-releases/2020/05/11/prime-minister-announces-additional-support-businesses-help-save>.

³*New York Times*, “Climate Change’s Giant Impact on the Economy: 4 Key Issues,” Neil Irwin, January 17, 2019, <https://www.nytimes.com/2019/01/17/upshot/how-to-think-about-the-costs-of-climate-change.html>; Brookings Institution, “Ten facts about the economics of climate change and climate policy,” Ryan Nunn, Jimmy O’Donnell, Jay Shambaugh, Lawrence Goulder, Charles Kolstad, and Xianling Long, October 23, 2019, <https://www.brookings.edu/research/ten-facts-about-the-economics-of-climate-change-and-climate-policy/>.

⁴Reuters, “U.S. regulator homes in on climate risks to U.S. markets,” Ann Saphir, December 11, 2019, <https://www.reuters.com/article/us-climate-change-market-risks/u-s-regulator-homes-in-on-climate-risks-to-u-s-markets-idUSKBN1YF2D5>.

⁵Center for American Progress, “Climate Change Threatens the Stability of the Financial System,” Gregg Gelzinis and Graham Steele, November 21, 2019, <https://www.americanprogress.org/issues/economy/reports/2019/11/21/477190/climate-change-threatens-stability-financial-system/>.

⁶*New York Times*, “U.S. Climate Report Warns of Damaged Environment and Shrinking Economy,” Coral Davenport and Kendra Pierre-Louis, November 23, 2018, <https://www.nytimes.com/2018/11/23/climate/us-climate-report.html>; U.S. Global Change Research Program, “Fourth National Climate Assessment,” November 23, 2018, <https://nca2018.globalchange.gov/>.

health and productivity.”⁷ Meanwhile, the Trump administration has exacerbated the climate crisis by weakening safeguards on air pollution, emissions, fossil fuel extraction, and more.⁸ According to government data, these changes may cause thousands of more premature deaths across the country.⁹

News reports show that you have “cast doubt about climate policies that [you believe] could inhibit growth and under [your] watch the Treasury Department has rejected policies. to fight climate change” and that during your tenure, “the Trump administration has systematically disengaged the Treasury Department from all aspects of addressing climate change.”¹⁰ Additionally, while you have been Treasury Secretary, the Administration “eliminated the agency’s Office of Environment and Energy, reassigning its staff elsewhere within the Treasury Department.”¹¹

Please describe how the Treasury Department is incorporating climate-related economic risks in financial regulations. Please describe how the Trump administration’s rollbacks of environmental regulations are affecting economic and financial stability.

Please describe the rationale for eliminating the Office of Environment and Energy. Please describe how the Treasury Department is meeting the functions of the Office of Environment and Energy after its elimination.

A.26. Treasury is not a financial regulator and therefore is unable to incorporate climate-related economic risks in financial regulations.

Q.27. In the third quarter of 2019, oil and gas companies were responsible for 91 percent of defaulted U.S. corporate debt.¹² Thirty-seven oil companies received over \$1.9 billion in tax benefits by using a provision in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. For example, Marathon received a \$411 million benefit, and Occidental expects to receive \$195 million because of a carryback provision.¹³

How will the Department of the Treasury ensure the long-term stability of the U.S. energy and financial systems?

A.27. In April, at the direction of the President, Secretary Mnuchin and Energy Secretary Brouillette began working together to consider ways in which to support the oil and gas sector and the many thousands of hardworking Americans it employs. Although the U.S. energy industry is of critical and strategic importance to the U.S.

⁷ Moody’s Analytics, “The Economic Implications of Climate Change,” Chris Lafakis, Laura Ratz, Emily Fazio, and Maria Cosma, June 2019, <https://www.moodyanalytics.com/-/media/article/2019/economic-implications-of-climate-change.pdf>.

⁸ *New York Times*, “The Trump Administration Is Reversing Nearly 100 Environmental Rules. Here’s the Full List,” Nadja Popovich, Livia Albeck-Ripka, and Kendra Pierre-Louis, May 6, 2020, <https://www.nytimes.com/interactive/2020/climate/trump-environment-rollbacks.html>.

⁹ *New York Times*, “Cost of New E.P.A. Coal Rules: Up to 1,400 More Deaths a Year,” Lisa Friedman, August 21, 2018, <https://www.nytimes.com/2018/08/21/climate/epa-coal-pollution-deaths.html>.

¹⁰ *New York Times*, “Finance Ministers Grapple Over Economic Threat of Climate Change,” Alan Rappeport and Lisa Friedman, February 23, 2020, <https://www.nytimes.com/2020/02/23/us/politics/g20-climate-change.html>.

¹¹ *Id.*

¹² *New York Times*, “Coronavirus May Kill Our Fracking Fever Dream,” opinion, Bethany McLean, April 10, 2020, <https://www.nytimes.com/2020/04/10/opinion/sunday/coronavirus-texas-fracking-layoffs.html>.

¹³ Bloomberg, “‘1A’ Stealth Bailout’ Shovels Millions of Dollars to Oil Companies,” Jennifer Dlouhy, May 15, 2020, <https://www.bloomberg.com/news/articles/2020-05-15/-stealth-bailout-shovels-millions-of-dollars-to-oil-companies?sref=L459Uwzi>.

economy, and U.S. energy independence is a key policy priority of the Administration, Secretary Mnuchin was clear in stating that any such support must not be a “bailout” and-unless specifically directed otherwise by Congress-should be available under terms that are consistent with the CARES Act and broadly applicable to all businesses and industries across the U.S. economy.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCHATZ
FROM STEVEN T. MNUCHIN**

Q.1. I have heard reports that small businesses in Hawaii are cancelling their PPP loans because the rules that the SBA and Treasury imposed have undermined the usefulness of these loans. By requiring that 75 percent of PPP funds go to payroll, small businesses in high cost cities like Honolulu can’t cover their rent with the remaining 25 percent of the funds. Without the ability to pay their rent, they can’t stay in business. This 75 percent requirement is an arbitrary one-size-fits-all standard that works against the purpose of the program of helping small businesses stay in business.

Will you consider removing that new requirement of the program?

A.1. Treasury has posted to its website a series of documents, including interim final rules that implement the PPP, a set of frequently asked questions, fact sheets, program reports, and other documents to address specific lender and borrower questions about eligibility and the application and forgiveness process, among other topics. This includes guidance to reflect the PPP Flexibility Act’s amendments to the PPP, including by lowering the requirements that 75 percent of a borrower’s loan proceeds must be used for payroll costs and that 75 percent of the loan forgiveness amount must have been spent on payroll costs to 60 percent for each of these requirements. If a borrower uses less than 60 percent of the loan amount for payroll costs during the forgiveness covered period, the borrower will continue to be eligible for partial loan forgiveness, subject to at least 60 percent of the loan forgiveness amount having been used for payroll costs. Treasury and the SBA will continue to provide additional guidance, as appropriate, to help small businesses and other eligible borrowers get the assistance they need.

Q.2. According to a Census survey, a third of small businesses think it will take longer than 6 months for their businesses to recover. And Fed Chair Powell has said it could take a year for the economy to gain momentum again. While the CARES Act envisioned that any outstanding PPP loans could be repaid over a ten-year period, Treasury and the SBA set the term at two years.

Do you think 2 years may be too short given the likelihood that some industries may take longer to recover? (For example, travel, tourism, live events, etc. may take much longer to recover)

Would you consider lengthening the repayment period, particularly for businesses in particularly hard-hit industries?

A.2. Treasury has posted to its website a series of documents, including interim final rules that implement the PPP, a set of frequently asked questions, fact sheets, program reports, and other

documents to address specific lender and borrower questions about eligibility and the application and forgiveness process, among other topics. This includes guidance to reflect the PPP Flexibility Act's amendments to the PPP, including by increasing to five years the maturity of PPP loans that are approved by SBA (based on the date SBA assigns a loan number) on or after June 5, 2020.

Q.3. Treasury and the SBA also imposed a requirement that businesses expend their PPP loan as soon as it is disbursed, rather than allowing businesses to choose their 8-week period, as long as it ended before June 30th. As a result, small businesses that had already laid off their workers scrambled to rehire people as soon as their loan was disbursed. If they had trouble finding people to rehire, they are now stuck with an unforgivable loan. If they were able to rehire people, they will have to lay off these workers again because economic activity will not sustain full payrolls by the time the 8-week period is up.

Will you consider loosening this requirement to provide small businesses with more flexibility to use their PPP loans in the way that helps them the most?

A.3. Treasury has posted to its website a series of documents, including interim final rules that implement the PPP, a set of frequently asked questions, fact sheets, program reports, and other documents to address specific lender and borrower questions about eligibility and the application and forgiveness process, among other topics. This includes guidance to reflect the PPP Flexibility Act's amendments to the PPP, including by extending the covered period for loan forgiveness from eight weeks after the date of loan disbursement to 24 weeks after the date of loan disbursement, providing substantially greater flexibility for borrowers to qualify for loan forgiveness. Borrowers who have already received PPP loans retain the option to use an 8-week covered period.

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR VAN HOLLEN FROM STEVEN T. MNUCHIN**

Q.1. Secretary Mnuchin, on May 1, I sent a letter to you and Administrator Carranza to issue guidance on forgiveness and also issue a step-by-step guide for borrowers. Without a clearly defined timeline and process for repayment of the loan, small business owners and nonprofit organizations do not have the information necessary to make informed financial decisions for their businesses or organizations. I have heard from small businesses owners and nonprofit organizations in Maryland who have decided to forgo desperately needed assistance because they do not have this important information.

You recently issued an 11-page application that PPP borrowers have to fill out to apply for loan forgiveness. I am concerned however, that the length of this application is too long, especially for borrowers who took out small loans? I am also concerned that you have yet to issue formal guidance on forgiveness. Are you planning on streamlining this application? When do you plan to issue formal guidance?

A.1. SBA published an EZ version of the forgiveness application that requires fewer calculations and less documentation for eligible borrowers. In addition, Treasury has posted to its website a series of documents, including interim final rules that implement the PPP, a set of frequently asked questions, fact sheets, program reports, and other documents to address specific lender and borrower questions about eligibility and the application and forgiveness process, among other topics. This includes guidance to reflect the PPP Flexibility Act's amendments to the PPP to, among other things, extend the covered period for loan forgiveness to 24 weeks after the date of loan disbursement and to lower the percentage of a borrower's PPP loan proceeds that must be used for payroll costs. This also includes a set of frequently asked questions on loan forgiveness. Treasury and the SBA will continue to provide additional guidance, as appropriate, to help small businesses and other eligible borrowers get the assistance they need.

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR CORTEZ MASTO FROM STEVEN T. MNUCHIN**

Q.1. According to Treasury Guidance and FAQ so far, the use of disbursements will not be subject to other reporting that is normally requires such as The Federal Funding Accountability and Transparency Act (FFATA) reporting. However, States have not seen specific guidance for documentation or reporting for auditing and management. States have been informed that the Treasury's Inspector General is involved in determining this exemption.

When can States expect to see this type of guidance?

A.1. On July 2, 2020, the Treasury Office of the Inspector General (OIG) released guidance pertaining to the CRF Reporting and Record Retention Requirements, which was supplemented on August 29, 2020, with Frequently Asked Questions. We understand that the Office of Management and Budget expects to have the final addendum to the 2020 Compliance Supplement published in the Federal Register by October 31, 2020, which will include the compliance requirements that auditors need to test and report on for the CRF.

The Treasury guidance is clear that revenue replacement is not an eligible use of funds for State and local governments. However, the guidance included a section that said payments may be used for economic support in the absence of a stay-at-home order if deemed necessary by the State. Included was an example of a grant program to assist small businesses that close in order to promote social distancing or small businesses that have reduced customer demand as a result of the COVID-19 public health emergency.

Q.2. To what extent the grant would be essentially replacing lost revenue for private businesses?

A.2. Revenue replacement of governments is not permitted given the statutory requirement that expenditures covered with payments from the Fund have not been accounted for in the most recently adopted budget. This requirement does not relate to small business subrecipients of payments from the Fund.

Q.3. Can you clarify whether assisting small businesses like this would qualify as an eligible expense?

A.3. Assistance may be provided to small businesses as long as that assistance complies with Treasury's guidance and is used for permissible expenditures detailed in the CRF guidance.

Q.4. I led the Nevada Delegation in writing a letter requesting the Treasury Department and the Federal Reserve to prioritize loans to businesses uniquely impacted by COVID-19. In Nevada, our economy relies on our hospitality, gaming, and tourism employers, and we want to ensure industries bearing the brunt of the crisis be aided in order to stabilize the marketplace and preserve American jobs. At the encouragement of the Nevada delegation and other congressional partners, the SBA reversed its previously issued guidance to allow for businesses with gaming revenue to apply for PPP.

Can you commit that otherwise eligible gaming business, continue to be eligible for the Main Street lending program, like the SBA PPP program now allows?

A.4. The Main Street Lending Program has used the borrower eligibility criteria as modified and clarified by SBA regulations for purposes of the PPP issued on or before April 24, 2020, which include businesses with legal gaming revenue. Additionally, the Secretary has exercised his authority under section 4003(c)(3)(A)(iii) of the CARES Act to grant a waiver from the dividend prohibition in section 4003(c)(3)(A)(ii)(II) of the CARES Act to permit a tribal business, the ownership interests of which are wholly or majority owned by one or more tribal governments, to pay dividends or make equivalent capital distributions to its tribal government owners. This waiver may help facilitate Main Street borrowing by tribal gaming businesses.

Q.5. Chairman Jerome Powell spoke about the difference in interventions to handle liquidity problems versus those due to insolvency. For firms where a loan program does not address a pending insolvency threat, are there warrants or equity stakes that the government can take in a business to keep it solvent while ensuring the taxpayers get repaid? If so, how would those warrants be structured?

A.5. The Main Street Lending Program offers loans to small and medium-sized businesses and nonprofit organizations that were in sound financial condition before the COVID-19 pandemic and have solid post-pandemic prospects to help them maintain operations until the economy recovers. The program offers a range of secured and unsecured senior loan options for borrowers that meet minimum criteria and bank underwriting standards. Eligible borrowers must certify that they do not expect to enter into bankruptcy within the 90 days of taking a Main Street loan. If Main Street borrowers require a restructuring or workout, the Main Street Special Purpose Vehicle may agree to reductions in interest (including capitalized interest), extended amortization schedules and maturities, and higher priority "priming" loans. 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. In addition, under Federal Re-

serve regulations, the Federal Reserve cannot provide financing based upon equity stakes.

Q.6. If funds were provided as grants to businesses, what do you recommend firms provide in return? Would retaining employment, staying current with taxes and rent and any debt obligations to appropriate conditions for a grant or equity stake?

A.6. Funds provided under CARES Act section 4003 take the form of loans, loan guarantees, and other investments, and may not be forgiven (section 4003(d)(3)). However, loans, loan guarantees, and other investments under sub-sections 4003(b)(1), (2), and (3) require that the U.S. government receive a warrant, equity instrument, or senior debt instrument for the benefit of taxpayers (section 4003(d)(1)). Businesses receiving such funds are subject to restrictions on stock buybacks and payment of dividends and other capital distributions, may not reduce employment levels by more than 10 percent from the levels on March 24, 2020, and must be U.S. businesses with significant operations in and a majority of their employees based in the United States (section 4003(c)(2)). Note that funds provided under CARES Act section 4003(b)(4), including the Main Street Lending Program, are made available through programs or facilities established by the Federal Reserve, which does not make grants or take equity stakes.

Q.7. Does the Treasury Department plan to provide one-time or ongoing assistance to companies through its programs?

A.7. The Federal Reserve's Main Street Lending Program offers medium-term loans to small and medium-sized businesses and non-profit organizations that were in sound financial condition before the COVID-19 pandemic to help maintain their operations until the economy recovers. Borrowers may borrow multiple loans in any one of the facilities that cumulatively amount to the aggregate limit of the facility. Main Street will accept loan participations through the end of the year.

Q.8. What are you doing to build on the experience with other industry-specific initiatives to help bus carriers? Are bus companies able to access capital from CARES programs?

A.8. The Main Street Lending Program offers loans to all types of small and medium-sized businesses that meet the eligibility criteria, including the motor coach industry, to help maintain their operations until the economy recovers. This includes motor coach businesses that were in sound financial condition before the COVID-19 pandemic and have solid post-pandemic prospects. Following the submission of over 3,500 public comments representing a diversity of stakeholders, the Federal Reserve amended the program's initial terms to expand the available loan options as well as the pool of businesses eligible to borrow. The changes to the Main Street Lending Program were designed to allow an even wider range of American companies and industries to access the program in order to help support their workers and operations.

Q.9. Congress expects the Federal Reserve to release names and other information about participants in the facilities it set up in response to the CARES Act. I appreciate the steps that the Federal Reserve has already taken to increase transparency, such as dis-

closing borrowers, amount borrowed and what rate of interest, and the overall costs, revenues, and fees from various facilities on a monthly basis.

How will you guard against any favoritism or unfairness in access or terms?

A.9. The Main Street Lending Program purchases loan participations of eligible borrowers that meet the minimum criteria and the underwriting criteria of the eligible lenders that have underwritten the loan. All borrowers and lenders are required to certify their compliance with the conflict of interest provisions in section 4019 of the CARES Act, and lenders are also subject to various statutory and regulatory requirements aimed at preventing favoritism and unfairness.

Q.10. Does the Treasury plan to release disclosures for other programs not directly authorized under the CARES Act?

A.10. Treasury will continue to work to ensure they fulfill their statutory reporting requirements, and will continue administering the programs Congress provided for under the CARES Act in a manner consistent with the text of the statute, which was the result of earnest bipartisan negotiations that resulted in overwhelmingly bipartisan support in both the House and the Senate.

Q.11. The CARES Act prohibited companies that receive support through the Federal Reserve programs that make direct loans from paying dividends or buying back their own stock until 12 months after the loan is repaid. The CARES Act also imposes limits on executive compensation for companies that receive direct loans.

What is your oversight plan to ensure that no dividends are paid or stocks are purchased and that executive compensation is capped as Congress intended?

A.11. Under the Main Street Lending Program, Eligible Borrowers must undertake to comply with the restrictions on dividends, stock repurchases and compensation. A material breach of these undertakings would trigger acceleration of the Main Street loan.

Q.12. The CARES Act permitted the Treasury Department to waive restrictions on dividends, stock buybacks and executive compensation. If you waive those prohibitions and limitations for specific companies, how—and how quickly—will you let Congress know?

A.12. For the Main Street Lending Program, the Secretary exercised his authority under section 4003(c)(3)(A)(iii) of the CARES Act to grant a waiver from the dividend prohibition in section 4003(c)(3)(A)(ii)(II) to permit a tribal business, the ownership interests of which are wholly or majority held by one or more tribal governments, to pay dividends or make equivalent capital distributions to its tribal government owners. The term “tribal government” as used in this Frequently Asked Question (FAQ) refers to a federally or State recognized Indian tribe and does not include Alaska Native corporations. The Secretary immediately notified the committees specified in section 4003(c)(3)(A)(iii), and any future waivers will be notified in the same manner.

Q.13. The CARES Act restricts Fed financing to “businesses that are created or organized in the United States or under the laws of

the United States and that have significant operations in and a majority of its employees based in the United States.”

Will you ensure that any company that receives financing is a U.S.-based company?

A.13. All recipients of funds under section 4003 of the CARES Act must certify that they are created or organized in the United States or under the laws of the United States, and have significant operations in and a majority of their employees based in the United States. The proceeds of a Main Street loan may not be used for the benefit of the borrower’s foreign parents, affiliates or subsidiaries, if any.

Q.14. Will you prohibit aid to companies that may have undergone a tax inversion before, changed its incorporation to the U.S. recently, or is a U.S. subsidiary of a foreign company?

A.14. Under the Main Street Lending Program, a borrower may be a subsidiary of a foreign company, provided that the borrower itself is created or organized in the United States or under the laws of the United States, and on a consolidated basis has significant operations in and a majority of its employees based in the United States. However, a Main Street borrower that is a subsidiary of a foreign company must use the proceeds of a Main Street loan only for the benefit of the borrower, its consolidated U.S. subsidiaries, and its other affiliates that are U.S. businesses. The proceeds of a Main Street loan may not be used for the benefit of any borrower’s foreign parents, affiliates, or subsidiaries.

Q.15. Will Treasury require disclosure of beneficial owners in order to prevent shell structures?

A.15. Main Street Lending Program lenders require identification of beneficial owners under existing anti-money laundering and know your customer rules. In addition, in order to certify their compliance with the conflict of interest provisions of CARES Act section 4019, borrowers are required to determine the beneficial owner of any 5 percent or greater equity interest in the borrower.

Q.16. I am disappointed by Treasury’s handling of tribal financial data. These are some of the hardest hit communities, with the most limited capacity to respond to economic emergencies. Instead of acting expeditiously to get CARES Act funding out the door, Treasury missed the statutory deadline to distribute that money, and leaked sensitive financial information in the process. I’d like to understand why this happened, and what plans Treasury has to ensure it doesn’t happen again.

Who did Treasury share the Tribal data with?

A.16. When determining the methodology for distribution of CRF funds to tribal governments, Treasury shared data with those essential to carrying out the disbursement of CRF funds within their official duties.

Q.17. For what purposes did the department share that data with them?

A.17. Treasury shared data only with those essential to carrying out the disbursement of CRF funds within their official duties.

Q.18. What kinds of safeguards does Treasury normally have for handling sensitive or potentially proprietary data?

A.18. As always, Treasury endeavors to protect sensitive or potentially proprietary data.

Q.19. Why did Treasury ask for these specific data points, since it appears that they are even going to use the answers for their CRF formula?

A.19. Treasury requested many data points from tribes with the intention of determining how to distribute CRF funds.

Q.20. It's imperative that Treasury provide tribes across the country with the supports they need to take full advantage of the CARES Act resources. These are some of the hardest hit communities, with the most limited capacity to respond to economic emergencies.

Has the Department heard from any Tribes with concerns about needing guidance on allowable uses? How is the Department helping with those requests? Are there any ideas from Tribes that the Department has advised would likely be disallowed?

A.20. Treasury has worked closely with tribes throughout the application process. Prior to and during the first round of funding, Treasury and BIA held two joint tribal consultations and provided a written comment period from March 31, 2020, through April 13, 2020. Treasury also held discussions with Native American associations and tribal financial experts to consider a process that would be familiar to tribes, and provide verifiable and objective information.

Q.21. Some Tribes have flagged concerns about the requirement that all funds be spent by the end of the year, especially in view of the potential for future waves of coronavirus.

Has Treasury heard any similar concerns? Would you be willing to work with us to expand the flexibility of tribes to spend those dollars outside of this calendar year if need be?

A.21. The CARES Act stipulates that CRF funds must be used for unbudgeted expenditures between March 1, 2020 and December 30, 2020 related to COVID-19. A change in statute is required to extend the date.

Q.22. I'm extremely concerned that the course of action Treasury and SBA have adopted in the implementation of the CARES Act has resulted in the near systematic exclusion of Tribes. The decision to apply the gaming revenue prohibition to the PPP—which resulted in a majority of Tribal business concerns being unable to access the entire first tranche of PPP funding. Then, a decision made for the second PPP tranche that limited which financial institutions could participate. Congress clearly intended for PPP to work more with minority serving financial institutions—including Native CDFIs. Because Indian Country has significant issues with underbanking, Tribes and Native businesses often don't have pre-existing relationships with mainstream financial institutions. So, this agreement was especially important for Indian Country. But, the decision was made by the Administration to set a PPP asset limit of \$50m—which disqualified MOST Native CDFIs and effectively shut Native businesses out of the program again. The asset

threshold was later lowered to \$10m, but that still excluded the majority of Native CDFIs. The end result, though, is there's two rounds of PPP where Tribes have had limited to no access because of Administrative decisions.

How will you make sure that these sorts of administrative barriers don't prevent Tribes from accessing COVID-19 economic recovery resources moving forward?

A.22. Any U.S. federally insured depository institution is an eligible lender under the Main Street Lending Program, and gaming businesses have always been eligible for Main Street loans. In addition, following extensive outreach to tribes, lenders to tribal businesses, and other stakeholders, the Secretary granted a waiver allowing Main Street borrowers that are wholly or partly owned by tribal governments to pay dividends or other capital distributions to their tribal government owners, and the Federal Reserve has made clear that tribal economic enterprises that do not have legal existence apart from the tribes themselves may nevertheless be eligible under Main Street. Both of these steps were intended to facilitate tribal access to the program.

Q.23. Will you commit to making sure the Administration administers COVID-19 programs in a way that ensures the maximum possible Tribal inclusion?

A.23. With respect to PPP borrowers, the Secretary shares your interest in making the PPP available to as many of America's job creators and their employees as feasible. Treasury has posted to its website a series of documents, including interim final rules that implement the PPP, a set of frequently asked questions, fact sheets, and other documents to address specific lender and borrower questions about eligibility and the application process, among other topics. This includes a SBA interim final rule posted on April 24, 2020, providing that a business that is otherwise eligible for a PPP loan is not rendered ineligible due to its receipt of legal gaming revenues.

With respect to PPP lenders, to further ensure that the PPP reached all communities in need of relief during the COVID-19 pandemic, SBA, in consultation with Treasury, set aside \$10 billion of Round 2 funding to be lent exclusively by CDFIs, in addition to the statutory set-asides in the PPP and Health Care Enhancement Act of \$30 billion for community financial institutions and small banks and credit unions and an additional \$30 billion for banks and credit unions with assets between \$10 billion and \$50 billion. SBA and Treasury also considered applications for participation as PPP lenders from CDFIs and minority-, women-, veteran-, and military-owned lenders based on factors including those described on SBA Form 3507, including in cases where the lender does not meet all of the requirements listed on that form.¹

As described in the previous question above, the Secretary and the Federal Reserve have already taken steps to facilitate tribal access to the Main Street Lending Program, and welcome suggestions from stakeholders on how to make the program even more inclusive.

¹<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>

Q.24. One concern I have is that our minority-owned businesses, because they often lack some of the traditional lending relationships, have not been able to access PPP to the extent that is needed.

Will we be getting PPP data on demographics? Or at least be able to see how many loans were made in majority-minority neighborhoods?

A.24. Treasury and SBA have undertaken extensive and ongoing efforts to encourage lending to underserved and rural borrowers. These efforts have included recruiting lenders that operate in underserved communities to participate in PPP and facilitating their approval of PPP loans, as well as educating underserved borrowers about the opportunities that exist for them through PPP. Guidance was issued to all lenders asking them to redouble their efforts to assist eligible borrowers in underserved and disadvantaged communities. This was done to ensure that individuals, businesses, and other entities in underserved and rural markets, including veterans and members of the military community, small business concerns owned and controlled by socially and economically disadvantaged individuals, women, and businesses in operation for less than 2 years, all benefited from PPP.

Treasury and SBA have worked closely with Congress, regional and community banks, fintech lenders, CDFIs, MDIs, the Department of Agriculture, and other stakeholders to ensure that as many workers and small businesses as possible can readily participate in the opportunities afforded by this program, with particular focus on underserved borrowers, including minorities, women, and rural entrepreneurs. Treasury and SBA extensively recruited lending institutions that typically operate in underserved communities to participate as PPP lenders. An important focus of our efforts to serve underserved communities has been to harness the role of CDFIs and MDIs. Hundreds of CDFIs were contacted and advised of their eligibility to participate in the PPP. As of August 8, 2020, when the PPP closed to new loan applications, 432 CDFIs and MDIs had participated and provided 221,000 loans totaling more than \$16.4 billion. The program has resulted in \$106 billion provided to businesses in HUBZones, accounting for more than 20 percent of all PPP funding. Data also show that the loans have been broadly distributed and made across diverse areas of the economy, with 27 percent of the funds going to low- and moderate-income communities, which is in proportion to their percentage of the population.

Treasury and SBA are committed to implementing the CARES Act with transparency and accountability. Information regarding approved PPP loans and program participation is provided on our websites, including data to help inform your and the public's understanding of borrower participation, such as the number and dollar amount of loans, number of loans by amount, distribution by lender size and type, list of top lenders, average loan size, and loan distribution across industries and States.

Additionally, SBA has made additional data regarding PPP loans publicly available in a manner that balances the interests of transparency with protections for small businesses, sole proprietors, and independent contractors. SBA disclosed the business names, addresses, NAICS codes, zip codes, business types, demographic data,

jobs supported, and loan amount ranges as follows: \$150,000–350,000; \$350,000–1 million; \$1–2 million; \$2–5 million; and \$5–10 million. These categories account for nearly 75 percent of the loan dollars approved. For loans below \$150,000, SBA disclosed the specific loan amounts along with NAICS codes, zip codes, business types, demographic data, and jobs supported, but no personally identifiable borrower information.

This approach to public disclosure will allow Americans to see how their tax dollars are being spent while ensuring that America's entrepreneurs and job creators are able to compete fairly as our economy safely reopens. Unlike other SBA loans, PPP loan amounts are calculated based on payroll data, which employers typically treat as commercially sensitive or proprietary. In general, a borrower's specific PPP loan amount will reveal the borrower's nonpublic payroll information—including the personal income of independent contractors and sole proprietors that received PPP loans.

In addition to these public disclosures, SBA worked with congressional committees and the Government Accountability Office to provide full access to all PPP loan-level information—including, but not limited to, all borrower names and loan amounts—in a manner that afforded appropriate confidential treatment for nonpublic personally identifiable and commercially sensitive business information.

Finally, Treasury and SBA are working to gather additional information on program participants. The PPP Loan Forgiveness Application Form 3508 and Form 3508EZ both request voluntary disclosure of veteran status, gender, race, and ethnicity from loan recipients. I respectfully refer you to SBA for additional information.

Q.25. On Friday, the Treasury and SBA released an 11-page loan forgiveness application for the PPP Program with instructions for how to complete it. This document provides clarity on a number of issues such as when the 8-week forgiveness period begins. Oversight of these grants to businesses is essential. However, we still do not have detailed guidance on how the program will be administered.

What are the steps for lenders and the SBA to process these applications?

What system(s) are going to be used to transmit this information to SBA?

What role will lenders have in the forgiveness process?

Can you provide a timeline of development of the guidance?

Can you provide an update on when clear and full forgiveness guidance will be issued for small businesses and lenders?

What can we expect to see in the guidance when it is released?

What will happen in an instance where the statute is revised after a borrower has already submitted an application for forgiveness? How will those applicants be handled?

A.25. Treasury has posted to its website a series of documents, including interim final rules that implement the PPP, a set of frequently asked questions, fact sheets, program reports, and other documents to address specific lender and borrower questions about eligibility and the application and forgiveness process, among other

topics. This includes guidance to reflect the PPP Flexibility Act's amendments to the PPP to, among other things, extend the covered period for loan forgiveness to 24 weeks after the date of loan disbursement and to lower the percentage of a borrower's PPP loan proceeds that must be used for payroll costs. This also includes a set of frequently asked questions on loan forgiveness, as well as a procedural notice on procedures for lender submission of PPP loan forgiveness decisions to SBA and SBA loan forgiveness reviews.² In addition, SBA published an EZ version of the forgiveness application that requires fewer calculations and less documentation for eligible borrowers. Treasury and the SBA will continue to provide additional guidance, as appropriate, to help small businesses and other eligible borrowers get the assistance they need.

Q.26. A recent Census report found that three out of four small businesses have sought financial assistance through the Paycheck Protection Program.

As you have worked on this program over the last few months, what have been the major concerns from the small businesses who are not applying to the program?

What other steps should Congress be looking at to support businesses for whom PPP was not the best option?

A.26. The Secretary shares your interest in making the PPP available to as many of America's job creators and their employees as feasible. Treasury looks forward to working with you and your staff as you consider additional enhancements to the program.

Q.27. In the summary reports issued for the separate rounds of PPP funding, there is a breakdown on the number of participating lenders based on their asset size (less than \$10B, between \$10B and \$50B, and over \$50B). On the Summary for the Second Round of funding, there were 148 lenders over \$50B in assets that participated—yet according to the Fed (as of the end of last year), there were only 38 insured institutions with consolidated assets over \$50B.

What clarity can you provide on the disparity between these two numbers?

A.27. As of August 8, 2020, when the program closed to new loan applications, over 5.2 million loans had been approved for more than \$525 billion to borrowers across America. This includes 1.7 million loans for more than \$190 billion that had been approved by 34 lenders with assets over \$50 billion.

Q.28. As evidenced by recent DOJ actions, the Paycheck Protection Program (PPP) has faced increasing challenges associated with fraud. The increasing rates of fraud have hindered the program's ability to meet its underlying objectives to assist small businesses looking to keep employees on their payroll and prevent rising levels of unemployment. The program, unwittingly, has created a new avenue for criminals to perpetrate their frauds against U.S. consumers and small businesses by attempting to disguise emails, websites and other communications as coming from legitimate ac-

²This includes detail on the financial services technology provider that SBA has partnered with to make available a secure SaaS platform to accept loan forgiveness decisions, supporting documentation, and requests for forgiveness payments.

tors or government entities, when in reality they are coming from nefarious actors. Frequently, the first step in a fraudster's arsenal to perpetrate a fraud scheme, such as the schemes that are impacting the PPP, is to utilize a malicious VPN or other online anonymizing tools such as bots to mask their true identity and location. Without sophisticated tools to detect the use of such devices, VPNs and such tools will continue to enable fraudsters to perpetrate their crimes without leaving a trace.

As the Treasury and the Federal Reserve work to bolster these programs and prevent the increased rates of fraud they're currently facing, what role will advanced, multisource geolocation data play in fostering a more effective ID verification and authentication process, to ensure that the PPP and similar programs are able to fulfill their intended objectives, and that these coveted funds reach the hands of the individuals that need them most?

A.28. I respectfully refer you to the SBA for information on this issue.

Q.29. The Federal Reserve has used its Section 13(3) authority to lend to businesses and local governments and other powers to allocate \$2.3 trillion of credit through nine programs, backed by \$215 billion of Treasury funds.

Do you agree with the Congressional Budget Office estimates that the Fed's programs will not increase the Federal deficit, because loans that default are likely to be offset by other loans repaid with interest that result in a net gain for the government?

A.29. The CBO prepares its estimates under its own statutory mandate and in a manner that is separate and independent from the administration of the 13(3) facilities. At this time Treasury has not evaluated CBO's estimates.

Q.30. We are aware of problems facing borrowers of the commercial mortgage-backed securities, who are impacted by the shutdowns of public spaces.

Has Treasury examined problems facing commercial mortgage-backed securities?

Has Treasury considered using funds to support borrowers of CMBS?

A.30. Treasury and the Federal Reserve continue to monitor the market impact of the COVID-19 pandemic on commercial real estate borrowers, including those whose loans are in commercial mortgage-backed securities (CMBS). Treasury continues to work with the Federal Reserve to assess the efficacy of existing facilities established under the Federal Reserve's 13(3) emergency lending authority, and will evaluate appropriate changes necessary to promote the flow of credit and support a robust economic recovery.

Q.31. Prior to this crisis, the travel industry was coming off a decade of growth and many travel businesses were in strong financial shape. Now, due to the travel restrictions, business closures and quarantines in place across the U.S., travel businesses have virtually no customers or revenue. The impacts have been catastrophic

The response by Congress and the Administration has focused largely on small businesses, which are absolutely vital to the econ-

omy. While 83 percent of travel businesses are small businesses, more than 50 percent of travel industry workers are employed by mid- to large-sized businesses with more than 500 employees.

A.31. The Main Street Lending Program offers loans to small and medium-sized businesses, including in the travel industry, that were in sound financial condition before the COVID-19 pandemic and have solid post-pandemic prospects to help maintain their operations until the economy recovers. The program offers a range of secured and unsecured senior loan options for borrowers that meet eligibility criteria and bank underwriting standards.

Q.32. What type of financial assistance is the Treasury planning establish for our Nation's nonprofits, like destination marketing organizations, many of which are ineligible for programs like PPP under the CARES Act?

A.32. On September 4, the Federal Reserve Bank of Boston announced that two new Main Street Lending Program loan facilities for nonprofit organizations are fully operational. These new facilities are designed to help credit flow to small- and medium-sized nonprofit organizations that were in sound financial condition prior to the pandemic and have solid post-pandemic prospects.

Q.33. The Las Vegas Convention and Visitors Authority is a quasi-governmental entity that is critical for driving visitation to Las Vegas. The Authority's funding, which is tied to local occupancy taxes, has plummeted—jeopardizing its important mission and forcing it to lay off workers. Unfortunately, quasigovernmental entities are unable to obtain financial relief.

What kinds of relief are available for quasigovernmental entities?

Is there are a way to ensure the Coronavirus Relief Fund has more flexibility so quasigovernmental entities, like the Las Vegas Convention and Visitors Authority, can receive assistance?

A.33. Treasury is willing to discuss this issue with you as the Department considers further guidance on the use of CRF funds for quasigovernmental entities.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR JONES FROM STEVEN T. MNUCHIN

Q.1. *Economic Impact Payments*—As you know, the Internal Revenue Service (IRS) has been issuing \$1,200 Economic Impact Payments to eligible Americans since April, to help them cope with the financial effects of the pandemic. However, as of May 15, 2020, the IRS anticipated that 150 million payments still needed to be sent out. There have been projections that it could take up to 20 weeks—or 5 months—for all of the paper checks to be sent.

A.1. As of September 18, 2020, Treasury and the IRS have issued more than 163 million Economic Impact Payments totaling more than \$273 billion to individuals for whom the IRS has the necessary information. The IRS and Fiscal Service accelerated the rate of delivery of Economic Impact Payments to many eligible Americans by successfully shifting such delivery away from paper checks and to:

1. Direct deposit through information obtained through the Get My Payment portal and Non-Filers tool on IRS.gov (where the taxpayer can input their bank account information).
2. Debit cards (which are funded electronically).
3. Bank accounts based on information provided by the Bureau of the Fiscal Service, Social Security Administration, and the Department of Veterans Affairs.

Q.2. 8.4 million households lack a bank account and 20 million currently do not have home access to broadband. As a result, the majority of recipients of paper checks are those that need it most. What are you doing to ensure Economic Impact Payments are getting to the most financially vulnerable individuals and families in the shortest time frame possible?

A.2. The Treasury Department and the IRS initially prioritized mailing checks to people with lower adjusted gross income (AGI), starting with individuals with an AGI of less than \$10,000, then mailed checks to individuals with progressively higher AGI amounts. The Treasury Department and the IRS continue to conduct a sweeping public awareness campaign to share information and details about Economic Impact Payments. A significant goal of these outreach efforts is to reach those Americans without adequate broadband access to ensure every individual who is eligible for an Economic Impact Payment receives their payment.

Q.3. *Paycheck Protection Program (PPP)* —PPP General: Are the Treasury and SBA keep track of applicant's approval history for PPP loans to see if they were denied a loan with different lenders? If so, please provide that information.

A.3. I respectfully refer you to the SBA for more information.

Q.4. *Racial Disparity*—What is the Treasury Department and SBA doing to ensure underserved small businesses in the communities hardest hit by COVID-19 are recipients of Federal funds? Please be as specific as possible.

A.4. Treasury and SBA have undertaken extensive and ongoing efforts to encourage PPP lending to underserved and rural borrowers. These efforts have included recruiting lenders that operate in underserved communities to participate in PPP and facilitating their approval of PPP loans, as well as educating underserved borrowers about the opportunities that exist for them through PPP. Guidance was issued to all lenders asking them to redouble their efforts to assist eligible borrowers in underserved and disadvantaged communities. This was done to ensure that individuals, businesses, and other entities in underserved and rural markets, including veterans and members of the military community, small business concerns owned and controlled by socially and economically disadvantaged individuals, women, and businesses in operation for less than two years, all benefited from PPP.

Treasury and SBA have worked closely with Congress, regional and community banks, fintech lenders, CDFIs, MDIs, the Department of Agriculture, and other stakeholders to ensure that as many workers and small businesses as possible can readily participate in the opportunities afforded by this program, with particular focus on underserved borrowers, including minorities, women, and rural en-

trepreneurs. Treasury and SBA extensively recruited lending institutions that typically operate in underserved communities to participate as PPP lenders. An important focus of our efforts to serve underserved communities has been to harness the role of CDFIs and MDIs. Hundreds of CDFIs were contacted and advised of their eligibility to participate in the PPP. As of August 8, 2020, when the PPP closed to new loan applications, 432 CDFIs and MDIs had participated and provided 221,000 loans totaling more than \$16.4 billion. The program has resulted in \$106 billion provided to businesses in HUBZones, accounting for more than 20 percent of all PPP funding. Data also show that the loans have been broadly distributed and made across diverse areas of the economy, with 27 percent of the funds going to low- and moderate-income communities, which is in proportion to their percentage of the population.

Q.5. CDFIs and MDIs—Are the Treasury Department and Federal Reserve working with CDFIs, including nondepository CDFIs, and minority depository institutions to help them navigate the PPP and the PPP Lending Facility so that they can have more success there? If so, please provide specific steps being taken.

A.5. As noted above, since enactment of the CARES Act, Treasury and SBA have worked tirelessly and closely with Congress, with borrowers, and with lenders of all sizes—including regional and community banks, CDFIs, and MDIs—to ensure the broadest possible segment of small businesses can access the PPP and to encourage PPP lending to underserved and rural borrowers. Treasury and SBA extensively recruited lending institutions that typically operate in underserved communities to participate as PPP lenders. An important focus of our efforts to serve underserved communities has been to harness the role of CDFIs and MDIs. For example, hundreds of CDFIs were contacted and advised of their eligibility to participate in the PPP. Treasury and SBA staff hosted tele-town-hall forums with trade associations representing CDFI lenders to specifically engage with these lenders and understand how to better serve their customers in underserved communities. Guidance was also issued to all lenders, including CDFIs, asking them to redouble their efforts to assist eligible borrowers in underserved and disadvantaged communities to expand economic opportunity. Treasury and SBA worked with the Federal Reserve to establish the Payroll Protection Program Liquidity Facility to enable PPP lenders, including both bank and nonbank lenders as well as CDFIs and MDIs, to pledge PPP loans to the Federal Reserve as collateral for Federal Reserve borrowings to enhance lender liquidity and enable PPP lenders to expand lending capacity. The availability of this liquidity has greatly benefited nonbank and smaller PPP lenders that lend to underserved communities and that lend to the smallest businesses. And, SBA, in consultation with Treasury, set aside \$10 billion of Round 2 funding to be lent exclusively by CDFIs to further ensure that the PPP reached all communities in need of relief during the COVID-19 pandemic. Treasury and SBA participated in a roundtable discussion focusing on MDIs' experiences as lenders in the PPP, including their work to serve small businesses in low- and moderate-income communities. As of August 8, 2020, when the PPP closed to new loan applications, 308 CDFIs

had participated from across the country, providing over 114,000 loans for more than \$7.5 billion.

Q.6. *Loan Forgiveness*—The first PPP loan disbursements were more than a month ago, yet Treasury only issued guidance late Friday on how companies will qualify and apply for loan forgiveness. Manufacturers and other small businesses still need clarity so they can ensure they are taking the right steps to receive full loan forgiveness—as Congress intended. Can you commit to publicly releasing this week additional plain language guidance on loan forgiveness procedures for lenders and small businesses out there?

A.6. Treasury has posted to its website a series of documents, including interim final rules that implement the PPP, a set of frequently asked questions, fact sheets, program reports, and other documents to address specific lender and borrower questions about eligibility and the application and forgiveness process, among other topics. This includes guidance to reflect the PPP Flexibility Act's amendments to the PPP to, among other things, extend the covered period for loan forgiveness to 24 weeks after the date of loan disbursement and to lower the percentage of a borrower's PPP loan proceeds that must be used for payroll costs. This also includes a set of frequently asked questions on loan forgiveness. In addition, SBA published an EZ version of the forgiveness application that requires fewer calculations and less documentation for eligible borrowers. Treasury and the SBA will continue to provide additional guidance, as appropriate, to help small businesses and other eligible borrowers get the assistance they need.

Q.7. *Safe Harbor*—The SBA and Treasury Department recently released guidance that small businesses receiving loans for less than \$2 million will automatically be certified as in "good faith." I applaud this decision as it will give small business owners assurance that the SBA will not audit them during this stressful time. Is there a process in place to certify "good faith" loans that are above \$2 million? What is the status of the money returned from large corporations during the first round? Would you be open to designating those funds to go to lending by CDFIs and MDIs so that underserved communities benefit from the larger companies returning the funds?

A.7. On June 1, the SBA issued an interim final rule describing its loan review procedures and related lender and borrower responsibilities. Treasury and SBA have also posted guidance on frequently asked questions on loan forgiveness, as well as on procedures for lenders' submissions of PPP loan forgiveness decisions to SBA and SBA loan forgiveness reviews. Treasury and SBA will continue to provide additional guidance, as appropriate, to help small businesses and other eligible borrowers get the assistance they need. Treasury looks forward to working with you and your staff as you consider additional enhancements to the program. Treasury respectfully refers you to SBA for information regarding returned funds.

Q.8. *Factoring*—I would like to understand why a large number of small businesses, called factors, with fewer than 500 employees have been denied access to PPP loans.

Factors are being denied on the basis that they are considered “lenders” under U.S. Code 13 CFR 120.110. Factors purchase existing accounts receivable. They do not lend money. Further, a recent Federal court decision in Michigan trust concluded the exclusion violated the CARES Act.

Can you please look into this and address the situation or explain why factors should not be permitted to participate?

A.8. The Secretary shares your interest in making the PPP available and accessible to as many of America’s job creators and their employees as feasible. Treasury has posted to its website a series of documents, including interim final rules that implement the PPP, a set of frequently asked questions, fact sheets, program reports, and other documents to address specific lender and borrower questions about eligibility and the application and forgiveness process, among other topics.¹ Treasury and the SBA will continue to provide additional guidance, as appropriate, to help small businesses and other eligible borrowers get the assistance they need.

Q.9. *State and Local Governments*—The Treasury Department issued guidance that States were not allowed to use their distribution from the Coronavirus Relief Fund to replace lost revenue. Just as stay-at-home ordinances affects businesses’ revenue, it affects government revenue. Local governments across Alabama may be forced to lay off police, firefighters and sanitation workers due decreased revenues that they were not expecting when approving their budgets.

Would you support in a Covid-4 package allowing States and local governments to use a portion of the Coronavirus Relief Fund to cover predetermined expenses like keeping police and firefighter on the streets and allowing sanitation workers to pick up our garbage? If not, why, given the negative impact the repercussions of these layoffs would have on families across Alabama and other States?

A.9. While Treasury does not allow for CRF dollars to be used in order to supplement lost revenues, it does allow for CRF funds to be put towards payroll expenses for public safety, public health, health care, human services, and similar employees whose services are substantially dedicated to mitigating or responding to the COVID–19 public health emergency.

Q.10. *Commercial Mortgage-Backed Securities (CMBS)*—Borrowers of commercial mortgage-backed securities, whose properties have been shut down by government public safety precautions, are under undue significant financial hardship because they stuck between tenants that are not paying and mortgage servicers who are not offering flexibility. These are owners of hotels, shopping centers and certain housing entities. They are extremely worried about their ability to meet their financial obligations over a protracted time period with no rents coming in. There is not a clear regulatory framework for CMBS but the concerns remain. What efforts has the Treasury Department taken to support those borrowers?

¹See <https://home.treasury.gov/policy-issues/top-priorities/cares-act/assistance-for-small-businesses>.

A.10. The Treasury and the Federal Reserve continue to monitor the market impact of the COVID-19 pandemic on commercial real estate borrowers, including those whose loans are in CMBS. Treasury continues to work with the Federal Reserve to assess the efficacy of existing facilities established under the Federal Reserve's 13(3) emergency lending authority, and will evaluate appropriate changes necessary to promote the flow of credit and support a robust economic recovery.

Q.11. *Mortgage Servicers*—As you know, the CARES Act limited assistance to only localities with a population that exceeds 500,000. In Alabama, only Jefferson County met the population threshold and the funding allocation is limited to “necessary expenditures incurred due to the public health emergency.”

At the same time, more than 8 percent of households nationwide have entered mortgage forbearance. This means that mortgage servicing companies are now responsible for making the property taxes, hazard insurance, and homeowners association dues, and other assessments for 4.7 million mortgages each month.

These are not an insignificant portion of a borrower's monthly payment, accounting for 25 percent to 30 percent depending on the State, and the property type. They are also vital to the financial stability of my State. Without additional Federal assistance to local governments in Alabama, I am very concerned about any delays that may occur in advancing property taxes payments.

Have you thought about the risks to cities and counties of a liquidity crunch because of any delay or shortfall in State and local tax payments due from escrow accounts in the coming months? Have you considered standing up a liquidity facility now to help mortgage servicers make these property tax and insurance advances on behalf of home owners?

A.11. Treasury is actively monitoring the mortgage market and the associated impact of COVID-19. We have focused considerable resources on delivering support to households and businesses struggling as a consequence of the necessary public health response. Treasury will continue to work to promote stable markets, including for residential mortgage lending.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SMITH
FROM STEVEN T. MNUCHIN**

Q.1. COVID-19 is having a massive impact on Tribes, first because disparities in health and a shortage of safe, stable housing mean the virus is more devastating in Tribal communities. And second, because Tribes made the decision to voluntarily close their enterprises to protect public health, they have seen a massive loss of government revenue and also big peaks in unemployment.

Even today, Tribal governments are still fighting to get the full \$8 billion that Congress intended for them, even as Treasury has indicated that it plans to allocate some of this money to Alaska Native corporations, which are for profit corporations, not Tribal governments.

It's been over 50 days since the CARES Act passed, and still only 60 percent of the \$8 billion has been distributed. It took Treasury over a month to get a single dollar out the door. How do you square

these delays with the Federal Government's unique trust and treaty responsibilities to Tribal nations?

A.1. Treasury has completed making payments to tribal governments, other than amounts that have not been paid to Alaska Native corporations pending litigation on that issue.

Q.2. Do you agree that Tribal governments, like their State and local counterparts, have a unique need for relief funds so they can provide essential government services to their members?

A.2. Title V of the CARES Act sought to provide relief to State, territorial, local, and tribal governments by covering the cost of unbudgeted for expenditures related to the COVID-19 public health emergency.

Treasury guidance clarifies specific expenditures for which CRF fund recipients can use these funds in accordance with that statute; in many cases those expenditures relate to essential government services.

Q.3. We still don't know what exact formula Treasury used to distribute the first \$4.8 billion dollars, and how you plan to distribute the rest. What formula did you use?

A.3. Please see Tribal Allocation Methodology on Treasury's website here: <https://onect.treasuryecm.gov/—layouts/15/UniversalCT/pages/CTHome.aspx?Id=2020-SE-5528> and here <https://home.treasury.gov/system/files/136/Tribal-Allocation-Methodology-for-Second-Distribution.pdf>.

Q.4. Will you make public future distribution formulas you are using to distribute these Tribal Relief Funds? For past and future allocations? When?

A.4. As with previous methodologies used for the payments of CRF funds to tribal governments, Treasury intends to include the methodology for future payments to tribal governments if such payments may be required in the future.

Q.5. In Minnesota and across the country, people experiencing homelessness are especially vulnerable to COVID-19. People living in shelters, or encampments, or in their cars don't have the most basic thing we all need, a safe place to call home. Many of them are youth, or moms with children. They don't have a permanent address, and many of them have not filed a tax return, so how do they get the direct recovery assistance that they need so desperately.

Has Treasury done outreach to homeless service providers or local Continuums of Care and asked them to help identify people experiencing homelessness and work with them to claim their payment?

A.5. The Treasury Department and the IRS have conducted outreach with homeless service providers as well as other organizations that work closely with the homeless and other underserved groups. The IRS has made tens of thousands of contacts with a variety of nonprofits, social service agencies, State and local organizations, and many others with millions of members to share information related to Economic Impact Payments. This includes food banks, faith-based organizations, and SNAP organizations.

For example, as of June 12, 2020, the IRS has reached out to more than 4,500 homeless shelters with information on how to obtain an Economic Impact Payment. The IRS has shared information with the Department of Housing and Urban Development, including the Continuum of Care Program,¹ to provide information to individuals experiencing homelessness to assist them in submitting information needed to obtain an Economic Impact Payment. The IRS will also continue to reach out to other national organizations dedicated to assisting these individuals and others who are eligible to receive an Economic Impact Payment.

Q.6. The CARES Act required you to conduct a public awareness campaign on the availability of these payments for non-tax filers. In late April, the IRS published some promotional materials encouraging these individuals to sign up at IRS.gov to receive their payments.

Is this the extent of your public awareness campaign? How would you expect these individuals to access the Internet when places like libraries and cafes have been closed by stay-at-home orders?

A.6. Treasury and the IRS have continued to actively carry out the public awareness campaign. This is one of the biggest communications and outreach efforts the IRS has undertaken, with more than 100 products being created and more taking place each week in advance of the October 15 deadline to use the Non-Filers tool. In addition to sharing extensive material with the news media, social media, and websites, this national public awareness campaign has included partnering with a wide spectrum of community and professional groups across the country—with special emphasis being given to working with organizations that interact with those who may not normally file a tax return, including organizations and social service groups that assist underserved communities. Thousands of these contacts have taken place, and the IRS has created special tools and products, like partner kits, to help share information about Economic Impact Payments to those with-and without-Internet access. As more areas have reopened, this effort has continued to reach an increasing number of people.

Q.7. Please describe the full range of steps actions the Department of Treasury has taken to provide recovery rebate payments to individuals experiencing homelessness.

A.7. In addition to the outreach efforts described in a previous question, the IRS has taken special steps to reach potential organizations nationwide that might assist individuals experiencing homelessness and share IRS-related Economic Impact Payment resources with them. The IRS has asked these organizations to act as a “trusted partner” to receive payments on behalf of their homeless clients. More than 300 organizations agreed when asked by the IRS if they would act as a “trusted partner” allowing homeless persons to use their physical address to receive an Economic Impact Payment. In addition, organizations across the country continue to work in local communities with the homeless and other underserved communities to share Economic Impact Payment information, including information on how homeless individuals can pro-

¹ See <https://www.hud.gov/hudprograms/continuumofcare>.

vide a mailing address for a payment. These efforts range from (i) volunteer efforts at IRS-supported Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites, as well as low-income taxpayer clinics; to (ii) sharing information with social service groups, nonprofits, faith-based institutions, and an array of Federal, State, and local agencies such as the Consumer Financial Protection Bureau. Thousands of organizations have been reached and these efforts continue.

Q.8. Some advocates and members of the homeless community have suggested that the IRS send checks using the Postal Service's General Delivery service, which can deliver mail to people without a permanent address. The IRS has not indicated whether they would consider this.

What is your view on this proposal? Will you work with the Postal Service and take advantage of this vitally important service that many people experiencing homelessness are already familiar with?

A.8. The Treasury Department and the IRS are considering the potential effectiveness of partnering with the Postal Service to leverage its General Delivery service to reach those Americans experiencing homelessness. Our successful partnership with the Department of Veterans Affairs has helped ensure that Veterans and their beneficiaries who receive Federal benefits receive their Economic Impact Payments automatically and without additional paperwork. Since the enactment of the CARES Act, we have continued to explore ways to improve our ability to deliver this much-needed relief to the American people.

Q.9. Accessing loans under the Paycheck Protection Program has been a challenge for many business owners, especially for business owners of color and native businesses, who are less likely to have a lending relationship with a bank that will accept their PPP application.

Is it acceptable for the largest banks in the country to be only processing PPP applications for existing customers, for most of the time that they were accepting PPP applications?

Should the largest banks in the country, like JPMorgan Chase, Wells Fargo, Bank of America, and Citi, be allowed to prioritize PPP loans for some customers over others? Or should they be processed on a first come, first served basis?

What steps have you taken to ensure all eligible businesses are able to access PPP loans?

A.9. The Secretary shares your interest in making the PPP available and accessible to as many of America's job creators and their employees as feasible. 45 percent of the approved PPP lending amount was lent by lenders with less than \$10 billion in assets. With an average loan size of approximately \$100,000, the program is serving the smallest of businesses.

Treasury and SBA have undertaken extensive and ongoing efforts to encourage lending to underserved and rural borrowers. These efforts have included recruiting lenders that operate in underserved communities to participate in PPP and facilitating their approval of PPP loans, as well as educating underserved borrowers about the opportunities that exist for them through PPP. Guidance was issued to all lenders asking them to redouble their efforts to

assist eligible borrowers in underserved and disadvantaged communities. This was done to ensure that individuals, businesses, and other entities in underserved and rural markets, including veterans and members of the military community, small business concerns owned and controlled by socially and economically disadvantaged individuals, women, and businesses in operation for less than two years, all benefited from PPP.

Treasury and SBA have worked closely with Congress, regional and community banks, fintech lenders, CDFIs, MDIs, the Department of Agriculture, and other stakeholders to ensure that as many workers and small businesses as possible can readily participate in the opportunities afforded by this program, with particular focus on underserved borrowers, including minorities, women, and rural entrepreneurs. Treasury and SBA extensively recruited lending institutions that typically operate in underserved communities to participate as PPP lenders. An important focus of our efforts to serve underserved communities has been to harness the role of CDFIs and MDIs. Hundreds of CDFIs were contacted and advised of their eligibility to participate in the PPP. As of August 8, 2020, when the PPP closed to new loan applications, 432 CDFIs and MDIs had participated and provided 221,000 loans totaling more than \$16.4 billion. The program has resulted in \$106 billion provided to businesses in HUBZones, accounting for more than 20 percent of all PPP funding. Data also show that the loans have been broadly distributed and made across diverse areas of the economy, with 27 percent of the funds going to low- and moderate-income communities, which is in proportion to their percentage of the population.

Q.10. In addition, I sent you a letter on May 7 raising several questions about the PPP program, which I repeat below.

What steps are you taking to ensure PPP borrowers are made fully aware of the requirements of the program, including requirements to qualify for loan forgiveness?

What, if any, documents are provided to borrowers to understand the rules of the loan and forgiveness? Are borrowers required to acknowledge that they understand the program rules before obtaining a loan?

Is there any requirement for lenders to consider whether PPP is the best program for borrowers, in comparison to other economic support options that may be available, before processing a loan application? Are fees paid to lenders structured in a way that they incentivize good lending practices and proper treatment of customers?

What steps are you taking to prepare for the millions of requests for loan forgiveness that will arise in coming weeks? What processes have been established to help borrowers understand how to obtain forgiveness, and when will you publish final rules on loan forgiveness?

Do you believe lenders be prepared to handle the large volume of requests that will soon arrive? Are lenders appropriately incentivized to handle the requests in an appropriate and timely manner?

A.10. More than 5 million PPP loans were approved by nearly 5,500 lenders, helping to support an estimated 51 million jobs and

more than 80 percent of small business payroll. As of August 8, 2020, this included over 102,000 PPP loans to borrowers in Minnesota for more than \$11.2 billion. With an average loan size of approximately \$100,000, the program is serving the smallest of businesses. PPP loans have also been broadly distributed, with about 27 percent of the funds going to low and moderate income communities, which is in proportion to their percentage of the population.

Treasury has posted information to its website to address specific lender and borrower questions about eligibility and the application and forgiveness process, among other topics. This includes guidance to reflect the PPP Flexibility Act's amendments to the PPP to, among other things, extend the covered period for loan forgiveness to 24 weeks after the date of loan disbursement and to lower the percentage of a borrower's PPP loan proceeds that must be used for payroll costs. This also includes an SBA Procedural Notice on procedures for lender submission of PPP loan forgiveness decisions to SBA and SBA forgiveness loan reviews. Treasury and SBA will continue to provide additional guidance, as appropriate, to help small businesses and other eligible borrowers get the assistance they need.

Q.11. On April 23, I wrote to you to urging that a number of business types that were previously denied PPP loans be made eligible for the program. Thank you for heeding my request and making rural electric cooperatives, agricultural cooperatives, rural hospitals and Tribal businesses eligible for the program. The two remaining business types I noted in my letter are small banks and credit unions, who cannot use PPP loans for their own operations.

Do you plan to make credit unions and community banks entities eligible for PPP? Why or why not?

A.11. Treasury and SBA will continue to provide additional guidance, as appropriate, to help small businesses and other eligible borrowers get the assistance they need.

Q.12. The CARES Act directed Treasury and the Federal Reserve to set up a lending program for midsize businesses. You said you intended to comply with both the letter and the spirit of the CARES Act.

One provision of the CARES Act says that the Treasury Secretary "shall endeavor" to establish a lending program for midsize businesses and that any borrower applying for a loan under the midsize business lending program must certify that "the recipient will not outsource or offshore jobs for the term of the loan and 2 years after[wards]."

Yet, when the Fed unveiled the term sheets for the Main Street Lending Facility, there doesn't seem to be any mention of a certification for not moving jobs offshore.

Do you think firms getting taxpayer-funded bailout should be required to keep their jobs in the United States?

Why wasn't this a requirement in your agreement with the Fed to require firms to agree not to move jobs or production overseas?

What about other Treasury-Fed lending programs, besides the midsize business lending program? Don't you think that any firm receiving a Federal grant or loan should be required to agree that they won't move jobs offshore?

In what ways did you “endeavor” to implement the program as described in the CARES Act, in keeping with both the spirit and letter of the law?

Why isn’t the offshoring provision required in the Main Street Lending Program? What steps did you take in an effort to implement that provision?

Besides the offshoring provision, please describe the steps you took to comply with both the letter and spirit of Section 4003(c)(3)(D)(i)(I) through (X) of the CARES Act, including why you ultimately chose to implement each requirement or not.

A.12. The Main Street Lending Program was designed to support credit provision to U.S. businesses that were in good financial condition before the COVID–19 crisis to help maintain their operations and employment until the economy recovers. Main Street is not a grant program, and the terms of loans under the program are not intended to be better than market.

Under section 4003(c)(3)(C) of the CARES Act, a borrower must be “businesses that are created or organized in the United States or under the laws of the United States and that have significant operations in and a majority of its employees based in the United States.” An eligible borrower may be, however, a subsidiary of a foreign company, provided that the borrower itself is created or organized in the United States or under the laws of the United States, and the borrower on a consolidated basis has significant operations in and a majority of its employees based in the United States. Any borrower that is a subsidiary of a foreign company must use the proceeds of a Main Street loan only for the benefit of the borrower, its consolidated U.S. subsidiaries, and other affiliates of the borrower that are U.S. businesses. The proceeds of a Main Street loan may not be used for the benefit of such borrower’s foreign parents, affiliates, or subsidiaries. Main Street borrowers are also fully subject to the CARES Act’s restrictions on officer and employee compensation, dividend payments, and stock buybacks.

With respect to Section 4003(c)(3)(D)(i)(I) through (X) of the CARES Act, we believe that Main Street has fulfilled Congress’s intent to balance support to small- and medium-sized businesses with guarding taxpayer funds. The program provides medium-term loans to companies that were in sound financial condition before the crisis, and have solid post-pandemic prospects, to bridge the economic disruption caused by the coronavirus. While economic conditions have improved considerably since work began on designing Main Street, we have continued to make changes to the program to address public comments. We recognize that there remains, nonetheless, a degree of uncertainty over the short to medium-term impact of the virus on economic activity, and potential changes that companies may need to make to be successful in the short and long-term. In the interim, restricting borrowers’ flexibility to adjust to these challenging times may limit their sustainability, resulting in increased losses of both jobs and taxpayer funds. We underscore that recent business surveys have indicated that there is limited unmet demand for credit.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SINEMA
FROM STEVEN T. MNUCHIN**

Q.1. In Arizona and across the country, COVID-19 harmed many small business that provide renewable energy and stalled projects that were near completion but faced pandemic-related supply chain and employment disruptions. Under existing rules, if projects are not completed on time they risk losing eligibility for tax benefits. I was pleased to hear the Treasury Department was considering extending the continuity safe harbor for both the production tax credits (PTC) and energy investment tax credits (ITC) from four to five years for projects that began construction in 2016 or 2017. I'm asking Treasury to consider extending continuity safe harbor protections for all eligible projects from 2016 to the present, as all have faced COVID-19 related delays and challenges. It is my hope that the forthcoming guidance will capture projects that meet either one of the two safe harbor tests, the five percent investment test, or the begin construction test. Will the Treasury Department guidance extend ITC safe harbor for all eligible projects that began between 2016 and the present, that meet either of the two safe harbor tests?

A.1. Notice 2020-41¹⁷ was issued on May 27, 2020, providing relief for taxpayers developing PTC and ITC eligible renewable energy projects by extending the four-year "continuity safe harbor" for certain projects that began construction in 2016 or 2017. The Notice also provides a "3.5 month safe harbor" for services or property paid for by the taxpayer on or after September 16, 2019 and received by October 15, 2020. This guidance provides taxpayers with flexibility to satisfy the beginning of construction requirements despite current delays and disruptions. We will continue to monitor the impact of COVID-19 on this industry and will consider additional relief as needed.

Q.2. On May 5, the Treasury Department finally released \$4.8 billion of the \$8 billion in the Coronavirus Relief Fund allocated by the CARES Act for Tribal communities. This announcement came over a month after Congress passed the CARES Act with a statutory deadline for these funds to be distributed to Tribes before 30 legislative days. Unfortunately, three weeks have gone by and the full amount has still not been distributed. This is unacceptable. Tribes in Arizona need all available resources to fight the coronavirus pandemic now. When will the Treasury Department disburse the total amount of CARES Act funding to Tribal communities? Do you have any information on the specifics of the formula that will distribute these funds?

A.2. Treasury has completed making payments to tribal governments, other than amounts that have not been paid to Alaska Native corporations pending litigation on that issue. The distribution methodology can be found on Treasury's website at <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Tribal-Allocation-Methodology.pdf> and <https://home.treasury.gov/system/files/136/Tribal-Allocation-Methodology-for-Second-Distribution.pdf>.

¹⁷ See <https://www.irs.gov/pub/irs-drop/n-20-41.pdf>.

Q.3. Thousands of hotels have been shuttered due to the COVID-19 pandemic, with revenues down 80 percent. According to an American Hotel and Lodging Association survey, only 15 percent of commercial mortgage-backed security (CMBS) borrowers have received any kind of forbearance or debt relief from their servicers. Mass foreclosures in the CMBS market would be catastrophic to Arizona communities that rely on tourism. What proposal is the Administration considering to prevent unprecedented mass foreclosures in the hotel CMBS market?

A.3. Treasury and the Federal Reserve continue to monitor the market impact of the COVID-19 pandemic on commercial real estate borrowers, including those whose loans are in CMBS. Treasury continues to work with the Federal Reserve to assess the efficacy of existing facilities established under the Federal Reserve's 13(3) emergency lending authority, and will evaluate appropriate changes necessary to promote the flow of credit and support a robust economic recovery.

Q.4. As we continue to combat this pandemic, business owners are worried about their survival right now and in the coming weeks and months as our country slowly reopens. Do you believe that businesses will need an ongoing source of financial assistance to provide confidence to reopen and rehire as opposed to one-time debt options?

A.4. Treasury has taken action to provide fast and direct economic assistance to American workers and their families, small businesses, and those hit hardest by the COVID-19 global pandemic. Treasury is monitoring economic conditions closely, and we look forward to continued discussions with you and your staff to address critical issues.

Q.5. Per its April 30 guidance, the Federal Reserve ruled that the Term Asset-Backed Securities Loan Facility (TALF) will not consider collateral without a credit rating from the highest investment-grade rating category from a major nationally recognized statistical rating organizations (NRSROs) as eligible collateral. Right now, the consumers and small business owners turning to personal loans are those most in need of support and access to credit at this difficult time. Is the Fed considering approving investment-grade personal loans as eligible collateral under TALF to ensure that these American consumers and small business owners are not left out?

A.5. Treasury continues to work with the Federal Reserve to assess the efficacy of existing facilities established under the Federal Reserve's 13(3) emergency lending authority, and will evaluate appropriate changes necessary to promote the flow of credit and support a robust economic recovery. No such decision has been taken to expand TALF at this time.

Q.6. Per its April 30 guidance, the Federal Reserve ruled that TALF will only consider collateral with a credit rating in the highest long-term or short-term investment-grade rating category from at least two NRSROs. Self-employed borrowers generally experience greater income volatility and rely on unconventional forms of documentation to access credit. As such, the self-employed often

struggle to access credit affordably. However, like other small businesses, self-employed business owners are important contributors to Arizona's economy. Are there plans to allow AAA residential mortgage-backed securities as eligible collateral under TALF?

A.6. Treasury continues to work with the Federal Reserve to assess the efficacy of existing facilities established under the Federal Reserve's 13(3) emergency lending authority, and will evaluate appropriate changes necessary to promote the flow of credit and support a robust economic recovery. No such decision has been taken to expand TALF at this time.

Q.7. Given record high unemployment levels in Arizona, mortgage forbearance and delay of evictions are a very temporary solution. Servicers of home loans backed by Fannie Mae, Freddie Mac, and Ginnie Mae are not only required to make mortgage payments on behalf of the borrowers, but also payments on property taxes, homeowners and mortgage insurance, and homeowner association dues. As more and more homeowners enter forbearance, both independent mortgage servicers and community banks will need liquidity support. How do your organizations plan to deal with mass forbearance and provide liquidity to struggling servicers? Service transferring is already a chaotic process for borrowers. Can a program be created to avoid borrowers having their service transferred during such a critical time?

A.7. Treasury is actively monitoring the mortgage market and the associated impact of COVID-19. We have focused considerable resources on delivering authorized support to households and businesses struggling as a consequence of the necessary public health response. On March 26, 2020, Secretary Mnuchin announced the creation of a Financial Stability Oversight Council Task Force on Nonbank Mortgage Liquidity, which first convened on March 30 to discuss conditions and activities in the mortgage servicing markets and remains in regular discussions. Treasury will continue to work to promote stable markets, including for residential mortgage lending.

Q.8. Requiring servicers to advance property taxes, hazard insurance, homeowners association dues, and other assessments is no small task. Servicers typically advance these amounts when borrowers face financial shortfalls or after a natural disaster without any problem, however, the national scale of this pandemic is unrepresented and our municipal and county budgets are already strained. Both Fannie Mae and Ginnie Mae have taken steps to moderate the servicer advancing burdens for principle and interest. Have your organizations contemplated the risks to cities and counties if liquidity is not restored? Have you considered standing up a liquidity facility to help servicers make these tax and insurance advances, particularly in cities and counties that are not able to access the Municipal Liquidity Facility?

A.8. Treasury is actively monitoring the mortgage market and the associated impact of COVID-19. We have focused considerable resources on delivering authorized support to households and businesses struggling as a consequence of the necessary public health response. On March 26, 2020, Secretary Mnuchin announced the creation of a Financial Stability Oversight Council Task Force on

Nonbank Mortgage Liquidity, which first convened on March 30 to discuss conditions and activities in the mortgage servicing markets and remains in regular discussions. Treasury will continue to work to promote stable markets, including for residential mortgage lending.

Q.9. Nonprofits serve on the front lines of the coronavirus pandemic helping feed Arizona families, providing Arizonans safe shelter, and connecting Arizonans to critical health services. To continue their important work and meet growing need they may need access to the 13(3) facilities. What can you do to ensure that nonprofits with up to 10,000 employees receive additional financial assistance?

A.9. On September 4, the Federal Reserve Bank of Boston announced that two new Main Street Lending Program facilities were fully operational. This program is designed to help credit flow to small- and medium-sized nonprofit organizations that were in sound financial condition prior to the pandemic and have solid postpandemic prospects. Nonprofit organizations with 15,000 employees or fewer, or 2019 annual revenues of \$5 billion or less, are eligible.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR BROWN
FROM JEROME H. POWELL**

Q.1. Are Treasury or the Federal Reserve requiring the companies, including the banks' customers which use loan programs to report payroll information that will allow Congress to assess whether funds are being used to keep workers employed and paid? If not, how do you intend to assess whether funds are being used to keep workers employed and paid?

A.1. The emergency lending facilities are intended to promote the flow of credit to households, business, and communities. Our efforts have been targeted at achieving our dual mandate, including the creation of an environment where the unemployed have the best possible chance to return to their old jobs or find new ones as the economy recovers. Our facilities were designed in compliance with both the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and section 13(3) of the Federal Reserve Act, which do not mandate that funds are used to keep workers employed and paid. For our Main Street Lending Program (Main Street), we do expect borrowers to make commercially reasonable efforts to maintain their payrolls. This means that businesses that participate in the program are expected to make good-faith efforts to maintain payroll and retain employees in light of their capacities, the economic environment, their available resources, and their business need for labor. Borrowers' commercially reasonable efforts to maintain payrolls may take different forms across the broad range of businesses eligible for Main Street. The Federal Reserve and the Department of the Treasury (Treasury Department) will monitor Main Street's impact on small and medium-sized businesses and the resulting effects of that and the other 13(3) facilities on the economic recovery and employment broadly rather than on a borrower-by-borrower basis.

Recognizing that the manner for best supporting their operations and payroll will likely vary considerably across borrowers, Main Street borrowers are not required to disclose the intended use of funds. They do, however, face restrictions on their use. Main Street borrowers are generally restricted from repaying existing debt ahead of schedule until the Main Street loans are repaid. Main Street borrowers are also subject to the CARES Act restrictions on compensation, stock repurchases, and capital distribution restrictions that apply to direct loan programs. Further, Main Street borrowers may not use the proceeds of a Main Street loan for the benefit of its foreign parents, affiliates, or subsidiaries.

Overall, providing credit to businesses, large and small, should help to ensure that their workers remain employed and paid through this very difficult period. The Federal Reserve will continue to consider adjustments to Main Street's terms and conditions, as appropriate.

Q.2. Highly leveraged energy sector companies were already facing downgrades prior to the coronavirus outbreak, yet you recently made revisions to lending programs that will allow many of these companies to receive bailouts. Why is it appropriate to provide funds to prop up businesses that were failing regardless of the impacts of the coronavirus outbreak? Pursuant to the Federal Reserve's role on the Financial Stability Oversight Council, did you consider the ramifications of further subsidizing an industry that contributes to climate change given the likelihood that the effects of climate change will lead to more volatile and less stable financial markets? If so, please provide your analysis.

A.2. As noted above, the emergency lending facilities were established to support the flow of credit to households, businesses and communities. We hope the assistance will help them to be in a position to make the recovery as strong as possible. Pursuant to section 13(3) of the Federal Reserve Act, the Federal Reserve is prohibited from lending to entities that are insolvent. To meet that requirement, we have structured the facilities to provide access to businesses across the economy that were in sound financial condition prior to COVID-19.

The Federal Reserve is monitoring the conditions in the financial system and economy to take actions needed to support the economy, maintain the flow of credit to households and businesses, and promote our maximum employment and price stability goals. Accordingly, and as needed, the Federal Reserve Board (Board) and the Secretary of the Treasury (Secretary) may make adjustments to the terms and conditions of the programs, including pricing and eligibility requirements. For example, following the initial announcement of Main Street, the Board received a number of comments requesting adjustments to the maximum loan size, leverage levels, and ability to use the proceeds to refinance debt from a wide variety of potential lenders and borrowers. In response to these comments, the scope and eligibility of the Main Street facilities were expanded.

The Federal Reserve remains committed to understanding the risk climate change poses to the real economy and financial system. As I have mentioned in previous letters to you and other Members

of Congress, staff across the Federal Reserve System are conducting research to understand the ways in which climate-related risks may transmit to the real economy and financial system. This work includes assessing how the financial sector's exposure to energy companies could affect the financial system and real economy. Staff research also supports the Board's participation in several forums with other U.S. and international regulators where the evaluation of the effects of climate change on the financial system are particularly relevant.

Q.3. The Administration opposes the spending package recently passed by the House. Based on your comments that fiscal stimulus is needed, does it make more sense to spend billions propping up failing companies that put our economy at risk than it does to spend more money on families that need to pay rent?

A.3. The CARES Act and other fiscal policy actions are providing direct help to families, businesses, and communities. This support can make a critical difference to helping both families and businesses in a time of need, as well as limiting long-lasting damage to our economy. Ultimately, however, it is the responsibility of the Congress and the Administration to decide on the appropriate size and composition of any additional fiscal stimulus.

Q.4. The Federal Open Market Committee minutes from April 28-29, 2020 note that the activities of some nonbank financial institutions present vulnerabilities to the financial system that could worsen in the event of a protracted economic downturn and that these institutions and activities should be monitored closely. What is the Federal Reserve, on its own and as a member of the Financial Stability Oversight Council, doing to monitor these institutions and their activities? What particular types of nonbank financial institutions or activities are particularly vulnerable and how does the Federal Reserve plan to address those vulnerabilities? Has the Federal Reserve taken these vulnerabilities into account when creating its 13(3) facilities? Will the Federal Reserve propose to designate any of these nonbank financial institutions systemically important?

A.4. Nonbank financial institutions (NBFI) include a diverse group of entities such as insurance companies, finance companies, government-sponsored enterprises, hedge funds, security brokers and dealers, issuers of asset-backed securities, mutual funds, and money market funds. These NBFIs have diverse business models and practices, many of which differ greatly from those of banks. Even so, these institutions and activities can pose similar vulnerabilities to those of banks, including high leverage, excessive maturity transformation, and complexity, all of which can lead to financial stability risks, as manifested in the wake of COVID-19. The Federal Reserve has been closely monitoring these institutions and their activities on a continuous basis, both on its own and as a member of the Financial Stability Oversight Council (FSOC), as reflected in various publications including the Federal Reserve's Financial Stability Reports (FSR) and the FSOC Annual Reports.

The FSOC conducts regular assessments of systemic risks posed by the activities of nonbank financial institutions under its activities-based approach to designation. These assessments occur through discussions at the Systemic Risk Committee and publica-

tions from the FSOC and its members, such as the FSOC Annual Report, the Federal Reserve's FSR, and the Office of Financial Research's Financial Stability Risk Assessment. Designations of institutions as systemically important are a matter for the entire FSOC to address, and any questions about designations and the work of the FSOC are most appropriately directed to the Secretary, who serves as the Chair of the FSOC.

The Federal Reserve's May 2020 FSR highlights several vulnerabilities for NBFIs, including dealer balance sheet constraints, potential runs in money market funds, fire sale risks arising from liquidity transformation by asset managers and insurers, liquidity strains associated with deleveraging by leveraged investors such as hedge funds, and funding stress faced by mortgage servicers.¹ The FSR describes these risks in more detail, as well as actions that the Federal Reserve took in March of this year to help alleviate these pressures. Staff continue to monitor these vulnerabilities and work with relevant regulators through the FSOC to consider potential solutions.

Amid the tensions and uncertainties of mid-March and as a more adverse outlook for the economy took hold, investors exhibited greater risk aversion and pulled away from longer-term and riskier assets as well as from some money market mutual funds. The Federal Reserve, together with the Treasury Department, established several emergency lending facilities under the emergency lending authority in section 13(3) of the Federal Reserve Act to ensure the smooth functioning of various markets and to mitigate the financial stability risks arising from vulnerabilities in the financial system. For example, to stabilize the short-term funding markets, the Federal Reserve established the Primary Dealer Credit Facility, the Commercial Paper Funding Facility, and the Money Market Mutual Fund Liquidity Facility. To support the longer-term financing of businesses, States, and localities, the Federal Reserve launched the Term Asset-Backed Securities Loan Facility, the Primary Market Corporate Credit Facility, the Secondary Market Corporate Credit Facility and the Municipal Liquidity Facility (MLF). We also launched Main Street and the Paycheck Protection Program Liquidity Facility to boost credit flows to small and medium-sized businesses.

Q.5. Millions of Americans are unable to make their credit card and auto loan payments because of the economic effects of the coronavirus pandemic.² What are the concentrations of consumer debt in each sector of the financial system? How is the Federal Reserve analyzing the levels of consumer debt at banks and nonbanks, including the likelihood of charge-offs and losses occurring simultaneously and the effect on financial stability?

A.5. Banking organizations entered this crisis in strong financial condition. Within the banking industry, consumer lending is dominated by a few large banking organizations, including a handful of auto and credit card companies. Credit card lending is concentrated at a small number of the large banking organizations, while

¹ www.federalreserve.gov/publications/2020-may-financial-stability-report-purpose.htm

² <https://www.wsj.com/articles/millions-of-americans-skip-credit-card-and-car-payments-11589985381>

nonbanks account for about one-half of mortgage origination and servicing and two-thirds of auto lending.

We expect substantial deterioration in consumer credit quality given the high unemployment caused by COVID-19. However, the extent of deterioration is difficult to estimate due to the uncertain paths of the virus and the economic recovery. Moreover, recent actions by the Government and private lenders have mitigated some of the negative effects of the crisis on consumer credit. For example, the stimulus payments and unemployment insurance expansions included in the CARES Act have assisted individuals and households in covering short-term expenditures. The CARES Act also provides mortgage payment forbearance for up to 12 months for borrowers in federally backed loans that are experiencing COVID-19-related hardship. In addition, the Board, along with the other Federal financial institution regulatory agencies, issued guidance to encourage financial institutions to work constructively with borrowers affected by COVID-19 and provide additional information regarding loan modifications in light of the CARES Act.³ This guidance notes that when working with borrowers, lenders and servicers should adhere to consumer protection requirements, including fair lending laws, to provide the opportunity for all borrowers to benefit from these arrangements. Most lenders, bank and nonbank alike, report working with their borrowers and are offering various forbearance programs that provide additional short-term relief.

The Federal Reserve dedicates substantial resources to provide oversight of consumer lending in supervised institutions. We closely supervise institutions with larger consumer loan exposures through processes such as the Comprehensive Capital Analysis and Review and the Horizontal Capital Review, and through the work of dedicated supervisory teams. Current supervisory activities include monitoring for the potential effects of the expiration of the forbearance and consumer assistance programs on consumer credit. Forbearance programs are not standardized across firms or for product types, clouding analysis of the timing and severity of losses. However, the programs are likely to extend the timing of COVID-19-related losses into 2021.

The Federal Reserve also monitors closely credit performance changes at nonbank lenders, such as credit unions and finance companies, to achieve a more comprehensive picture of the stress households may have in meeting their debt obligations. In addition, the Federal Reserve pays close attention to developments in the asset-backed securities market as this market provides important liquidity for lending to households.

Q.6. You previously said “we have the evidence from the global financial crisis and the years afterwards that State and local governments’ layoffs and lack of hiring did weigh on economic growth.” Can you describe in greater detail the extent to which State and local governments’ layoffs and lack of hiring slowed the economic recovery after the Great Recession? Do you expect a similar impact to occur in the economic downturn related to COVID-19? Do you

³ See press release at <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200407a.htm>.

have similar concerns about the economic impacts of cuts to services at the State and local levels?

A.6. State and local governments confronted significant fiscal strain following the Great Recession. As a result, their employment fell for several years. More broadly, the overall purchases of these governments fell for four years following the recession—with outlays for infrastructure falling particularly sharply—and rose only anemically for several years thereafter. It is well documented that these outcomes weighed on broader economic growth.⁴

State and local governments are currently confronting acute budget pressure as the sharp decline in economic activity caused by COVID-19 has pushed down their tax collections. The Federal Reserve has established the MLF in order to help these governments better manage the cash flow pressures they are confronting, and Congress and the Administration have provided direct support to the States and localities through the CARES Act and other actions. The extent to which State and local governments will impose a drag on economic activity going forward will depend importantly on the path of the broader economic recovery—and the corresponding extent to which these governments' tax bases recover—and the extent to which these governments receive additional support from the Federal Government. That said, it is the responsibility of the Congress and the Administration to decide on the appropriate size and composition of any additional fiscal stimulus.

Q.7. If banks are meant to do meaningful underwriting as part of the Main Street Lending Programs (MSLP), and the Federal Reserve and the Treasury have designed the MSLP to minimize losses, why is the risk of loss on the loans shared on a *pari passu* basis between the participating bank and the MSLP SPV?

A.7. Under Main Street, lenders are required to retain five percent of each loan participated to the Main Street special purpose vehicle (SPV) and to share losses with the Main Street SPV on a *pari passu* basis. The Federal Reserve and Treasury Department believe that this level of risk sharing will incentivize prudent underwriting and risk management standards and, therefore, limit downside risk to taxpayers. At the same time, *pari passu* risk-sharing creates balance sheet capacity for eligible lenders and facilitates a “true sale” of the participation interest to the Main Street SPV.

Q.8. Why did the Federal Reserve and Treasury select the participation rates of 95 percent and 85 percent for the Main Street Lending Programs?

A.8. On June 8, the Board amended the terms of the Main Street facilities to enable more small and medium-sized businesses to receive Main Street loans. Part of this expansion included raising the Main Street SPV's participation rate to 95 percent for loans across all of the Main Street facilities.

The Board and Treasury Department considered several factors in sizing the rate of participation in Main Street eligible loans and upsized tranches. The agencies created Main Street facilities that

⁴See, for example, the analysis in Cashin, Lenney, Lutz, and Peterman, “Fiscal Policy and Aggregate Demand in the U.S. Before, During and Following the Great Recession”, Finance and Economics Discussion Series 2017-061. Washington: Board of Governors of the Federal Reserve System.

purchase sizable (but less-than-100 percent) participations in loans in order to maintain a level of risk sharing that creates balance sheet capacity for eligible lenders, while at the same time providing eligible lenders a strong incentive to apply prudent underwriting and risk management standards. A 95 percent participation provides an appropriate balance of these considerations.

Q.9. The Federal Reserve FAQs for the Primary Market Corporate Credit Facility and Secondary Market Corporate Credit Facility, and for the Term Asset-Backed Securities Loan Facility, initially indicated the Federal Reserve would accept ratings only from the three largest credit rating agencies.

On May 26, 2020, updated FAQs expanded the universe of acceptable credit rating agencies beyond just the three largest firms, but two ratings are still required, with one from one of the three largest firms. In addition, the updated FAQs omit certain Securities and Exchange Commission registered NRSROs.

Please explain the process by which the Federal Reserve determined the NRSRO ratings it will accept and the two rating requirement, including that one of the two required ratings be from of the three largest firms. Also, does the Federal Reserve intend to announce additional updates or whether it will expand the universe of acceptable NRSROs?

Furthermore, given that thousands of companies are sole-rated by a credit rating agency that is not one of the three largest, and under the FAQ, the Federal Reserve will not accept a second rating from one of the three largest firms assigned after March 22, 2020, will those companies be ineligible for every Federal Reserve lending facility?

Finally, why did the Federal Reserve initially limit major credit rating agencies to the three largest NRSROs despite the long-standing policy goals, in particular since the 2008 financial crisis, to avoid reliance solely on ratings and reinforcing the market concentration of those firms?

A.9. The emergency lending facilities were established to support the flow of credit to households, businesses, and communities. 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 only the three largest nationally recognized statistical rating organizations (NRSROs), given that the most widespread credit ratings used are from these three NRSROs.

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 fa-

cilities. The Federal Reserve hopes this change expands access to its facilities, while continuing to protect against taxpayer losses. The Federal Reserve will continue to monitor its facilities to ensure they are working as intended.

Q.10. The President recently stated he supports “looking into” banks committed to no longer investing in oil and gas drilling in the Arctic. Has the President discussed this with you or someone at your agency? Have you or anyone at your agency started any investigation, or initiated any proceeding to “look into” banks which have committed to not investing in Arctic oil and gas development?

A.10. It is not the practice of the Federal Reserve to confirm, or deny, whether we have commenced an examination or civil investigation involving a particular supervised financial institution.

The Federal Reserve recognizes the importance of ensuring public access to financial services for all legal businesses in an environment that promotes trust and confidence. The Federal Reserve’s supervisory responsibilities over the banking system generally are discharged with the objective of ensuring the safety and soundness of the financial system. In exercising these responsibilities, the Federal Reserve does not regulate decisions by a banking organization with respect to the types of financial services the organization chooses to furnish or not to furnish, so long as the organization’s activities are conducted prudently and in compliance with applicable law.

Q.11. Have you limited funds appropriated by Congress through the CARES Act, or any other law, to banks that have committed to stop financing Arctic oil and gas development?

A.11. The determination of how funds are appropriated under the CARES Act with regard to section 13(3) facilities is made by the Secretary. As required by section 13(3) of the Federal Reserve Act, all of our emergency lending facilities are broad based. In addition, they each have neutrally defined eligibility requirements. Neither the eligibility criteria, nor any other term or condition of any of our facilities in any way relates to bank actions with respect to Arctic oil and gas development.

Q.12. Have you been directed by anyone, up to and including the President, to use the authorities and resources at your disposal to tip the scales in any way regarding banks or other investors with commitments to not finance new development in the Arctic?

A.12. As noted, the section 13(3) facilities established by the Federal Reserve with the support of the Secretary have neutrally defined eligibility requirements intended to help the real economy and in particular, households and businesses, respond to the financial hardships resulting from the impact of COVID-19 and efforts to contain it. I have not been directed by any person to take any action relating to commitments to not financing new development in the Arctic.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TOOMEY
FROM JEROME H. POWELL**

Q.1. Many in Congress have expressed concern about the impact of job loss and unemployment upon low-income workers, and the Federal Reserve's Report of the Well Being of US Households in 2019 found that 39 percent of Americans with a household income of less than \$40,000 had seen at least one job loss in March. However, the report also stated that most workers expected their job losses to be temporary, with nine in 10 people who were furloughed or who had lost a job saying that their employer indicated that they would return to their job at some point.

As you stated in the hearing, "where people are unemployed for long periods of time, that can permanently weigh on both their careers and their ability to go back to work, and also weigh on the economy for years." While unemployment benefits are an important source of needed liquidity for displaced workers and can smooth consumption, having workers continue to be unemployed for longer than necessary may be harming our ability to quickly recover and restore long-term income stability. A recent University of Chicago working paper found that 68 percent of unemployed workers who are eligible for UI will under the CARES Act receive benefits which exceed lost earnings, and that the median wage replacement rate under the CARES Act is 134 percent of prior wages.

How would you expect long-term (beyond July 31st, 2020) wage replacement rates above 100 percent to impact efficient labor reallocation and an eventual economic recovery?

Would you expect a targeted proportional system of unemployment benefits that caps wage replacement rates at 100 percent to sufficiently smooth consumption for displaced workers?

A.1. In the current economic environment, it is difficult to assess the effects of high replacement rates on efficient labor reallocation. Much depends on what the efficient level of reallocation is at present, and that is extremely difficult to ascertain. For example, to the extent that layoffs are temporary and workers remain attached to their prior employers, reallocation will not be efficient. The July employment report showed that over 70 percent of those who have lost their jobs are on temporary layoff, which is a very high number by historical standards. Whether temporary layoffs will remain elevated (and for how long) is hard to judge.

The level of efficient reallocation may also be low currently because employment relocation—a necessary part of many reallocations—is difficult for public health reasons. In addition, to the extent that a wage replacement rate is only temporarily high, it may not reduce efficient reallocation by much because in a depressed and uncertain labor market, many unemployed individuals will not want to pass up an opportunity of steady, gainful employment that may not come again soon.

A targeted proportional system of unemployment benefits that caps wage replacement rates at 100 percent may not sufficiently smooth consumption for some families. For example, some families may have lost income that is not covered by unemployment insurance. In addition, families that are also incurring unusually large health-related or other emergency expenditures may struggle to maintain their typical consumption.

Q.2. I strongly support the Federal Reserve's efforts to provide liquidity to midsize companies through the Main Street facility. It is important for the Federal Reserve to think carefully about how that facility will be governed. In particular, commercial lenders typically gain certain rights when a loan becomes troubled. While it is reasonable for the Federal Reserve to have similar rights with respect to the loan participations it acquires through the Main Street facility, it must avoid having politics injected into lending decisions.

To that end, what steps is the Federal Reserve taking to ensure that any decisions it makes as a lender under the Main Street facility will be free from political influence?

A.2. Under the Main Street Lending Program (Main Street), the Federal Reserve Board authorized the Federal Reserve Bank of Boston to establish a special purpose vehicle (SPV) to purchase participations in eligible loans originated by eligible lenders. Lending decisions will be made by eligible lenders, which will apply their own underwriting standards when evaluating the creditworthiness of a borrower, in addition to the minimum requirements set out in facility term sheets. The Main Street Loan Participation Agreement¹ sets out terms governing the Main Street SPV's voting rights with respect to its participation in Main Street loans, both during the life of the loans and in work-out scenarios. In general, the Loan Participation Agreement contains commercially standard terms, adjusted as appropriate for the unique features of Main Street.² While the SPV has the right to vote on specific core matters relating to the administration of the loan, eligible lenders will retain non-core rights and are expected to service each Main Street loan in accordance with the standard of care set out in the Loan Participation Agreement (i.e. to exercise the same duty of care in approaching such proceedings as it would exercise if it retained a beneficial interest in the entire loan). Consistent with Section 13(3) of the Federal Reserve Act and the Federal Reserve's obligations under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Main Street SPV will make commercially reasonable decisions to protect taxpayers from losses on Main Street loans and will not be influenced by non-economic factors when exercising its voting rights under the Loan Participation Agreement, including with respect to a borrower that is the subject of a work-out or restructuring.³ Further information on the Main Street facilities and the criteria for eligible lenders can be found at www.federalreserve.gov/monetarypolicy/mainstreetlending.htm.

Q.3. Please respond to the following regarding flows of prime money market fund (PMMF) liquidity in March 2020:

What were the gross redemptions from publicly offered PMMFs from March 11 to March 18, 2020? For comparison, what were the

¹The Main Street Loan Participation agreement and other legal forms and agreements can be found at <https://www.bostonfed.org/supervision-and-regulation/supervision/special-facilities/main-street-lending-program/information-for-lenders/docs.aspx>.

²Among other deviations from market-standard terms, the Participation Agreement gives the Main Street SPV additional rights that can be used to prevent any reduction in the principal amount of the portion of any Main Street loan that is participated to the Main Street SPV, as prohibited under section 4003(d)(3) of the CARES Act.

³See Frequently Asked Questions J.4–J.6 available at <https://www.bostonfed.org/mslp-faqs>.

gross redemptions from PMMFs from January 13 to January 17, 2020; and also from October 11 to October 18, 2019?

Separately, for each of the above three time frames, please provide the gross purchases into PMMFs.

Separately, for each of the above three time frames, please break the answer down between gross redemptions or purchases, as the case may be, of PMMFs with stable NAVs open only to natural person investors and PMMFs with fluctuating NAVs open to both natural persons and non-natural persons.

A.3. In mid-March 2020, amid very large outflows from prime money market funds (MMFs), institutional funds (which are open to investors other than “natural persons”) experienced the largest net outflows.⁴ From March 11 to March 18, 2020, when prime MMFs saw outflows totaling \$85 billion, institutional prime MMFs had \$67 billion in outflows. Retail prime MMFs, which are open only to natural persons and thus represent a different segment of the market, had \$19 billion in outflows in this time frame.

From January 13 to January 17, 2020, prime MMFs had net inflows of \$1.6 billion: approximately \$0.2 billion into institutional funds and \$1.3 billion into retail funds. From October 11 to October 18, 2019, prime MMFs had net inflows of \$10 billion: approximately \$6 billion into institutional funds and \$4 billion into retail funds.

Institutional prime MMFs have consistently experienced heavier outflows than retail prime MMFs in episodes of stress, including in mid-March 2020, and also during the 2008 run on MMFs. Heavier outflows from institutional MMFs may occur because their shareholders have more resources to monitor funds carefully and may face strong incentives to avoid losses or liquidity constraints on their shares.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR ROUNDS FROM JEROME H. POWELL

Q.1. Vice Chair Quarles mentioned in a recent hearing before this committee that the Federal Reserve has closely studied the impact of the COVID-19 pandemic on the banking system and that such analysis will inform each bank’s Stress Capital Buffer.

While I appreciate the Board’s efforts on this front, many of the macroeconomic effects of COVID-19 weren’t fully reflected in the financial services sector until after the Board’s initial COVID-19 analysis had been completed.

For the sake of transparency and so that financial institutions can benefit from the fullness of understanding of how the Board views the impact of the COVID-19 pandemic on bank capital, will the Board release its pandemic analysis in a timely fashion?

A.1. On June 25, the Federal Reserve Board (Board) released the results of its stress tests for 2020 and additional sensitivity anal-

⁴Net flows are gross purchases less gross redemptions. Net flows provide the best overall representation of the pressure arising from investor flows on money market funds to buy assets (when net flows are positive) or sell assets (when net flows are negative). We do not separately analyze data on gross purchases and gross redemptions for money market funds. The Securities and Exchange Commission collects data on gross purchases and gross redemptions for money market funds.

yses that the Board conducted to assess the resiliency of large banking organizations under three hypothetical recession scenarios that could result from COVID-19. In the three scenarios, the unemployment rate peaked at between 15.6 percent and 19.5 percent, which is significantly higher than any of the Board's pre-COVID-19 stress test scenarios.

The Board also released the results of its full stress test, which was designed before COVID-19. The Board will use the results of that test to set the new stress capital buffer (SCB) requirement for large banking organizations, which will take effect, as planned, in the fourth quarter.

In addition to releasing the results of the test, the Board has determined that the changes in financial markets and the macro-economic outlook could have a material effect on each firm's risk profile and financial condition. The Board is therefore requiring large banking organizations to update and resubmit their capital plans later this year to reflect current stresses, which will help firms reassess their capital needs and maintain strong capital planning practices during this period of uncertainty. The Board will conduct additional analysis each quarter to determine if adjustments to this response are appropriate.

Q.2. Dodd-Frank requires that banks' annual stress test include four scenarios but the Stress Capital Buffer is based on the results for just one of those scenarios—the Supervisory Severely Adverse scenario. How does the Board believe financial institutions should use the other three scenarios when the Supervisory Severely Adverse scenario sets the binding requirement in the Stress Capital Buffer?

A.2. Large banking organizations are subject to four scenarios in the Board's stress testing and capital planning program: the supervisory severely adverse scenario, the supervisory baseline scenario, the Bank Holding Company (BHC) baseline scenario and the BHC stress scenario. The SCB requirement is calculated based on the results of the supervisory severely adverse scenario in the Board's annual stress test, but a large banking organization's capital planning process should be informed by all the information included in the results of the four scenarios. A firm's risk identification and capital planning process also includes designing its own scenario. Further, the Board's supervisory assessment of capital planning is evaluated in part from the results of the stress tests, including those from all applicable scenarios.

Q.3. I understand that the Stress Capital Buffer has integrated the Board's regulatory capital rule with the Comprehensive Capital Analysis and Review (CCAR) framework. As a result, CCAR now serves as a way for banks to calculate the Stress Capital Buffer required to cover potential losses. Following this integration, the Board has taken a step forward to remove the quantitative objection to capital distributions since the Stress Capital Buffer now determines capital distributions.

What will the Board's objectives be for CCAR in the future following these changes? And what metrics will the Board use when it evaluates capital distributions in the future?

A.3. Under the SCB rule issued in March 2020, the results of the Federal Reserve’s supervisory stress tests and firms’ planned dividends are used to calculate a firm-specific SCB requirement, which informs the size of the buffer requirements to which each large firm is subject. A firm is subject to automatic distribution limitations if its capital ratios fall below the minimum plus buffer requirements.

The Comprehensive Capital Analysis and Review will continue to be an integral part of the Board’s supervisory program for large banking organizations, by assessing both the capital plans and the capital planning practices that these firms use to assess their capital needs.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR PERDUE
FROM JEROME H. POWELL**

Q.1. *Federal Reserve Balance Sheet*—Chair Powell, this is not a criticism of the Federal Reserve’s actions, rather more a question aimed at the path forward. Over the past 3 months, the Federal Reserve’s balance sheet has expanded from \$4.1 trillion to nearly \$7 trillion today. In fact, if the Fed maximizes the lending powers granted under the CARES Act, the balance sheet can easily expand to nearly \$14 trillion.

Given the fiscal deficit that we have incurred and will continue to incur for the foreseeable future, have we monetized the national debt?

A.1. The Federal Reserve’s chosen level of asset holdings is never intended or designed to fund the government. As always, the Federal Reserve’s actions are guided by its mandate to promote maximum employment and stable prices for the American people, along with the responsibility to promote the stability of the financial system. Moreover, from the perspective of a consolidated government balance sheet, because the Federal Reserve funds its balance sheet with interest-paying reserves, the Federal Reserve’s asset purchases represent a shortening of the maturity structure of government debt and not a monetization of the debt.

In recent months, the Federal Reserve’s asset purchases have been directed toward supporting the flow of credit to households, businesses, and State and local governments. In particular, as the public health crisis intensified in mid-March 2020, the functioning of the Treasury market and the market for agency mortgage-backed securities deteriorated sharply. These markets are critical to the overall functioning of the financial system and to the transmission of monetary policy to the broader economy. If left unchecked, these strains could have severely aggravated what was already a very large shock to the financial system.

By most metrics, liquidity in these markets greatly improved in short order. Accordingly—starting in early April 2020—the Federal Reserve began to significantly slow the size of its purchases. Going forward, the Federal Reserve’s holdings of securities will be determined by the needs to support market functioning and the flow of credit, consistent with the Federal Reserve’s congressionally-mandated mission.

Q.2. Does the expanded Fed balance sheet and our out of control debt situation undermine your ability to tackle future inflationary pressures?

A.2. In the near term, the ongoing public health crisis will weigh heavily on economic activity, employment, and inflation. In fact, recent inflation readings have been soft and the Federal Open Market Committee's (FOMC) June economic projections show participants anticipated that the 12-month PCE inflation measure would likely run well below the FOMC's 2 percent objective for some time. As a result, the FOMC expects to maintain the current, low Federal funds rate target range until it is confident that the economy has weathered recent events and is on track to achieve maximum employment and price stability.

Of course, going forward, the FOMC will closely watch the incoming data on inflation and inflation expectations. At each future meeting, the FOMC will evaluate all data on the U.S. economy and choose the appropriate stance of policy to continue to move the economy toward its mandated objectives. As the FOMC noted in its recent statement, it is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum-employment and price-stability goals.

Q.3. *The Great Deleveraging*—In a post-Covid environment, the world will be flushed with debt, both private and public. Back in January, the Institute of International Finance projected global debt to be at \$253 trillion or 322 percent of GDP. I cannot imagine how much we will be facing in January 2021.

We have failed to learn the lessons of the past crisis and while household debt has dropped, we have failed to control the excesses in government spending and cheap money propagated asset bubbles.

Deleveraging will be painful and exceptionally so for the lower bounds of our economy. In your view, what are indicators that you are looking for before you would recommend fiscal tightening and what are recommendations that you would like to see beyond monetary policy that would assist in removing our dependency from this glut of debt?

A.3. The details of fiscal policy decisions are for elected representatives, who hold the powers of taxation and spending. While it is important for fiscal policymakers to take actions over time that put the Federal budget and debt on a sustainable path in the longer run, the time to make that a top priority is when the economy is strong, and unemployment is low.

Q.4. The Fed and Congress has flooded the market with cheap credit to prevent the wide scale collapse of the economy, I am bothered by colleagues who are seeking to widen the scale of the intervention or attempting to pick winners and losers. How do we avoid the path of Japan or Europe where their interventions in the past recessions have created zombie companies or zombie industrial sectors?

A.4. Our 13(3) facilities are intended to function as backstops to the private markets, with pricing designed to encourage borrowers to use private financing if it is available. The tools that the Federal Reserve is using under its 13(3) authority are for times of emer-

agency such as now, and we will put these tools back in the toolbox when economic and financial conditions improve. Our 13(3) facilities are designed to have broad, neutrally defined eligibility requirements and to lend to borrowers that were in sound condition prior to the onset of COVID-19.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TILLIS
FROM JEROME H. POWELL**

Q.1. As I mentioned in the hearing, I am concerned that companies in need of financial assistance do not meet the eligibility criteria for the existing Federal Reserve (Fed) and Treasury programs. The Fed's programs are largely limited to investment grade (IG) companies with certain leverage criteria that gets harder to satisfy the longer the pandemic goes. These programs have excluded otherwise well run companies that are not IG, or somehow don't fit the specific criteria—companies that are sometimes even deemed essential by the Cybersecurity and Infrastructure Security Agency within the Department of Homeland Security.

What is the Federal Reserve and Treasury doing to help well-managed non IG companies that have weathered the initial storm without any government assistance, but may need access to liquidity in the next couple of months?

A.1. Section 13(3) of the Federal Reserve Act and the Federal Reserve Board's (Board) Regulation A require that a lending Reserve Bank be secured to its satisfaction and that the collateral be assigned a lendable value. The eligibility criteria for creditworthiness, including the requirement that eligible companies in the corporate credit facilities be investment grade, help satisfy this requirement and appropriately protect taxpayers from the risk of loss associated with the loan. The facilities broadly seek to support creditworthy companies that rely on capital markets to fund their operations during unusual and exigent circumstances. While our corporate credit facilities are designed primarily to support markets that serve investment grade companies, we wanted to prevent a gulf opening up between those markets and the other markets that serve high-yield issuers. Therefore, the corporate credit facilities are open to so-called "fallen angels"—companies that would have been investment grade but for the COVID-19 shock. The Secondary Market Corporate Credit Facility (SMCCF) is also purchasing a limited quantity of high-yield exchange traded funds (ETFs). Support to the market for issuers that access the facility also supports the credit markets more broadly, including for those that do not access the facility or are not eligible to access the facility. In addition, noninvestment grade companies may be eligible to borrow under the Main Street Lending Program if the lending bank's internal risk rating of the company is equivalent to a supervisory rating of "pass." The Federal Reserve is monitoring conditions closely and may reevaluate the terms and conditions of facilities as needed.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR KENNEDY
FROM JEROME H. POWELL**

Q.1. With respect to qualifying eligibility to participate in the Primary Market Corporate Credit Facility (PMCCF) to those companies that have a rating from the largest nationally recognized statistical rating organization (NRSROs)

What is the basis for treating smaller NRSROs differently from the largest NRSROs, particularly in light of the fact that their regulator, the SEC, does not differentiate among them?

By limiting eligibility in the PMCCF to only those companies that have investment grade ratings from one of the three largest NRSROs, aren't you effectively limiting access to these important sources of funding to only the Nation's largest companies?

Is that consistent with the goals and objectives of the CARES Act and the other Fed/Treasury programs that are addressed to the crisis?

A.1. The emergency lending facilities, including the Primary Market Corporate Credit Facility (PMCCF), were established to support the flow of credit to households, businesses, and communities. In addition, under the law, the loans the Federal Reserve extends must be satisfactorily secured and sufficiently protect taxpayers from loss.

Our initial priority was to announce the establishment of these facilities as quickly as possible, and therefore the facilities, including the PMCCF, first used credit ratings from 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, we considered the design and focus of each facility, and the role that each NRSRO plays in the relevant market. Specifically, we 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. Our hope is that this change expands access to its facilities, while continuing to protect against taxpayer losses. We will continue to monitor the facilities to ensure they are working as intended.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR MCSALLY
FROM JEROME H. POWELL**

Q.1. Consumer spending is 70 percent of GDP, and much of that is supported by consumer credit. Data shows that the demand for online personal loans remains high, but the liquidity has been badly disrupted. As a result interest rates are increasing on personal loans. Do you have a timetable for the Federal Reserve adding at least the highest rating grade for personal loans to the TALF program?

A.1. As you note, an individual or family's ability to purchase goods and services depends crucially on their ability to access credit at

affordable terms. Indeed, that is a key motivation for the Term Asset-Backed Securities Loan Facility (TALF) program. TALF-eligible loan collateral includes several types of asset-backed securities (ABS) that provide key support for consumer spending, including auto, credit card, and student loan ABS. In determining the types of collateral that are eligible for TALF loans, the Federal Reserve Board (Board) considers whether accepting an asset class will provide material support to the economy, such as by facilitating consumer spending. The Board also considers whether inclusion of the asset class is appropriate under the restrictions of section 13(3) of the Federal Reserve Act. For example, the Board and Reserve Banks must take steps to ensure the protection of the taxpayer, including by assigning a “lendable value to all collateral.”

Personal loan ABS may not be good candidates for the TALF given these restrictions. Unlike auto, credit card, and student loan ABS, personal loan ABS is a fairly new asset class, and comprehensive information is not available about the performance of personal loan ABS in stressed economic periods. Likewise, only a small share of personal loan ABS is routinely rated triple-A by the rating agencies.

The Board will continue to evaluate the feasibility of adding other asset classes to or expanding the scope of existing asset classes eligible for the TALF.

Q.2. It has come to our attention that borrowers of commercial mortgage-backed securities, whose properties have been shut down by government public safety precautions, are under undue significant financial hardship because they are stuck between tenants that are not paying and mortgage servicers who are not offering flexibility. These are owners of hotels, shopping centers and certain housing entities. They are extremely worried about their ability to meet their financial obligations over a protracted time period with no rents coming in. There is not a clear regulatory framework for CMBS but the concerns remain.

What are you doing to help commercial real estate and other industries that were excluded from the Federal Reserve’s facilities programs?

Would you consider a plan to utilize the remaining funding allocated to the Treasury Department under Title IV of the CARES Act to support those borrowers?

Do you think it would be appropriate to change the leverage constraints so the facilities are more effective in providing assistance to commercial real estate?

What measures are you planning to take to ensure lenders that utilize the TALF program provide appropriate relief to borrowers to ensure that permanent jobs loss does not incur as a result of imminent foreclosures due to the lack of forbearance being granted in the CMBS market?

A.2. The Federal Reserve is closely monitoring the situation in the commercial mortgage-backed securities (CMBS) market and the commercial real estate market more broadly and recognizes the current challenges in the market. The actions taken by the Federal Reserve to support the broader economy have alleviated some of the strains in the commercial real estate market. The Federal Re-

serve's purchases of Agency CMBS, as part of open-market operations, and the inclusion of legacy, non-agency CMBS, as TALF-eligible collateral, have improved spreads and liquidity in the CMBS market. The Main Street Lending Program (Main Street) and the Paycheck Protection Program Liquidity Facility have helped provide small and medium-sized businesses financing to maintain operations, including paying rent to their landlords. The Corporate Credit Facilities are also providing support to some segments of the commercial real estate industry. The Federal Government and the Federal Reserve continue to be willing to adjust the parameters of these programs to allow for more flexible use of these programs by borrowers and financial institutions.

Even with these actions, as you note, certain commercial real estate borrowers continue to experience significant distress. For example, since late February 2020, the lodging and retail sectors have experienced precipitous declines in demand as a result of COVID-19. In June, looking only at mortgages funded by CMBS, borrowers accounting for about 24 percent of mortgages in the lodging sector and 18 percent of mortgages in the retail sector were more than 30 days delinquent. Other sectors—for example, the multi-family sector—have experienced less-severe increases in delinquencies. However, the Federal Reserve's main tool-lending may not be an effective solution for commercial properties that have suffered large revenue losses and already have large debt burdens. Loans extended under emergency lending facilities under Section 13(3) of the Federal Reserve Act—including those facilities that utilize funding allocated to the Department of the Treasury under Title IV of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)—are generally not subordinate to other debt, and the Federal Reserve must take steps to ensure that the taxpayer will be repaid. In addition, many commercial property owners are barred by their loan agreements from taking on more debt.

Regarding TALF, the program is designed to support the flow of credit to households and businesses by providing liquidity to the ABS market. TALF accepts as collateral triple-A non-agency CMBS issued before March 23. TALF has been effective in achieving its objectives, as evidenced by the significant narrowing of CMBS spreads since its announcement. However, the program is not an appropriate vehicle to address forbearance in the non-agency CMBS market. In a typical CMBS structure, decisions about loan modifications are made by the special servicer appointed by the holders of the junior bonds, not by the triple-A bondholder. The TALF borrower, therefore, has little influence over the modification decisions made by the CMBS trust. When a securitization already exists and is trading in the marketplace, changing the rules of its pooling and servicing agreement is extremely difficult. Further, imposing additional restrictions on which CMBS are eligible collateral for TALF loans could run counter to the program's goals of increasing market liquidity.

We are committed to using our tools to help employers get through the current difficult period. We will continue to monitor economic conditions, including those in commercial real estate, as well as the efficacy of existing facilities. We will consider changes in our approach as warranted by developments.

Q.3. Short-term funding provisions are essential for nonprofits right now, especially those with more than 500 employees that are not eligible for the Paycheck Protection Program. Nonprofits provide critical services to the most vulnerable. Nonprofits often lack the ability to raise funds the way for-profit enterprises can, and taking on additional debt can severely affect the services nonprofit organizations provide. What actions is Federal Reserve and Treasury considering for nonprofits employers with between 500 and 10,000 employees?

A.3. Nonprofit organizations are a critical part of our economy, employing millions of people, providing essential services to communities, and supporting innovation and the development of a highly skilled workforce. We announced on June 15 that we would be seeking public feedback on a proposal to expand Main Street to provide access to credit for nonprofit organizations described in sections 501(c)(3) and 501(c)(19) of the Internal Revenue Code that meet minimum eligibility criteria.¹ The Board received comments from a wide range of stakeholders, and in response, on July 17, we announced revised term sheets that expanded the range of nonprofit organizations eligible to obtain Main Street loans. Under the updated terms, the Federal Reserve will offer loans to small and medium-sized nonprofits that were in sound financial condition before COVID-19. Nonprofit organizations will need to meet various eligibility criteria to qualify, including financial eligibility criteria based on operating performance, liquidity, and ability to repay debt. For additional information on the proposed nonprofit facilities, please see the facility term sheets.²

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAMER
FROM JEROME H. POWELL**

Q.1. There are over 6,200 nonprofits that employ more than 500 workers (according to GuideStar), but they are not eligible for the forgivable loans established in the CARES Act. Nonprofit organizations with more than 500 employees employ over 25 percent of the nonprofit workforce or over 3 million Americans. Congress included nonprofits in the Main Street Lending Program, but the Federal Reserve has stated that nonprofits are not currently eligible.

As a result, there have not been any relief loan options provided to charities with more than 500 employees. I have heard from many social service groups who have seen an increase in demand as well as increased costs associated with keeping staff and clients safe. I have in hand a letter from several voluntary health charities, such as Alzheimer's Association, American Heart Association, American Lung Association, and American Cancer Society, who are working overtime to support patients and families most at risk of contracting COVID-19 or developing dangerous complications and not able to access any of the forgivable loans.

¹ www.federalreserve.gov/newsevents/pressreleases/monetary20200615b.htm

² For the Nonprofit Organization Expanded Loan Facility term sheet, see <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200717a1.pdf>. For the Nonprofit Organization New Loan Facility term sheet, see <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200717a2.pdf>.

A.1. Nonprofit organizations are a critical part of our economy, employing millions of people, providing essential services to communities, and supporting innovation and the development of a highly skilled workforce. We announced on June 15 that we would be seeking public feedback on a proposal to expand the Main Street Lending Program (Main Street) to provide access to credit for nonprofit organizations described in sections 501(c)(3) and 501(c)(19) of the Internal Revenue Code that meet minimum eligibility criteria.¹ The Federal Reserve Board received comments from a wide range of stakeholders, and in response, on July 17 we announced revised term sheets that expanded the range of nonprofit organizations eligible to obtain Main Street loans. Under the updated terms the Federal Reserve will offer loans to small and medium-sized nonprofits that were in sound financial condition before COVID-19. Nonprofit organizations will need to meet various eligibility criteria to qualify, including financial eligibility criteria based on operating performance, liquidity, and ability to repay debt. For additional information on the proposed nonprofit facilities, please see the facility term sheets.²

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED
FROM JEROME H. POWELL**

Q.1. As you may know, CNBC has reported that the “Congressional Budget Office projects GDP dropping 38 percent in the second quarter as 26 million Americans remain unemployed.”

In light of these projections, are the Federal Reserve and the Department of the Treasury considering either expanding the forthcoming Main Street Lending Program or creating a different program to facilitate lending to U.S. businesses with more than 15,000 employees so that they may also get assistance with keeping workers on the job?

A.1. The employee size and revenue eligibility metrics under the Main Street Lending Program (Main Street) were adopted to enable the program to support small and medium-sized businesses that are unable to receive sufficient assistance through other programs, such as the Small Business Administration’s Paycheck Protection Program, or that may not have reached the scale needed to issue the kinds of capital market instruments that would be purchased under the Federal Reserve’s Primary Market Corporate Credit Facility (PMCCF). Larger companies may wish to consider whether the PMCCF, which extends credit to Coronavirus Aid, Relief, and Economic Security Act (CARES Act)-eligible businesses without imposing restrictions related to revenues or number of employees, meets their needs. Like Main Street, borrowers under the PMCCF must meet facility-specific eligibility criteria. As of June 29, the PMCCF is operational and available for use.

¹ www.federalreserve.gov/newsevents/pressreleases/monetary20200615b.htm

² For the Nonprofit Organization Expanded Loan Facility term sheet, see <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200717a1.pdf>. For the Nonprofit Organization New Loan Facility term sheet, see <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200717a2.pdf>.

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR MENENDEZ FROM JEROME H. POWELL**

Q.1. The Municipal Liquidity Facility only offers loans that must be paid back in three years. All of the private market business lending facilities offer four year lending, even though the businesses borrowing from those facilities could pose a greater credit risk to taxpayers than States and localities.

What is the rationale for offering States and localities a shorter loan term than private corporations?

Does the Federal Reserve expect that absent additional assistance from the Federal government, the fiscal pressures on States and localities will still be there 3 years from now?

A.1. The purpose of the Municipal Liquidity Facility (MLF) is to restore market functioning by increasing the availability of funding to eligible issuers through purchases of their short-term notes, so that municipalities can better manage cash flow pressures in order to continue to serve their communities. The 36-month maturity limit reflects the purpose of the MLF to provide near-term financing to eligible issuers facing severe liquidity constraints resulting from the increase in State and local government expenditures related to COVID-19 and the decrease and delay of certain tax revenue, while allowing eligible issuers access to funding over more than one budget cycle. By addressing the cash management needs of eligible issuers, the MLF also was intended to encourage private investors to reengage in the municipal securities market, including across longer maturities. With the MLF and other facilities in place as a backstop to the private market, many parts of the municipal bond market have significantly recovered from the unprecedented strains experienced earlier this year. Municipal bond yields have declined considerably, issuance has been robust in recent months—particularly for issuers rated AA or higher who make up about 80 percent of the municipal securities market—and market conditions have improved.¹

We will continue to closely monitor conditions in the primary and secondary markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to State and local governments.

Q.2. Similarly, the rates the Federal Reserve is offering to investment-grade municipalities isn't far below the rates the Federal Reserve is offering to private companies in the Main Street lending programs, even though municipal bonds historically have had much lower rates of default.

Please explain the Federal Reserve's rationale for pricing the municipal lending facility at the rates specified in the latest term sheet.

Do you believe that the pricing could discourage States and municipalities from using the facility and potentially stigmatize those that choose to do so—making it harder for those who borrow from the facility to go back to the private market in the future?

¹ See Board of Governors of the Federal Reserve System (2020), Financial Stability Report (Washington: Board of Governors, May), <https://www.federalreserve.gov/publications/2020-may-financial-stability-report-purpose.htm>.

A.2. Under Section 13(3) of the Federal Reserve Act and the Federal Reserve Board's (Board) Regulation A, the interest rate on the eligible notes must be set at a rate that is a premium to the market rate in normal circumstances, affords liquidity in unusual and exigent circumstances, 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. Under the Municipal Liquidity Facility (MLF), the pricing methodology is based on the overnight indexed swap (OIS) rate for a comparable maturity plus a fixed spread that corresponds with the ratings of the eligible notes and their relevant tax status. On August 11, the Federal Reserve Board announced revised pricing for the MLF. The revised pricing reduces the interest rate spread on tax-exempt notes for each credit rating category by 50 basis points and reduces the amount by which the interest rate for taxable notes is adjusted relative to tax-exempt notes.

The fixed spread over OIS that applies for each credit rating category under the MLF was chosen because it meets the legal requirements. Our pricing methodology adjusts the interest rate based on credit rating, maturity, and tax status because these factors affect the pricing of similar municipal debt in markets during normal times. In addition, the interest rate on the facility is set at a level that is supportive of borrowers facing more severe challenges. The Federal Reserve will monitor conditions to assess the efficacy of the facility and any unintended consequences.

Q.3. Please describe in detail the metrics the Federal Reserve will use to judge the efficacy of the Municipal Liquidity Facility.

A.3. On June 2, the State of Illinois became the first Municipal Liquidity Facility (MLF) borrower when it issued \$1.2 billion, 12-month general obligation notes to the facility at a rate of 3.82 percent. This is more than 100 basis points lower in yield than comparable short-term notes that the State issued in the primary market in May.

However, the efficacy of the facility is not measured by take-up. The Federal Reserve established the MLF to help support State and local governments' ability to serve households and businesses in their communities. That ability depends crucially on access to municipal securities markets. With that in mind, to measure the effectiveness of the MLF, the Federal Reserve is closely monitoring conditions in the primary and secondary markets for municipal securities. In particular, we are monitoring liquidity conditions, market access, market pricing, and volatility. Since the period of heightened market volatility in mid-March and the announcement of the MLF, conditions in municipal bond markets have generally improved. For example, spreads on general obligation bonds, which rose significantly in mid-March, have steadily decreased, reflecting greater investor demand for these securities. Moreover, after depressed primary issuance activity in March and April, issuance activity has been robust in May and June.

Conditions in the secondary market have also improved, with transaction costs and bid wanted amounts returning to more normal levels.

Q.4. We are now three months into the COVID-19 pandemic and the economy is under massive strain. More than 100,000 small businesses have closed their doors forever. Additionally, three out of four businesses have experienced declines in revenue. Our businesses are in a free fall and the Main Street lending facility could be a life line for businesses, if implemented properly.

With the roll-out of the Paycheck Protection Program (PPP), we saw how lending institutions and the Small Business Administration's systems were overwhelmed by the loan demand. How are you preparing banks for the volume of Main Street loan applications they will receive? What are you doing to prepare your own systems for the massive loan volume?

A.4. The Federal Reserve took significant steps to prepare for the full roll-out of the Main Street Lending Program (Main Street):

- *Main Street Portal.* The Main Street special purpose vehicle (SPV), which is managed by the Federal Reserve Bank of Boston (FRBB), has contracted with a vendor to serve as credit administrator. The FRBB, working with this credit administrator, has created a portal to register eligible lenders and facilitate intake of loan participations from preregistered lenders for purchase. The system has substantial on-demand computing capacity and the credit administrator constantly monitors system usage. The vendor has also trained call center and support staff and is prepared to increase available resources as needed. In addition to facilitating loan intake, the online portal will also facilitate credit monitoring of the portfolio during the life of the loans.
- *Legal Documents.* In the course of our outreach efforts, lenders stressed the importance of providing clarity in program legal documents regarding program terms, conditions, and associated liability. We have worked hard to provide potential Main Street borrowers and lenders with clarity and certainty regarding these requirements. The FRBB has posted all of the key legal documents online, including a form loan participation agreement, lender registration documents, lender and borrower certification and covenant documents, and a set of instructions for lender-required documentation. The FRBB has also established a Main Street website for centralized access to information for lenders and borrowers.
- *Outreach.* To provide potential lenders with information on Main Street and to address their questions in real time, the Federal Reserve has posted more than 10 webinars explaining aspects of the program with question and answer sessions. The Board and FRBB also have established online mailboxes where members of the public can submit questions. These mailboxes are actively monitored, and questions submitted are addressed on a bilateral basis or through guidance on the program, including in the form of FAQs. To access additional information, lenders and borrowers are encouraged to access the Main Street website.²

² www.federalreserve.gov/monetarypolicy/mainstreetlending.htm

Main Street is, of course, a credit program and not a grant program. Participation is a function of eligibility requirements and the extent to which the program terms and conditions are attractive to both borrowers and lenders. We will monitor the use of the program closely and make adjustments if needed in the future, including to address any operational issues.

Q.5. Are you allowing banks to limit loan applications to existing customers? And, if so, will they be allowed to prioritize their biggest customers?

A.5. Main Street includes three for-profit facilities, as well as two recently announced nonprofit facilities, each with unique features, designed to meet the needs of different types of borrowers, including banks' existing customers and new customers. The Main Street Expanded Loan Facility (MSELF) and Nonprofit Organization Expanded Loan Facility (NOELF) require that an eligible borrower have an existing term loan or revolving credit facility with an eligible lender. However, under the Main Street New Loan Facility (MSNLF), Main Street Priority Loan Facility (MSPLF), and Nonprofit Organization New Loan Facility, lenders may extend loans to new or existing customers. The Federal Reserve has specifically designed the terms and conditions of the MSNLF, MSPLF, and NONLF to allow for lending to new customers. With respect to the MSNLF and MSPLF, the Federal Reserve has issued FAQs providing guidance for how to apply the facilities' underwriting criteria with respect to new customers. We expect similar guidance will be available for the NONLF when that facility becomes operational.

Q.6. I have heard concerns that the earnings metrics the Federal Reserve and Treasury intend to use for the Main Street lending facilities are ill-suited for important sectors of our economy that employ hundreds of thousands of Americans.

As you develop final guidance for these facilities, are you examining whether the Federal Reserve and Treasury could use additional metrics for different industries to ensure that as many sectors of our economy as possible can utilize the program?

A.6. Main Street is designed to augment the supply of loans made to businesses with established cash flows prior to COVID-19 that need assistance to maintain operations and payroll through these current unusual and exigent circumstances. By focusing on bridge financing to businesses with interrupted operations and cash flows, Main Street both directly addresses the near-term needs of borrowers and supports the provision of credit by lenders who may find it especially challenging to assess near-term cash flows owing to the uncertain outlook for COVID-19 and economy. This is a large portion of the business community and business lending. Within this type of lending, adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) is a key underwriting metric used by lenders in evaluating the credit risk of small and medium-sized businesses. As a result, it is one of the factors that determines the maximum loan size that borrowers are eligible to receive within Main Street.

The Federal Reserve also recognizes that nonprofit organizations' liquidity positions and ability to repay are not generally evaluated by lenders based on EBITDA. Understanding this and the critical

role nonprofit organizations play in the economy, the Federal Reserve announced on June 15 that it would be seeking public feedback on a proposal to expand Main Street to provide access to credit for nonprofit organizations. The Board received comments from a wide range of stakeholders, and in response, on July 17 we announced revised term sheets that expanded the range of nonprofit organizations that would be eligible to obtain Main Street loans. Under the updated terms, the Federal Reserve will offer loans to small and medium-sized nonprofits that were in sound financial condition before COVID-19. Nonprofit organizations will need to meet various eligibility criteria to qualify, including financial eligibility criteria based on operating performance, liquidity, and ability to repay debt.³³ Additional details on the proposed nonprofit facilities can be found at www.federalreserve.gov/monetarypolicy/mainstreetlending.htm.

The Federal Reserve further recognizes that, for some borrowers, collateral values or other factors are more indicative of the ability to obtain credit than cash flows. Staff continue to monitor lending conditions broadly and, while credit conditions have tightened overall, credit appears to be available generally against good collateral when such collateral is available. If these conditions were to change significantly, the Federal Reserve would carefully evaluate whether its authorities could further support the availability of credit. We remain alert to the possibility that changes to market conditions may warrant changes to the terms and conditions of the Federal Reserve's emergency lending programs.

Q.7. Borrowers from commercial mortgage-backed securities (CMBS), like hotels, shopping centers, and housing complexes, attest that they are under significant financial hardship. In many cases, their tenants are not able to pay rent and their mortgage servicers are not offering flexibility. Several affected entities are concerned about their ability to meet their financial obligations over a protracted period of time.

Does the Treasury or Federal Reserve have plans to address these concerns in the CMBS market, and if so, how?

A.7. The Board has been closely monitoring the situation in the commercial mortgage-backed securities (CMBS) market and recognizes the concerns that you have outlined in your question. Several of the Federal Reserve's initiatives to support the broader economy have proven beneficial to the CMBS market, such as the purchases of Agency CMBS as part of open-market operations and the inclusion of legacy CMBS as TALF-eligible collateral. Spreads and liquidity in the CMBS market have improved significantly since the Federal Reserve started these programs. Main Street and the Paycheck Protection Program Liquidity Facility may also support CMBS borrowers by providing small and medium-sized businesses financing to maintain their operations-including paying rent-until conditions normalize. Other Federal Reserve programs, such as the corporate credit facilities, are also providing support to some segments of the commercial real estate industry.

Even with these actions, as you note, certain CMBS borrowers continue to experience significant distress. Since late February 2020, the lodging and retail sectors have experienced precipitous

declines in demand as a result of COVID-19. In June, looking only at mortgages funded by CMBS, borrowers accounting for about 24 percent of mortgages in the lodging sector and 18 percent of mortgages in the retail sector were more than 30 days delinquent. Other sectors—for example, the multi-family sector—have experienced less-severe increases in delinquencies.

We are committed to using our policy tools to help employers get through the current difficult period. However, loans made through a Federal Reserve facility may not be an effective solution for hotel and retail commercial properties that have suffered large revenue losses and already have large amounts of debt. Loans extended under the Federal Reserve’s 13(3) authority are generally not subordinate to other debt, and the Federal Reserve must take steps to ensure that the taxpayer will be repaid. In addition, many CMBS borrowers may be barred by their loan agreements from taking on more debt.

We will continue to monitor economic conditions, including those faced by CMBS and other commercial real estate borrowers, as well as the efficacy of existing facilities. We will consider changes in our approach as warranted by future developments.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TESTER
FROM JEROME H. POWELL**

Q.1. Recent data on the availability of credit suggests that it has not been this difficult to obtain a mortgage since 2014, and constraints on the availability of credit are particularly acute for borrowers of non-QM loans and jumbo loans. Because these mortgages are frequently packaged and sold as residential mortgage-backed securities (RMBS) to private investors, the recent illiquidity in secondary market private RMBS exacerbates the lack of funding for such mortgages.

Non-agency RMBS is the largest asset class by volume within all ABS, comprising approximately 30 percent of the market, but is one of the few asset classes which is not currently eligible under the Term Asset-backed Lending Facility (TALF) program.

Are there plans to allow AAA RMBS securities as eligible collateral under TALF?

A.1. In determining whether a certain type of asset-backed securities (ABS) should be eligible collateral for Term Asset-Backed Lending Facility (TALF) loans, the Federal Reserve Board’s (Board) considers whether accepting an asset class will provide material support to the economy and whether inclusion of the asset class is appropriate under the restrictions of section 13(3) of the Federal Reserve Act. In particular, under section 13(3), the Board and Reserve Banks must take steps to ensure the protection of the taxpayer, including by assigning a “lendable value to all collateral.” To satisfy this restriction, we prioritize categories of ABS where a large share of issuance is routinely rated triple-A by the rating agencies and where comprehensive information is available about credit performance in different economic environments, including stressed conditions.

As you noted, one of the largest ABS categories not currently eligible as TALF collateral is residential mortgage-backed securities

(RMBS), and a large share of RMBS issuance is typically rated triple-A by the rating agencies. However, some RMBS have performed poorly in times of stress, and RMBS collateralized by mortgages with low or nonstandard documentation have a particular history of underperformance. The types of ABS currently accepted as TALF collateral generally have a long history of performing well in stressed economic conditions, and the Board relies on that history of strong performance to ensure that TALF loans are made in a manner consistent with section 13(3).

The Board recognizes that the current exclusion of all RMBS from TALF affects credit availability in some sectors of the mortgage market and continues to consider whether adding certain types of RMBS to the list of TALF-eligible collateral is consistent with the 13(3) requirements and the policy aims of the TALF. In this analysis, we are assessing separately how jumbo, non-QM, and re-performing RMBS measure against the considerations articulated above. This analysis is being conducted in consultation with our colleagues at the U.S. Department of the Treasury, which has provided a \$10 billion equity investment in the TALF special purpose vehicle using funds appropriated to the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

Q.2. As many States move forward with reopening, Montana being one of them, what assistance and guidance are you providing PHAs in regards to reopening?

A.2. While direct oversight and support for public housing authorities (PHAs) are not under the purview of the Board, we are sympathetic to the challenges that PHAs face during these difficult times. The Federal Reserve System's Community Development Offices have worked to collect information about the economic impact of actions undertaken to respond to the public health crisis through outreach, data collection and analysis to help inform the work of agencies and community organizations working to support low- and moderate-income (LMI) populations. Through conversations with relevant stakeholders and a review of the results of the April and June 2020 rounds of the Federal Reserve System's survey of LMI communities on the effects of COVID-19, we know that many organizations providing affordable housing services are incurring significant unanticipated expenses.¹ Among these unexpected expenses are increased cleaning and sanitization costs to protect the health of their residents, increased carrying costs for new properties or those under renovation for which construction has been halted, and the provision of personal protective equipment for their staff members.

The simultaneous decline in rental revenues as residents lose their employment has exacerbated this increase in expenses. Based on the Census Bureau's Household Pulse Survey and other sources, we know that employment and housing disruption are most significant for the very low-income households that it is the mission of PHAs to serve. Therefore, we are closely monitoring conditions in affordable rental markets to identify any stresses that may either

¹<https://www.frbatlanta.org/community-development/publications/national-COVID-19-survey>

reverberate through the financial system or negatively impact renters, especially low-income renters.

Q.3. Would jumbo AAA RMBS and non-QM RMBS be eligible? Would other sub asset classes—such as reperforming loans for borrowers coming off a credit event—be eligible as well?

A.3. Please see response to Question 1.

Q.4. What support can Treasury lend to the Fed under TALF to support the housing market so that financing is available for self-employed or nontraditional borrowers who rely on non-QM mortgages, or to borrowers who live in high-cost areas who rely on jumbo financing?

A.4. Please see response to Question 1.

Q.5. What metrics will you use in making these determinations?

A.5. Please see response to Question 1.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN FROM JEROME H. POWELL

Q.1. On December 13, 2019, I signed a letter to you regarding climate-related financial and economic risks.¹ In this letter, my colleagues and I stated, “The Fed’s supervisory framework and analytical tools need to account for the fact that our financial system faces new risks from climate change.”²

In your response, you stated, “Congress has principally entrusted other agencies with the task of addressing climate change. However, as your letter notes, there are ways in which climate-related risks could have relevance for the Federal Reserve Board (Board) as it fulfills its mission.”³ Additionally, earlier this year, you stated, “The public has every right to expect and will expect that we will ensure that the financial system is resilient and robust against the risks of climate change.”⁴

Given the threats of climate change on the financial system,⁵ please explain how you view the Federal Reserve Board’s role in combatting the climate crisis and its associated economic risks.

Has the Federal Reserve System hired or contracted climate economists to work on evaluating climate change risks? Have you or other senior Federal Reserve System officials been briefed or advised by climate scientists or climate economists inside or outside of government on these issues?

A.1. Economic research to understand the specific transmission channels between climate-related risks and the financial system is essential to understanding the impact of those risks on the Federal Reserve’s mission. This research remains at an early stage, and the

¹ Letter from Senators Schatz, Warren, Smith, Klobuchar, Whitehouse, Baldwin, and Harris to Federal Reserve System Chair Jerome Powell, December 13, 2019.

²Id.

³ Letter from Federal Reserve System Chair Jerome Powell to Senator Warren, February 10, 2020.

⁴ Reuters, “Fed Has a Role in Combating Climate Change Risk, Powell Says”, Ann Saphir, January 29, 2020, <https://www.reuters.com/article/us-usa-fed-climatechange/fed-has-a-role-in-combating-climate-change-risk-powell-says-idUSKBN1ZT031>.

⁵ Center for American Progress, “Climate Change Threatens the Stability of the Financial System”, Gregg Gelzinis and Graham Steele, November 21, 2019, <https://www.americanprogress.org/issues/economy/reports/2019/11/21/477190/climate-change-threatens-stability-financial-system/>.

Federal Reserve is working to foster and develop it. These efforts are active and ongoing, and they will help us assess the ways climate-related risks may affect the economy, financial stability, and the safety and soundness of financial institutions. Moreover, as mentioned below, the Federal Reserve Board (Board) staff participate in several forums with other U.S. and international regulators where the evaluation of the effects of climate change on the financial system are particularly relevant.

Regarding the second part of your question, the Federal Reserve does have a range of staff who conduct and publish academic research on climate-related financial risks; I have attached, as Appendix A, a list of publications by several of those staff with my response.

Q.2. You also stated, “The Board and Reserve Banks are exploring new sources of climate-related data and computational resources, research projects involving existing supervisory data collections, and participation in conferences and workshops to share our efforts with the public. These efforts, which are in their early stages, span several areas within the Board and the Reserve Banks.”⁶

Please provide a detailed timeline for the Federal Reserve’s timeline for this research, publicizing their findings, and operationalizing the findings in the Federal Reserve’s supervision.

A.2. Much of the research mentioned in Appendix A has been published and presented in academic seminars and conferences. The Federal Reserve has made a concerted effort in recent years to make more information about supervision, regulation, and financial stability work available to the public. This engagement and transparency is especially important in an area of research that is still emerging, such as the analysis of climate-related financial risks, and we expect to make as much of our own research on this topic public as possible.

Q.3. Earlier this year, when asked why the Federal Reserve System has not joined “dozens of other global central banks in the Network for Greening the Financial System, an international effort to better understand risks from rising temperatures,” reports show that you indicated that “it is just a matter of time.”⁷

Will you commit to joining the multitude of foreign central banks and financial regulators that are focusing on climate risk at the Network for Greening the Financial System (NGFS)?

A.3. While the timeline of the Network for Greening the Financial System’s (NGFS) activities is in flux as a result of COVID–19, the Federal Reserve remains engaged with the NGFS secretariat and its members, continues to participate in its meetings as a guest, and is following its work closely. We continue to discuss with the NGFS what role the Federal Reserve could potentially play in NGFS work, particularly as its steering committee considers how to align its governance structure with the best practices of other international organizations. Any role would need to be consistent

⁶Letter from Federal Reserve System Chair Jerome Powell to Senator Warren, February 10, 2020.

⁷Reuters, “Fed Has a Role in Combating Climate Change Risk, Powell Says”, Ann Saphir, January 29, 2020, <https://www.reuters.com/article/us-usa-fed-climatechange/fed-has-a-role-in-combating-climate-change-risk-powell-says-idUSKBN1ZT031>.

with the mandate and scope of activities Congress has authorized for the Federal Reserve.

Q.4. Do you think the United States has a competitive advantage when it comes to leading global efforts on financial regulation at international coordinating bodies when the Federal Reserve is not a member of the NGFS?

A.4. As I described in a previous letter to you, the Federal Reserve has considerable expertise in understanding the impact of severe weather events, ranging from economic forecasting, to financial stability monitoring, to prudential supervision, to continuity of operations. I continue to believe that this expertise, our active participation in the emerging research dialogue on climate-related financial risks, and our commitment to evidence-based policymaking position us well to contribute to the assessment and measurement of climate-related financial risks. Our peers in other jurisdictions are working to make similar contributions, and we continue to benefit from their efforts.

Q.5. I am an original cosponsor of the Climate Change Financial Risk Act of 2019.⁸ This bill would create new climate risk scenarios for financial institution stress tests. It would require the Federal Reserve, along with an advisory group of climate experts, to develop three stress test scenarios: one assuming 1.5 degrees Celsius of warming above pre-industrial levels, one assuming 2 degrees of warming, and one assuming “business as usual” warming.⁹ These tests will quantify how expected physical and transition risks will affect economic conditions, and will require financial institutions to define how they will adapt their practices to limit climate impacts. The Federal Reserve will have the power to reject plans and prohibit institutions from proceeding with capital distributions.

Do you support the Federal Reserve conducting stress tests to measure resilience to climate-related financial risks? If not, what measures do you support to incorporate climate risk scenarios in overseeing large financial institutions?

The Bank of England recently stated, “Climate change creates risks to both the safety and soundness of individual firms and to the stability of the financial system.”¹⁰ Accordingly, they have decided to stress test the United Kingdom’s largest banks and insurance companies against the physical and transition risks associated with climate change.¹¹ Will the Federal Reserve follow suit and develop climate-related stress tests?

A.5. Federal Reserve staff and other central banks are engaged in research to better understand the translation of climate risk to economic and financial risk, as would be required to conduct a stress

⁸ Climate Change Financial Risk Act of 2019, S. 2903, <https://www.congress.gov/bill/116th-congress/senate-bill/2903>.

⁹ Office of Senator Schatz, “Schatz Introduces New Legislation To Ensure U.S. Financial System Is Prepared for Climate Change,” November 20, 2019, <https://www.schatz.senate.gov/press-releases/schatz-introduces-new-legislation-to-ensure-us-financial-system-is-prepared-for-climate-change>.

¹⁰ Bank of England, “Discussion Paper: The 2021 biennial exploratory scenario on the financial risks from climate change,” December 2019, <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/the-2021-biennial-exploratory-scenario-on-the-financial-risks-from-climate-change.pdf?la=en&hash=73D06B913C73472D0DF21F18DB71C2F454148C80>.

¹¹ Climate News Network, “Bank of England Unveils Climate Stress Test,” Kieran Cooke, January 1, 2020, <https://climatenewsnetwork.net/bank-of-england-unveils-climate-stress-test/>.

test. Further research in this new and rapidly evolving field is a prerequisite to any regulatory or supervisory steps, including any changes to stress testing requirements. We are committed to making as much of this research as public as possible to inform the common effort by academics and Congress to more fully understand climate-related financial risks.

Q.6. Following the Banking, Housing, and Urban Affairs Committee hearing on December 5, 2019, I submitted questions for the record for Federal Reserve System Vice Chair for Supervision Randal Quarles.¹²

In response to my question regarding incorporation of climate risks in assessing financial stability, Vice Chair Quarles stated, “staff across the Federal Reserve System conduct extensive research on a range of issues related to the effects of climate change, including how climate-related risks can be amplified by the financial system.”¹³ Recent reports, however, have described the “likelihood that the Fed won’t account for long-term climate risks, like stranded fossil fuel assets, as it directs the world’s largest asset manager to revive the U.S. economy.”¹⁴

Please provide specific information about the staff research on climate-related risks and the financial system and how the Federal Reserve System has incorporated staff research in its supervision of financial institutions.

A.6. As noted in my response to question 1a, I have attached Appendix A. This list of research undertaken by Federal Reserve System staff on climate-related financial and economic risks covers a wide range of sub-topics, including the effect of climate-related risks on asset prices, consumer spending, industrial production, savings behavior, credit availability, and fiscal outcomes. It also reflects the emerging State of this area of the economic literature, as well as the number of questions that would still benefit from careful analysis. As I noted in a previous letter to you, we expect to continue participating actively in these efforts, and to work to understand the transmission of climate-related risks to the financial system. As we understand these transmission mechanisms better, this research will assist us in our supervisory work.

Q.7. Vice Chair Quarles also stated, “Federal Reserve staff and I remain in frequent contact with our supervisory colleagues in other jurisdictions, following closely their own climate-related projects.”¹⁵

Please provide a list of supervisory institutions in other jurisdictions with whom the Federal Reserve staff and you have communicated regarding climate-related financial risks.

Please describe how these communications have informed the Federal Reserve’s efforts to incorporate climate-related risks in its supervision of large financial institutions.

¹² Questions for the Record from Senator Warren to Federal Reserve System Vice Chair for Supervision Randal Quarles, December 12, 2019.

¹³ Letter from Federal Reserve System Vice Chair for Supervision Randal Quarles to Senator Warren, May 11, 2020.

¹⁴ E&E News, “Fed Faces Climate Test as It Tries To Rescue Economy”, Avery Ellfeldt, April 16, 2020, <https://www.eenews.net/stories/1062883505>.

¹⁵ Letter from Federal Reserve System Vice Chair for Supervision Randal Quarles to Senator Warren, May 11, 2020.

A.7. The Federal Reserve is an active member of international standard-setting bodies, such as the Basel Committee for Banking Supervision and the International Association of Insurance Supervisors, as well as the Financial Stability Board, which is chaired by Vice Chair Quarles. The membership of these groups includes dozens of central banks, supervisors, and finance ministries; each group has climate-related projects underway to which we are actively contributing.

We also have attended meetings of the NGFS as a guest, and Federal Reserve staff have held bilateral meetings with staff from other central banks and supervisors on climate-related issues. These include staff from De Nederlandsche Bank, the European Central Bank, the Bank of Japan, Japan Financial Services Agency, and the Bank of England.

These conversations have offered staff useful perspectives on the nature of the work being undertaken at foreign institutions, as well as the challenges that those institutions have faced. Further, some staff have been able to engage on existing and potential future research papers.

Q.8. In response to my question regarding how the Federal Reserve has assessed if the financial system is resilient to climate-related risks or taken any actions to increase resilience to the climate crisis, Vice Chair Quarles's response instead focused on near-term severe weather events, rather than long-term climate impacts, and stated that the Federal Reserve does not directly model "how changes in temperatures over long periods of time affect economic activity (modeling being a separate matter from the extensive economic analysis of this question that we do)." ¹⁶

Given the significant differences between climate and weather, ¹⁷ please describe how the Federal Reserve System is differentiating between severe weather impacts and climate change in its analysis of climate-related risks.

A.8. Changes in longer-term climate trends could affect the frequency, severity, location, and impact of severe weather events. As Appendix A reflects, Federal Reserve staff have undertaken a range of research to examine the effect of severe weather events and other natural disasters on economic and financial outcomes. These kinds of analyses are an important input into efforts to model the economic and financial effects of long-run climate trends. Researchers in the field have begun to work on this second distinct challenge, and our staff are both following closely and contributing to that work.

Q.9. Earlier this year, the Canadian government announced a program to provide financing for businesses in response to the ongoing novel coronavirus 2019 disease (COVID-19) pandemic. As one of the conditions for receiving funds, Canada is requiring that companies receiving assistance under this program "commit to publish annual climate-related disclosure reports consistent with the Financial Stability Board's Task Force on Climate-related Financial

¹⁶Id.

¹⁷*New York Times*, "How the Weather Gets Weaponized in Climate Change Messaging", Brad Plumer, March 1, 2019, <https://www.nytimes.com/2019/03/01/climate/weather-climate-change.html>.

Disclosures, including how their future operations will support environmental sustainability and national climate goals.”¹⁸

Despite the significant economic impacts of the climate crisis,¹⁹ “U.S. regulators have been slow to respond to the threats that a warming planet can pose to financial assets.”²⁰

Will you require companies that receive money from taxpayers to keep workers on their payroll?

A.9. By promoting the flow of credit to households and business, our facilities are intended to support the provision of liquidity in the economy, which will help businesses maintain their operations and employees through this challenging period. Our facilities were designed in compliance with both the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and section 13(3) of the Federal Reserve Act. For our Main Street Lending Program, we do expect borrowers to make commercially reasonable efforts to maintain their payrolls. Overall, providing credit to businesses, large and small, should help to ensure that their workers can remain employed and paid through this very difficult period. We will continue to monitor our facilities to ensure they are working as intended.

Q.10. Do you consider climate change a threat to the stability of our financial system, especially in the wake of the coronavirus crisis?

A.10. The Federal Reserve is committed to promoting a safe, flexible, and stable financial system. This mandate requires us to examine a wide range of risks to the financial system. As I mentioned in my response to question 1a, economic research to understand the specific transmission channels between climate-related risks and the financial system is essential to understanding the impact of those risks on the Federal Reserve’s mission. This research remains at an early stage, and the Federal Reserve is working to foster and develop it. These efforts are active and ongoing and will help us assess the ways climate-related risks may affect the economy, financial stability, and the safety and soundness of financial institutions.

Q.11. In the third quarter of 2019, oil and gas companies were responsible for 91 percent of defaulted U.S. corporate debt.²¹ Thirty-seven oil companies received over \$1.9 billion in tax benefits by using a provision in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. For example, Marathon received a \$411 mil-

¹⁸Justin Trudeau, Prime Minister of Canada, “Prime Minister announces additional support for businesses to help save Canadian jobs,” press release, May 11, 2020, <https://pm.gc.ca/en/news/news-releases/2020/05/11/prime-minister-announces-additional-support-businesses-help-save>.

¹⁹*New York Times*, “Climate Change’s Giant Impact on the Economy: 4 Key Issues”, Neil Irwin, January 17, 2019, <https://www.nytimes.com/2019/01/17/upshot/how-to-think-about-the-costs-of-climate-change.html>; Brookings Institution, “Ten facts about the economics of climate change and climate policy,” Ryan Nunn, Jimmy O’Donnell, Jay Shambaugh, Lawrence Goulder, Charles Kolstad, and Xianling Long, October 23, 2019, <https://www.brookings.edu/research/ten-facts-about-the-economics-of-climate-change-and-climate-policy/>.

²⁰Reuters, “U.S. Regulator Homes in on Climate Risks to U.S. Markets”, Ann Saphir, December 11, 2019, <https://www.reuters.com/article/us-climate-change-market-risks/u-s-regulator-homes-in-on-climate-risks-to-u-s-markets-idUSKBN1YF2D5>.

²¹*New York Times*, “Coronavirus May Kill Our Fracking Fever Dream”, opinion, Bethany McLean, April 10, 2020, <https://www.nytimes.com/2020/04/10/opinion/sunday/coronavirus-texas-fracking-layoffs.html>.

lion benefit, and Occidental expects to receive \$195 million because of a carryback provision.²²

How will the Federal Reserve ensure the long-term stability of the U.S. energy and financial systems?

A.11. In the wake of COVID–19, we are monitoring corporate insolvencies carefully from both a supervisory and financial stability perspective. As part of that monitoring, we are paying careful attention to default risk in different sectors and considering what the repercussions of that risk are for financial stability more broadly. Additional information on the Federal Reserve’s approach to monitoring financial system vulnerabilities, including those in the non-financial corporate sector, can be found in our latest Financial Stability Report.²³ In terms of the U.S. energy sector, Federal law assigns regulatory responsibility to other agencies.

²² Bloomberg, “‘Stealth Bailout’ Shovels Millions of Dollars to Oil Companies”, Jennifer Dlouhy, May 15, 2020, <https://www.bloomberg.com/news/articles/2020-05-15/-stealth-bailout-shovels-millions-of-dollars-to-oil-companies?sref=L459Uwzi>.

²³ 1 www.federalreserve.gov/publications/2020-may-financial-stability-report-purpose.htm

APPENDIX A

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Appendix A

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Last updated April 10, 2020

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCHATZ
FROM JEROME H. POWELL**

Q.1. According to Census data, about half of small businesses will run out of cash within a month. States are beginning to reopen their economies, but consumer behavior is not going to return to normal within a month.

How many small businesses does the Fed estimate will have to close permanently within the next month?

What economic indicators will the Fed monitor in the next couple of weeks to gauge the economy's recovery?

A.1. COVID-19 poses a critical risk of insolvency to small and medium-sized businesses. These firms are the heart of our economy and widespread insolvencies could cause long-lasting economic harm. In order to bolster the effectiveness of the Paycheck Protection Program (PPP), the Federal Reserve launched the Paycheck Protection Program Liquidity Facility, which supplies liquidity to lenders backed by their PPP loans to small businesses. In addition, the Federal Reserve's Main Street Lending Program (Main Street) facilities are now available to provide credit to small and medium-sized firms that were in sound financial condition prior to COVID-19.

Going forward, the financial health of small businesses is highly uncertain and will likely remain challenging. The number of insolvencies will depend upon multiple factors, including the pace of the broader economic recovery. The Federal Reserve will be carefully monitoring this issue through the use of information such as small business loan performance data and the surveys produced by organizations such as the National Federation of Independent Business.

Q.2. You have warned that there could be serious, long-term economic harm from avoidable insolvencies-both at the household and business level.

In order to avoid unnecessary insolvencies, how quickly should Congress act? If we wait until we see bankruptcies increase, isn't that too late to use fiscal policy to prevent them?

A.2. As stated in my previous response, the current economic downturn poses the threat of insolvency for many businesses and households; such insolvencies could do significant longer-run damage to the economy. Maintaining the flow of credit is therefore essential for mitigating damage to the economy and laying the groundwork for the recovery. To directly support the flow of credit to households, to businesses of all sizes, and to State and local governments, the Federal Reserve has established several lending facilities. These facilities benefit the economy by providing financing where it is not otherwise available, helping employers to retain their workers and households to meet their obligations. By backstopping financial markets, these facilities aim to increase the willingness of private-sector lenders to issue credit, thereby easing financial strain for families and firms. Furthermore, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and other legislation provides additional, direct support to households and businesses, which should help reduce the prevalence of firm and household financial strain. Going forward, though, household and business insolvency remains a significant concern. That said, the size,

composition, and timing of any additional fiscal support for households and firms is ultimately a decision for Congress and the Administration.

Q.3. Data from before the COVID pandemic show that household debt increased to a new high of \$14 trillion in the first quarter of 2020, which is \$1.6 trillion higher than the previous peak in 2008. Many Americans will take on more debt to get through the pandemic, and many will fall behind in paying their bills.

Do you think policies that would help reduce Americans' debt burden would help speed our economic recovery?

A.3. Total household debt reached a record high of \$14 trillion in nominal terms in the first quarter of 2020. Real debt, however, remained about \$1.1 trillion below its previous peak in 2008. In addition, real income grew over this period and interest rates on household debt are much lower than in 2008. As a result, the aggregate household debt service ratio-the ratio of total required household debt payments to total disposable income-remained at a subdued level.

The rapid rise in unemployment and the curtailment of incomes for many people brought by COVID-19 has limited their ability to keep up with their debt obligations. To help borrowers weather this shock and manage their debt obligations, several programs-such as mortgage and Federal student loan forbearance programs-were implemented.

Government policies that help reduce households' debt burdens would likely have positive economic effects, including near-term growth and increased spending by those households. In such a scenario, aggregate demand could go up in the near term as borrowers see their debt payments reduced, and some borrowers' credit scores could be boosted. This improvement of consumers' balance sheets and creditworthiness could expand their credit access, leading to more borrowing and increased aggregate demand.

The extent to which such policies would promote overall economic growth would depend on many competing factors that lawmakers and the Administration will need to carefully consider, including the costs of such policies in a time of low interest rates against potential increases in employment and economic growth.

Q.4. Do you think the damage to people's credit scores from late payments as a result of COVID will weigh on Americans' financial health or the economy?

A.4. Provisions under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) relating to credit reporting allow consumers affected by the pandemic to obtain relief while minimizing the impact on their credit scores. The law requires creditors to report as "current" any credit obligations on which they have provided an accommodation to a COVID-19-affected borrower who was current prior to the accommodation. Indeed, partly due to these measures and lender-provided loan forbearance, so far we have not seen a widespread increase in delinquencies for household credit, nor a material deterioration of credit scores. Maintaining household credit performance and stable credit scores is important for ensuring a smooth flow of credit to the household sector, which in turn

will play an important role in helping to facilitate a robust economic recovery.

To support consumers in managing their finances during COVID-19, the Federal Reserve Board has issued numerous statements and rules to encourage banks to work with their customers, support implementation of provisions of the CARES Act under our supervision, increase banks' flexibility in accommodating consumers' access to credit, and remind banks of their obligation to comply with consumer laws and regulations, including fair lending. The various actions are listed on the COVID-19 page of our public website.¹ As an overview, several of the regulatory and supervisory statements to support financial institutions and consumers in this crisis include:

- *Forbearance and credit workouts:* We have issued guidance encouraging banks and mortgage servicers to work with customers and borrowers to provide forbearance.²
- *CARES Act examination procedures:* We have issued public examination procedures to inform the industry of how we intend to supervise State member banks for compliance with the credit reporting and mortgage forbearance provisions of the CARES Act.³
- *Small dollar loans:* We have issued principles describing how banks can extend responsible small dollar loans to help borrowers cover temporary cash-flow imbalances, unexpected expenses, or income shortfalls.⁴
- *Appraisals:* We have temporarily deferred the requirement for appraisals to facilitate mortgage credit.⁵
- *Access to savings:* We have suspended limits on the number of withdrawals from savings accounts to provide consumers greater access to their funds.⁶
- *Community Reinvestment Act (CRA) consideration for activities:* We have issued a statement indicating that CRA credit would be provided for activities that serve the needs of lower-income consumers and communities,⁷ with interagency guidance issued to clarify activities that will be considered as responsive under CRA.⁸

In addition, consistent with its supervisory authority, the Federal Reserve will examine banks under its jurisdiction for compliance with the CARES Act provisions that are intended to mitigate any negative impact on credit scores due to loan accommodations.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR VAN HOLLEN FROM JEROME H. POWELL

Q.1. On May 4, the Federal Reserve Bank of New York announced that it plans to use the Term Asset-Backed Loan Facility (TALF)

¹ <https://www.federalreserve.gov/COVID-19.htm>

² <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200403a.htm>

³ <https://www.federalreserve.gov/supervisionreg/caletters/caltr2011.htm>

⁴ <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200520a.htm>

⁵ <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200414a.htm>

⁶ <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200424a.htm>

⁷ <https://www.federalreserve.gov/supervisionreg/caletters/caltr2004.htm>

⁸ <https://www.federalreserve.gov/supervisionreg/caletters/caltr2010.htm>

to purchase Exchange Traded Funds (ETFs) that may own bonds rated below investment grade. How did the Federal Reserve reach this decision, and how does it measure the trade-offs of purchasing such ETFs?

A.1. I understand from further discussions with your staff that your question is referring to purchases made by the Secondary Market Corporate Credit Facility (SMCCF). Market functioning in the corporate credit market has been impaired based on metrics such as prices, bid ask spreads, trading volumes, and price volatility as well as limited primary market issuance from high yield issuers. The Federal Reserve decided that by purchasing Exchange Traded Funds (ETFs) that have exposure to high-yield issuers, the SMCCF would be able to provide support to this segment of the corporate bond market and limit discontinuities between the different segments of the market. Such discontinuities can lead to extreme outcomes where companies downgraded a single notch-from low investment-grade to the upper end of high-yield-find themselves facing sharply higher funding costs and thus are under increased pressure to cut costs, including by reducing their workforces.

The increased risk associated with acquiring securities issued by high-yield companies is managed by investing through instruments that allow for the creation of a diversified portfolio and by the increased amount of the U.S. Department of the Treasury's (Treasury) equity allocated to support these purchases. The Federal Reserve and the Treasury also limit the amount of risk to the SMCCF from purchases of high-yield ETFs by ensuring that the large majority of ETF purchases target the investment grade corporate bond market.

Q.2. What specific authority is the Federal Reserve for its Secondary Market Facility? Is the Federal Reserve using its 13(3) authorities, if so please explain? Has the Federal Reserve ever used this authority to buy junk debt? Please explain the legal authority the Federal Reserve is relying on to justify its use of the Secondary Market Facility to purchase junk bond debt.

For assets not guaranteed as to interest and principal by the U.S. government, what is the qualifying collateral, as required by Section 13(3), that secures these assets in an amount sufficient to protect taxpayers from losses?

A.2. The Federal Reserve, with the approval of the Secretary of the Treasury (Secretary), established the SMCCF pursuant to authority under section 13(3) of the Federal Reserve Act. In unusual and exigent circumstances, the Federal Reserve Board (Board), by the affirmative vote of not less than five members, may authorize any Federal Reserve Bank, subject to such conditions and during such periods as the Board may determine, to extend credit to any participant in a program or facility with broad-based eligibility. In particular, section 13(3) allows the SMCCF to purchase certain types of debt instruments.¹ Section 4003 of the Coronavirus Aid, Relief,

¹The Federal Reserve Act allows the lending Reserve Bank "to discount for any participant in any program or facility with broad-based eligibility, notes, drafts, and bills of exchange when such notes, drafts, and bills of exchange are indorsed or otherwise secured to the satisfaction of the Federal Reserve bank." 12 U.S.C. 343(3).

and Economic Security Act (CARES Act) also contemplates that the Federal Reserve may establish programs or facilities that purchase obligations or other interests in secondary markets to provide liquidity to the financial system.² The Federal Reserve has not previously used this authority to purchase high yield corporate debt instruments.

In the case of the SMCCF, the Federal Reserve Bank of New York (FRBNY) has recourse to all of the assets owned by the special purpose vehicle (SPV), including any earnings and fees accumulated in the course of the operation of the SPV. Moreover, the equity provided by the Treasury in connection with the SMCCF further protects the FRBNY from loss. Market participants use credit ratings to assess the likelihood that a company's debt will be repaid. Likewise, the SMCCF uses credit ratings to identify which debt instruments it may purchase and how much Treasury equity will be allocated to protect against losses from those instruments. The historical default rates of companies rated below investment grade are higher than those of companies rated above investment grade, but the SMCCF adjusts for heightened credit risk by allocating more Treasury equity to support purchases of companies rated below investment grade. In particular, the SMCCF leverages the Treasury equity at 10 to 1 when acquiring corporate bonds of issuers that are investment grade, but only at 7 to 1 when acquiring corporate bonds of issuers that were previously rated investment grade but are now rated one rating grade below investment grade.³

The loans made by the Federal Reserve to support purchases made in the corporate credit facilities are secured by the equity provided to the facilities by the Treasury and by all of the assets acquired by the facilities.

Q.3. Why has the Federal Reserve decided to pursue this avenue to buy junk ETFs?

A.3. Please see the response to Question 1.

Q.4. The Treasury Department has agreed to make a \$75 billion equity investment in the corporate facilities. If there are losses on these assets, who will bear the costs?

A.4. The Secretary, using funds appropriated in the CARES Act, has agreed to make a \$75 billion equity investment in the corporate credit facilities. The Treasury's equity investment is designed to protect the Federal Reserve from losses on the facilities' purchases by providing first-loss credit protection. The facilities leverage this equity prudently. For example, the Primary Market Corporate Credit Facility (PMCCF) requires \$1 of Treasury equity for each \$10 spent to purchase a corporate bond or syndicated loan of an investment-grade issuer. The PMCCF requires \$1 of Treasury equity for each \$7 spent to purchase a corporate bond or syndicated loan of an issuer that was previously rated investment-grade but has fallen to one rating grade below investment grade since the facility was established. The Treasury's equity requirements under the SMCCF are set up similarly to the PMCCF, as discussed in the

²See, e.g., 12 U.S.C. 4003(b)(4)(B).

³The SMCCF also purchases exchange-traded fund (ETF) shares, and leverages the Treasury equity at between 10 to 1 and 3 to 1, depending on the risk profile of the ETF.

answer to Question 2. In all cases, the corporate credit facilities have calibrated the Treasury leverage based on the nature of the asset being purchased, which incorporates risk sensitivity and protects against taxpayer loss.

Q.5. What assurance is there that the proceeds received by investors in return for these secondary market purchases will be used to support the same companies or any U.S. company for that matter?

A.5. The corporate bond market experienced significant dislocations with the onset of COVID-19. By facilitating market functioning, the SMCCF is intended to reduce the risk that secondary market prices for corporate bonds become subject to fire sales or price dislocations. These price dislocations are important because they affect the primary markets through which American companies access capital. Potential buyers may purchase bonds sold at distressed prices in the secondary market rather than buying newly issued bonds directly from companies, reducing the availability of new credit to fund companies. In addition, there is a direct relationship between the secondary market and the primary market, as most new corporate bond prices are set based on secondary market spreads. By providing support to the secondary market, the SMCCF reduces the cost of new credit and increases the availability of new credit to borrowers who might otherwise not be able to access the market at reasonable rates.

The SMCCF only transacts with eligible sellers that are created or organized in the United States or under the laws of the United States. Likewise, the SMCCF has purchased U.S.-listed ETFs whose investment objective is to provide broad exposure to the market for U.S. corporate bonds and, through its Broad Market Index purchase program, bonds of issuers that are created or organized in the United States or under the laws of the United States.

Q.6. The Federal Reserve has hired the firm BlackRock to serve as an investment manager for this facility. How is the Federal Reserve ensuring BlackRock is acting in the best interest of the Federal Reserve and the public?

A.6. On May 11, Corporate Credit Facilities LLC (CCF), an SPV created to facilitate the operations of SMCCF, entered into an Investment Management Agreement (IMA) with BlackRock Financial Management, Inc. (BlackRock) in connection with the SMCCF. The FRBNY is the sole managing member of the CCF.

Pursuant to the IMA, BlackRock acts as a fiduciary to the CCF in performing investment management services. In order to best advance the CCF's objectives as a fiduciary, BlackRock is required to follow FRBNY's specific and detailed investment guidelines and to buy and sell corporate bonds, corporate loans, and corporate bond ETFs on a best execution basis. BlackRock is required to communicate with the CCF on a daily basis regarding its planned purchase activity for the day and respond to requests for updates from the CCF on market functioning and asset purchases.

The IMA imposes stringent requirements on BlackRock to protect confidential information and to mitigate conflicts of interest. Confidential information gained by BlackRock or its affiliates or their respective directors, officers, or employees in the course of this en-

gagement may not be leveraged for matters unrelated to the CCF. BlackRock's compliance with the rigorous information barrier and conflict of interest mitigation provisions the Federal Reserve has imposed under the IMA is subject to audit and review by FRBNY, the Board, and other governmental authorities with oversight responsibilities under applicable law.

These are select examples of provisions relating to the Federal Reserve's efforts to ensure that Blackrock is acting in the best interest of the public. The IMA, including the investment guidelines, is available in full on the FRBNY website.⁴

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR CORTEZ MASTO FROM JEROME H. POWELL**

Q.1. We know that people over 70, African Americans, Native Americans, and Latinos are disproportionately more likely to be facing health crises and death due to COVID-19.

What does the research show about the economic hardship for African Americans, Native Americans, and Latinos in terms of loss of income and employment as well as financial hardship due to the COVID-19 pandemic?

We know that young adults, African American and Latino income, wealth and homeownership rates continued to lag behind whites following the financial crisis of 2008, has the Federal Reserve undertaken any analysis regarding economic hardship for African Americans, Latinos and young adults following this pandemic? If so, what interventions would reduce financial hardship for these households?

Are minorities overrepresented in the 40 percent of workers with household incomes under \$40,000 a year who are now unemployed? If so, at what percentage?

A.1. The deterioration in labor market conditions induced by the COVID-19 shock has been sudden, severe, and widespread. Still, workers in some industries, occupations, demographic groups, and locations have experienced more-significant employment declines than others. Although disparities in labor market outcomes often arise during recessions, factors unique to this episode have also contributed to the recent divergence. In particular, with respect to race and ethnicity, some minority groups have experienced a disproportionate share of the job losses induced by COVID-19. According to the Census Bureau's Current Population Survey, the employment-to-population ratio for African Americans fell by 8.6 percentage points from February to June, while that for Hispanics fell 9.1 percentage points. Both declines were significantly larger than the 6.5 percentage point decline for the overall population.¹

Furthermore, these racial and ethnic minorities tend to have lower incomes and smaller amounts of financial assets than the overall population, and are therefore less able to financially weath-

⁴ See www.newyorkfed.org/medialibrary/media/markets/SMCCF-Investment-Management-Agreement.pdf.

¹ Sample-size limitations make it difficult to infer with precision the magnitude of employment declines for Native Americans, and the Bureau of Labor Statistics reporting of employment statistics for that group is also more limited.

er an extended period of unemployment and the large associated losses in labor earnings.²

Consistent with these results, responses to the Federal Reserve Board's (Board) latest Survey of Household Economics and Decisionmaking (SHED) show that in late 2019 (before the onset of COVID-19), a large share of adults were either unable to pay their monthly bills or were one modest financial setback away from failing to pay monthly bills in full—and that this share was larger for African American and Hispanic families.³

Regarding the second question, the June 2020 Monetary Policy Report to Congress noted that a supplement to the SHED conducted in April 2020 (after the onset of COVID-19) found that among households with an annual income of \$40,000 or less, nearly 40 percent of individuals who were employed in February experienced job loss in March or early April, compared with 20 percent of the overall population. Unfortunately, the SHED data cannot be used to meaningfully break down the population with annual income under \$40,000 by race and ethnicity due to sample-size limitations. However, other research has shown that African Americans, Hispanics, and Native Americans tend to be overrepresented in the lower parts of the income distribution and underrepresented at the top.⁴

Q.2. I led the Nevada Delegation in writing a letter requesting the Treasury Department and the Federal Reserve to prioritize loans to businesses uniquely impacted by COVID-19. In Nevada, our economy relies on our hospitality, gaming, and tourism employers, and we want to ensure industries bearing the brunt of the crisis be aided in order to stabilize the marketplace and preserve American jobs. At the encouragement of the Nevada delegation and other congressional partners, the SBA reversed its previously issued guidance to allow for businesses with gaming revenue to apply for PPP.

²Akee, et al. (2019) link the universe of U.S. income tax filers for 2000-2014 to individual-level information on race and ethnicity from multiple censuses and American Community Survey data, and document that African Americans, Hispanics, and Native Americans have persistently lower incomes than whites. (See Randall Akee, Maggie R. Jones, and Sonya R. Porter, 2019, "Race Matters: Income Shares, Income Inequality, and Income Mobility for All U.S. Races," *Demography*, 56, 999-1021, <https://doi.org/10.1007/s13524-019-00773-7>.) Dettling, et al. (2017) use data from the Survey of Consumer Finances to show that in 2016 (the most-recent survey year) African Americans and Hispanic families had considerably less wealth than white families, while "other" families (a diverse group including those identifying as Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, other race, and all respondents reporting more than one racial identification) had lower net worth than white families but higher net worth than African Americans and Hispanic families. (See Lisa J. Dettling, Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, and Jeffrey P. Thompson, 2017, "Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 27, 2017, <https://doi.org/10.17016/2380-7172.2083>.)

³The SHED is an annual survey conducted by the Federal Reserve Board that measures the economic well-being of U.S. households and identifies potential risks to their finances. The 2019 SHED (which was released in May 2020) showed that at the time of the survey (October 2019), 16 percent of adults were not able to pay all of their current month's bills in full, and an additional 12 percent of adults said they would be unable to pay all of their current month's bills if they had an unexpected \$400 expense that they had to pay. Both of these shares were significantly larger for African Americans and Hispanic families than for white families, at all levels of education. (See Board of Governors of the Federal Reserve, "Report on the Economic Well-Being of U.S. Households in 2019," available at <https://www.federalreserve.gov/consumerscommunities/shed.htm>.)

⁴See Akee, et al. (2019), cited above.

Can you commit that otherwise eligible gaming business, continue to be eligible for the Main Street lending program, like the SBA PPP program now allows?

A.2. Yes. On April 24, the Small Business Administration (SBA) issued an interim final rule modifying, for purposes of the SBA's Paycheck Protection Program (PPP), its regulation deeming legal gaming businesses to be "Ineligible Businesses" for normal course SBA lending. Under the revised rule, "[a] business that is otherwise eligible for a PPP Loan is not rendered ineligible because of its receipt of legal gaming revenues."⁵

The Main Street Lending Program (Main Street) incorporates the SBA's definition of Ineligible Businesses, as modified by the SBA for purposes of the PPP on or before April 24.⁶ As such, a business that is otherwise an eligible borrower for purposes of Main Street is not rendered ineligible solely due to its receipt of legal gaming revenues. Main Street Frequently Asked Question (FAQ) E.1 provides that the Main Street "Ineligible Business" definition incorporates the SBA's interim final rule permitting legal gaming businesses to borrow by citing and linking to the rulemaking.

Please note that, like any potential borrower in any industry, a gaming business must satisfy the other Main Street eligibility criteria and an eligible lender's underwriting criteria in order to receive a Main Street loan.

Q.3. Vice Chair Quarles spoke before this Committee last week. We urged him to move quickly to set up the Main Street Lending Program. We need to make credit available to businesses who have liquidity problems due to the pandemic.

What are the employee retention provisions in the Main Street Lending Program?

Will the Fed require applicants to the Main Street Lending Program to disclose the intended use of these funds and disclose those to the public?

Will the Fed consider requiring the same or similar employment protection policies that it has in its other programs like the Primary Market Corporate Credit Facility?

A.3. Main Street was established under Section 13(3) of the Federal Reserve Act (FRA), with approval of the Treasury Secretary and an equity investment using funds appropriated by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Main Street is designed to provide support for lending to small and medium-sized businesses in sound financial condition before COVID-19 in order to assist such businesses in maintaining operational capacity and payroll.

The CARES Act was the product of careful bipartisan negotiations in Congress, and the legislation does not include a requirement that businesses participating in lending programs established by the Federal Reserve maintain payrolls. However, as indicated in the Main Street term sheets, eligible borrowers should make commercially reasonable efforts to retain employees during the term of the loan. "Commercially reasonable efforts" is a standard used in commercial contracts and is familiar to businesses. This means

⁵ See 85 FR 23450, 23451 (published April 28, 2020).

⁶ See the Main Street FAQs at www.bostonfed.org/mslp-faqs.

that businesses that participate in the program are expected to make good-faith efforts to maintain payroll and retain employees in light of their capacities, the economic environment, their available resources, and their business need for labor.

Borrowers' commercially reasonable efforts to maintain payrolls may take different forms across the broad range of businesses eligible for Main Street. Because of the facts and circumstances that may inform a borrower's judgment in respect of this expectation, the Federal Reserve and the U.S. Department of the Treasury (Treasury Department) will not assess the commercial decisions of individual borrowers. The Federal Reserve and Treasury Department will monitor Main Street's impact on small and medium-sized businesses and the resulting effects on the economic recovery and employment broadly rather than on a borrower-by-borrower basis. The Federal Reserve will continue to consider adjustments to Main Street's terms and conditions, as appropriate.

Recognizing that the manner for best supporting their operations and payroll will likely vary considerably across borrowers, Main Street borrowers are not required to disclose the intended use of funds. They do, however, face restrictions on their use. Main Street borrowers are generally restricted from repaying existing debt ahead of schedule until the Main Street loans are repaid. Main Street borrowers are also subject to the CARES Act restrictions on compensation, stock repurchases, and capital distribution that apply to direct loan programs. Further, Main Street borrowers may not use the proceeds of a Main Street loan for the benefit of foreign parents, affiliates, or subsidiaries.

The Federal Reserve is committed to transparency and will disclose information associated with the Main Street facilities, including the names of lenders and borrowers, amounts borrowed and interest rates charged, and overall costs, revenues and other fees, on a monthly basis.

Q.4. Congress expects the Federal Reserve to release borrower names and other information about participants in the facilities it set up in response to the CARES Act. I appreciate the steps that the Federal Reserve has already taken to increase transparency, such as disclosing borrowers, amount borrowed and what rate of interest, and the overall costs, revenues, and fees from various facilities on a monthly basis.

How will you guard against any favoritism or unfairness in access or terms?

A.4. The Board is committed to guarding against favoritism or unfairness in access or terms for its facilities. The facilities are designed to provide broad-based eligibility with transparent and neutrally objective eligibility criteria for participation and creditworthiness. In all of our lending programs, we expect lenders to consider loan applications from borrowers and assess each potential borrower's financial condition at the time of the loan application, regardless of whether that potential borrower is an existing customer or a new customer. We continue to monitor all of our programs to ensure that their terms and conditions are being met.

Q.5. Does the Fed plan to release disclosures for other programs not directly authorized under the CARES Act, such as purchasing asset-backed securities?

A.5. The Federal Reserve is deeply committed to ensuring transparency and accountability in the establishment and operation of facilities established pursuant to section 4003(b)(4) of the CARES Act and section 13(3) of the FRA. Section 13(3) of the FRA allows the Board, in unusual and exigent circumstances, to authorize any Federal Reserve Bank to extend credit to any participant in a program or facility with broad-based eligibility. The Board has established 13 facilities pursuant to this authority; nine of the facilities have received equity investments from the Treasury Department with funds appropriated under the CARES Act: the Term Asset-Backed Securities Loan Facility (TALF), Secondary Market Corporate Credit Facility (SMCCF), Primary Market Corporate Credit Facility (PMCCF), Main Street New Loan Facility (MSNLF), Main Street Expanded Loan Facility (MSELF), Main Street Priority Loan Facility (MSPLF), Nonprofit Organization Expanded Loan Facility (NOELF), Nonprofit Organization New Loan Facility (NONLF) and Municipal Liquidity Facility (MLF).

Both the FRA and the CARES Act require the Federal Reserve to provide an initial report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives (the Committees) within seven days after the Board authorizes any loan or other financial assistance pursuant to those sections. The seven-day reports generally do not include transaction information as facilities are usually not operational by the time the report is filed. The Board provided to the Committees its initial reports for each facility within seven days after authorization, and these reports also were posted on the Board's public website.

After the initial report, the Federal Reserve is required to provide updates to the Committees at least every 30 days regarding the value of collateral; the amount of interest, fees, and other revenue or items of value received in exchange for the assistance; and the expected or final cost to the taxpayers of such assistance. To enhance transparency, the 30-day reports will contain enhanced amounts of information on a monthly basis for the liquidity and lending facilities using CARES Act funding, as well as for the Paycheck Protection Program Liquidity Facility, including the names and details of participants in each facility; amounts borrowed and interest rates charged; and overall costs, revenues, and fees for each facility. For the programs that are targeted at financial market functioning, the Federal Reserve will provide a full accounting of transactions in these facilities but on a delayed schedule. Real-time disclosure would risk stigmatizing participation in these facilities and undermining the Federal Reserve's ability to assure that these systemically important markets continue their critical function in times of severe market stress. The delay in disclosure will be no longer than it needs to be to ensure that participants do not hesitate to participate.

The Federal Reserve has provided, and will continue to provide, periodic updates concerning each operational facility at least every 30 days.

Q.6. The CARES Act prohibited companies that receive support through the Federal Reserve programs that make direct loans from paying dividends or buying back their own stock until 12 months after the loan is repaid. The CARES Act also imposes limits on executive compensation for companies that receive direct loans.

What is your oversight plan to ensure that no dividends are paid or stocks are purchased and that executive compensation is capped as Congress intended?

A.6. Under the Main Street facilities, the Chief Executive Officer and Chief Financial Officer (or officers performing similar functions) of the eligible borrower must certify that the borrower meets each of the borrower certifications and covenants. These certifications and covenants include compensation, stock repurchase, and capital distribution restrictions. If borrowers fail to follow the certification and covenants outlined in the term sheets of the Main Street facilities, they will be required to repay the proceeds obtained through the facility immediately. Moreover, if the Federal Reserve finds evidence of a knowing material misrepresentation, we will refer the matter to law enforcement authorities.

Q.7. The CARES Act restricts Fed financing to “businesses that are created or organized in the United States or under the laws of the United States and that have significant operations in and a majority of its employees based in the United States.”

Will you ensure that any company that receives financing from the Federal Reserve is a U.S.-based company?

Will you prohibit aid to companies that may have undergone a tax inversion before, changed its incorporation to the U.S. recently, or is a U.S. subsidiary of a foreign company?

Will the Fed require disclosure of beneficial owners in order to prevent shell structures?

As the Federal Reserve permits investments in Exchange Traded Funds (ETFs), how will the Fed ensure that none of the investments of ETFs include non-U.S. companies?

A.7. The Federal Reserve is committed to complying with the restrictions set forth in the CARES Act, including the provision that borrowers participating in Federal Reserve facilities in which the Treasury Department has invested funds appropriated under the CARES Act must be created or organized in the United States or under the laws of the United States and have significant operations in and a majority of its employees based in the United States. U.S. subsidiaries of foreign companies are eligible to participate in these facilities as long as the subsidiary is created or organized in the United States or under the laws of the United States and on a consolidated basis has significant operations in and a majority of its employees based in the United States. In addition, in the PMCCF and Main Street, we also require that subsidiaries of foreign companies use facility proceeds to support their U.S. businesses and U.S. employees.

The SMCCF purchases U.S.-listed Exchange Traded Funds (ETF) whose investment objective is to provide broad exposure to the market for U.S. corporate bonds. The preponderance of ETF holdings are of ETFs whose primary investment objective is exposure to U.S. investment-grade corporate bonds, and the remainder

are in ETFs whose primary investment objective is exposure to U.S. high-yield corporate bonds. In some limited cases, the holdings of ETFs may include underlying bonds that would otherwise be ineligible for purchase by the SMCCF.

Q.8. As you are aware, the Fed has hired the BlackRock investment firm to buy high-yield exchange-traded funds, newly issued corporate bonds, and existing investment grade corporate bonds.

Will the Fed prohibit BlackRock from making trades based on what they learned while providing the financing until after the Fed announced all of its purchases publicly?

Will the Fed prohibit BlackRock executives, who are allowed to view both confidential information and interact with the rest of the firm outside the “ethical wall” while providing financing, from making trades until after the Fed announced all of its purchases publicly?

Will the Fed institute any disclosure or transparency requirements to ensure the public is aware of financial firms which help administer Federal relief, and what compensation they may receive?

A.8. The investment management agreement with BlackRock for the corporate credit facilities is public and can be found on the Federal Reserve Bank of New York’s public website.⁷ The agreement provides clarity into the internal controls required by BlackRock or any subsequent investment managers and provides additional transparency on the Federal Reserve’s relationship with the investment manager.

Confidential information gained by BlackRock or its affiliates or their respective directors, officers, or employees in the course of this engagement may not be leveraged for matters unrelated to the corporate credit facilities. This restriction prohibits, without limitation, use of any confidential information for the benefit of BlackRock, for the benefit of any other BlackRock client, or to inform any financial transaction, render any advice or recommendation, or attempt to influence any market or transaction for the benefit of any individual or entity other than the corporate credit facilities. This obligation survives the termination or expiration of the investment management agreement.

BlackRock employees providing investment management, trading, and/or advisory services to the corporate credit facilities or the Federal Reserve Bank of New York-for the duration of when they have access to material nonpublic information plus a two-week cooling off period-are prohibited from providing investment management, trading, or advisory services to anyone other than the corporate credit facilities in any of the asset classes held by BlackRock and must also refrain from purchasing for him/herself investments in any of the asset classes held by BlackRock, unless authorized by the Chief Compliance Officer of the Federal Reserve Bank of New York. The two-week period is intended to ensure that material nonpublic information loses its value in the market. To be clear, even after the two-week cooling off period, material nonpublic information may not be leveraged for matters unrelated to

⁷ www.newyorkfed.org/medialibrary/media/markets/SMCCF_Investment_Management_Agreement.pdf

the corporate credit facilities. Additional information is available in Exhibit G of the investment management agreement, which sets forth the Information Barrier and Conflicts of Interest Mitigation procedures.

Compensation for the investment manager is also detailed under Exhibit D of the investment management agreement, “Fee Schedule and Payment Procedures.” For the other vendors with whom the Federal Reserve has contracted to operationalize its emergency facilities, information has been made available or will be made available about their compensation details.⁸

Q.9. After a major price-fixing scandal, international banking regulators sought to phase out LIBOR by the end of 2021. The plan was to replace it with SOFR—the Secured Overnight Financing Rate.

Why has the Federal Reserve picked LIBOR as the benchmark for the Main Street Lending Program?

As the Fed buys debt from potentially hundreds of companies, why will the Fed keep issuing loans tied to a controversial reference rate?

Since the Fed’s Main Street Lending facility provides loans with a four-year maturity, is that going to make the transition from LIBOR to SOFR in 2021 more difficult?

A.9. Under the initial Main Street term sheets released for comment on April 8, the Federal Reserve and Treasury Department proposed a SOFR-based interest rate. The agencies received significant feedback during the comment period from potential participants that quickly implementing new systems to issue loans based on SOFR would require diverting resources from challenges related to COVID-19. Although financial institutions are transitioning to more robust reference rates, LIBOR remains the most common base rate used in business lending, even though firms cannot rely on LIBOR being published after the end of 2021. Consistent with the recommendations of the Alternative Reference Rates Committee, Main Street lenders and borrowers are advised to include fallback contract language to be used should LIBOR become unavailable during the term of the loan.

Q.10. The Federal Reserve has used its Section 13(3) authority to lend to businesses and local governments and other powers to allocate \$2.3 trillion of credit through nine programs, backed by \$215 billion of Treasury funds.

Do you agree with the Congressional Budget Office estimates that the Fed’s programs will not increase the Federal deficit, because loans that default are likely to be offset by other loans repaid with interest that result in a net gain for the government?

In addition to loans, the Federal Reserve could take an equity stake in companies receiving assistance, would returns on those warrants help offset the size of the programs? If so, by how much?

A.10. Consistent with section 13(3) of the FRA, and Regulation A, the design of our facilities helps to ensure that taxpayers are protected from loss. In particular, when designing our facilities, we

⁸For the Commercial Paper Funding Facility agreements, see www.newyorkfed.org/markets/commercial-paper-funding-facility. For the MLF agreements, see www.newyorkfed.org/markets/municipal-liquidity-facility. For the TALF agreements, see www.newyorkfed.org/markets/term-asset-backed-securities-loan-facility.

model our lending to prevent losses even in severely adverse scenarios. Furthermore, we only make loans to borrowers that we believe are solvent, in programs of broad eligibility.

In addition, under Regulation A, interest rates on eligible notes under each of our facilities are set at a rate that is a premium to the market rate in normal circumstances. Overall, the Federal Reserve believes that the facilities as designed will protect taxpayers from losses. Although these actions do not guarantee there will not be losses on some loans, they do help prevent them. Moreover, consistent with section 13(3) of the FRA, our emergency facilities provide emergency liquidity for strained credit markets. These programs are not spending or investment programs. Moreover, the Federal Reserve does not receive warrants from companies that access our facilities.

The Federal Reserve will continue to monitor these facilities to ensure they are working as intended, including that they adequately protect taxpayers from losses.

Q.11. What are you doing to assess and prepare for the possibility that a long-lasting economic downturn could potentially threaten the solvency of US banks both large and small?

A.11. The banking system is more resilient and better placed to sustain financing to the real economy as a result of the regulatory reforms enacted, and measures taken by the banking industry, in the aftermath of the 2008 global financial crisis. These reforms have helped the banking system to serve as a source of strength and to support the flow of credit to households and businesses during these challenging times. We have encouraged banks to make prudent use of their existing buffers of capital and liquidity.

In response to COVID-19, the Board has focused on heightened monitoring of banking organizations and targeting exam resources to high-risk institutions. We are also actively working with the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and State counterparts to ensure consistent responses and approaches to supervising banking organizations of all sizes during the crisis. For example, the agencies have jointly developed guidance and statements related to COVID-19, including an Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions. The guidance and statements highlight potential risks to banking organizations related to COVID-19 to help the banking organizations prepare for these risks.

With respect to the largest banks, the Board recently finalized a stress capital buffer framework that uses a forward-looking analysis to help ensure that large banking organizations have sufficient capital to survive a severe recession while still being able to lend to households and businesses. As part of our stress testing approach this year, the Board conducted sensitivity analyses to assess the resiliency of large banking organizations under three hypothetical recessions, which could result from COVID-19. In light of the results from these analyses, the Board took several actions to help ensure large firms remain resilient despite the economic uncertainty from COVID-19. In particular, for the third quarter of this year, the Board is requiring large banks to preserve capital by

suspending share repurchases, capping dividend payments, and allowing dividends according to a formula based on recent income. The Board is also requiring banks to update and resubmit their longer-term capital plans. The Federal Reserve will closely monitor the condition of the large banks and the broader financial system in the coming months, including through additional COVID-19-related analysis and will consider additional actions as appropriate.

Q.12. What are you doing to build on the experience with other industry-specific initiatives to help bus carriers? Have you crafted programs so that these companies can get access to capital?

A.12. Consistent with section 13(3) of the FRA, all of our emergency lending facilities have broad, neutrally defined eligibility requirements and pricing mechanisms and are designed to minimize credit allocation while also minimizing risks to the taxpayer. Like many other industries affected by COVID-19, bus carriers may benefit from Federal Reserve programs, such as Main Street, depending on their size and other characteristics. The overall objective of Main Street is to promote lending to businesses that were in sound financial condition prior to COVID-19 and to meet the needs of a broad-range of eligible businesses across every sector of the economy. Like other program eligibility requirements, the Main Street eligibility requirements were designed to be broad. Specific eligibility requirements and terms under each of Main Street's facilities can be found in the facility term sheets.⁹ For more information on Main Street, please see www.federalreserve.gov/monetarypolicy/mainstreetlending.htm.

Q.13. Prior to this crisis, the travel industry was coming off a decade of growth and many travel businesses were in strong financial shape. Now, due to the travel restrictions, business closures and quarantines in place across the U.S., travel businesses have virtually no customers or revenue. The impacts have been catastrophic.

The response by Congress and the Administration has focused largely on small businesses, which are absolutely vital to the economy. While 83 percent of travel businesses are small businesses, more than 50 percent of travel industry workers are employed by mid- to large-sized businesses with more than 500 employees.

What type of financial assistance are the Treasury and Federal Reserve planning establish for our Nation's nonprofits, like destination marketing organizations, many of which are ineligible for programs like PPP under the CARES Act?

A.13. Nonprofit organizations are a critical part of our economy, employing millions of people, providing essential services to communities, and supporting innovation and the development of a highly skilled workforce. We announced on June 15 that we would be seeking public feedback on a proposal to expand Main Street to provide access to credit for nonprofit organizations described in sections 501(c)(3) and 501(c)(19) of the Internal Revenue Code that

⁹For the MSNLF, see www.federalreserve.gov/newsevents/pressreleases/files/monetary20200608a1.pdf. For the MSPLF, see www.federalreserve.gov/newsevents/pressreleases/files/monetary20200608a2.pdf. For the MSELF, see www.federalreserve.gov/newsevents/pressreleases/files/monetary20200608a3.pdf.

meet minimum eligibility criteria.¹⁰ The Board received comments from a wide range of stakeholders, and in response, on July 17 we announced revised term sheets that expanded the range of nonprofit organizations eligible to obtain Main Street loans. Under the updated terms, the Federal Reserve will offer loans to small and medium-sized nonprofits that were in sound financial condition before COVID-19. Nonprofit organizations will need to meet various eligibility criteria to qualify, including financial eligibility criteria based on operating performance, liquidity, and ability to repay debt. For additional information on the nonprofit facilities, please see the facility term sheets.¹¹

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR JONES
FROM JEROME H. POWELL**

Q.1. *Racial Disparity*—What steps has the Federal Reserve taken to ensure and track that its lending facilities will reach the hardest hit communities, particularly communities of color? Please be as specific as possible.

Can the Federal Reserve provide Congress the data on the race of the ownership of the entities using the facilities?

A.1. We generally collect information on borrowers related to the terms of the loan they are getting from us (such as their credit rating) or the eligibility for the loan (such as certifications related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)). We publish detailed information on borrowers and loan terms every month. In addition, contracts with our facility vendors are public and generally require them to make efforts to seek diverse subcontractors.

We are committed to ensuring the Main Street Lending Program (Main Street) is widely known throughout the business community and among depository institutions, including among minority and women-owned businesses and minority depository institutions (MDIs). To that end, we have made an intentional effort to reach minority and women-owned businesses as well as MDIs as part of our Main Street outreach. For example, on June 24, the Federal Reserve held a webinar targeted at reaching minority and women-owned businesses to walk through the program and take questions from attendees. In advance of the webinar, we reached out to a wide range of diverse businesses associations and organizations with strong connections to minority communities to help get the word out. In addition, on July 1, the Federal Reserve and the National Bankers Association, through our Partnership for Progress program, held a briefing on the Main Street for MDIs.

The Paycheck Protection Program Liquidity Facility (PPPLF) has a wide reach across the country and a variety of communities and we have found that community banks have been especially active participants. The Federal Reserve conducted outreach, including a series of webinars about the PPPLF, to ensure that eligible institu-

¹⁰ <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200615b.htm>

¹¹ For the Nonprofit Organization Expanded Loan Facility term sheet, see <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200717a1.pdf>. For the Nonprofit Organization New Loan Facility term sheet, see <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200717a2.pdf>.

tions have the necessary information to access the program. Additionally, we partnered with community development staff and conducted specific outreach with the Opportunity Finance Network, the Community Development Bankers' Association, and others to ensure that Community Development Financial Institution (CDFI) loan funds are able to access the PPPLF. There are currently nearly 80 participants in the PPPLF that are either MDIs or CDFIs or both. We will continue to conduct outreach as needed to support the broadest possible access to Paycheck Protection Program (PPP) lenders.

Q.2. Are the Treasury Department and Federal Reserve working with CDFIs, including nondepository CDFIs, and minority depository institutions to help them navigate the PPP and the PPP Lending Facility so that they can have more success there? If so, please provide specific steps being taken.

A.2. The employee size and revenue eligibility metrics under Main Street were adopted to enable the program to support small and medium-sized businesses that are unable to receive sufficient assistance through other programs, such as the SBA's PPP, or that may not have reached the scale needed to issue the kinds of capital market instruments that would be purchased under the Federal Reserve's Primary Market Corporate Credit Facility (PMCCF). Larger companies may wish to consider whether the PMCCF, which extends credit to CARES Act-eligible businesses without imposing restrictions related to revenues or number of employees, meets their needs. Like Main Street, borrowers under the PMCCF must meet facility-specific eligibility criteria. As of June 29, the PMCCF is operational and available for use.

Q.3. *Main Street Lending Facility*—While Main Street funding is vital for small and medium manufacturers and should be implemented now, larger manufacturers are also suffering from liquidity crises and also need relief. When will the term sheets and regulations be written and loans made available for larger manufacturers with more than \$5 billion in sales or 15,000 jobs? They were included in the CARES Act and also are counting on the Fed and the Treasury.

A.3. The employee size and revenue eligibility metrics under Main Street were adopted to enable the program to support small and medium-sized businesses that are unable to receive sufficient assistance through other programs, such as the SBA's PPP, or that may not have reached the scale needed to issue the kinds of capital market instruments that would be purchased under the Federal Reserve's Primary Market Corporate Credit Facility (PMCCF). Larger companies may wish to consider whether the PMCCF, which extends credit to CARES Act-eligible businesses without imposing restrictions related to revenues or number of employees, meets their needs. Like Main Street, borrowers under the PMCCF must meet facility-specific eligibility criteria. As of June 29, the PMCCF is operational and available for use.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SMITH
FROM JEROME H. POWELL**

Q.1. Accessing loans under the Paycheck Protection Program has been a challenge for many business owners, especially for business owners of color and native businesses, who are less likely to have a lending relationship with a bank that will accept their PPP application.

Is it acceptable for the largest banks in the country to be only processing PPP applications for existing customers, for most of the time that they were accepting PPP applications?

Should the largest banks in the country, like JPMorgan Chase, Wells Fargo, Bank of America, and Citi, be allowed to prioritize PPP loans for some customers over others? Or should they be processed on a first come, first served basis?

A.1. The goal of the Small Business Administration's (SBA) Paycheck Protection Program (PPP) was to provide funding to small businesses to help them keep their workers on their payrolls during COVID-19. In response, lenders mobilized to operationalize lending through the PPP as quickly as possible. These loans are supporting more than 51 million jobs and over 80 percent of all small business employees, and the SBA reports that 98 percent of PPP loans were for \$1 million or less.¹

Depending on the circumstances, financial institutions choosing to work only with existing customers may raise fair lending concerns, such as that of redlining. In addition, prioritizing certain customers, such as high net worth applicants, or applying additional eligibility requirements, such as minimum loan amounts, may raise consumer protection concerns regarding fair access and fair treatment. These protections apply to loans made through the PPP, just as they do to other types of small business lending. As in all lending activities, State member banks under the supervision of the Federal Reserve are expected to have effective consumer compliance management systems in place to ensure that all of their lending activities adhere to fair lending and other applicable consumer protection laws. We recognize that financial institutions moved swiftly to assist borrowers affected by COVID-19 and that in some instances there may have been legitimate reasons for limiting PPP loans to existing customers, given, for example, the speed with which PPP loans needed to be made and Bank Secrecy Act requirements. When exercising supervisory and enforcement responsibilities, the Federal Reserve will take into account the unique circumstances impacting borrowers and institutions resulting from COVID-19. Examiners will also take into account an institution's good-faith efforts that demonstrate their efforts to serve borrowers and comply with consumer protection laws while deploying capital that was critical to support their communities.

Q.2. Do you believe banks are meeting the credit needs and convenience of their communities when it comes to PPP loans, if they're only lending to existing customers? Do you have fair lending concerns about the practices of any institutions related to PPP?

¹ U.S. Department of Treasury, Press Release, "SBA and Treasury Announce Release of Paycheck Protection Program Loan Data", available at <https://home.treasury.gov/news/press-releases/sm-052>.

A.2. With every policy action that the Federal Reserve has undertaken, meeting the convenience and needs of consumers and communities and helping them weather the financial impacts of COVID-19 has been foremost on our minds. Each of the facilities were established to support the flow of credit to households, businesses, and communities. Several of our lending facilities were specifically aimed at providing liquidity to consumers and small and midsize businesses, including the Term-Asset Loan Facility, the Paycheck Protection Program Lending Facility (PPPLF), and Main Street. In addition, the Board has urged banks to work with their customers, and issued statements and rules to support banks' efforts to exercise flexibility in accommodating consumers' access to credit, while reminding banks of the importance of complying with consumer laws and regulations, including fair lending.²

With respect to whether the PPP is meeting the convenience and needs of communities, small business lending undertaken by banks under the SBA's PPP is an important part of the Federal COVID-19 response to support consumers, households, businesses, and communities. The PPP provides loans to small businesses so that they can keep their workers on the payroll by extending credit to eligible financial institutions that originate PPP loans. To bolster the effectiveness of the PPP, the Board launched the PPPLF to supply liquidity to participating financial institutions through term financing backed by PPP loans to small businesses. The PPPLF extends credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value.

In terms of evaluations under the Community Reinvestment Act (CRA) assessment of whether a bank is meeting the convenience and needs of its communities, PPP loans that meet the Community Reinvestment Act's (CRA) small business loan definitions will be considered as retail loans under the lending test. In addition, PPP loans greater than \$1 million will be considered as community development loans if they have a primary purpose of community development, for example by promoting economic development or helping to revitalize or stabilize low- or moderate-income geographies or distressed or underserved nonmetropolitan middle-income geographies.³

Q.3. Businesses can't wait a few months for PPP loans—they need them now. How will you be enforcing the Community Reinvestment Act when it comes to PPP, to make sure banks are doing a meaningful job reaching all of the businesses in need in their communities?

A.3. The Board has worked with the Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC) to release interagency frequently asked questions (FAQs) that address the CRA treatment of PPP loans, among other topics.⁴ This particular FAQ makes clear that the CRA treatment of PPP loans will follow existing CRA rules, including a focus on

²The various actions in response to COVID-19 can be found at <https://www.federalreserve.gov/COVID-19.htm>.

³For more information, see CA 20:10, "Community Reinvestment Act (CRA) Consideration for Activities in Response to the Coronavirus" at <https://www.federalreserve.gov/supervisionreg/caletters/caltr2010.htm>.

⁴See <https://www.federalreserve.gov/supervisionreg/caletters/caltr2010.htm>.

smaller loans to small businesses and ensuring a primary purpose of community development as defined under the CRA. The FAQ notes that PPP loans to businesses that meet existing CRA small business standards would count for CRA purposes. However, for PPP loans made to larger businesses, some fact-specific determinations will be considered, such as the location of the business. As indicated in the Federal Reserve System's Small Business Credit Survey, there are unmet credit needs for the smallest businesses, including many minority-owned and womenowned businesses, and we encourage banks to work to responsibly meet these credit needs for these businesses as well.⁵

The Board also has taken steps to broaden the eligible lenders for the Federal Reserve's PPP Liquidity Facility (PPPLF) to include nondepository Community Development Financial Institutions (CDFIs) that are eligible PPP lenders.⁶ This step will help provide these lenders with additional liquidity needed to make PPP loans, resulting in additional options for business in lower-income communities and for women- and minority-owned firms given CDFIs' focus on these target markets.

Q.4. The CARES Act directed Treasury and the Federal Reserve to set up a lending program for midsize businesses.

One provision of the CARES Act says that the Treasury Secretary "shall endeavor" to establish a lending program for midsize businesses and that any borrower applying for a loan under the midsize business lending program must certify that "the recipient will not outsource or offshore jobs for the term of the loan and 2 years after[wards]."

Yet, when the Fed unveiled the term sheets for the Main Street Lending Facility, there doesn't seem to be any mention of a certification for not moving jobs offshore.

Do you think firms getting taxpayer-funded bailout should be required to keep their jobs in the United States?

Why wasn't this a requirement in your agreement with the Fed to require firms to agree not to move jobs or production overseas?

What about other Treasury-Fed lending programs, besides the midsize business lending program? Don't you think that any firm receiving a Federal grant or loan should be required to agree that they won't move jobs offshore?

In what ways did you endeavor to implement the program as described in the CARES Act, in keeping with both the spirit and letter of the law?

Why isn't the offshoring provision required in the Main Street Lending Program? What steps did you take in an effort to implement that provision?

Besides the offshoring provision, please describe the steps you took to comply with both the letter and spirit of Section 4003(c)(3)(D)(i)(I) through (X) of the CARES Act, including why you ultimately chose to implement each requirement or not.

A.4. The Main Street Lending Program (Main Street) is designed to facilitate support to small and medium-sized businesses as effec-

⁵ See <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/2020-sbcs-employer-firmsreport.pdf>.

⁶ See <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200430b.htm>.

tively and efficiently as possible, while protecting taxpayer funds. Main Street is designed to help enable such businesses to maintain their operations during this difficult time period.

In section 4003(c)(3)(D)(i) of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Congress set out a possible design for a facility to provide assistance to mid-sized businesses, which included restrictions on outsourcing or offshoring jobs during the term of the loan and for 2 years after the loan was repaid. Congress clarified in section 4003(c)(3)(D)(ii) of the CARES Act, however, that Main Street could be designed at the Federal Reserve Board's (Board) discretion under its authority in Section 13(3) of the Federal Reserve Act without such restrictions. The Board used this authority in designing Main Street in a manner that would comply with all applicable laws and would best facilitate the flow of credit to small- and medium-sized business borrowers.

While Main Street's terms do not include restrictions on offshoring, Main Street borrowers are required to commit that they will use the proceeds of the Main Street loan only for the benefit of the borrower, its consolidated U.S. subsidiaries, and other affiliates of the borrower that are U.S. businesses. Borrowers may not use the proceeds of the loan for the benefit of their foreign parents, affiliates, or subsidiaries.

In addition, Main Street requires certifications and covenants that are similar to several of the other conditions set out in section 4003(c)(3)(D)(i) of the CARES Act, including the following restrictions which are imposed by section 13(3) of the Federal Reserve Act, other sections of the CARES Act, or the Main Street term sheets:

- *U.S. Business Requirement:* Under section 4003(c)(3)(C) of the CARES Act, eligible borrowers must be "businesses that are created or organized in the United States or under the laws of the United States and that have significant operations in and a majority of its employees based in the United States." This requirement is substantially similar to the requirements in sections 4003(c)(3)(D)(i)(IV) and (VI).
- *Direct Loans:* Eligible borrowers must commit to comply with the restrictions that apply to direct loan programs under section 4003(c)(3)(A)(ii) of the CARES Act, except that an S corporation or other tax pass-through entity that is an eligible borrower may make distributions to the extent reasonably required to cover its owners' tax obligations in respect of the entity's earnings. Certain of these requirements are similar to the requirement in section 4003(c)(3)(D)(i)(VII) of the CARES Act.
- *Solvency:* Borrowers must certify that they are solvent and are not in bankruptcy, resolution, or another type of insolvency proceeding at the time of borrowing to effectuate compliance with section 13(3) of the Federal Reserve Act. This requirement is substantially similar to the requirement in section 4003(c)(3)(D)(i)(V) of the CARES Act. In addition, under the Main Street term sheets, each borrower must certify that that it has a reasonable basis to believe that, as of the date of origination of the Main Street loan and after giving effect to such

loan, the borrower has the ability to meet its financial obligations for at least the next 90 days and does not expect to file for bankruptcy during that time period.

- *Availability of Credit:* To effectuate compliance with Section 13(3) of the Federal Reserve Act and Regulation A, each borrower must certify that it is unable to secure “adequate credit accommodations” because the amount, price, or terms of credit available from other sources are inadequate for the borrower’s needs during the current unusual and exigent circumstances. This requirement is similar to section 4003(c)(3)(D)(i)(I) of the CARES Act.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SINEMA FROM JEROME H. POWELL

Q.1. In its April 30 guidance, the Federal Reserve determined that nonbank financial institutions would not be considered as eligible lenders under the Main Street Lending Program. However, the Federal Reserve is open to considering options to expand the list of eligible lenders in the future. Since April 30, has the Federal Reserve made any further determinations regarding eligible lenders? If so, will that broader list include business development companies (BDCs) to ensure that funds are able to reach Main Street businesses?

A.1. At this time, nonbank financial institutions that are unaffiliated with depository institutions are not considered eligible lenders for the purposes of the Main Street Lending Program (Main Street). The Federal Reserve continues to consider options to expand the list of eligible lenders in the future. Currently, eligible lenders include: U.S. federally insured depository institutions (including banks, savings associations and credit unions), U.S. bank holding companies, U.S. savings and loan holding companies, U.S. branches or agencies of foreign banks, U.S. intermediate holding companies of foreign banking organizations, and U.S. subsidiaries of the foregoing. Any changes to the list of eligible lenders will be announced on the Main Street website.¹

Q.2. Since March, occupancy rates for hotels, fitness centers, and entertainment venues have hit all-time lows. Business owners are now looking towards the Main Street Lending Program as their best lifeline for making it through the pandemic. I’m concerned that some of the lending limits based on leverage will prevent many businesses in these industries from participating. Is the Federal Reserve looking at unique business characteristics for different sectors when determining lending limits based on leverage? Is it doing so with an eye towards providing additional flexibility in future guidance, such as increasing the maximum loan size and modifying the borrower eligibility formulas to ensure businesses with high debt costs, such as hotels, can utilize the program?

A.2. Main Street is designed to be broad-based and not to target lending to any particular sector of the economy. We adopted criteria based on adjusted earnings before interest, taxes, deprecia-

¹ www.federalreserve.gov/monetarypolicy/mainstreetlending.htm

tion, and amortization (EBITDA) because it is a key underwriting metric used by lenders in evaluating the credit risk of small and medium-sized businesses across industries. Lenders and borrowers regularly agree to adjust a borrower's EBITDA to accommodate differences in business models across industries, as well as one-time events that may positively or negatively impact a borrower's earnings. To account for differences based on industry or business models, a Main Street lender may adjust a borrower's EBITDA in the same way it has previously adjusted EBITDA when lending to that borrower or similarly situated borrowers, as applicable. When applied prudently, these adjustments provide a lender with a more accurate representation of a business's earnings capacity over time. Allowing for leverage of four or six times adjusted EBITDA is within the normal range of practice in lending to business borrowers.

We will continue to monitor lending conditions broadly and consider adjustments to Main Street terms and conditions, as appropriate.

Q.3. Arizona is experiencing an all-time high in unemployment. Thousands of Arizonans are still struggling to successfully file for unemployment and receive benefits. I am concerned that with expanded unemployment benefits expiring at the end of July, the program will end before Arizonans see any relief. Does the Federal Reserve expect coronavirus-related layoffs to be reversed before the July deadline?

A.3. We expect that the recovery of the labor market will take some time. Indeed, at the June meeting of the Federal Open Market Committee (FOMC), participants' median expectation was for the unemployment rate to remain above its longer-run level at least through the end of 2022.² While payroll employment rebounded strongly in May, June, and July, only about 40 percent of the jobs lost in March and April have been recouped.³ Looking ahead, many indicators (including high-frequency indicators such as initial claims for unemployment insurance, mobility data, and employment in small businesses) suggest that the pace of improvement in the labor market has slowed.⁴ Furthermore, weekly COVID-19 case counts remain high, and some States have ramped up restrictions again. These developments might further restrain improvements in the labor market.

Q.4. In its guidance, the Federal Reserve has ruled that eligible issuers for its emergency lending facilities must be rated by major nationally recognized statistical rating organizations (NRSROs). In some cases, such as the Primary Market Corporate Credit Facility, eligible issuers must be rated by the three largest NRSROs specifically. Restricting eligibility to issuers with ratings from incumbent agencies unnecessarily excludes Arizona companies and BDCs, especially those with ratings from other top NRSROs approved by the Securities and Exchange Commission. I am also concerned that

²The FOMC's Summary of Economic Projections for the June 2020 FOMC meeting is available at <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20200610.htm>.

³After falling by 22.2 million over March and April, nonfarm payroll employment increased by 9.3 million over May, June, and July.

⁴For example, after declining at a rapid clip through early June, initial claims for unemployment insurance have moved down more slowly, on net, since then and stood at a still-elevated level of 1.1 million in the week ending August 15.

the decision may undermine market confidence in rating agencies overall. The Federal Reserve stated it would consider expanding eligibility to other NRSROs. When will this consideration take place? If the Federal Reserve is considering expansion, what criteria will be used to make its determination?

A.4. The emergency lending facilities, including the Primary Market Corporate Credit Facility, were established to support the flow of credit to households, businesses, and communities. 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 the three largest nationally recognized statistical rating organizations (NRSROs), 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 Federal Reserve hopes this change expands access to its facilities, while continuing to protect against taxpayer losses. The Federal Reserve will continue to monitor its facilities to ensure they are working as intended.

Q.5. In its April 30 guidance, the Federal Reserve set the terms for its Municipal Liquidity Facility program to limit the purchasing of short-term notes to cities with over 250,000 residents and counties with over 500,000. I've heard directly from Arizona mayors and county leaders who do not meet these requirement but are in dire financial straits. Has the Federal Reserve made any further determinations regarding resident caps since guidance was release? If not, what kind of relief can the Federal Reserve provide to smaller counties and cities across the country?

A.5. At this time, the Municipal Liquidity Facility (MLF) will purchase up to \$500 billion in shortterm notes directly from U.S. States, including the District of Columbia, U.S. counties with a population of at least 500,000 residents, and U.S. cities with a population of at least 250,000 residents. To provide relief to smaller counties and cities, eligible States, cities, and counties may use the proceeds of eligible notes sold to the special purpose vehicle under the MLF to purchase the notes of, or otherwise assist, any of their political subdivisions or other government entities. Under this facility, political subdivisions and other government entities are defined as any county, city, municipality, township, village, school district, special district, utility, authority, agency or other unit of government, as determined by the eligible State, city, or county. In recognition that it can be difficult in some cases, for various reasons,

for States to borrow on behalf of their cities and counties, we announced on June 3, that every State can have at least two cities and counties that are able to directly issue to the MLF. Additional information on the eligibility requirements under the MLF can be found in the facility term sheet.⁵

The Federal Reserve will continue to closely monitor conditions in the primary and secondary markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to State and local governments.

Q.6. Under the CARES Act, the Paycheck Protection Program (PPP) was intended to target relief for businesses in underserved and rural markets, and for businesses owned by veterans, women, and minorities. A month after passage of the CARES Act, the Treasury allowed nondepository Community Development Financial Institutions (CDFIs) to be eligible PPP lenders in order to meet this end. As such, the Federal Reserve allowed CDFIs to participate in its PPP Liquidity Facility (PPPLF). With the exception of the PPPLF, CDFIs do not have access to any other 13(3) facility. On May 8, 2020, the Small Business Administration (SBA) Inspector General released a flash report on the implementation of the PPP, which found the SBA did not follow Congressional intent in serving low-income and disadvantaged areas. CDFIs will need more liquidity support than the purchase of their PPP loans to assist the SBA and meet demand. Is the Federal Reserve open to considering the inclusion of CDFIs in its other facilities? Why was the determination to exclude CDFIs from other 13(3) facilities made?

A.6. Main Street considers eligible lenders to be U.S. federally insured depository institutions (including banks, savings associations, and credit unions), U.S. bank holding companies, U.S. savings and loan holding companies, U.S. branches or agencies of foreign banks, U.S. intermediate holding companies of foreign banking organizations, or any U.S. subsidiary of any of the foregoing. At this time, nonbank financial institutions are not considered eligible lenders for purposes of Main Street. However, the Federal Reserve recognizes the role that Community Development Financial Institutions play in provisioning credit for minority and low-to-moderate income communities and is considering options to expand the list of eligible lenders in the future.

Q.7. Per its April 30 guidance, the Federal Reserve ruled that the Term Asset-Backed Securities Loan Facility (TALF) will not consider collateral without a credit rating from the highest investment-grade rating category from a major nationally recognized statistical rating organizations (NRSROs) as eligible collateral. Right now, the consumers and small business owners turning to personal loans are those most in need of support and access to credit at this difficult time. Is the Fed considering approving investment-grade personal loans as eligible collateral under TALF to ensure that these American consumers and small business owners are not left out?

⁵The MLF term sheet, effective June 3, 2020: www.federalreserve.gov/newsevents/pressreleases/files/monetary20200603a1.pdf.

A.7. As you note, only asset-backed securities (ABS) with triple-A ratings from at least two nationally recognized statistical rating organizations are eligible collateral for Term Asset-Backed Securities Loan Facility (TALF) loans. In reaching this determination, the Federal Reserve Board (Board) balanced two considerations. First, the Board generally accepts as TALF collateral ABS asset classes that fund a material share of economic activity, such as credit card, auto, and student loan ABS, and ABS collateralized by small business loans with Small Business Administration guarantees. The objective of facilitating the flow of credit to consumers and businesses is typically not at odds with the restriction that only triple-A securities are TALF-eligible. In most major classes of ABS, a large share of the underlying bonds are rated triple-A, so enough triple-A TALF-eligible ABS exist for the program to achieve its objective.

Second, under the restrictions of section 13(3) of the Federal Reserve Act, the Board and Reserve Banks must take steps to ensure the protection of the taxpayer, including by assigning a “lendable value to all collateral.” Restricting TALF-eligible collateral to bonds with triple-A ratings helps ensure that the Board and the Reserve Banks are complying with section 13(3).

In the case of personal loans, although these loans provide access to credit to some consumers and small businesses, other forms of credit are more economically significant for consumers. In addition, the majority of personal-loan borrowers obtain these loans from banks, not from the nonbank lenders that are dependent on ABS for funding. As a result, personal loans are still available currently to consumers. Finally, personal loan ABS are difficult to reconcile with the section 13(3) restrictions. As you note, only a small share of these ABS obtain triple-A ratings, and because they are a relatively new asset class, comprehensive information is not available about their performance in stressed economic periods.

The Board will continue to evaluate the feasibility and efficacy of adding other asset classes to or expanding the scope of existing asset classes eligible for the TALF.

Q.8. Per its April 30 guidance, the Federal Reserve ruled that TALF will only consider collateral with a credit rating in the highest long-term or short-term investment-grade rating category from at least two NRSROs. Self-employed borrowers generally experience greater income volatility and rely on unconventional forms of documentation to access credit. As such, the self-employed often struggle to access credit affordably. However, like other small businesses, self-employed business owners are important contributors to Arizona’s economy. Are there plans to allow AAA residential mortgage-backed securities as eligible collateral under TALF?

A.8. In determining whether a certain type of ABS should be eligible collateral for TALF loans, the Board considers whether accepting an asset class will provide material support to the economy and whether inclusion of the asset class is appropriate under the restrictions of section 13(3) of the Federal Reserve Act. In particular, under section 13(3), the Board and Reserve Banks must take steps to ensure the protection of the taxpayer, including by assigning a “lendable value to all collateral.” To satisfy this restriction, we prioritize categories of ABS where a large share of issuance is rou-

tinely rated triple-A by the rating agencies and where comprehensive information is available about credit performance in different economic environments, including stressed conditions.

Residential mortgage-backed securities (RMBS) is one of the largest ABS categories not currently eligible as TALF collateral, and a large share of RMBS issuance is typically rated triple-A by the rating agencies. However, some RMBS have performed poorly in times of stress, and RMBS collateralized by mortgages with low or nonstandard documentation have a particular history of underperformance. The types of ABS currently accepted by the TALF generally have a long history of performing well in stressed economic conditions. The Board relies on that history of strong performance to ensure that the TALF is consistent with section 13(3).

The Board recognizes that the exclusion of RMBS from TALF has an effect on mortgage credit availability and continues to consider whether some types of RMBS can be accepted by the TALF in a manner consistent with section 13(3).

Q.9. Given record high unemployment levels in Arizona, mortgage forbearance and delay of evictions are a very temporary solution. Servicers of home loans backed by Fannie Mae, Freddie Mac, and Ginnie Mae are not only required to make mortgage payments on behalf of the borrowers, but also payments on property taxes, homeowners and mortgage insurance, and homeowner association dues. As more and more homeowners enter forbearance, both independent mortgage servicers and community banks will need liquidity support. How do your organizations plan to deal with mass forbearance and provide liquidity to struggling servicers? Service transferring is already a chaotic process for borrowers. Can a program be created to avoid borrowers having their service transferred during such a critical time?

A.9. The Federal Housing Finance Agency (FHFA), Fannie Mae, Freddie Mac, and Ginnie Mae have announced helpful measures that will make it easier for mortgage servicers to carry out the forbearance requirements of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Moreover, the Federal financial regulatory agencies and the State regulators have taken a number of steps, including those listed below, to clarify the responsibilities of mortgage servicers and to address issues related to the transfer of residential mortgages.

- In April, the Board joined other Federal financial institution regulators, the Consumer Financial Protection Bureau (CFPB), and State regulators in issuing a COVID-19 emergency joint policy statement,⁶ which outlined various practices and policies to provide mortgage servicers clarity and to assist them in complying with the CARES Act provisions providing forbearance to consumers impacted by COVID-19. The CFPB issued related FAQs related to mortgage forbearance.⁷

⁶ www.federalreserve.gov/newsevents/pressreleases/bcreg20200407a.htm (April 7, 2020); revised from www.federalreserve.gov/newsevents/pressreleases/bcreg20200322a.htm (March 22, 2020). See also, www.federalreserve.gov/newsevents/pressreleases/bcreg20200403a.htm (April 3, 2020).

⁷ <https://files.consumerfinance.gov/f/documents/cfpb-mortgage-servicing-rules-COVID-19-faqs.pdf> (April 3, 2020).

- In April, the CFPB outlined practices to provide mortgage servicers clarity, facilitate compliance, and prevent harm to consumers during the transfer of residential mortgages.⁸
- In May, the CFPB and State regulators issued a consumer guide to mortgage relief options.⁹
- In June, the CFPB and the State regulators issued additional guidance to mortgage servicers to assist them in complying with the CARES Act provisions providing forbearance to consumers impacted by COVID-19.¹⁰

These regulators continue to be in close communication with each other and with other agencies, and stakeholders that have responsibilities for mortgage servicers. We continue to closely monitor developments in this area.

Q.10. Requiring servicers to advance property taxes, hazard insurance, homeowners association dues, and other assessments is no small task. Servicers typically advance these amounts when borrowers face financial shortfalls or after a natural disaster without any problem, however, the national scale of this pandemic is unprecedented and our municipal and county budgets are already strained. Both Fannie Mae and Ginnie Mae have taken steps to moderate the servicer advancing burdens for principle and interest. Have your organizations contemplated the risks to cities and counties if liquidity is not restored? Have you considered standing up a liquidity facility to help servicers make these tax and insurance advances, particularly in cities and counties that are not able to access the Municipal Liquidity Facility?

A.10. Mortgage-backed securities (MBS) guarantors such as Fannie Mae, Freddie Mac, and Ginnie Mae have a strong incentive to ensure that servicers advance payments to cities, counties, insurers, and other entities, since a foreclosure stemming from a tax lien or homeowners' association dues lien would affect the MBS guarantor's ability to recover its own losses in the event of a borrower default. These guarantors are continuously assessing whether the servicers have the resources to live up to their responsibilities under the servicing agreements.

As you note, the steps that Fannie Mae, Freddie Mac, Ginnie Mae, and the FHFA have taken have moderated the strains associated with advances of principal and interest, and thereby left servicers with more cash available to meet their other obligations. Mortgage servicers that also originate mortgages have been able to use the proceeds from the recent high levels of mortgage refinancing activity to fund tax and insurance advances.

All the entities with a regulatory stake in the solvency and stability of mortgage servicers noted above continue to be in close communication with each other. At the Federal Reserve, we continue to monitor developments with mortgage servicers closely. We

⁸ www.consumerfinance.gov/about-us/newsroom/cfpb-outlines-mortgage-loan-transfer-process-prevent-consumer-harm/

⁹ www.consumerfinance.gov/about-us/newsroom/cfpb-csbs-consumer-guide-mortgage-relief-options/

¹⁰ www.consumerfinance.gov/about-us/newsroom/cfpb-and-state-regulators-provide-guidance-assist-borrowersCOVID-19/

remain prepared to use our full set of tools to support the flow of credit to households and businesses.

Q.11. Nonprofits serve on the front lines of the coronavirus pandemic helping feed Arizona families, providing Arizonans safe shelter, and connecting Arizonans to critical health services. To continue their important work and meet growing need they may need access to the the 13(3) facilities. What can you do to ensure that nonprofits with up to 10,000 employees receive additional financial assistance?

A.11. Nonprofit organizations are a critical part of our economy, employing millions of people, providing essential services to communities, and supporting innovation and the development of a highly skilled workforce. We announced on June 15 that we would be seeking public feedback on a proposal to expand Main Street to provide access to credit for nonprofit organizations described in sections 501(c)(3) and 501(c)(19) of the Internal Revenue Code that meet minimum eligibility criteria.¹¹ The Board received comments from a wide range of stakeholders, and in response, on July 17 we announced revised term sheets that expanded the range of nonprofit organizations eligible to obtain Main Street loans. Under the updated terms, the Federal Reserve will offer loans to small and medium-sized nonprofits that were in sound financial condition before COVID-19. Nonprofit organizations will need to meet various eligibility criteria to qualify, including financial eligibility criteria based on operating performance, liquidity, and ability to repay debt. For additional information on the nonprofit facilities, please see the facility term sheets.¹²

¹¹ www.federalreserve.gov/newsevents/pressreleases/monetary20200615b.htm

¹² For the Nonprofit Organization Expanded Loan Facility term sheet, see <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200717a1.pdf>. For the Nonprofit Organization New Loan Facility term sheet, see <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200717a2.pdf>.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

LETTER SUBMITTED BY CUNA



Jim Nussle
President & CEO

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99 M Street SE
Suite 300
Washington, DC 20003-3799

May 18, 2020

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing and Urban
Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban
Affairs
United States Senate
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown:

On behalf of America's credit unions, I am writing regarding the Quarterly CARES Act Report to Congress. The Credit Union National Association (CUNA) represents America's credit unions and their 115 million members.

We thank the Committee on Banking, Housing, and Urban Affairs for its leadership during these unique and challenging times. We would also like to thank the Federal Agencies tasked with implementing the Coronavirus Aid, Relief, and Economic Security (CARES) Act for their diligent work in implementing many complex programs in such a short period of time. We note that many challenges to our members implementing CARES Act programs and changes to regulations would likely be less challenging if done so under normal circumstances with more time to consider and develop the programs and changes.

Paycheck Protection Program (PPP)

We thank the Small Business Administration (SBA) and the Treasury Department and their respective staffs for their diligent work in developing the Paycheck Protection Program (PPP) in record time. Credit unions welcomed the opportunity to help Americans by making PPP loans to small businesses that desperately needed help. We understand that rolling out this unique lending program was challenging for the SBA and clearly the product was still being developed as credit unions and other lenders were originating loans. Unfortunately, as was expected, the compressed timeframe in which the PPP was enacted and implemented resulted in many challenges for our member credit unions in making, processing, and disbursing loans.

Although money did flow to small businesses through the PPP, the launch and relaunch of the PPP after the second round of funding was difficult for both borrowers and financial institutions, as there were many problems with the process. Credit unions have seen incremental fixes to initial issues that challenged the lending process and vexed borrowers. But now, with funds still available, it appears businesses are reluctant to borrow. Some reasons for this might be confusion over aspects of the program, such as loan forgiveness, which still are not sufficiently developed.

We remind the Committee and Treasury Department that credit unions are a vital component to the delivery of financial services to many Americans and that credit union members should have equal access to the PPP just as those that choose to borrow from large banks. At times during the initial phase and start of the second phase of the PPP, access was not uniform across all financial institutions, which may have frustrated

cuna.org

Americans that accessed PPP loans through smaller financial institutions. Loan processing speed is not usually a problem with most lending products, but with the race to lend what was a finite amount of funds, speed of approval was the difference between a business or individual receiving a loan that saves them or their employees from hardship or being left with no assistance. As the PPP will likely run out of funds again, the SBA must further refine its process to ensure equal access by borrowers regardless of the financial institution they choose as their lender.

CUNA recently submitted a comment letter to the SBA outlining ongoing challenges and concerns with the PPP, some of which are included briefly in this letter.

Although the pace of PPP lending has slowed operational challenges remain. These include:

- Lack of support from the SBA to provide timely feedback on issues;
- Lack of updating guidance and forms to reflect privately insured state-chartered credit unions are eligible to be PPP lenders;
- Lender prioritization guidance;
- Official guidance formalizing the use of SBA forms; and
- Lack of guidance on the purchasing process of loans.

Credit unions expressed concern with liability stemming from the PPP at the outset of the program. Nevertheless, credit unions charged ahead and made loans to desperate small businesses before many aspects of the PPP were developed. Now, partially as a consequence of this planned concurrence, lawsuits are being filed to remedy perceived issues with aspects of the PPP. The interim final rules provided little guidance on critical aspects of the program, such as the documentation required to determine eligibility, the process for submission and approval of the loans by the SBA, the collection of servicing fees, and the determination of funds to be forgiven. Historically, collection of SBA guarantees has proved challenging and, at times, frustrating. This lack of guidance shifts too much liability to the lender and, despite the guarantee, creates too much process risk relative to the limited interest rate.

Lawsuits have recently been filed over agent compensation and the denial of loans to certain types of business. It remains to be seen whether financial institutions even had impact over these and many other issues, but as the lenders, many will be dragged into lawsuits with little ability to address risk prior to making PPP loans. The SBA must address lender liability or it will risk losing lenders willing to make PPP loans.

Congress needs to act to relieve borrowers that carried out the PPP in good faith from any liability stemming from the structure and design of the PPP.

As you know, PPP loans essentially turn into a grant if certain criteria are met. The availability of loan forgiveness is likely the driving force behind the demand for PPP loans. Credit unions and other lenders need detailed guidance on all processes surrounding loan forgiveness, as conflicting processes are likely to create problems and lead to litigation.

Economic Impact Payments

We understand the vast majority of eligible Americans have received their Economic Impact Payments (EIP). We understand that there were many challenges in rolling out these payments but believe the process could have been handled better. The Internal Revenue Service (IRS) and Treasury provided little information to our members through this process. Furthermore, the IRS was unable to provide our members real-time information on checks, which would have helped mitigate fraud. Although most payments have been sent,

the IRS and Treasury should study errors made and fix problems to prepare for any future additional payments.

Congress should also act to adopt legislation that protects stimulus payments from garnishment. This is a complex issue but we understand Congress is working on legislation that would mostly remedy this problem. Congress should also study requiring that payment recipients that do not have a bank account be sent debit cards instead of checks.

On behalf of America's credit unions and their 115 million members, thank you for holding this important hearing.

Sincerely,



Jim Nussle
President & CEO

LETTER SUBMITTED BY NAM



Chris Netram
Vice President,
Tax and Domestic Economic Policy

May 19, 2020

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing, and
Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and
Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown:

On behalf of the National Association of Manufacturers, I want to thank you for holding today's oversight hearing on the implementation of the CARES Act by the Department of the Treasury and the Federal Reserve.

The COVID-19 outbreak has had a dramatic impact on manufacturers across the country, and the actions taken by Treasury and the Federal Reserve are critical to ensuring that these businesses are able to keep their doors open during the crisis. The Paycheck Protection Program has proved to be a vital lifeline for many small businesses—the first round of PPP funds generated nearly 110,000 loans for small manufacturers across the country, totaling nearly \$41 billion to keep workers on payroll. And manufacturers are eagerly awaiting the launch of the Main Street Lending Program, which promises to inject further liquidity into the manufacturing economy.

Recently, NAM President and CEO Jay Timmons wrote to Secretary Mnuchin, calling on Treasury to issue clarifying guidance to ensure that small manufacturers can continue to benefit from the PPP. NAM members have faced frustrating uncertainty regarding the potential for retrospective review of PPP loans, the program's treatment of U.S.- and foreign-based employees, and the deductibility of business expenses paid with PPP funds. I have attached this letter for the record, as well as a recent NAM letter to Chairman Powell outlining manufacturers' priorities regarding implementation of the new liquidity facilities administered by the Federal Reserve. I believe these letters can provide useful insights to the Committee as you continue your important work to provide oversight of CARES Act implementation.

On behalf of the millions of men and women who make things in America, thank you for your continued attention to these important issues.

Sincerely,

Chris Netram
Vice President, Tax and Domestic Economic Policy



Jay Timmons
President and CEO

May 12, 2020

The Honorable Steven Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Ave. NW
Washington, DC 20220

Dear Secretary Mnuchin,

The National Association of Manufacturers thanks you for your ongoing work to implement and oversee the Paycheck Protection Program, which has proven to be a vital lifeline for America's small manufacturers. The COVID-19 outbreak has had a dramatic impact on these businesses, and the PPP is allowing them to keep their doors open and their workers on the payroll. But due to recent developments, some are losing confidence in the program. To ensure that small manufacturers receive the promised and much-needed help, the NAM respectfully urges you to issue clarifying guidance on several key issues:

- **Provide certainty to manufacturers that have received PPP loans.** Recent guidance on review of loans in excess of \$2 million can be interpreted to retroactively disqualify small businesses from participation in the program, notwithstanding their good faith compliance with required certifications regarding financial need at the time a loan application was made. As you know, PPP loan amounts are based on a company's payroll. Just because a company is able to compensate its employees well does not mean that it has access to other sources of liquidity; rather, above-average pay is indicative of the highly skilled workforce necessary for modern manufacturing. As such, the NAM respectfully encourages you to avoid applying one-size-fits-all criteria or bright-line tests that exclude or subject to enhanced scrutiny entire classes of companies that have complied with the terms of the program and are using their PPP funds to keep Americans employed and paid during the crisis.
- **Address contradictions in PPP guidance.** From the outset of the PPP, businesses have been required to count only their U.S.-based employees to determine if they meet the program's size tests. However, new guidance released last week contradicted the existing rules, calling into question the eligibility of manufacturers that received PPP loans under the previous standard and creating confusion among current applicants. To help protect American jobs, we respectfully encourage you to clarify that only U.S.-based workers are counted for the size test.
- **Allow access to the full benefit of the PPP.** Under the CARES Act, forgiven PPP loans are not subject to taxation, but a recent IRS notice would deny the deductibility of payroll costs for PPP loan recipients—increasing federal tax liability at a time of significant capital scarcity. We encourage you to reconsider this guidance in order to provide maximum liquidity to small manufacturers participating in the PPP.

Resolving these important issues will allow small businesses to confidently support workers with funds from the PPP. I welcome the opportunity for our staffs to discuss these issues in further detail. And on behalf of the NAM and the men and women who make things in America, thank you again for your continued leadership.

Sincerely,

Jay Timmons



Chris Netram

Vice President,
Tax and Domestic Economic Policy

April 20, 2020

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Chairman Powell,

The National Association of Manufacturers appreciates the Federal Reserve's efforts to stabilize the economy via lending facilities designed to provide needed liquidity to businesses impacted by COVID-19. Speedy delivery of aid to manufacturers affected by the crisis is a key component of the NAM's advocacy.

Manufacturers of all sizes are facing significant business disruptions due to the COVID-19 crisis. As such, the NAM appreciates that the Federal Reserve has announced a wide range of liquidity facilities to meet the needs of small, medium-sized, and large businesses across the country. As you finalize the details of these programs in the coming weeks, it is vital that the terms and processes related to the various facilities collectively enable participation for any and all manufacturers in need of liquidity. Furthermore, the NAM encourages you to continue to provide clarity on key questions regarding the operation of the facilities, qualifications for participation, and processes for application and approval to enable businesses to make decisions on how best to protect themselves and their employees during these difficult times.

I. Main Street Lending Program

The NAM welcomed Congress's work via the Coronavirus Aid, Relief, and Economic Security (CARES) Act to authorize a new program to support lending to small and medium-sized businesses. We appreciate that the Federal Reserve is now taking steps to implement the Main Street New Loan Facility (MSNLF) and the Main Street Expanded Loan Facility (MSELF) to meet the capital needs of the wide range of small and medium-sized businesses that need financing to weather the economic disruption caused by COVID-19.

The Main Street Lending Program should address the needs of these smaller companies, which may not qualify for the Federal Reserve's facilities designed for larger businesses. The NAM encourages you to implement program qualifications and loan terms that ensure that small and medium-sized manufacturers can access needed funding via the Main Street Lending Program.

- Decrease the minimum loan size.** The Main Street Lending Program has a minimum loan amount of \$1 million, but many small and medium-sized companies may need less financing based on their payroll and operating expenditures. For example, the data released by the Small Business Administration on the Paycheck Protection Program indicated that the average loan size for manufacturers was roughly \$375,000. In fact, 96% of all loans approved under the PPP were for less than \$1 million. While the overlap between the PPP and the Main Street Lending Program is not perfect, the Main Street terms should not exclude 96% of PPP businesses. Accordingly, the NAM encourages you to decrease the minimum loan size for the Main Street

Lending Program so as to allow more small businesses to participate in the MSNLF and MSELF.

- **Allow for alternative methods of calculating loan amounts.** Many businesses that would otherwise qualify for the Main Street Lending Program may find their participation limited by the maximum loan calculations for the MSNLF and MSELF, which rely on a borrower's 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA). Some small, pre-revenue, or start-up companies may not have sufficient earnings from 2019 to qualify for a meaningful loan amount (or perhaps for any loan at all) if the calculation must be based on EBITDA. These businesses may have other metrics that would better illustrate an appropriate loan size, including assets, tangible net worth, or payroll. The Federal Reserve should allow for flexibility for these small businesses and permit alternative metrics for determining the maximum loan amount beyond the proposed EBITDA calculations.
- **Reform the undrawn debt restriction.** The Main Street program's maximum loan calculations require a borrower to reduce its potential loan total by the amount of its existing outstanding and committed but undrawn debt. Many companies have undrawn debt that is nevertheless unavailable to them without the imposition by their lender of fees, penalties, restrictions, or limitations on their operations. (This undrawn debt is viewed as a "cushion" by lenders and is thus not truly available for businesses to draw down.) We encourage the Federal Reserve to modify the undrawn debt language in the MSNLF and MSELF maximum loan calculations to clarify that the maximum loan size should only be reduced by the amount of debt that is available to a borrower to be drawn without the imposition of fees, penalties, restrictions, or limitations on its operations.
- **Provide clarity on affiliation rules.** The Main Street Lending Program is available to businesses with up to 10,000 employees or up to \$2.5 billion in 2019 annual revenues. The NAM urges you to clarify that these and any other eligibility tests apply to the business applying for the loan on a standalone basis, not on a consolidated basis incorporating a small business's affiliates, parents, or parents' subsidiaries.
- **Encourage lenders to participate in the program.** It is vital that lenders feel comfortable with the risk profile associated with offering loans under the Main Street program. Small and medium-sized manufacturers desperately need access to liquidity to weather the current economic storm, so the NAM encourages the Federal Reserve to take reasonable steps to ensure that lenders will participate in the Main Street program. For example, the Federal Reserve could consider increasing the Main Street facilities' 95% participation rate in a new loan or an upsized loan tranche.
- **Provide clarity to businesses on implementation questions.** Given the speed with which the Federal Reserve plans to implement the new Main Street program, it is vital that lenders and borrowers understand the requirements to offer and access loans, respectively. We urge the Federal Reserve to announce and implement clear guidelines around eligibility, applications, processes, loan terms, and more in order to ensure smooth implementation of the program and allow small businesses to access needed funds.

II. Larger Business Liquidity Facilities

Over the past several weeks, the Federal Reserve has announced several facilities to provide liquidity to a wide range of businesses dealing with the economic consequences of COVID-19. These facilities—including the Primary Market Corporate Credit Facility (PMCCF), Secondary Market Corporate Credit Facility (SMCCF), Term Asset-Backed Securities Loan Facility (TALF), and Commercial Paper Funding Facility (CPFF)—are designed to inject capital into the U.S. economy and provide support for American businesses and workers. The NAM encourages the Federal Reserve to address certain key issues

related to these liquidity facilities in order to improve access to needed funding and speed America's economic recovery.

PMCCF, SMCCF, and TALF

- **Allow all companies with a significant U.S. presence to receive financing.** The NAM believes that the Federal Reserve should focus on the impact to U.S. workers when determining eligibility for its various liquidity facilities. As announced, the PMCCF, SMCCF, and TALF (as well as the Main Street Lending Program's MSNLF and MSELF) limit participation to businesses with a majority of employees based in the United States. In the NAM's view, the number of workers outside the United States is immaterial to the American families who are depending on their employers to continue to make payroll during the crisis. The Federal Reserve should ensure that all businesses with a significant presence in the United States—including businesses with foreign subsidiaries and/or foreign employees and U.S. subsidiaries whose parents are foreign-based or have foreign subsidiaries and/or foreign employees—are eligible for these vital programs and can access capital for the benefit of their employees based in the United States. Furthermore, the NAM believes that any tests designed to quantify a business's U.S. presence should be applied on a standalone basis rather than by consolidating employees or economic activity on an enterprise-wide basis.
- **Clarify the "specific support" prohibition for PMCCF and SMCCF issuers.** The term sheets released for the PMCCF and SMCCF exclude businesses that have received "specific support pursuant to the CARES Act or any subsequent federal legislation." The Federal Reserve should clarify that this prohibition does not apply to businesses participating in programs that were upsized via CARES Act Section 4003(b)(4) funds, which does not constitute "specific support" sufficient to exclude them from the PMCCF and SMCCF. The Federal Reserve should also clarify that businesses that benefitted from generally applicable provisions in the CARES Act, such as the law's tax provisions, would similarly not be excluded from the PMCCF and SMCCF.
- **Provide clarity on the applicability of certain CARES Act restrictions.** Section 4003(c)(3)(A)(ii) of the CARES Act restricts direct loans provided via facilities funded using Section 4003(b)(4) dollars to businesses that comply with certain restrictions on share repurchases, dividend payments, and executive compensation. Because these restrictions only apply to businesses receiving direct loans dispersed via CARES Act-funded facilities, the Federal Reserve should clarify that they do not apply to businesses participating in the PMCCF, SMCCF, or TALF. These facilities were upsized using CARES Act funds, but they are not direct loan facilities and, thus, participating businesses should not be subject to the Section 4003(c)(3)(A)(ii) restrictions.
- **Expand the PMCCF and SMCCF to non-investment grade issuers.** The term sheets released for the PMCCF and SMCCF limit participation in the facilities to issuers with at least a BBB-/Baa3 rating from a major nationally recognized statistical rating organization (NRSRO). However, many manufacturers, including those in the basic materials sector and its domestic supply chains, are "single-B" rated companies. These businesses are critical to sourcing materials, producing goods in the United States, and stimulating the American economy. The investment-grade prohibition limits participation from these healthy companies, many of which would otherwise qualify for and benefit from the PMCCF and SMCCF. The NAM encourages the Federal Reserve to relax this requirement and allow non-investment grade issuers, including at least issuers with a B-/B3 rating, to access needed financing via the facilities.
- **Expand the pool of acceptable PMCCF and SMCCF ratings agencies.** As noted above, qualification for the PMCCF and SMCCF is determined based on an issuer's rating from a major NRSRO. The Fed should provide flexibility by clarifying that ratings from any SEC-registered NRSRO, not just a major NRSRO, are sufficient for determining qualifications for both facilities.

CPFF

- **Expand the CPFF to Tier 2 issuers.** The term sheet released for the CPFF limits participation to issuers that have been rated at least A1/P1/F1 by a major NRSRO. Expanding CPFF participation to include Tier 2 issuers would not expose the facility to significantly higher credit risk but would allow a wider range of companies to access needed liquidity. The NAM encourages the Federal Reserve to relax the Tier 1 limitation, allowing for issuers to benefit from the CPFF if they have been rated at least A2/P2/F2.
- **Expand the pool of acceptable CPFF ratings agencies.** As noted above, qualification for the CPFF is determined based on an issuer's rating from a major NRSRO. The Fed should provide flexibility by clarifying that ratings from any SEC-registered NRSRO, not just a major NRSRO, are sufficient for determining qualifications for the CPFF.
- **Increase per-issuer purchase limits under the CPFF.** The term sheet released for the CPFF sets the maximum amount of an issuer's commercial paper that the CPFF special purpose vehicle may own as the greatest amount of commercial paper that the issuer had outstanding between March 16, 2019 and March 16, 2020. However, a one-year lookback to a period of strong economic performance is not indicative of a business's potential need to participate in the CPFF during the current economic crisis. The Federal Reserve should instead allow the CPFF special purpose vehicle to purchase commercial paper up to the amount authorized under an issuer's existing program, whether or not it had any commercial paper outstanding during the one-year window.

The NAM has welcomed the Federal Reserve's aggressive actions to provide for new and expanded liquidity facilities for businesses impacted by COVID-19, and we appreciate your ongoing dedication to ensuring that these facilities work as well as possible for small, medium-sized, and large manufacturers.

On behalf of the NAM and the 13 million men and women who make things in America, thank you for your attention to these concerns.

Sincerely,



Chris Netram
Vice President, Tax and Domestic Economic Policy

cc: The Honorable Steven Mnuchin
The Honorable Mike Crapo
The Honorable Sherrod Brown
The Honorable Maxine Waters
The Honorable Patrick McHenry