

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

HYBRID HEARING
BEFORE THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
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**OVERSIGHT OF THE TREASURY
DEPARTMENT'S AND FEDERAL
RESERVE'S PANDEMIC RESPONSE**

Thursday, September 30, 2021

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

The committee met, pursuant to notice, at 10:04 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Velazquez, Meeks, Scott, Green, Cleaver, Himes, Foster, Beatty, Vargas, Gonzalez of Texas, Lawson, San Nicolas, Axne, Casten, Pressley, Torres, Lynch, Adams, Tlaib, Dean, Garcia of Illinois, Garcia of Texas, Williams of Georgia, Auchincloss; McHenry, Lucas, Posey, Luetkemeyer, Huizenga, Wagner, Barr, Williams of Texas, Hill, Emmer, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Hollingsworth, Gonzalez of Ohio, Rose, Steil, Gooden, Timmons, Taylor, and Sessions.

Chairwoman WATERS. The Financial Services Committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time.

As a reminder, I ask all Members participating remotely to keep themselves muted when they are not being recognized by the Chair. The staff has been instructed not to mute Members, except when a Member is not being recognized by the Chair, and there is inadvertent background noise.

Also, if you are participating remotely today, please keep your camera on. And if you choose to attend a different remote proceeding, please turn your camera off.

As a reminder to all Members, we will conclude today's hearing at 12:15 p.m. Members who were unable to ask questions at our March 23rd hearing with Secretary Yellen and Chair Powell will be given priority to ask their questions today, and we will return to our normal order of recognition once those Members have asked their questions.

Today's hearing is entitled, "Oversight of the Treasury Department's and Federal Reserve's Pandemic Response."

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

Welcome back, Secretary Yellen and Chair Powell. As this pandemic continues, the Biden Administration and Congressional Democrats continue to work around the clock to get essential relief

to individuals, families, and small businesses across the country. Following the catastrophic failure of the Trump Administration to tackle the pandemic crisis, the Biden Administration and Democrats in Congress swiftly moved to enact the American Rescue Plan, which provided \$1.9 trillion to address the impacts of COVID-19.

The legislation included billions in funding to support individuals and families, including renters, homeowners, and people experiencing homelessness, as well as small businesses, during this crisis. We are also working together to put President Biden's Build Back Better agenda into action by making long-overdue investments into the nation's housing programs, childcare, education, workforce, and other critical aspects of our economy, all while being completely paid for.

Democrats are also working to address the past failures of the Trump Administration's approach to the pandemic. For example, we are working with Secretary Yellen and the Treasury Department to correct administratively-burdensome requirements initiated by Republicans that made it harder for renters and landlords to obtain relief in the earlier versions of the Emergency Rental Assistance Program. My legislation, the Expediting Assistance to Renters and Landlords Act of 2021, would further speed up relief and cut down unnecessary barriers that are standing in the way of aid for renters and landlords.

Of course, the Federal Reserve has also played a part in the response to the pandemic through the creation of emergency facilities that have tackled the crisis. Until they were prematurely shut down by former Treasury Secretary Mnuchin, these facilities played a vital role in stabilizing financial markets last year. Moving forward, our committee is committed to exploring ideas to ensure that facilities like these can more directly protect workers and support small businesses, as well as State and local governments, the next time there is a crisis.

Amid Democrats' continuing efforts to ensure that relief reaches communities across the country and that our economy is strong for the future, Republicans continue to operate recklessly. Even now, Republicans are threatening to throw the economy into unnecessary turmoil by blocking legislation to suspend the debt ceiling. It is completely unacceptable for Republicans to hold our nation's economy hostage, especially in the middle of this continuing public health crisis and when fully one-fourth of the increase in the debt ceiling is attributed to Trump's tax scam for the rich.

Secretary Yellen, Chair Powell, I expect to hear your thoughts on these issues and to hear more about what will happen if Republicans force the country to default. I also look forward to discussing your ongoing work to respond to the pandemic today.

I now recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 5 minutes.

Mr. MCHENRY. Today, the Financial Services Committee is holding its second statutorily-required quarterly hearing on the Biden Administration's pandemic response. Now, the only problem is that this hearing should have actually occurred in the second quarter. It is now the third quarter. But then again, that just perfectly encapsulates the incompetence and dysfunction of a Democrat-run

Washington, where Democrats run the House, the Senate, and the White House.

So, let us just review briefly. The incompetence of the Rental Assistance Program, which Republicans have highlighted since March—there is no solution in sight. The so-called, “Biden agenda” appears to be on the rocks. And Democrats are no closer to raising the debt ceiling ahead of the October 18th deadline than they were in August when it expired.

And what do all of these problems have in common? They were foreseeable. They are known things, not just to Democrats, but to the world. And now, markets are taking notice. Our allies, and our adversaries are watching closely to see what happens next.

But in the midst of this chaos, we at least have you two individuals in your respective seats. And the two of you instill confidence in our financial system, especially in a moment like this. And that credibility of your institutions is deeply connected with each one of you right now.

Chairman Powell, your decisive action helped prevent the worst of the economic impacts of COVID. You are thoughtful, deliberate, and transparent. The antithesis, I would say, of dangerous. And to think otherwise is, frankly, reckless and unmoored from reality. And anyone who would say that—well, frankly, I appreciate their courage to speak their truth. Chairman Powell, our country will be better off with your continued leadership at the Federal Reserve.

Secretary Yellen, your experience as Fed Chair and steady hand throughout the financial crisis made you a natural pick for the Treasury Department, and I am glad you are in your seat. That is why I am sorry you are in such a bad situation, given this Administration’s strategy.

Bad strategy and a worse fiscal plan from a Democrat-run Washington will have consequences, I believe. Consumer prices continue to rise. Businesses can’t find workers. And the government, because of overspending, will not be able to pay its bills in a little more than 2 weeks.

So, what is the plan? All I have heard from Democrats this year is a plan to spend more money—\$2 trillion in March, more than \$5 trillion now. And \$5 trillion was a compromise, I want to remind you that Bernie Sanders and the progressives wanted a \$6 trillion reconciliation package, and President Biden proposed a \$6 trillion budget in June. But Democrats couldn’t agree on that either. So, here we are.

To be clear, the Biden Administration’s Treasury Department can’t even keep track of the \$46 billion of rental assistance. So, how are the American people supposed to trust Democrats with another \$5.5 trillion?

This isn’t a plan. Frankly, it is a heist. The Democrat-run Washington tax-and-spend policies will only increase prices more for consumers. And they are using you, Madam Secretary, and your credibility to sell this bad agenda.

Over the last several weeks, you have called on Congress to address the debt limit. I couldn’t agree more. Yesterday, the House passed a debt ceiling bill that is doomed in the Senate. It was political theater, and they know it, we know it, and the American people, in fact, know it as well.

It is theater designed to distract Americans from the fact that Democrats have no idea how to govern. They have known this deadline was coming. They knew it the day they took control of the Senate. They knew it the day that President Biden was sworn into office, and they knew it the day that the Treasury Secretary was confirmed.

The Democrats have been in charge of our country for nearly a year, and they did nothing to prepare for this moment—well, except spend more money and bring the date forward by which we have to address the debt ceiling.

And I want to be clear: The U.S. Government is run and controlled by Democrats. It is defined by dysfunction, incompetence, and fiscal irresponsibility. Late in the game, asking Republicans to bail out your agenda so you can pass more spending is, frankly, absurd. This is no way to run the country.

I yield back.

Chairwoman WATERS. Thank you, Ranking Member McHenry.

I now recognize the gentleman from Texas, Mr. Green, for 1 minute.

Mr. GREEN. Thank you, Madam Chairwoman.

Madam Chairwoman, we must raise the debt ceiling. Raising the debt ceiling does not authorize new spending. Raising the debt ceiling allows the United States to pay its existing debts. Congress has raised or suspended the debt ceiling on a bipartisan basis 78 times since 1960. There are no secret weapons in the Treasury's arsenal that will save us from default if this body fails to act responsibly and swiftly.

Madam Chairwoman, we passed the CARES Act and other pandemic relief legislation. Let us come together again and stand behind the debts of our nation with the full faith and credit of the United States of America. We must raise the debt ceiling.

I yield back.

Chairwoman WATERS. I now want to welcome our distinguished witnesses today, whom I believe need little introduction to members of the committee.

First, I want to welcome the Honorable Janet Yellen, Secretary of the United States Department of the Treasury, who has served in that role since her confirmation in January of this year.

Our second distinguished witness today is the Honorable Jerome Powell, the Chair of the Board of Governors of the Federal Reserve System, who has served in that role since February of 2018.

You will each have 5 minutes to summarize your testimony. You should be able to see a timer on the screen in front of you that will indicate how much time you have left. And, without objection, your written statements will be made a part of the record.

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

**STATEMENT OF THE HONORABLE JANET L. YELLEN,
SECRETARY, U.S. DEPARTMENT OF THE TREASURY**

Secretary YELLEN. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee. It is a pleasure to testify today.

We are in the midst of a fragile, but rapid, recovery from the pandemic-induced recession. While our economy continues to expand and recapture a substantial share of the jobs lost during 2020, significant challenges from the Delta variant continue to suppress the speed of recovery and present substantial barriers to a vibrant economy. Still, I remain optimistic about the medium-term trajectory of our economy, and I expect we will return to full employment next year.

A rebound like this was never a foregone conclusion. In fact, the American recovery is stronger than those of other wealthy nations. One key factor for our overperformance is the policy choices the Congress has made over the past 18 months. Those choices include the passage of the CARES Act, the Consolidated Appropriations Act, and the American Rescue Plan.

Treasury, as you know, was tasked with administering a large portion of the relief dollars in those bills, and when we last met, our Department was busy standing up programs to help individual families, State Governments, and organizations of every size in between. While we still have much more work to do, we have made significant progress, and I wanted to give you an update.

Let us start with families. In July, our Department started sending the monthly expanded child tax credit payments to the families of nearly 60 million children across the country. To date, \$46 billion in payments have been made, and we are already seeing the impact. Analysis by the Census Bureau found that after the first payments in July, food insecurity among families with children dropped 24 percent.

As for State, local, Tribal, and Territorial Governments, COVID-19 decimated their budgets. There were mass layoffs, and to end the health and economic emergencies, we knew that communities would need funding to hire educators to bring kids back to school, for example, or frontline workers to administer the vaccine. The American Rescue Plan included \$350 billion to that end, and those dollars are, indeed, helping the machinery of local governments get up and running. States and localities can rely on relief money that is available instead of resorting to painful budget cuts.

Congress rightly designed the State and local program with flexibility in mind. I think many of us knew the recovery could run up against some unforeseen challenges, and we wanted communities to be able to devote resources where and when they saw fit. I want to note that this flexibility is paying off now, especially with the spread of the Delta variant. Harris County, Texas, for instance, has used this funding to boost its immunization rate, offering \$100 to each person who gets their first vaccine dose.

For the relief dollars not yet out the door, Treasury is doing everything it can to expedite their delivery. The Emergency Rental Assistance Program is one example. Prior to the pandemic, there was essentially no national infrastructure to get money from government coffers to renters and landlords. Building that infrastructure has been a massive undertaking for States, localities, and Tribes.

The program is scaling up quickly, with 1.4 million payments made to help struggling renters keep a roof over their heads. Still, too much of the money remains bottlenecked at the State and local

levels. That is why our Treasury team has worked to eliminate every piece of red tape possible in order to ensure more payments can get to renters and landlords, but States and localities must also work to remove barriers that can speed up distribution of rental assistance funds.

I will end my remarks there, except to say this: It is imperative that Congress address the debt limit. If not, our current estimate is that Treasury will likely exhaust its extraordinary measures by October 18th. At that point, we expect Treasury would be left with very limited resources that would be depleted quickly.

America would default for the first time in history. The full faith and credit of the United States would be impaired, and our country would likely face a financial crisis and economic recession as a result. We must address this issue to honor commitments made by this and prior Congresses, including those made to address the health and economic impact of the pandemic. It is necessary to avert a catastrophic event for our economy.

Representatives, the debt ceiling has been raised or suspended 78 times since 1960, almost always on a bipartisan basis. My hope is that we can work together to do so again and to build a stronger American economy for future generations.

Thank you, and I am pleased to take your questions.

[The prepared statement of Secretary Yellen can be found on page 47 of the appendix.]

Chairwoman WATERS. Thank you, Secretary Yellen.

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

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

Mr. POWELL. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee, for the opportunity to discuss the measures we have taken to address the hardship wrought by the pandemic.

Since we last met, the economy has continued to strengthen. Real GDP rose at a robust pace in the first half of the year, and growth is widely expected to continue at a strong pace in the second half. The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID-19 cases has slowed the recovery.

Household spending rose at an especially rapid pace over the first half of the year, but flattened out in July and August, as spending softened in COVID-sensitive sectors. Additionally, in some industries, near-term supply constraints are restraining activity.

As with overall economic activity, conditions in the labor market have continued to improve. Demand for labor is very strong, and job gains averaged 750,000 per month over the past 3 months. In August, however, gains slowed markedly, with the slowdown concentrated in sectors most sensitive to the pandemic.

The unemployment rate was 5.2 percent in August, and this figure understates the shortfall in employment, particularly as participation in the labor market has not moved up from the low rates

that have prevailed for most of the past year. Factors related to the pandemic appear to be weighing on employment growth. These factors should diminish with progress on containing the virus.

The economic downturn has not fallen equally on all Americans, and those least able to shoulder the burden have been the hardest hit. In particular, despite progress, joblessness continues to fall disproportionately on lower-wage workers in the service sector and on African Americans and Hispanics.

Inflation is elevated and will likely remain so in the coming months before moderating. As the economy continues to reopen, we are seeing upward pressure on prices, particularly due to supply bottlenecks in some sectors. These effects have been larger and longer-lasting than anticipated, but they will abate, and as they do, inflation is expected to drop back toward our longer-run 2 percent goal.

The process of reopening the economy is unprecedented. As it continues, bottlenecks, hiring difficulties, and other constraints could again prove to be greater and more enduring than anticipated, posing upside risks to inflation. If sustained higher inflation were to become a serious concern, we would certainly respond and use our tools to ensure levels that are consistent with our goal.

The path of the economy continues to depend on the course of the virus, and risks to the outlook remain. The Delta variant has led to a surge in cases, causing significant human suffering and slowing the recovery. Continued progress on vaccinations would support a return to more normal economic conditions.

The Fed's policy actions are guided by our dual mandate to promote maximum employment and stable prices, along with our responsibility to promote the stability of the financial system. In response to the crisis, we took broad and forceful measures to support the flow of credit and to promote the stability of the financial system.

Our actions, taken together, helped unlock more than \$2 trillion of funding to support businesses large and small, nonprofits, and State and local governments between April and December of 2020. This helped keep organizations from shuttering and put employers in a better position to keep workers on and to hire them back as the recovery continues.

These programs have served as a backstop to key credit markets and helped to restore the flow of credit from private lenders. We have deployed them to an unprecedented extent. Our emergency lending tools require the approval of the Treasury, and are available only in unusual and exigent circumstances, such as those brought on by this crisis.

Many of these programs were supported by CARES Act funding. Those facilities provided essential support through a very difficult year and are now closed. The Fed completed its sales of assets from the Secondary Market Corporate Credit Facility on August 31st. We were able to wind down the facility rapidly and efficiently, with no adverse impact on credit conditions.

We also recently closed the Paycheck Protection Program Liquidity Facility (PPPLF) to new lending and are managing the paydown of assets in our other CARES Act facilities as they wind down. We continue to analyze their efficacy and to review the lessons learned.

The Fed's actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. We will do all we can to support the economy for as long as it takes.

Thank you. I look forward to your questions.

[The prepared statement of Chairman Powell can be found on page 42 of the appendix.]

Chairwoman WATERS. Thank you very much, Chair Powell.

I now recognize myself for 5 minutes for questions.

Secretary Yellen, your Department reports that as of August 21st, \$7.7 billion in emergency rental assistance had been allocated to households, assisting approximately 2 million renters. Although spending has increased over the past several months, I think we are all concerned that the pace of delivery of this critical assistance is not happening quickly enough.

Can you talk about the challenges you have faced after taking over oversight of ERA1 from the Trump Administration? What do you believe are the most significant improvements to the program guidance you have made, and what impact have you seen?

Secretary YELLEN. Yes, thank you for that question.

This is a critically important program that Treasury has been very focused on, in expediting the delivery of these rental assistance funds to those who need them.

As I mentioned in my opening statement, getting these funds out has involved creating a national infrastructure where none existed before, and that has been a very difficult and slow process. Treasury has done everything possible to facilitate getting these programs up and running around the country, and particularly, we have tried to give States and localities flexibility to administer the program in ways that are appropriate for different communities to reduce the paperwork requirements, while also making sure that we have accountability and transparency. We have provided technical assistance and working to provide more technical assistance, and I do think we are seeing a payoff.

As I mentioned, we have had 1.4 million renters helped by this assistance, and the pace at which it is flowing out is increasing. Also, I would note that the Act requires Treasury to begin to reallocate funds on September 30th from those localities that either are not effective in getting assistance out or have less need for the funds, and to reallocate them to those that are more effective and have demonstrated need.

Chairwoman WATERS. Thank you very much. And I want to thank you and your team for working with me on H.R. 5196, the Expediting Assistance to Renters and Landlords Act, which would make it easier for both renters and landlords to apply for assistance and provide for the deeper involvement of Treasury to support grantees to get the funds out the door.

Are there particular provisions that you think would aid Treasury's efforts to make the Rental Assistance Program more successful? You have given us quite a bit of information about what you have been involved with, but is there anything else you would like to share?

Secretary YELLEN. Chairwoman Waters, we are very supportive of your efforts to try to put in effect changes that would expedite

the delivery and effectiveness of this program, and we look forward to continuing to work with you. I think we have offered substantial technical assistance, and we absolutely want to work with you to make sure this program is as effective as possible.

Chairwoman WATERS. Thank you very much.

The gentleman from North Carolina, Mr. McHenry, who is the ranking member of the committee, is now recognized for 5 minutes.

Mr. MCHENRY. Thank you.

Chairman Powell, I know it is the policy of the Federal Reserve to not comment on fiscal policy, but fiscal policy does impact the Fed's economic projection, does it not?

Mr. POWELL. Yes, it does. We make assumptions about fiscal policy. And then, once it is enacted, we would put that into our models.

Mr. MCHENRY. Okay. But your public models are a statement about current law rather than proposed policy, is that largely correct?

Mr. POWELL. We don't really publish a forecast as the Federal Reserve. Individual participants publish their forecasts in the Summary of Economic Projections, but that would include their personal assessments of likely fiscal actions.

Mr. MCHENRY. Okay. About these fiscal actions, Secretary Yellen, I said this in my opening statement, and I will say this to both of you again. I am grateful, as an American, that you both are in the seats that you are in right now, because we are in a special circumstance here in the fall this year. It was a foreseeable, slow-moving disaster, but here we are.

But the credibility of your relevant agencies and the credibility of you two individuals is of substance right now and very important to us as the American Government. So, Secretary Yellen, you said in July, right before the debt limit was reinstated, the CBO said Treasury would probably run out of cash sometime in the first quarter of next year—or fiscal year, most likely in October or November.

Secretary Yellen, you began exercising Treasury's authority to take extraordinary measures to prevent a default back in August. Is that correct?

Secretary YELLEN. Yes. The debt limit, the suspension expired on August 1st, and we began using extraordinary measures to remain under the debt ceiling.

Mr. MCHENRY. But those extraordinary measures are just a band-aid for a period of time, right?

Secretary YELLEN. As I indicated, we expect them to be exhausted on October 18th.

Mr. MCHENRY. And it would be a disaster if we did not raise the debt limit?

Secretary YELLEN. It would be a catastrophe if Congress failed to raise the debt ceiling.

Mr. MCHENRY. Here is the deal for Republicans. Democrats control the House and the Senate and the White House. And since January 20th, the approach of this Congress is that they do not need Republican votes to do anything. That has been the approach.

And now, they want a political cover in the midst of this massive amount of new spending to have Republicans raise the debt ceiling. That is really the request.

Here is my question to you, Secretary Yellen. For the seat you sit in, do you care whether or not the debt limit is raised with Republican votes, or do you just care if it is raised?

Secretary YELLEN. I think it is important that this be done on a bipartisan basis. I think it should be bipartisan, in recognition of the fact that both Republican Administrations and Congresses and Democratic ones have run budget deficits for most of the post-war period, with only a few years serving as an exception.

And that requires, on a regular basis, raising the debt ceiling. The need to do so has nothing to do with future spending or tax plans that haven't been enacted.

Mr. MCHENRY. Under the circumstances—

Secretary YELLEN. It is necessary to pay our bills.

Mr. MCHENRY. I understand, Secretary Yellen.

Secretary YELLEN. And Republicans and—

Mr. MCHENRY. Secretary Yellen?

Secretary YELLEN. —Democrats need to share that responsibility.

Mr. MCHENRY. Secretary Yellen? As I said to you on the phone last week, I have been a part of every single debt ceiling increase for the last decade, every fiscal consequence of Congress. And some of them have been very bad, but I have tried to make things better. I have been a part of the solution for the last decade.

And the call that I received from you last week was the first outreach I have had from this Administration to do something on a bipartisan basis, and you called me to raise the debt ceiling. Not with a plan, not for a fiscal plan, not for my buy-in, but simply for my vote. And that, to me, speaks volumes.

Now, I am grateful for the outreach from you, but it speaks to the larger issue for the Administration. And I don't envy the position you are in. I don't. Because the bad strategy from this White House and the leadership of this House and Senate is showing that they don't want Republican votes.

We did bipartisan bills last Congress, in the midst of COVID, bipartisan bills, major bipartisan bills. We can work together in a responsible manner. But to ask for my vote the week before it comes up in the House is not in keeping with the realities of the situation.

We have the tools. We have the votes to get this thing done through Congress. It is just a question of who votes for it.

Secretary YELLEN. I would like to point out that in 2017, when the White House and both Houses of Congress were controlled by the Republicans, and a reconciliation bill was in progress that led to the 2017 tax cuts, the debt ceiling was raised, and it was done on a bipartisan basis.

[Gavel sounding.]

Mr. MCHENRY. In 2011 and 2013, I voted for a bill that President Obama signed. So, I am willing to participate in a bipartisan way.

Chairwoman WATERS. The gentleman's time has expired.

Mr. MCHENRY. It is just a question of who votes for it and the circumstances of \$7 trillion of new spending this year.

Chairwoman WATERS. The gentleman from New York, Mr. Meeks, who is also the Chair of the House Committee on Foreign Affairs, is now recognized for 5 minutes.

Mr. MEEKS. Thank you, Madam Chairwoman.

And I have to just say initially that I am kind of shocked at Ranking Member McHenry saying that because he wasn't asked for a vote, something is going to determine whether or not American people, Democrats and Republicans, will suffer if we don't raise this debt ceiling. And I have been here for 22 years between whether it is Democratic or Republican Administrations, and each time, when it came to the credit of the United States and our economy, it didn't make a difference to me whether or not the Administration was Democrat or Republican or whether or not someone called me to ask me for my vote. I am here to try to do the best thing for the American people, not play politics.

And when it comes to the credit for the United States and the economy moving on, it is not about who is the President or who called and asked me for a vote. It is about doing the right thing for the American people, Democrats and Republicans. And moving up this debt to make sure that we don't default on our debts is essential to that, and it is essential to our responsibility as Members of Congress, and not to say, "Oh, nobody called me for a vote." That is simply not our responsibility.

Madam Secretary, there are consequences if we don't pass and increase the debt ceiling, like the increase in the corporate borrowing, for a home or a car, or through one's credit cards, of which folks on the other side will say, I don't have to deal with that, but then it is going to be—play politics with it.

I was wondering, as we are recovering from this economy, what setbacks will a default on debt cost American households? Be they Democratic, Republican, Independent, nonvoters, what would it cost us?

Secretary YELLEN. I think it would be catastrophic for the economy and for individual families. Nearly 50 million seniors could stop receiving Social Security payments or see them delayed. Our troops would not know when they would get their next paycheck. We have 30 million families who rely on the monthly child tax credit, and they would not receive that relief, at least on time.

And as we saw in 2011, when the debt ceiling was raised at the absolute last minute, and investor and consumer confidence was shaken in the run-up, we saw a marked increase in interest rates, and a marked drop in the stock market. And when U.S. interest rates go up and the credit rating of the United States was downgraded, that means higher interest payments for everyone who has a loan. Whether it is a small business, a homeowner with a mortgage, a credit card payment, anyone who borrows would see higher interest costs of their debt.

Mr. MEEKS. We must raise the debt ceiling for the benefit of the American people. I don't care what party they are from.

Let me go to Chairman Powell. The Fed is rightly focused on controlling inflation while boosting employment, with the aim of guiding our economy back to its pre-pandemic normal. And at the European Central Forum, you mentioned that it is urgent for the Fed

to resolve the tension between these two policy goals since taming prices by raising interest rates would weaken our labor market.

As the Fed considers its monetary policy, how will you manage the tradeoffs between controlling prices and ensuring full employment, and how do you plan to resolve the tension between the two that you spoke on on Wednesday?

Mr. POWELL. That is the very difficult situation we find ourselves in. Almost all the time, inflation is low when unemployment is high, and so interest rates work on both problems now.

Right now, we think we are far away from full employment. So, that gives us incentive to keep accommodative policy strong, to keep accommodative policy in place. Inflation is well above target, and we have an expectation that that high inflation will abate because we think the factors that are causing it are temporary and tied to the pandemic and the reopening of the economy.

And what we say is, we just have to balance the two. But I would say our expectation is that inflation will come down, and we won't ultimately face that difficult tradeoff of having the two goals in tension.

Mr. MEEKS. Thank you. Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from Missouri, Mrs. Wagner, is now recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman.

And Secretary Yellen, thank you for finally taking the time to appear before this committee. I know that the ranking member has formally requested your presence at least twice within the last few months, with no response.

Last week, Treasury released the latest data on its Emergency Rental Assistance Program. As you know, \$46 billion was made available to supposedly help COVID-impacted, low-income families pay off their back rent and to help make mom-and-pop property owners whole in Missouri's Second Congressional District and beyond.

After more than 9 months and an entire summer of Republicans pushing Treasury, your own data still shows that more than 83 percent of your funds remain unspent, while millions of renters and property owners remain stuck in limbo. It certainly doesn't sound to me like it has been, in your words, "an expedited program."

Now, I have a series of yes-or-no questions. Because my time is limited, I would appreciate and will insist upon a simple, "yes," or "no."

First, Madam Secretary, do you consider Treasury's Emergency Rental Assistance Program to be a success? Yes or no?

Secretary YELLEN. Yes.

Mrs. WAGNER. Amazing. Are you aware that in December of 2020, when Congress appropriated the first \$25 billion for the Emergency Rental Assistance Program, funds were to be used by December of 2021? Yes or no?

Secretary YELLEN. Yes.

Mrs. WAGNER. Do you know why Congress set that initial deadline?

Secretary YELLEN. To make sure that funds got to those who are in need.

Mrs. WAGNER. Right. To get it out the door to renters and landlords, ASAP. Madam Secretary, are you aware that just this past March, Democrats extended the timeframe for the Emergency Rental Assistance Program to the years 2022 and, are you ready for this, 2025, for the two respective programs? Yes or no?

Secretary YELLEN. Yes. There is significant need, and it will continue, and I think that was appropriate.

Mrs. WAGNER. In 2025, ma'am?

Secretary YELLEN. Yes.

Mrs. WAGNER. Does extending the program's deadline incentivize grantees to get funds out? By extending this, does it incentivize grantees to get funds out the door? Yes or no?

Secretary YELLEN. We are doing everything we can in the States and localities—

Mrs. WAGNER. Well, it is not fast enough.

Secretary YELLEN. —to get it out the door. As I indicated in my opening statement, and in a written response to a previous question, the infrastructure to do this had to be built, and the pace at which money is getting out the door is increasing.

Mrs. WAGNER. There was plenty of time for the infrastructure to be set. Our Fed programs, our Paycheck Protection Program (PPP), all of those expeditiously got money to people who needed it. This is a complete and abject failure.

Secretary YELLEN. I'm sorry. This was—

Mrs. WAGNER. Secretary Yellen, I want to read a quote to you from a Treasury official to journalists on September 24th, "To simply take the amount of money that has gone out in the first 5 or 6 months and then compare that to what was allocated for 4 or 5 years is just a meaningless number."

Secretary Yellen, is getting money out the door as soon as possible a meaningless gauge, particularly when we are talking about a pandemic-related eviction crisis? Yes or no?

Secretary YELLEN. Our objective is to get the money out the door.

Mrs. WAGNER. Well, it hasn't gotten out the door; 83 percent of it is still sitting in Treasury coffers.

Secretary YELLEN. I'm sorry, 1.4 million—

Mrs. WAGNER. Ma'am, my constituents in St. Louis and I do not find it meaningless when we are talking about emergency assistance meant to keep individuals and families in their homes today during a pandemic, not years and years later, out to 2025.

Moving on, Chairman Powell, with spiking energy prices and bottlenecks in supply chains around the world, there are concerns that a rise in inflation, may not be as transitory as you originally predicted. Given our current economic situation, and the fact that Democrats want to pass trillions and trillions more in spending, what makes you believe we will not see more sustained higher inflation, especially when we have seen significant consumer price increases, et cetera, et cetera?

Mr. POWELL. As I mentioned in my opening remarks, we do think that inflation will remain elevated until the supply-side bottlenecks are resolved, and we think that it will then move back down toward our goal.

Mrs. WAGNER. Timeframe?

Mr. POWELL. These are not things that we control. We don't control who supplies the semiconductors, for example.

Mrs. WAGNER. Not very transitory, sir. It seems pretty dug in.

Mr. POWELL. I would say that, remember, this is a function of supply-side bottlenecks over which we have no control. But I would say that we do expect in the first half of next year to see some relief, depending on the bottleneck in question, and inflation should move down over the course of that time.

Mrs. WAGNER. This is not a time to be spending trillions and trillions of dollars. I yield back.

Chairwoman WATERS. The gentlewoman from New York, Ms. Velazquez, who is also the Chair of the House Committee on Small Business, is now recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman.

Secretary Yellen, I would like to pick up with what Chairwoman Waters was asking on the Emergency Rental Assistance Program (ERAP). Can you please explain the type of resistance the Treasury Department continues to face from some State and local governments? How is the Treasury Department trying to expedite this funding to tenants and landlords who need it the most despite these challenges?

Secretary YELLEN. In cases where States and other grantees launched their programs late, they faced an array of complications. The most significant involved obtaining the necessary authorizations from a grantee's governing body, and there were procurement challenges that arise when grantees have to engage outside partners and contractors.

We have received a lot of feedback indicating that the guidance that Treasury has released really does give State and local programs the tools they need to move forward expeditiously. And I would also note the partnering with HUD to send out technical experts who can help grantees accelerate their programs and help them document best practices.

Ms. VELAZQUEZ. Thank you.

Early on, New York was one of the lowest-performing States in distributing ERAP funding. But significant progress has been made, and the State now ranks first nationally with more than \$1.2 billion in payments made or obligated.

Unfortunately, more assistance is needed. The Treasury Department is required to start reallocating excess first-round funds at the end of September. Can you tell us how this process will unfold?

Secretary YELLEN. Thank you for that question.

Our objective will be to maximize the number of eligible households that are served by ensuring that resources of the program are appropriately aligned with each grantee's needs and ability to deliver reassistance. And reallocation will be really critical in achieving that objective.

Our framework we will identify localities that have excess funds. We will use clear expenditure benchmarks that increase over time. We will strive to keep reallocated funds within the same State when it is possible and afford a venue for voluntary reallocation among grantees.

Ms. VELAZQUEZ. Thank you.

Under the American Rescue Plan, Secretary Yellen, Democrats reauthorized the State Small Business Credit Initiative (SSBCI), providing \$10 billion in Federal funds to support up to \$100 billion in new loans and initiatives for small businesses through State, Territory, Tribal, and local Governments. Under the program, potential grantees must submit a completed application by February. How is the Treasury Department conducting outreach and working with local governments to ensure that completed applications are submitted on a timely basis?

Secretary YELLEN. Thank you. This is a very important program.

Our staff have contacted each State individually to follow up on the application notice, to see if there are questions or if help is needed with a set of webinars. We are assisting in program design, in helping to develop programs, and with respect to Tribal Governments, we have been conducting extensive outreach.

Ms. VELAZQUEZ. Thank you.

And Chair Powell, would you agree with what Secretary Yellen is saying regarding raising the debt ceiling?

Mr. POWELL. Yes, I think it is essential that the debt ceiling be raised in a timely fashion so we can pay our bills. And I think the consequences of a failure to do so would be potentially severe.

Ms. VELAZQUEZ. Thank you. Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you very much. The gentleman from West Virginia, Mr. Mooney, is now recognized for 5 minutes.

Mr. MOONEY. Thank you, Madam Chairwoman.

Secretary Yellen, do you believe that President Biden's reconciliation package proposal, the one with the \$3.5 trillion in total spending, will cost zero and be fully paid for?

Secretary YELLEN. Yes, I do. We have a full program that the President has proposed to raise revenue that would cover the costs of the program. In the President's budget, of course, there are changes under consideration as this goes through Congress, but there are a host of revenue raisers, and I do believe it will be actually deficit-reducing beyond the first 10 years of the program.

Mr. MOONEY. Okay, thank you.

Yesterday, Speaker Pelosi claimed the same thing, that the Democrats' reconciliation proposal would cost zero, that it would be paid for. And President Biden said the same thing in a tweet earlier.

Call me skeptical, but given the record of the Democrats in Congress here on runaway spending, I just don't believe it. And I am not the only one. The Washington Post called President Biden's claim that the bill would be budget-neutral, "misleading," and gave it a score of two Pinocchios.

We are passing bills out of committee, I understand, without even Congressional Budget Office (CBO) scores, so we don't really know. And we have not done that before. That is a change in our policy.

The truth is that we are spending at an alarming rate in this country. Since the COVID-19 pandemic began last year, the Federal Government has spent more than \$5.3 trillion on relief. That is roughly \$16,000 for every American.

Our ballooning debt is not some abstract problem. Out-of-control spending proposed by President Biden and being rubberstamped

here in Congress will leave a mess that our children and grandchildren will have to clean up and pay for. The decisions we make today, 20 or 30 years from now, our children and grandchildren will have to pay this money back.

I would like to move to a different aspect of the package. One of the attempted pay-fors in the package that is alarming to me is the tax increases that will make our economy less competitive. Secretary Yellen, my question is, the proposed corporate tax rate in the House reconciliation bill is 26.5 percent. This actually moves us higher than Communist China's corporate tax rate of 25 percent. We are going to have a higher tax rate than a country that has been taking our jobs and has Communist ideology.

Can you explain why raising our corporate tax rate above China's is a good idea, if you think it is? And do you think this would hurt our competitiveness with China and around the world?

Secretary YELLEN. Our companies are the most competitive and profitable in the world. The effective tax rate that they pay is very low, and recent studies suggest that among advanced countries, the United States has an effective tax rate that is among the lowest of countries around the world.

We can certainly afford to take the corporate tax rate up to 26.5 percent, as in House Ways and Means, without negatively impacting a firm's performance. And we propose to do that in the context of an international agreement that received the support of over 130 countries worldwide to establish global minimum tax rates that will apply to other countries' firms.

Right now, the United States is the only country with a global minimum tax rate on its multinational corporations. We propose to raise that, but at the same time, other countries will raise theirs much more. And that means that the competitiveness of American firms will be enhanced, and we will be reducing the incentives that exist in our tax law right now—

Mr. MOONEY. Thank you.

Secretary YELLEN. —to export jobs and profits.

Mr. MOONEY. Thank you. I don't know how much time I have left, but thank you, Secretary Yellen.

One thing we have learned over the last several years is that we need to take the threat from China more seriously here in America. Making America less competitive—and despite what you said, raising our corporate tax rate makes us less competitive than our economic adversaries like China—is too high of a cost for all of this spending.

Running up these massive debts that our children will have to pay back for this spending is just not right. So, despite what we are hearing and what many are saying, this reconciliation package will be expensive in terms of dollars and, frankly, to the future of our competitiveness in this country, racking up this debt, and I just fear we are going to pay for this for years to come.

Thank you, Madam Chairwoman. I yield back the balance of my time.

Chairwoman WATERS. Thank you very much. The gentlewoman from Ohio, Mrs. Beatty, who is also the Chair of our Subcommittee on Diversity and Inclusion, is now recognized for 5 minutes.

Mrs. BEATTY. Thank you, Madam Chairwoman, and thank you to our witnesses today.

Certainly, as I have been listening, a lot of descriptive words were used, everything from, “dysfunctional,” to “meaningless,” to “irrational.” Well, I could think of a lot of other words that I could use, but certainly, those words are appropriate to describe what Democrats inherited from the last Administration. Whether that is the irresponsibility of the past Administration, whether it is all the debt that was occurred because of the Trump Administration, I think those words are appropriate, Madam Chairwoman, just very misdirected by my colleagues. In my opinion, you should look at your own house and home before throwing stones, and especially when they are not appropriate.

Now, with that said, to our two witnesses who have been very responsive, I say, thank you. And let me quickly get to my first question on the Federal Reserve.

Chair Powell, we have had a lot of conversations about diversity. I want to thank you for responding and for continuing to increase your diversity. But as you know, recently, there have been two Federal Reserve Presidents who have left, quit, retired, bottom line immediately leaving or gone from the Federal Reserve Banks of Dallas and Boston.

My question is—and you know where I am going with this—I would certainly be hopeful that we could increase our numbers in diversity beyond Raphael Bostic by asking that we use the Beatty Rule, patterned after the Rooney Rule, to do as we did with the Alaska Federal Reserve President, and make sure that in that interview process, we have an African American or a female. Do you have any comment on that?

Mr. POWELL. I do. Thank you, Mrs. Beatty.

I can absolutely guarantee you that we will work hard in both of those processes to find and give a fair shot to diverse candidates for those two jobs as we do. And it will be a big focus of both of those processes.

Mrs. BEATTY. Thank you.

Secretary Yellen, you will recall that back in 2016, then-Treasury Secretary Lew made his historic announcement that Harriet Tubman would be the face on the \$20 bill. I sent you a letter in early July, along with my colleague, Congressman Katko, requesting the committee to move forward with the Obama Administration’s plan to put her on the face of the \$20 bill.

I understand your staff has been in discussion on this issue, and I am hoping to get a high-level overview and to ask you if there is any comment you can make on that?

Secretary YELLEN. Thank you for that question, Representative Beatty.

We believe it is very important that our notes reflect the history and diversity of our country, and I couldn’t possibly think of a better way to honor Harriet Tubman’s legacy and her courage in fighting for the freedom of enslaved people and women’s right to vote than seeing her on the \$20 bill.

Issuing notes, as you know, is a very lengthy process. It involves collaboration among a number of different agencies, and it is necessary to design new security and counterfeit features.

Mrs. BEATTY. Right.

Secretary YELLEN. And unfortunately, that means the lead time to redesign new bills and ensure their security is long. When Secretary Lew announced—

Mrs. BEATTY. Madam Secretary?

Secretary YELLEN. —announced—

Mrs. BEATTY. Madam Secretary, I am going to go to my rental question, because the clock is winding down, and we will follow up with your staff.

Just prior to the new Administration coming into office, the former Administration rushed the regulations and questions for the Rental Assistance Program. Those regulations were so unworkable that States like my State—Ohio—and others were telling me that they weren't even sure if they would be able to distribute rental assistance funds under those guidelines.

Secretary Yellen, isn't it true that the Secretary under the new Administration had to spend weeks going back and redoing all of that to make sure that the funds could actually be distributed?

Secretary YELLEN. That is correct.

Ms. BEATTY. Thank you. I want that to go on the record. Some of my colleagues wanted to drill down and make our Secretary answer those questions, so thank you.

The last—

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

The gentleman from Ohio, Mr. Davidson, is now recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Madam Chairwoman, and I thank our witnesses and our colleagues. I appreciate this hearing.

Chairman Powell, you have extensive private-sector experience, and, of course, as Chairman of the Federal Reserve, you have a role in bank regulation. In your experience, do banks or lenders increase lines of credit unconditionally? Isn't there some level of underwriting involved? Wouldn't banks have problems with their regulators if they did no underwriting for a line of credit?

Mr. POWELL. Yes, of course, they are very careful in the lending they do.

Mr. DAVIDSON. I submit that it is perfectly rational for Congress to expect something in exchange for an increased line of credit. The plan presented is atrocious. It will never balance. It doesn't even propose to balance in 15, 20, 30, or 100 years. There is no plan to quit bankrupting America, Madam Secretary.

Now, thankfully, under the Federal Reserve's leadership and Section 13(3) authority, we had some facilities in place to prevent real financial calamity. Recently, our Subcommittee on National Security, International Development and Monetary Policy held a hearing to discuss the Federal Reserve's lending facilities under Section 13(3), and how those facilities were utilized prior to and since the passage of the CARES Act.

I fear that some of my colleagues don't even understand how some of the products like bonds or margin calls work, as they have criticized programs where there is literally no buy side in the market. And, of course, the Federal Reserve stepped in to create a buy side and support the markets. I have heard colleagues say, "Well,

there are only two loans under the Municipal Liquidity Facility,” for example, while there were hundreds of loans, and hundreds of billions of dollars of credit extended.

How important are the 13(3) provisions to the financial stability of our country?

Mr. POWELL. They are very important but they are reserved for real economic emergencies, financial emergencies. And as you point out, they function, I think, very well in a crisis as backstops, that we put them in place and the private capital markets started working. And really, that is success. That is what success looks like.

Mr. DAVIDSON. Do you think 13(3) should ever be used for a political goal or as something to fulfill a dual mandate rather than an emergency?

Mr. POWELL. Actually, no, I don't. I think the current institutional arrangements are very good. I think we need the approval of the Treasury Secretary. Realistically, we work with Treasury, and we are constrained for very specific circumstances, unusual and exigent circumstances. There are a number of tests in the law, and I think it is an arrangement that works.

Mr. DAVIDSON. Thank you, Chairman Powell.

Recently, Federal Reserve Governor Michelle Bowman gave a speech in which she discussed the evolution enhancement of bank supervision, particularly during the COVID pandemic. And in that speech, she stated that the Fed avoided overreacting and instead approached supervision in a more measured way that allowed banks the flexibility to work with their customers.

There are a range of topics she has addressed, and others have, with bank regulation. I will just share this from her paper. She says, “The goal of this initiative is to ensure our supervisory approaches accommodate a much broader range of activities while ensuring we don't create an unlevel playing field with unfair advantages or unfair disadvantages for some types of firms versus others.”

And for that reason, I am working on a bill that would study the evolution of consumer finance and the viability of updating our prudential regulatory structure through consolidation of bank supervisors. Of course, there is some level of coordination the Fed does, but could either of you give an opinion on a scenario where the United States consolidates banking supervision?

Mr. POWELL. That is something we would have to look at. I know it is something that does tend to get looked at over intervals and it hasn't happened. I think each institution has a different role in our society. I know we have more bank regulators than other countries, but we do seem to work pretty well together.

Mr. DAVIDSON. Thanks for that. Secretary Yellen, obviously there are a lot of provisions and a large void in the digital asset space. In your opinion, what is a digital asset for purposes of tax reporting?

Secretary YELLEN. For purposes of tax reporting, I believe the IRS will issue detailed regulations which will answer that question, for the purposes of tax reporting.

Mr. DAVIDSON. Thank you. Our law has not really kept up with this, and frankly, it has led to regulation by enforcement with the SEC and a host of others. But I appreciated when you were Chair

of the Fed, the faster payments initiative that got launched. A lot of this involves payments. But so much in the digital asset space isn't a currency or a payment system. There are a gazillion use cases, and it would be a shame to see the regulatory framework curtail that. And I look forward to seeing fintech flourish in the future.

I yield back.

Chairwoman WATERS. Thank you. The gentleman from Florida, Mr. Lawson, is now recognized for 5 minutes.

Mr. LAWSON. Thank you, Madam Chairwoman, and Ranking Member McHenry.

Chairman Powell, Floridians, unfortunately, have seen firsthand the impact of climate change and that impact is becoming worse as we experience more severe and frequent hurricanes and risks of rising sea levels. I am glad to see greater attention given to how we can better assess and manage climate-related risk.

It is my understanding that many financial institutions conduct scenario analysis to assess credit market liquidity and operate risk related to transition risk [inaudible] physical risk like hurricanes, flooding, wildfires, and drought.

Mr. Powell, is scenario analysis a good tool in assessing climate-related financial risk? Can you please discuss the difference between scenario analysis and stress testing? What other tools does the Federal Reserve have to assess climate-related financial risk?

Mr. POWELL. Thank you. Our role, of course, is to make sure that the financial institutions we regulate and supervise understand and can manage their risks, including the risks from climate change, the financial risks from climate change.

Scenario analysis is almost certainly going to be one of the principal tools for doing exactly that, and it is very different from stress tests. Scenario analysis, at this point, is about institutions really understanding what these risks will be, how they will develop over time, and what are the channels through which they will develop, and it is sort of early days in understanding how those risks will interact with the economy and with the financial system. Scenario analysis is meant to help do that, and we at the Fed are working on developing a program of scenario analysis. Many of the large institutions are doing so. As I mentioned, it's quite different from stress tests, which have consequences for distributions and that kind of thing.

I think, overall, we see our job, as I mentioned, as making sure that these financial institutions understand the risks and can manage them, and that is just a lot of basic supervisory tools, understanding what they are doing and have the processes in place and the analytical tools in place and the focus, and that is what we will be doing.

Mr. LAWSON. Okay. Thank you. Secretary Yellen, I am concerned that small businesses, particularly within communities of color, will have lasting economic damage coming out of this pandemic. The American Rescue Plan extended assistance to small businesses by authorizing a \$10 billion program called the State Small Business Credit Initiative, with \$2.5 billion of these funds set aside for minority-owned businesses.

In Florida, the problem of economic opportunity is waiting for the Treasury to release applications and requirements and program guides. When can we expect the guidance will be released, and can we share our Treasury plan to ensure that assistance goes to small businesses that will be highly impacted by the pandemic?

Secretary YELLEN. The State Small Business Credit Initiative is an extremely important program, and we are in the process of implementing it. We will absolutely make sure that it reaches small businesses that have been very severely affected by the pandemic, and certainly in underserved areas and communities of color.

I think you know that Congress required that Treasury provide funds to States based on the extent of job losses that had been suffered, and it sets aside significant funds for businesses that are owned by socially- and economically-disadvantaged individuals.

So, we will make this funding available and provide technical assistance, working with communities to make sure that it is used as intended.

Mr. LAWSON. Okay. Thank you very much. And with that, I yield back.

Chairwoman WATERS. The gentleman yields back. The gentleman from North Carolina, Mr. Budd, is now recognized for 5 minutes.

Mr. BUDD. Thank you, Madam Chairwoman, and I thank the witnesses.

The Federal Government's spending, and I am not even talking about debt but just the spending here, is expected to reach record highs this year, 2021, and Democrats are trying to dump trillions of dollars of what I believe is very reckless spending into an already-inflationary economy. As a percentage of GDP, our public debt has reached 125 percent in the second quarter.

Secretary Yellen, very briefly, do you believe that there is a level of debt that is unsustainable in our economy, and if so, what is that number? And you can share that with me either in dollars or as a percentage of GDP.

Secretary YELLEN. I believe that the debt held by the public relative to GDP is around 105 percent, and that is a number that is higher than we have had during most of the postwar period in the United States. But it is not a number that I think is fiscally irresponsible or unsustainable.

Interestingly—

Mr. BUDD. Madam Secretary, do you have a number that is a threshold, that is irresponsible, either in percentage or in dollars?

Secretary YELLEN. One way that I would judge that is by looking at the interest burden, the real interest burden on the debt. That really is the burden, a better measure of the burden it places on our economy. And this year, that interest burden has actually been negative. Interest rates have been exceptionally low. This dates back to before the financial crisis in 2008, and most economists believe that there are deep structural reasons why low interest rates are likely to continue. Even if nominal interest rates move back toward more normal levels—

Mr. BUDD. Let me ask—I am sorry to—

Secretary YELLEN. —that interest burden—

Mr. BUDD. —just because I want to be aware of the time constraints, thank you, Madam Secretary. If the interest rate was zero, what is irresponsible in percentage or dollars?

Secretary YELLEN. I think that if the real interest burden stays below—

Mr. BUDD. If it is as is—

Secretary YELLEN. —historical norms—I'm sorry. If interest rates are zero?

Mr. BUDD. If it is, let's say, zero. Let's say as is. Pick one of those, and let's say what is irresponsible as a percentage or total dollars of debt?

Secretary YELLEN. If interest rates are zero and negative in real terms, certainly we could have a substantially higher burden, although there are always risks pertaining to the path of interest rates that need to be taken into account.

Mr. BUDD. I understand. Thank you. Let me shift gears a bit. In one of my recent telephone town halls, I asked a poll question to those who were able to join me, "Have you or your family noticed a sharp rise in prices for food, gas, or electricity?" And 94 percent of the respondents—and it was a good sample size—said yes, inflation is eating away at the buying power of every single North Carolinian. Bottom line: Inflation is a tax on working Americans.

Chairman Powell, I know that you have called the inflation that we are dealing with transitory, and boy, I sure hope you are right. But what would you tell people back in my district, especially those on fixed incomes, when they are struggling to make ends meet right now? What would you tell them?

Mr. POWELL. I would say that we are dealing with a very unusual event that is really part of the broader COVID event, that the economy is now reopening, and that we are hitting the supply-side bottlenecks. For example, it is hard to manufacture cars without semiconductors, which are in short supply, so car prices are going up, and lots of prices are being affected by supply-side constructions. We expect that those will abate, that they will lesson, and over time inflation will come back down. Exactly when that will happen is not possible to say, but I would say we should be seeing some relief in the coming months and over the course of the first half of next year.

Mr. BUDD. I hope you are right. The folks I talk to back in North Carolina are doubtful of that, but I do hope you are right.

Chairman Powell, next question. In a July hearing before this committee, you were asked about Central Bank Digital Currencies (CBDCs) and their impact on stablecoins and other cybercurrencies. And you stated, and I think I quote you correctly here, "You wouldn't need stablecoins. You wouldn't need cybercurrencies if you had a digital U.S. currency."

So, Mr. Chairman, as a matter of policy, is it your intention to ban or limit the use of cybercurrencies like we are seeing in China?

Mr. POWELL. No, and I immediately realized that I had misspoken there. I didn't mean—take the word, "cybercurrency," out of that sentence, and I would say it's fairly widely understood that Central Bank Digital Currencies could perform some of the—could make—

Mr. BUDD. But no intention to ban?

Mr. POWELL. No intention to ban, but stablecoins are like money market funds, they are like bank deposits, but they are, to some extent, outside the regulatory perimeter, and it is appropriate that they be regulated—same activity, same regulation.

Mr. BUDD. Thank you. I yield back.

Chairwoman WATERS. Thank you. The gentleman from Illinois, Mr. Casten, who is also the Vice Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, is now recognized for 5 minutes.

Mr. CASTEN. Thank you, Madam Chairwoman, and thank you so much to our witnesses. We are truly fortunate to have you at the helm, steering us through some past and future crises.

I want to talk about those, but before that, I want to just talk about manufactured crises, which I would like to avoid. Congress, everybody on this call in some fashion has voted to approve our spending. Congress, everybody on this call in some fashion has voted to decide how much of that spending would be paid with tax revenues, and then somewhat uniquely, we give ourselves the authority to decide how much of the residual, which is paid with debt, we are going to pay for. It is political suicide. I am a co-sponsor and supporter of my friend, Mr. Foster's, bill, H.R. 3305, the End the Threat of Default Act, to take that tool away from Congress, because Congress has proven that we cannot be trusted with that responsibility.

Secretary Yellen, without getting into the specifics of Mr. Foster's bill, would you support simply eliminating the debt ceiling so that we don't have to deal with this in the future and can focus on real crises?

Secretary YELLEN. Yes, I would, because I believe when Congress legislates expenditures and puts in place tax policy that determines taxes, those are the crucial decisions Congress is making, and if to finance those spending and tax decisions, it is necessary to issue additional debt, I believe it is very destructive to put the President and myself, the Treasury Secretary, in a situation where we might be unable to pay the bills that result from those past decisions.

Mr. CASTEN. Thank you. I am glad to hear it, and we will hopefully try to get that through Congress.

Moving on to past crises, Chair Powell, I think all of us, in all of our districts, are hearing about labor market tightness, and I think a lot of people are explaining that labor market tightness to justify preexisting political biases. As you know, and we have talked about, we saw unemployment go from 3.5 percent to almost 10 percent, and back down to 5.2 percent, but I am much more concerned that workforce participation went from 63 percent to 61 percent and has stayed low. Can you just explain for the committee briefly what is driving the reduction in workforce participation and what, if anything, we can do to get that number back up, to make sure that employers have access to folks who are ready and able to work?

Mr. POWELL. I would be glad to. The two biggest parts of that are caretakers and retirees. So, that makes up a lot of the shortfall from where we were with labor force participation before the pandemic crisis. And within caretakers, some of that is going to be connected to schools not being open or people who are afraid to go into

an unvaccinated workplace and are afraid of COVID, and things like that, and other reasons. That is a part of it, and that should abate over time.

In terms of the retiree piece, it is not clear about that. I would say the lore is that people don't come out of retirement, except, I would say, all during the last few years of the very long expansion that ended with the pandemic, we were constantly surprised to the upside on participation, including older people staying in the workforce longer. I think my prior would be that we will get back a big chunk of the so-called retirees and that we should be very open-minded about how much labor force participation can go up.

The United States has low labor force participation compared to our advanced economy peers, and this is not something that has to be that way. It is not something that is good.

Mr. CASTEN. Thank you. Certainly, when I talk to folks in my district, everybody kind of acknowledges that it is the boomers who retired who are creating a lot of their skills gap, and that is a harder challenge.

Going back to you, Secretary Yellen, I think subsequent to your first Financial Stability Oversight Council (FSOC) meeting when you identified climate change as an emerging threat, President Biden issued an emergency order on climate financial risk, directing Agencies, including yours, to analyze and mitigate risks that climate change poses to the financial system. In the little time that we have left, can you give us any updates on status, milestones, and deliverables that the Treasury Department has in response to that Executive Order?

Secretary YELLEN. Yes. We are in the process of completing the report, and we expect to issue it in late October or early November, within the 180-day timeframe. And what we will be doing is looking at the work of individual regulators to incorporate climate change risks into their regulatory and supervisory activities and describing some of the challenges that they face in carrying that out.

Mr. CASTEN. Thank you. I am out of time. I will clear my calendar to allow some time to read that week, and I yield back to the Chair.

Chairwoman WATERS. Thank you very much. The gentleman from Tennessee, Mr. Kustoff, is now recognized for 5 minutes.

Mr. KUSTOFF. Thank you, Madam Chairwoman, for calling today's hearing, and thank you to the witnesses for appearing.,

Secretary Yellen, there was an article in The Wall Street Journal dated September 15th, and the headline is, "Yellen, IRS push Democrats to require banks to report taxpayer annual account flow." I want to read the first two paragraphs, just briefly.

"Treasury Secretary Janet Yellen and IRS Commissioner Charles Rettig pressed lawmakers Wednesday to give the Internal Revenue Service more information about taxpayer bank accounts as the Biden Administration tries to salvage its struggling tax compliance proposal.

"In letters to lawmakers, the administration officials again asked Congress to require banks to report annual inflows and outflows from bank accounts with at least \$600, or at least \$600 worth of transactions, a proposal aimed at letting the IRS target its audits

more effectively. It would generate about \$460 billion over a decade to cover the cost of Democrats' planned expansion of the social safety net and climate change policies, according to the administration."

Those are the first two paragraphs of the story.

That is an accurate reflection of what you have done, correct?

Secretary YELLEN. Yes. We have proposed both augmenting the resources of the IRS so that it can hire qualified auditors, and augmenting the information flow so that the IRS gets insight into opaque sources of income, and both together, we believe, can serve to greatly address the \$7 trillion estimated tax gap that we will see in this country—

Mr. KUSTOFF. And Madam Secretary—

Secretary YELLEN. —over the next decade.

Mr. KUSTOFF. —you would tell my constituents that they should not have any privacy concerns about what you are trying to do?

Secretary YELLEN. They should not, because this is a simple matter for banks that already file 1099-INT forms—

Mr. KUSTOFF. Madam Secretary—

Secretary YELLEN. —with the IRS—

Mr. KUSTOFF. —the IRS—

Secretary YELLEN. [Inaudible.]

Mr. KUSTOFF. —information about taxpayers to ProPublica, that published their entire tax returns, their entire tax information. On the record, you tell my constituents, and all of the other Members here, and their constituents, that they should have no privacy concerns about banks reporting \$600 or more in account value to the IRS.

Secretary YELLEN. What we have asked to have reported is the aggregate inflows and outflows from these accounts each year, on an annual basis, two additional pieces of information, not transaction-level data.

And look, every wage-earner in this country has their wage income—

Mr. KUSTOFF. At least \$600, is that a correct statement?

Secretary YELLEN. We want to make sure that this can—

Mr. KUSTOFF. That is different than transactions.

Secretary YELLEN. —by expanding—

Mr. KUSTOFF. Those are values of \$600.

Secretary YELLEN. There is—

Mr. KUSTOFF. The Wall Street Journal is accurate, correct?

Secretary YELLEN. Excuse me?

Mr. KUSTOFF. The Wall Street Journal's report is accurate, correct?

Secretary YELLEN. We did propose that. I don't believe it is an invasion of privacy. And look, the IRS gets a great deal of information that it needs in order to make sure that taxpayers comply with the Tax Code. It receives individual information on wages and salaries that are received, on dividends, on transactions, on—

Mr. KUSTOFF. How did ProPublica receive this information from the IRS about the individual taxpayers?

Secretary YELLEN. Excuse me?

Mr. KUSTOFF. How did ProPublica obtain the information from the IRS about taxpayer information?

Secretary YELLEN. Independent agencies and law enforcement are currently looking into that and attempting to figure out how that occurred. That is clearly a crime and an utterly unacceptable thing, and it will be prosecuted when it is understood, when these agencies—

Mr. KUSTOFF. Your proposal purports to give more information to the IRS, drilling down to accounts of \$600.

Secretary YELLEN. We want to make sure that individuals can't game the system by opening multiple accounts in order to evade the—

Mr. KUSTOFF. And you give the IRS all of this other information about individuals.

Last question, Madam Secretary, do you support the move of the United States Secret Service from the Department of Homeland Security to the Department of the Treasury?

Secretary YELLEN. I haven't taken a view on that.

Mr. KUSTOFF. Thank you. I yield back my time.

Chairwoman WATERS. The gentleman from New York, Mr. Torres, is now recognized for 5 minutes.

Mr. TORRES. Thank you, Madam Chairwoman. I am appalled by the Republican gamesmanship around the debt limit. I heard a Republican colleague on this committee complain about not receiving a phone call from the Administration or a complaint that we, the Democrats, are too partisan. The Republican argument seems to be the following, that since the Democrats have been mean to us, we are going to sabotage the full faith and credit of the United States to exact revenge against those who have slighted us. And that kind of pettiness has me wondering, are we in high school or the United States Congress?

Now, it has to be said that raising the debt limit would not authorize new spending. It would simply pay the debts of previous Administrations, including the Trump Administration. So, the Republicans cannot pass \$2 trillion worth of tax cuts and then refuse to pay back the debt that made those tax cuts possible in the first place. That, to me, is worse than fiscal responsibility. That is fiscal hypocrisy. And I support Congressman Foster's legislation abolishing the debt limit so that we are no longer at the whim of bruised egos slighted by unreturned phone calls.

Suppose for a moment that it is October 18th. The use of extraordinary measures is exhausted. What happens on October 19th?

Secretary YELLEN. We are simply in an impossible situation in which it will be impossible for Treasury, on that day or a few days thereafter, depending on—we will have very limited resources. It will be run down quickly. We won't be able to pay all of the government's bills.

The Treasury has been directed by Congress to pay all of the government's bills, to use the tax revenues that are available, and without that to issue debt, and the debt ceiling will make it impossible for us to do that.

Mr. TORRES. And the damage could be irreparable.

Secretary YELLEN. Yes, and we got a taste of that in 2011, when the debt ceiling wasn't raised until the last minute. The fact that Congress might not raise the debt limit and call into question whether or not what is regarded as the safest asset in the world,

dollar-denominated U.S. Treasury debt, will actually be repaid, is simply a catastrophic event.

Mr. TORRES. I want to follow up on an exchange you had with Congressman Budd, who asked you about the debt-to-GDP ratio. The U.S. debt-to-GDP ratio is over 100 percent. What is Japan's debt-to-GDP ratio?

Secretary YELLEN. Excuse me?

Mr. TORRES. What is Japan's debt-to-GDP ratio?

Secretary YELLEN. It is about 250 percent.

Mr. TORRES. It is the highest in the world.

Secretary YELLEN. Yes, it is.

Mr. TORRES. And Japan is regarded as a successful economy?

Secretary YELLEN. It is, and Japan also has low interest rates and is not—

Mr. TORRES. And I agree with your premise that the cost of servicing debt is a more reliable measure of debt sustainability than the debt-to-GDP ratio, and if we were to breach the debt limit, as Republicans would have us do, it would actually raise the cost of borrowing. It would raise interest rate payments—

Secretary YELLEN. Yes, it would.

Mr. TORRES.—which would make our debt burden less sustainable, not more.

Secretary YELLEN. That is absolutely correct. It would be regarded as riskier. We might suffer, again, a credit downgrade, and coming out of that we could expect to see higher interest rates on Treasury debt and on the debt that private individuals have—mortgage debt, credit card debt, auto loans, and everything else.

Mr. TORRES. I want to quickly ask you about a Title IV loan under the CARES Act. During the Trump Administration, the largest recipient of Title IV was a trucking company previously known as YRC Worldwide, and presently known as Yellow Corporation. Do you think a nearly-bankrupt trucking company, whose conduct is the subject of a DOJ lawsuit for overcharging, should have received a national security loan from the Trump Administration?

Secretary YELLEN. I am afraid I don't know the details of that, but I would be glad to have our staff get back to you on that.

Mr. TORRES. And I want to be clear that this loan is the subject of scrutiny from the bipartisan Congressional Oversight Commission and the House Select Subcommittee on the Coronavirus Crisis.

You said at the end of September that the funding for Emergency Rental Assistance might be reallocated. Up to how much funding might be reallocated?

Secretary YELLEN. I can't give you a dollar estimate, but the objective would be to shift it to areas where there is need and proven success in getting it out.

Mr. TORRES. And if the use of extraordinary measures is exhausted on October 18th, what does the Federal Reserve do on October 19th? What actions do you take in response? And that will be my final question.

Mr. POWELL. I guess I would just say that no one should assume that we can really do much to—if there were to be a default on our obligations. No one should assume that the Fed, or anyone else, can fully shield the American people from the consequences of that.

Mr. TORRES. My time has expired.

Chairwoman WATERS. The gentleman from Indiana, Mr. Hollingsworth, is now recognized for 5 minutes.

Mr. HOLLINGSWORTH. Good morning. I am going to ask most of my questions to Secretary Yellen. First and foremost, I want to associate myself with the comments that Mr. Kustoff made.

I love serving on this committee. I have a great time working on the policies that emanate from this committee. But it's rare that something this committee does leads to questions in the grocery store, questions at convenience stores, and questions around my district. But I have to tell you, the proposal that has been put forth about expanding the amount of information that the IRS is going to get on private bank accounts has been something I have been asked about at parks, at grocery stores, and at convenience stores around my district. This has people deeply afraid about the emergence of an apparatus that may be used against them.

I want to better understand, with specificity, what is being proposed, because what I saw in the proposal, as circulated by Treasury, was extremely generic and somewhat incongruent with what I heard today. You said to Mr. Kustoff that the only things that will be reported to the IRS under your proposal is the gross inflow and the gross outflow from that particular account in a given year. Is that accurate or inaccurate in what you have requested?

Secretary YELLEN. The proposal put forward by the Administration requested a bit more information than that. But what is under consideration now, in reconciliation, would be limited to those two pieces of information. And what you should tell people who ask you about this in the park is that right now, much of the audit time of the IRS is devoted to taxpayers who have relatively low incomes. And we know that the tax gap is something that comes from opaque sources of income and from high-income individuals.

Mr. HOLLINGSWORTH. Well, I need to tell my—

Secretary YELLEN. The audit rates on individuals earning less than \$400,000 would not increase. This would—

Mr. HOLLINGSWORTH. Wait a minute. Wait a minute. Wait a minute.

Secretary YELLEN. —redirect audits—

Mr. HOLLINGSWORTH. They are not worried about the audit rates—

Secretary YELLEN. —to those—

Mr. HOLLINGSWORTH. Reclaiming my time, they are not worried about the audit rates. They are worried about yielding their privacy, yielding their transaction history—

Secretary YELLEN. There is no—

Mr. HOLLINGSWORTH. —to a Federal Government—

Secretary YELLEN. —transaction history—

Mr. HOLLINGSWORTH. —reclaiming my time, to a Federal Government that has shown itself, time and time again, by mobilizing that information against individuals, against organizations, and against businesses, to be incapable of protecting that data from breaches—

Secretary YELLEN. There is no—

Mr. HOLLINGSWORTH. —by nation states.

Secretary YELLEN. There is no—

Mr. HOLLINGSWORTH. Excuse me. Reclaiming my time, this is deeply concerning to them. So forgive me if I won't go back to them and say, "Don't worry. Despite all evidence to the contrary about their past history, the Federal Government really means it this time when they say they are going to respect your privacy, that they intend to build firewalls around this enormous database of personal information. And by the way—which you brought up—we are doing it for a really good purpose. We are doing it for a really good purpose." Forgive them if they don't believe that the government is showing up on their doorstep to ask about the inflows and outflows from their personal accounts, at a very de minimis level, and that is going to be used for only their good purpose.

Secretary YELLEN. There is no transaction-level data being reported to the IRS.

Mr. HOLLINGSWORTH. Can you clarify what you mean by, "a bit more data," than, when I asked, "Is it just these two things?", and you said, "It is a bit more." What does, "a bit more" mean?

Secretary YELLEN. The proposal by the Administration that was originally put forward requested some additional information, particularly about businesses and partnerships.

Mr. HOLLINGSWORTH. Yes. I wonder—

Secretary YELLEN. But there is no transaction-level data for individuals being considered by this Congress, and—

Mr. HOLLINGSWORTH. I want to point out—

Secretary YELLEN. —why is it okay that we have businesses report wage and salary income, or companies report dividends, or—

Mr. HOLLINGSWORTH. Reclaiming my time, I think there is some real concern about growing the amount of data the Federal Government has proven itself incapable of handling correctly, or, at some point, ethically, to the IRS.

I heard testimony 2 years ago about how China was able to apprehend many of the protesters in Hong Kong. The way that they did that was by mining financial data, not by virtue of great law enforcement work and investigatory work, but instead by mining financial data about who was scanning their credit card in order to buy subway tickets to those particular locations.

This worries Americans who are rightly concerned about a Federal Government that does not have their best interest at heart, but is telling them that for the greater good, they need to yield more privacy, more of their privacy, more of the things that they do in their personal accounts, because we might be able to close the tax gap for other people who are cheating.

With that, I will yield back.

Chairwoman WATERS. The gentleman's time has expired. The gentlewoman from Iowa, Mrs. Axne, who is also the Vice Chair of our Subcommittee on Housing, Community Development, and Insurance, is now recognized for 5 minutes.

Mrs. AXNE. Thank you, Madam Chairwoman, and thank you, Secretary Yellen and Chair Powell, for being here. It is great to see you.

Listen, we have heard a lot about inflation, of course, but I want to dig a little bit into this. Chair Powell, you recently mentioned that price increases are relatively concentrated in particular areas, and yes, I think most folks can understand things like airlines and

hotels, et cetera, industries that took a hit during COVID because people weren't really traveling, this could be an issue there.

However, I want to get into some others areas where we have seen price increases. One of the biggest areas is in cars, both new and used, and I wanted to touch base about this.

Secretary Yellen, one of the key causes of the shortages and the prices, the increase in our cars is because of shortages of semi-conductors and production issues. Is that correct?

Secretary YELLEN. Yes, that is correct. There have been significant semiconductor shortages, particularly affecting cars.

Mrs. AXNE. Thank you. And I hear regularly from businesses in my district about supply chain issues coming off of the pandemic that are unfortunately holding back our companies. One recently told me that their sales are down \$120 million, really because they are producing to supply chain.

Chair Powell, we see that elsewhere too, with ships waiting offshore on both coasts, difficulties moving goods back and forth, et cetera. Is that correct?

Mr. POWELL. Yes, it is very correct. It is hard to say how long that will take, but it will resolve itself in time.

Mrs. AXNE. And that shows us also that the price of shipping goods from China to the U.S. has gone up, and I think that has gone up 400 percent from pre-pandemic. So, that is going to, of course, add to the cost of anything we can buy from China.

While we have you two here, I guess what I am wondering is, what are the solutions? Chair Powell, if we have issues with our ports or with the supply chain of semiconductors or other components, does it make much sense for the economy to pull back on investments in the bottlenecks, or would we do better to expand that capacity?

Mr. POWELL. I think that is really a question for fiscal policy. I will say these are tangled supply chains right now, and it is a combination of a bunch of factors, which should abate over time. But obviously, investment in supply chains would make them more efficient over time.

Mrs. AXNE. Thank you. I want to point out here that most of the things we produce do require workers, and I spoke to you, Chair Powell, about this in February.

But Secretary Yellen, you, of course, have studied labor markets throughout your career. When we have constraints on our supply chain, does it make sense to limit the numbers of people able to work or should we instead invest in policies like childcare that help get people into the workforce?

Secretary YELLEN. Absolutely. I think over the longer term, we have had a problem with declining labor force participation of prime-age workers, and we are proposing paid leave, childcare support, and early childhood education, supports that would help expand labor force participation. In the short run, of course, dealing with the pandemic to make sure schools can operate on a normal schedule, and get people back to work, will help as well.

Mrs. AXNE. And there are other countries around the world that obviously have some of these pieces put in place, like better childcare, and early childhood education. In your studies with

them, do you see economic growth coming as a result of putting these practices in place?

Secretary YELLEN. Yes. It has been an important source of growth in the United States and elsewhere. Once upon a time, the United States, just with respect to women's labor force participation, had about the highest in the world, and that has changed radically in recent decades as we have failed to expand and provide the level of support for females. Especially for women's labor force participation, we have been falling behind other developed countries.

Mrs. AXNE. Absolutely, and thank you. So what I am hearing is, it sounds like Democrats, what we are proposing, is absolutely a solution to some of these inflation concerns, and that doing nothing will actually exacerbate issues and make it worse.

I, for one, am not in the business of telling people what they can't buy. What I am hoping is that we can find solutions like childcare, like paid family leave, like lowering the cost of prescription drugs to keep money in people's pockets, so that we can stop artificially limiting the capacity of America's economy and get people back to work to help create more products and move products around our country. So, things like childcare, paid leave, and other policies will actually help expand the workforce.

Thank you so much.

Chairwoman WATERS. The gentlelady's time has expired. The gentleman from Tennessee, Mr. Rose, is now recognized for 5 minutes.

Mr. ROSE. Thank you, Chairwoman Waters and Ranking Member McHenry, and I want to thank Chairman Powell and Secretary Yellen for being here today.

I am just going to dive right in. I do want to follow up on a couple of things that have been talked about quite a bit this morning, the debt limit first of all. I feel like there is a lot of misinformation that circulates about this.

To be clear, if we suspend the debt limit, that is to allow for the enlargement of the debt, yes, some of that for programs that have been in place historically, but much of that would likely facilitate new spending. And I learned a long time ago, from my dad, not to sign blank checks. And it seems to me that if we suspend the debt limit, that is kind of like signing a blank check, and frankly, I am not willing to participate in signing that blank check. If we had assurances that that increase would go simply to cover the current built-in costs of operating the government, then that might be a different discussion, but that is not the one we are having.

Secretary Yellen, I want to follow up just for a second about the IRS reporting for bank account information, and I wonder, in the Administration's proposal, is there any allowance in that proposal to defray the costs that banks and financial institutions would incur from the added reporting expenses of providing this additional information to the IRS?

Secretary YELLEN. I don't believe it was in the Administration's proposal, but if appropriate, we would be glad to work with Congress on that to defray any expense.

Mr. ROSE. I certainly know that the existing reporting requirements that banks face are onerous and expensive, and, of course, ultimately their customers end up bearing that cost.

I want to shift gears now. In May, the Treasury Department published an interim final rule to implement the Coronavirus State and Local Fiscal Recovery Funds. Although the guidance was much-needed, I continue to hear from city and county mayors across my district, many of whom are here in town today, asking for additional clarification and flexibility. I wrote a letter to you in July, requesting this additional flexibility in the final rule.

Secretary Yellen, can you tell us when we can expect this updated guidance and if there will be increased flexibility included?

Secretary YELLEN. We have tried to provide a great deal of flexibility in the guidance we have provided. There is an interim final rule that is in place, and States and localities can rely on it. It was out for comment. We have received a very large number of comments that we are working through carefully, and we will work to produce a final rule. But the interim rule—

Mr. ROSE. Any foreshadowing of when that rule might be available?

Secretary YELLEN. Later this year. But the interim final rule is quite permissive in terms of flexibility and—

Mr. ROSE. We look forward to seeing that.

Secretary YELLEN. —States and localities—

Mr. ROSE. Reclaiming my time.

Secretary YELLEN. —to rely on it.

Mr. ROSE. Earlier this month, the committee reported the chairwoman's partisan bill that will have the effect of slowing down, in my opinion, the distribution of Emergency Rental Assistance funds, punish landlords, and expose taxpayers to fraud. Part of her bill would replace having grantees determine if a household was, in fact, an eligible, low-income household, as Congress intended with the self-attestation that requires grantees to accept any attestation of the households as true.

Secretary Yellen, are you concerned that requiring grantees to accept all self-attestations of applicants who want to get free rental assistance money will increase the likelihood of fraud?

Secretary YELLEN. We are working carefully with Chairwoman Waters and want to make sure that we get money out in the most effective and rapid way possible while maintaining adequate controls to prevent fraud and abuse.

Mr. ROSE. Secretary Yellen, we have had several hearings regarding the Emergency Rental Assistance Program that is disbursed through Treasury, and yet, you have not appeared at a single one. And for that matter, you failed to appear at the House Small Business Committee hearing as well. I am going to yield the remainder of my time to my good friend, Mr. Luetkemeyer, the ranking member of the House Small Business Committee.

Mr. LUETKEMEYER. Thank you, Mr. Rose. Secretary Yellen, I am the ranking member of the House Small Business Committee, as Mr. Rose indicated, and last December Congress passed a bipartisan bill that required you to testify in front of the Small Business Committee on the Paycheck Protection Program. That deadline passed 157 days ago, and you are still not there. You have willfully

refused to come before the committee, and willfully refused to obey the law.

So, my question is very simple: Why can you, a Cabinet member of the Biden Administration, pick and choose which laws you choose to follow?

Secretary YELLEN. I have—

Mr. LUETKEMEYER. Please close your binder, and respond off the cuff. Why can you pick and choose which laws that you respond to?

Secretary YELLEN. I have testified 11 times before Congress during the past—

Mr. LUETKEMEYER. And never in front of the Small Business Committee, Madam Secretary.

Chairwoman WATERS. Please allow the—

Secretary YELLEN. —months. I have agreed to do so. We have not been able to find an appropriate date that works. I have offered to have my—

Mr. LUETKEMEYER. I can show you a list of your—

Secretary YELLEN. —deputies—

Chairwoman WATERS. The gentleman's time has expired.

Mr. LUETKEMEYER. I yield back.

Chairwoman WATERS. The gentleman from Massachusetts, Mr. Lynch, who is also the Chair of our Task Force on Financial Technology, is now recognized for 5 minutes.

Mr. LYNCH. First of all, as someone who for the past 20 years has worked with both Republican and Democratic Administrations to allow our government to meet our obligations to our senior citizens and Social Security, pay our troops, and pay our bills, I view this latest threat to default on our debt as a direct attack on the American people and on our government itself. Never has it been a good time to destroy the full faith and credit of the United States, and I fully support Mr. Foster's bill, H.R. 3305, which would change the whole dynamic of raising the debt limit.

I would like to ask you about the rollout of the CARES Act, and Madam Secretary, I know that was a joint program between Treasury and the Small Business Administration (SBA). As Chairwoman Waters pointed out, I Chair the Task Force on FinTech, and while there were very few connections between most of the fintech firms and the SBA prior to the pandemic, once we gave them about \$330 billion in the second phase of the PPP program, the fintechs engaged. They were able to put out, I think 15 percent of the funding through fintech lenders to people who needed it.

Unfortunately, however, about 75 percent of the fraud that we detected was from that 15 percent that went out through fintech lenders. And these were even some of our best—Kabbage, which previously had never handled an SBA loan. They were one of the companies that had difficulties.

I am just wondering if there were any lessons learned from that rollout? I know we were rushed. We were pushing to get, especially the first phase, the banks took care of their favorite customers. I understand that. And those were known entities. And then we, in Congress, encouraged a further reach-out for the SBA for people who were not met and were not addressed in the initial phase.

But are there any—we had the rushed aspect of it. There was also, I am not sure what the Application Programming Interface

(API) is between the SBA and these fintech lenders. I know the relationships are new. But did we learn any lessons from that interaction in getting money out to people who need it through the fintech companies and lenders that we used?

Secretary YELLEN. Certainly, there are oversight and review processes that are taking place. I can get back to you. I don't have details on what we found about fintech lenders, and I guess the SBA is probably doing much of that review of the Paycheck Protection Program.

But in every aspect of developing programs that have been assigned to Treasury, we have worked, right from the outset, with our Office of Inspector General and others to make sure that we have appropriate reporting and fraud control in place to minimize fraud in the programs and make sure that we have controls in place.

Mr. LYNCH. Okay. Chairman Powell, any thoughts on that, or would you rather take a pass?

Mr. POWELL. I will follow up, and also see if we have anything on that for you. Of course, the PPP was administered by the SBA. We did the liquidity facility.

Mr. LYNCH. Okay.

Mr. POWELL. On that part, I would be happy to check and get back to you.

Mr. LYNCH. That would be great. And Madam Secretary, would you again talk about what happens upon default and what that means for the American people?

Secretary YELLEN. It is a catastrophe. We are likely to end up with a financial crisis, surely a recession, and millions of individuals who are counting on checks from the government, not receiving those in a timely fashion, and long-lasting consequences of higher interest rates for everybody who borrows.

Mr. LYNCH. Thank you very much. I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you. The gentleman from Wisconsin, Mr. Steil, is recognized for 5 minutes.

Mr. STEIL. Thank you very much, Madam Chairwoman. Chairman Powell, Secretary Yellen, thank you for being with us here today.

Out of the gate, Secretary Yellen, I would just like to note that the proposal for bank account reporting, that you do not believe to be an invasion of privacy, I would just like to be on the record that I believe that this would be an invasion of privacy, and I remain concerned with it.

I would like to jump over to debt-to-GDP. In a previous question, you noted that crossing the threshold of 100 percent of debt-to-GDP in the United States, now roughly 105 percent, was not fiscally irresponsible. Is that correct?

Secretary YELLEN. That is right.

Mr. STEIL. In a comment to Mr. Torres, he was examining—

Secretary YELLEN. I believe we are in a place where we can certainly bear the burden of the debt, now and in the future.

Mr. STEIL. And you believe that because we are currently in a low inflationary environment with low interest rates. Is that accurate?

Secretary YELLEN. That is right. But I am assuming that interest rates, as the economy recovers, will move up to a more normal level in line with the forecasts of many professional forecasters.

Mr. STEIL. And in the event that the inflationary rate increased beyond that current forecast by the experts that you are speaking with, that would increase the burden on the debt. Would that then become fiscally irresponsible to have a debt-to-GDP ratio over 100 percent?

Secretary YELLEN. It depends on what happens to real interest rates in the economy. If they were to rise significantly that, of course, poses a risk that we need to take into account.

Mr. STEIL. I think we should absolutely take it into account. I am very concerned with the spending proposals from the Biden Administration and the impact that would have in the event that we enter a more inflationary period where interest rates increase.

Secretary YELLEN. I want to make clear that the proposals from the Biden Administration are neutral with respect to the debt path, that the projections that we have shown display essentially a level debt path over the next 10 years, and beyond 15 years, substantially reduce the outstanding debt-to-GDP ratio.

Mr. STEIL. I remain very concerned about the debt path that the Biden Administration is taking us on, and a whole array of spending proposals that we are seeing.

Let me shift gears slightly over to you, Chairman Powell, if I can, and build on this topic as it relates to inflation. It is something I have spoken with you many times about, in particular in this committee, in July and December of last year. And in those times, you have suggested, and I think you have continued to state that the Fed is not ready to take action to head off inflation. Yet, we are continuing to see prices increase. We saw consumer prices increase 5.4 percent year over year, more recently, and regardless of what the White House press team says, I think people are really seeing the impact of higher prices day in and day out.

Now, I know that you have said you believe many of these to be transitory, that you think they will come down. But here is my concern, is that individual, the public expectations are beginning to change as people truly see the price increases when they go to fill up their car with gas, when they go to a grocery store, or when they go back-to-school shopping. In a recent poll, we saw that 87 percent of Americans said they are concerned about inflation. A New York Fed report reported that consumers expect to see higher inflation over the medium term.

So, could you provide a little color as to how you think the Fed is going to respond to consumers expecting to see inflation?

Mr. POWELL. Essentially, what would need to happen for inflation to remain high, year upon year upon year, is we would have to have a new inflation regime in which people began to enter their psychology and they began to think that it was coming and expect that it was coming.

Mr. STEIL. But with all due respect, don't we see that evidence in the Fed report which shows that people are expecting inflation?

Mr. POWELL. We don't measure these things precisely, but we do measure them a lot, and there are many, many different measures, and broadly speaking, those measures are at levels that are con-

sistent with our 2 percent inflation goal—not for the near term, but for the medium and longer term.

But nonetheless, that is the right issue. We monitor that very carefully, and to the extent we were to see expectations broadly drifting up and the regime changing, we would certainly use our tools to make sure that inflation is consistent with our goal.

Mr. STEIL. I appreciate you tracking this, because I believe as Americans are looking at the runaway spending here in Washington, D.C., without a long-term plan to pay for it, that these expectations of inflation will continue to increase, and as the expectation plays out, as you noted, I think we will see real inflation in the future having a significant impact on the debt burden that the debt-to-GDP ratio holds.

Recognizing the time, I yield back. Thank you for being here.

Chairwoman WATERS. Thank you. The gentlewoman from North Carolina, Ms. Adams, is now recognized for 5 minutes.

Ms. ADAMS. Thank you, Madam Chairwoman. Secretary Yellen, Chairman Powell, thank you both for being here.

I would like to follow up on a question that Senator Brown posed to both of you on, I think, Tuesday. He raised an excellent point that no Black woman has ever served on the Fed's Board of Governors, and you both indicated that you want diverse viewpoints represented at the highest levels of our economic policymaking bodies.

And last year, we had our own Office of Minority and Women Inclusion (OMWI) Directors testify before us about their efforts to diversify your entities. But I would like to hear directly from you both, what are you doing in your respective organizations to encourage the appointment and hiring of Black and Brown women at all levels of seniority, and have you considered recruiting on the campuses of Historically Black Colleges and Universities (HBCUs) and other Minority-Serving Institutions (MSIs)?

Secretary YELLEN. I can start off and say that we have a very active program at all levels of the Treasury Department, including political appointments at recruiting diverse workforce and leadership, and I think if you look at the appointments that we have made or proposed, that we have made good on that commitment and continue to give it the highest priority.

With respect to the Federal Reserve, I and others will provide advice on nominations to the President. It will be up to him to nominate individuals to serve on the Fed Board, and we certainly will ensure that he has a diverse slate of candidates to consider in making these appointments.

Ms. ADAMS. Thank you. Mr. Powell?

Mr. POWELL. We work very hard to recruit diverse talent, diverse people to the board, and we work very hard to keep and make sure that the people that we do succeed in recruiting have good opportunities, or are included in opportunities to learn, and have as many opportunities as they can have so that they can have a career at the Fed. It is a very high-profile focus for us.

Ms. ADAMS. Thank you. Secretary Yellen, it is always a pleasure to have you before us. In case you don't know, like you, I was a professor for over 40 years, and I tell folks all the time that I might

not be in the classroom anymore but I still enjoy educating here in the Congress.

And so, if you don't mind, I would appreciate it if you would take us back to the classroom and help educate us a bit. Do you believe economic recovery is strong enough to handle the withdrawal of current pandemic relief efforts?

Secretary YELLEN. I think the relief efforts have been very important in stimulating a strong recovery. And I mentioned in my opening remarks that the United States is outperforming most other developed countries in the strength of our recovery, due to those efforts the Congress has made.

And there will be fiscal drag next year, namely, we had a good deal of impetus, your stimulus this year, and it will diminish substantially next year. Nevertheless, most forecasters in the Administration believe that the recovery will continue and that private spending will be sufficient to have us pass the baton to it and keep the economy growing.

We are in the middle, as you know, of reconciliation, and the programs under consideration there are really spread out over 10 years, and provide some modest stimulus in each of those years, but at a much lower level than the American Rescue Plan, or oriented towards structural issues in the U.S. economy.

Ms. ADAMS. Thank you. We know our mission here is to ensure that the economy continues to recover for all Americans. So if Congress fails to raise our statutory debt limit by mid-October, what would the effect be to the economy?

Secretary YELLEN. It would be devastating to the economy. We will be unable to pay our bills for the first time in American history. It could provoke a financial crisis and a recession, and it will harm every American.

Ms. ADAMS. Thank you. It is irresponsible, I believe, that my colleagues in both the House and the Senate would risk our recovery from this pandemic for political points. So, I am glad to hear that you agree, and I look forward to this body protecting all Americans by doing the right thing and raising this debt ceiling.

Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you very much. The gentleman from South Carolina, Mr. Timmons, is now recognized for 5 minutes.

Mr. TIMMONS. Thank you, Madam Chairwoman. And Secretary Yellen, and Chair Powell, thank you for being here with us today.

Just yesterday, Speaker Pelosi gave oxygen to the idea that President Biden has the ability to mint a trillion-dollar commemorative coin made of platinum, deposit it in the Federal Reserve, and then use that to pay our bills. A number of other members have adamantly promoted this proposal to include Congressman Nadler, and just Tuesday, my colleagues across the aisle tweeted #mintthecoin.

Chair Powell, please tell me you think this idea is as ridiculous as it sounds?

Mr. POWELL. Really, that is not a question for me.

Mr. TIMMONS. I had a feeling you would say that. I just wanted to start there.

Madam Secretary, please tell me that this is not a legitimate policy proposal and that this is not something that we are considering?

Secretary YELLEN. I believe that the only way to handle the debt ceiling is for Congress to raise it and show the world, the financial markets and the public, that we are a country that will pay our bills when we incur them, and—

Mr. TIMMONS. I really appreciate that—

Secretary YELLEN. —a platinum coin—

Mr. TIMMONS. —more than you can possibly know. Thank you so much. That cuts some of the next few things I was going to say short. We are not going to mint a trillion-dollar coin. These are not serious policy proposals.

Speaking of serious policy proposals, I want to talk about what Congressman Kustoff and Congressman Hollingsworth touched on, the idea of—well, I guess it has changed, because the Biden Administration proposed that it was originally all transaction histories of any account with more than \$600 in or out of it. You testified not 15 minutes ago that it is now, in reconciliation, not being considered. It is just the account balance? So, it changed?

Secretary YELLEN. I never said that the Administration ever proposed collecting detailed transaction data from individuals. That is never anything that the Biden Administration contemplated.

Mr. TIMMONS. You just said it has changed since the original proposal to what is now being considered. How did it change?

Secretary YELLEN. A few additional pieces of information were contemplated for businesses and—

Mr. TIMMONS. Those are no longer being contemplated. So, it is getting better. It is moving in the right direction. Because I have had a number of banks and credit unions reach out to me. It is remarkable. Generally, they do not agree, but they are in agreement that this is a terrible proposal.

I know that we are trying to figure out how to pay for \$5 trillion of spending, but this is not—just as, “mint the coin,” is not a serious policy proposal, this is not a serious policy proposal.

Secretary YELLEN. This is a very serious policy proposal. We have a \$7 trillion estimated tax gap that we have a great deal of avoidance by individuals and businesses, typically very high-net-worth, high-income individuals and businesses, that have opaque sources of income, that are not paying the taxes that are due.

Mr. TIMMONS. Respectfully, what does that have to do with—

Secretary YELLEN. And compliance—

Mr. TIMMONS. —\$600 accounts? That is every single account of, what, is it 99 percent of Americans?

Secretary YELLEN. Well, listen. Banks already report interest amounting to over \$10 to the IRS on every account in the country, and this proposal involves 2 additional pieces of information that are not at the level of individual transactions. And this will help low-income individuals who now are disproportionately subject to audits by the IRS.

Mr. TIMMONS. We had a—

Secretary YELLEN. What this will do is let the IRS focus its compliance efforts—

Mr. TIMMONS. Reclaiming my time, Madam Secretary.

Secretary YELLEN. —on those individuals—

Mr. TIMMONS. We had a hearing—

Secretary YELLEN. —who are avoiding paying the taxes—

Mr. TIMMONS. Reclaiming my time.

Secretary YELLEN. —that are due.

Mr. TIMMONS. Madam Secretary, please. We had a hearing just yesterday, in this very room, about the underbanked and the unbanked, and one of the biggest concerns is about privacy. So, for us to make it far more challenging for people to trust the very system that we are hoping that people use—the banking system, the backbone of our economy—we are moving in the wrong direction here. And I appreciate that we have changed the expectation from the original proposal to now what is being considered in reconciliation, but the American people don't want this. They don't think it is reasonable, and I will go ahead and—this is what is going to happen. It is going to get pulled out because there is no support from the American public, and it is just not going to happen.

With that, I yield back. Thank you.

Chairwoman WATERS. Thank you very much. I would like to thank Secretary Yellen and Chair Powell for their testimony today.

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

This hearing is now adjourned, and I thank our witnesses so very much for being here. We had a hard stop now, right at 12:15, so we are on time. Thank you very much.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

A P P E N D I X

September 30, 2021

For release at
4:30 p.m. EDT
September 29, 2021

Statement by
Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
before the
Committee on Financial Services
U.S. House of Representatives
September 30, 2021

Chairwoman Waters, Ranking Member McHenry, and other members of the Committee, thank you for the opportunity to discuss the measures we have taken to address the hardship wrought by the pandemic. Our health-care professionals continue to deliver our most important response, and we remain grateful for their service. Progress on vaccinations and unprecedented fiscal policy actions are also providing strong support to the recovery.

Since we last met, the economy has continued to strengthen. Real gross domestic product rose at a robust pace in the first half of the year, and growth is widely expected to continue at a strong pace in the second half. The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID-19 cases has slowed their recovery. Household spending rose at an especially rapid pace over the first half of the year but flattened out in July and August as spending softened in COVID-sensitive sectors. Additionally, in some industries, near-term supply constraints are restraining activity.

As with overall economic activity, conditions in the labor market have continued to improve. Demand for labor is very strong, and job gains averaged 750,000 per month over the past three months. In August, however, gains slowed markedly, with the slowdown concentrated in sectors most sensitive to the pandemic. The unemployment rate was 5.2 percent in August, and this figure understates the shortfall in employment, particularly as participation in the labor market has not moved up from the low rates that have prevailed for most of the past year. Factors related to the pandemic, such as caregiving needs and ongoing fears of the virus, appear to be weighing on employment growth. These factors should diminish with progress on containing the virus.

The economic downturn has not fallen equally on all Americans, and those least able to shoulder the burden have been the hardest hit. In particular, despite progress, joblessness

continues to fall disproportionately on lower-wage workers in the service sector and on African Americans and Hispanics.

Inflation is elevated and will likely remain so in coming months before moderating. As the economy continues to reopen and spending rebounds, we are seeing upward pressure on prices, particularly due to supply bottlenecks in some sectors. These effects have been larger and longer lasting than anticipated, but they will abate, and as they do, inflation is expected to drop back toward our longer-run 2 percent goal.

The process of reopening the economy is unprecedented, as was the shutdown. As reopening continues, bottlenecks, hiring difficulties, and other constraints could again prove to be greater and more enduring than anticipated, posing upside risks to inflation. If sustained higher inflation were to become a serious concern, we would certainly respond and use our tools to ensure that inflation runs at levels that are consistent with our goal.

The path of the economy continues to depend on the course of the virus, and risks to the outlook remain. The Delta variant has led to a surge in cases, causing significant human suffering and slowing the economic recovery. Continued progress on vaccinations would help support a return to more normal economic conditions.

The Fed's policy actions are guided by our dual mandate to promote maximum employment and stable prices for the American people, along with our responsibilities to promote the stability of the financial system. In response to the crisis, we took broad and forceful measures to support the flow of credit in the economy and to promote the stability of the financial system at the onset of the pandemic. Our actions, taken together, helped unlock more than \$2 trillion of funding to support businesses large and small, nonprofits, and state and local governments between April and December of 2020. This, in turn, helped keep organizations

from shuttering and put employers in a better position to keep workers on and to hire them back as the recovery continues.

These programs have served as a backstop to key credit markets and helped to restore the flow of credit from private lenders through normal channels. We have deployed these lending tools to an unprecedented extent. Our emergency lending tools require the approval of the Treasury and are available only in unusual and exigent circumstances, such as those brought on by the crisis.

Many of these programs were supported by funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Those facilities provided essential support through a very difficult year and are now closed.

The Federal Reserve completed its sales of assets from the Secondary Market Corporate Credit Facility on August 31. We were able to wind down the facility rapidly and efficiently, with no adverse impact on credit conditions. The Federal Reserve also recently closed the Paycheck Protection Program Liquidity Facility to new lending, and the facility is now in runoff mode. Similarly, we are managing the paydown of assets in our other CARES Act facilities as they wind down over time. We continue to analyze the facilities' efficacy and to review the lessons learned.

To conclude, our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. We at the Fed will do all we can to support the economy for as long as it takes to complete the recovery. Thank you. I look forward to your questions.

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

Facility	Announced	Closed	Maximum capacity ¹	Peak amount of assets ²	Current amount of assets ²	Treasury equity remaining ³
Corporate Credit Facilities ⁴	Mar. 23, 2020	Dec. 31, 2020	750	14.3	0	0 ⁴
Main Street Lending Program	Apr. 9, 2020	Jan. 8, 2021	600	16.6	13.4	16.6
Municipal Liquidity Facility	Apr. 9, 2020	Dec. 31, 2020	500	6.4	4.4	6.3
TALF	Mar. 23, 2020	Dec. 31, 2020	100	4.1	1.5	3.5

Note: The data are current as of September 22, 2021.

1. The maximum authorized amount of facility asset purchases.
2. Current and peak outstanding amounts of facility asset purchases.
 - For the Corporate Credit Facilities (consisting of the Primary Market Corporate Credit Facility and the Secondary Market Corporate Credit Facility), includes exchange-traded funds at fair value and corporate bonds at book value. Asset balances from trading activity are reported with a one-day lag after the transaction date.
 - For the Main Street Lending Program, includes loan participations at principal amount outstanding, net of an allowance for loan losses, updated as of June 30, 2021.
 - For the Municipal Liquidity Facility, includes municipal notes at book value.
 - For the TALF (Term Asset-Backed Securities Loan Facility), includes loans to holders of eligible asset-backed securities at book value.
3. The amount of the Treasury contribution to the credit facilities.

Source: For the amount of assets and Treasury equity remaining, see Federal Reserve Board (2021), Statistical Release H.4.1, “Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks” (September 23), <https://www.federalreserve.gov/releases/h41>; the peak amounts of assets for each facility are based on the H.4.1 from the start of the corresponding facility until September 22.
4. Treasury preferred equity of \$13.9 billion was returned to the Treasury on September 24, 2021, as reflected in notices available on the Federal Reserve Bank of New York’s public website at <https://www.newyorkfed.org/markets/secondary-market-corporate-credit-facility>. This transaction will be reflected in the H.4.1 statistical release published on September 30, 2021.

Statement by
Janet L. Yellen
Secretary
United States Department of the Treasury
before the
Committee on Financial Services
U.S. House of Representatives
September 30, 2021

Chairwoman Waters, Ranking Member McHenry, members of the committee: It's a pleasure to testify today.

We are in the midst of a fragile, but rapid recovery from the pandemic-induced recession. While our economy continues to expand and recapture a substantial share of the jobs lost during 2020, significant challenges from the Delta variant continue to suppress the speed of the recovery and present substantial barriers to a vibrant economy. Still, I remain optimistic about the medium-term trajectory of our economy, and I expect we will return to full employment next year.

A rebound like this was never a foregone conclusion. In fact, the American recovery is stronger than those of other wealthy nations. One key factor for our overperformance is the policy choices that Congress has made over the past 18 months. Those choices include the passage of the CARES Act, the Consolidated Appropriations Act, and the American Rescue Plan.

Treasury, as you know, was tasked with administering a large portion of the relief dollars in those bills, and when we last met, our Department was busy standing up programs to help individual families, state governments, and organizations of every size in between. While we still have much more work to do, we have made significant progress, and I wanted to give you an update.

Let's start with families. In July, our Department started sending the monthly expanded Child Tax Credit payments to the families of nearly 60 million children across the country. To date, \$46 billion dollars in payments have been made, and we're already seeing the impact. Analysis by the Census Bureau found that after the first payments in July, food insecurity among families with children dropped 24 percent.

As for state, local, tribal, and territorial governments, COVID-19 decimated their budgets. There were mass layoffs, and to end the health and economic emergencies, we knew that communities would need funding to hire educators to bring kids back to school, for example, or frontline workers to administer the vaccine. The American Rescue Plan included \$350 billion to that end, and those dollars are indeed helping the machinery of local governments get up-and-running. States and localities can rely on relief money that is available instead of resorting to painful budget cuts.

Congress rightly designed the state and local program with flexibility in mind. I think many of us knew the recovery could run up against some unforeseen challenges, and we wanted communities to be able to devote resources where and when they saw fit. I want to note that this flexibility is paying off now, especially with the spread of the Delta variant. Harris County, Texas, for instance, has used this funding to boost its immunization rate, offering \$100 to each person who gets their first vaccine dose.

For the relief dollars not yet out the door, Treasury is doing everything it can to expedite their delivery. The Emergency Rental Assistance Program is one example. Prior to the pandemic, there was essentially no national infrastructure to get money from government coffers to renters and landlords. Building that infrastructure has been a massive undertaking for states, localities, and tribes.

The program is scaling up quickly, with 1.4 million payments made to help struggling renters keep a roof over their heads. Still, too much of the money remains bottlenecked at the state and local levels. That's why our Treasury team has worked to eliminate every piece of red tape possible in order to ensure more payments can get to renters and landlords, but states and

localities must also work to remove barriers that can speed up distribution of rental assistance funds.

I'll end my remarks there except to say this: It is imperative that Congress address the debt limit. If not, our current estimate is that Treasury will likely exhaust its extraordinary measures by October 18. At that point, we expect Treasury would be left with very limited resources that would be depleted quickly. America would default for the first time in history. The full faith and credit of the United States would be impaired, and our country would likely face a financial crisis and economic recession as a result.

We must address this issue to honor commitments made by this – and prior – Congresses, including those made to address the health and economic impact of the pandemic. It's necessary to avert a catastrophic event for our economy.

Representatives, the debt ceiling has been raised or suspended 78 times since 1960, almost always on a bipartisan basis. My hope is that we can work together to do so again; and to build a stronger American economy for future generations. Thank you, and I'm pleased to take your questions.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

March 1, 2022

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

Dear Madam Chairwoman:

Enclosed are my responses to the questions you submitted following the September 30, 2021,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive style.

Enclosure

¹ Questions for the record related to this hearing were received on October 28, 2021.

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

- 1) **Chair Powell, in response to the pandemic, the Fed reestablished the Term Asset-Backed Securities Loan Facility (TALF) to support the issuance of asset-backed securities (ABS) backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (SBA), and other assets.**
- a. **Please provide a description of the number and dollar amount of student loans, auto loans, credit card loans, and SBA loans that were ultimately supported by TALF.**
 - b. **Please describe what information the Fed collected regarding the terms, conditions, fees, and interest rates for each loan type the TALF supported.**
 - c. **For each type of loan, what was the maximum annual percentage rate (APR) charged that was supported by TALF?**

In March 2020, the Federal Reserve established the Term Asset-Backed Securities Loan Facility (TALF) to ensure that consumers and businesses retained access to credit despite the strains that the pandemic inflicted on the economy and financial markets. The TALF provided liquidity to segments of the asset-backed securities (ABS) market that were important to the economy and where loans supported by such ABS posed little risk to the taxpayer. The TALF led to a sharp decrease in ABS spreads for all categories of TALF-eligible ABS (even those that were not directly funded by TALF loans), which in turn lowered the cost of credit for many types of loans taken out by consumers and businesses.

No auto ABS or credit card ABS were funded directly by TALF loans. The TALF provided loans for five student-loan ABS that were collateralized by 53,664 student loans with total balances of \$3.5 billion. The TALF also provided loans for 61 securities that were guaranteed by the Small Business Administration. We estimate that these securitizations were collateralized by approximately 4,600 loans originated under the 7(a) program and approximately 600 loans originated under the 504 program, and supported total lending of \$2.6 billion for the 7(a) program and \$1.1 billion for the 504 program.

Given the purpose of the TALF, the Federal Reserve focused on collecting data that would help assess the importance of each asset class to the economy and the risks that a TALF loan secured by such ABS might pose to the taxpayer. Therefore, the Federal Reserve did not collect information on the terms, conditions, fees, or interest rates on each loan that collateralized TALF-eligible ABS.

The Federal Reserve has certain information regarding the interest rates on the loans that collateralize each ABS. For student loans, we know from the ABS prospectuses that the weighted average interest rate on the loans collateralizing each ABS range from 2.09 percent to 5.33 percent. While we cannot separately identify the interest rates of the SBA-guaranteed securities funded by the TALF, the data on all 2020 loans show that the maximum interest rate

on 7(a) loans was 12.24 percent. The median interest rate was 5.79 percent and the 95th percentile was 9.25 percent. Because 504 loans are collateralized, the interest rates on these loans are lower than those in the 7(a) program, so 12.24 percent is necessarily the highest interest rate that could possibly correspond to a loan funded through a TALF-supported SBA securitization.

- 2) **Chair Powell, beginning in 2018, Trump appointees running the Consumer Financial Protection Bureau (CFPB) made sweeping changes to their fair lending enforcement program. For instance, in 2018, under the leadership of Mick Mulvaney, the CFPB initiated a reorganization of the Office of Fair Lending and Equal Opportunity (OFLEO)[1], which resulted in staff changes, including moving a team of 10 attorneys dedicated to fair lending enforcement into generalist positions.[2] Moreover, I'm concerned about the recent reduction of referrals federal regulators, including the Federal Reserve, have made to the Department of Justice (DOJ) for potential Equal Credit Opportunity Act (ECOA) violations. According to the CFPB's latest fair lending report, regulators have referred, on average, less than half the number of referrals to DOJ for potential ECOA violations the last four years compared to 2013-2016.[3]**
- [1] House Financial Services Committee Press Release, Waters Leads Letter Signed by 53 Democrats Demanding Answers on Mulvaney's Efforts to Weaken the Consumer Bureau's Office of Fair Lending and Equal Opportunity (Feb. 16, 2018).

[2] GAO, FAIR LENDING: CFPB Needs to Assess the Impact of Recent Changes to Its Fair Lending Activities (May 2021).

[3] CFPB, Fair Lending Report of the Bureau of Consumer Financial Protection (April 2021).

- a. How many fair lending enforcement actions did the Fed initiate since February 5, 2018?
- b. How many fair lending enforcement actions did the Fed initiate between February 5, 2014 and February 5, 2018?
- c. How many referrals to DOJ did the Fed make for potential ECOA violations since February 5, 2018?
- d. How many referrals to DOJ did the Fed make for potential ECOA violations between February 5, 2014 and February 5, 2018?
- e. Was there a reduction in the number of full-time employees dedicated to fair lending enforcement at the Fed since February 5, 2018?

The Federal Reserve is committed to strong supervision and enforcement of fair lending laws. We review fair lending risk as part of every consumer compliance exam. When we find a fair lending violation, we cite it and require corrective action. When we have reason to believe there

is a pattern or practice of discrimination, we refer the fair lending matter to the Department of Justice (DOJ) as required by the Equal Credit Opportunity Act (ECOA).

The Federal Reserve has a number of tools available for addressing fair lending violations. During the requested period, we made no referrals to the DOJ. However, the Federal Reserve has taken the following actions:

- 898 consumer compliance examinations (including a review of fair lending risk) conducted at state member banks between February 5, 2014 and February 5, 2018 and 766 between February 5, 2018 and September 30, 2021
- 267 institutions cited for ECOA and/or Fair Housing Act violations between February 5, 2014 and February 5, 2018 and 139 between February 5, 2018 and September 30, 2021
- 14 referrals to DOJ for ECOA and/or Fair Housing Act pattern or practice violations between February 5, 2014 and February 5, 2018 and four between February 5, 2018 and December 31, 2021

In addition, to complement our supervisory program, the Federal Reserve System engages in a variety of research, outreach, and convening activities to inform the public and provide assistance to banks, consumer advocates, and community development practitioners to improve understanding of fair lending issues and mitigation of fair lending risks.

Since February 5, 2018, the number of full-time employees dedicated to fair lending enforcement has not changed.

3) Chair Powell, please describe the organization of the Fed's office that handles fair lending supervision and enforcement responsibilities, including the number of staff, their titles and job responsibilities, the division within which they work, and length of service in their current role.

The Federal Reserve Board's (Board) Fair Lending Enforcement Section (Section) in the Division of Consumer and Community Affairs works with the Reserve Banks to ensure that supervised institutions comply with ECOA and the Fair Housing Act. As noted previously, Reserve Bank examination teams, through delegated authority from the Board, evaluate fair lending risk at every consumer compliance exam. Examiners consult with the Section on fair lending reviews. The Section prepares preliminary and final analyses of fair lending matters where there may be a potential violation and refers pattern or practice violations to DOJ.

The Section is composed of seven staff members: a managing counsel, two counsels, two economists, and two analysts. These staff work collaboratively to provide analytical support to examiners conducting exams, and to review and analyze high-risk fair lending matters. Terms of service range from more than two years to over 10 years.

We have not reorganized the Section or made significant staffing changes in the last few years and do not currently have plans to do so.

- 4) **Chair Powell, in the last few years, has the Fed made any changes to the office and staff responsible for fair lending supervision and enforcement?**

Please see response to Question 3.

- 5) **Chair Powell, are there any plans to make changes to the office or staff dedicated to carrying out the Fed's responsibilities to implement fair lending laws?**

Please see response to Question 3.

- 6) **Chair Powell, by creating a standing repo facility and reverse repo facility, the Fed has effectively become the backstop for the largest short-term lending market for financial institutions. It appears that this decision was made on the narrow grounds of improving monetary control and the Fed may not have fully considered its broader policy implications such as moral hazard. Has the Fed done any in-depth analysis of what unintended consequences this change may have for the behavior, profitability, and systemic riskiness of large financial firms? In August, the reverse repo facility had over \$1 trillion outstanding—is this a mere technicality or does this level of usage call for a broader rethink of the Fed's policy tools?**

Regarding the standing repo facility (SRF), the Federal Reserve reviewed a wide range of policy considerations over several Federal Open Market Committee (FOMC or Committee) meetings prior to establishing this facility. For example, during the April 2021 FOMC meeting, Committee participants discussed a range of considerations concerning a permanent SRF. These considerations included the potential to create incentives for firms with access to the SRF to take on more liquidity risk than would otherwise be the case. From a monetary policy and financial stability perspective, this discussion also noted that standing repo operations could be viewed as useful in forestalling funding strains that could spill over into other short-term funding markets. In particular, by acting as a backstop, the facility could help address pressures in the markets for U.S. Treasury securities and Treasury repo that could spread to the federal funds market and other funding markets. On balance, the FOMC judged the SRF to be an important tool that supports effective policy implementation and smooth market functioning.

The design of the SRF helps to mitigate the potential risks associated with the facility. The FOMC authorized the facility only for primary dealers and depository institutions—entities that are subject to federal regulation and supervision. Moreover, the FOMC set the rate at the top of the target range for the federal funds rate—a level that is notably above the level of overnight money market rates. As a result, the facility operates as backstop in money markets to address periods of severe distress.

Regarding the overnight reverse repo (ON RRP) facility, this facility has been operational for the past several years. The ON RRP rate and the interest on reserve balances rate are the principal tools that the Federal Reserve employs to keep the federal funds rate in the target range established by the FOMC. The ON RRP supports rate control by offering a readily available, risk-free, fixed-rate investment to a broad array of Federal Reserve counterparties that are active lenders in money markets. When money market rates move down to or below the rate offered

through the ON RRP facility, participation at the ON RRP facility increases, thus relieving some of the downward pressure on money market rates. Usage of the facility has grown substantially this year in connection with downward pressure on money market rates stemming from a sharp decline in Treasury bills outstanding and the continued increase in reserves in the banking system. These trends have put downward pressure on Treasury bill yields and overnight Treasury repo rates, leading to increased usage of the ON RRP facility. ON RRP usage is expected to decline when these pressures abate. This pattern has been observed in the past, particularly in 2017-2018, as money market rates moved above the ON RRP rate and usage of the facility gradually fell to zero.

As was the case for the SRF described above, ahead of the formalization of the ON RRP, a wide range of policy considerations were analyzed and discussed over several FOMC meetings. These considerations included concerns the facility could enable flight-to-quality flows during periods of financial stress or that the facility has the potential to alter the functioning of money markets. However, even with the ON RRP experiencing high usage, these risks have not materialized and the ON RRP facility is working as intended and designed.

- 7) **Chair Powell, Boston Federal Reserve Bank President Eric Rosengren and Dallas Federal Reserve Bank President Robert Kaplan recently resigned after it was revealed they had engaged in significant stock market trading activity while shaping the Federal Reserve's response to the pandemic last year. During your press conference on September 22, you acknowledged that you were not aware of Rosengren or Kaplan's stock trading prior to press reports about them. All 12 Reserve Bank presidents, including Rosengren and Kaplan, had their terms renewed in January, after a process that was described as "rigorous."**[4] **However, you also indicated on September 22 that you do not think that annual financial disclosure forms should be a part of the process for reviewing and renewing Reserve Bank presidents' terms that takes place every five years, and you also suggested that problems with financial disclosure forms should be flagged immediately so that action can be taken more quickly. Still, whatever protocol is in place to determine whether financial disclosure forms are aligned with the conduct that is expected of Reserve Bank presidents seems to have failed in the instances of Rosengren and Kaplan.**

[4] <https://www.federalreserve.gov/newsevents/pressreleases/other20210121a.htm>.

- a. **What steps are being taken to make sure that does not happen again?**
- b. **If it is your view that the exclusion of annual financial disclosure forms from the Reserve Bank presidential review process is appropriate, what other ways should the review process be strengthened to avoid having future Reserve Bank presidents resign unexpectedly?**
- c. **Has the Board of Governors considered adopting a standardized process for collecting and reviewing financial disclosure forms by Reserve Bank presidents and staff?**

On February 18, 2022, the Federal Open Market Committee (FOMC) announced that it unanimously adopted comprehensive new rules for the investment and trading activity of senior officials. The rules aim to support public confidence in the impartiality and integrity of the FOMC's work by guarding against even the appearance of any conflict of interest. Under the new rules, senior Federal Reserve officials are prohibited from purchasing individual stocks or sector funds; holding investments in individual bonds, agency securities, cryptocurrencies, commodities, or foreign currencies; entering into derivatives contracts; and engaging in short sales or purchasing securities on margin. Additionally, senior Federal Reserve officials will be required to provide 45 days' non-retractable notice for purchases and sales of securities, obtain prior approval for such transactions, and hold investments for at least one year. Purchases and sales also will be prohibited during periods of heightened financial market stress. These new rules supplement existing rules that prohibit Federal Reserve officials from holding bank stocks and Treasury securities and from engaging in financial transactions during a blackout period around FOMC meetings. As a result of these new rules, senior Federal Reserve officials generally will be limited to purchasing diversified investment vehicles, such as mutual funds.

When the new policy takes effect, Federal Reserve Bank (Reserve Bank) presidents will be required to publicly disclose securities transactions within 30 days, as Board members and senior Board staff currently do. In addition, financial disclosures filed by Reserve Bank presidents will be promptly posted on the website of the relevant Reserve Bank. Financial disclosures filed by Board Members will continue to be available on the website of the Office of Government Ethics. Board staff is working to set up a standardized and centralized process for collecting and reviewing financial disclosure forms by Reserve Bank presidents and staff covered under the new policy. The new policy will place the Federal Reserve at the forefront of U.S. government agencies and major central banks in protecting against conflicts of interest and the appearance of conflicts of interest.

With respect to the recent reappointment process for Reserve Bank presidents, the focus was on a retrospective review of performance, along multiple important dimensions, including policy contributions, bank leadership, and engagement with communities across the Reserve Bank's District. Had ethics concerns been identified at any time, these would have been immediately investigated and resolved, rather than deferred until the next reappointment process, which could have been up to five years later. The comprehensive new policy that the FOMC adopted last month is designed to ensure that any ethics concerns with Reserve Bank presidents are swiftly identified and addressed.

- 8) Chair Powell, the boards of directors at the Boston Federal Reserve Bank and Dallas Federal Reserve Bank will now undertake a search to select new presidents. Will you commit to a transparent and publicly inclusive process for identifying and selecting individuals to serve in these positions? Specifically:**
- a. What steps are the search committees and the Board of Governors taking to identify qualified candidates from diverse personal, economic, academic and professional backgrounds? Will the search committees complete trainings to avoid bias or prejudice in their selections? Will the search committees have a**

balance of perspectives and background represented? Will at least half of the search committees be populated by women or people of color?

- b. To what extent will the Offices of Women and Minority Inclusion/Offices of Diversity and Inclusion at the Federal Reserve Bank of Boston, Federal Reserve Bank of Dallas, and the Board of Governors be involved in the process of recruiting, interviewing, and selecting final candidates to serve as president?**
- c. What steps have been taken to identify diverse executive search firms for these searches? What steps have been taken to convey to any executive search firms hired to carry out the identification of qualified candidates the importance of delivering a diverse and highly qualified pool of candidates?**
- d. What policies and procedures are in place to ensure that the search process doesn't unduly favor insiders who either serve as part of the search committee itself, are employed or affiliated with the search firm, or have long-established connections within the Federal Reserve System or financial sector?**
- e. Have specific timeframes been set for applicants both within and outside the Federal Reserve System, and for candidate referrals, to be submitted to any executive search firm for consideration? Will the search firm be tasked with identifying a specific number of qualified candidates as part of the terms of its engagement? Once a pool of candidates has been identified by the search firm, what is the anticipated timeframe for selecting and approving a final candidate?**
- f. Will members of the public be given the opportunity to submit questions to candidates under consideration at any point during the selection process?**
- g. Will the names and/or demographic information of candidates under consideration be released to the public?**

The Board is committed to fostering an inclusive and diverse work environment across the organization, and this commitment extends to the leadership of the Reserve Banks. Meeting this commitment requires the ongoing attention and engagement of senior leadership, including Board members and Reserve Bank directors across the Federal Reserve System.

The formal process for filling the president positions at the Reserve Banks is clearly specified in the Federal Reserve Act. In keeping with the intent of Congress, the process was designed to reflect both private-sector and public-sector characteristics, and also balances the role of the Board of Governors in Washington and the Reserve Bank boards whose members are drawn from the Districts that they serve. Reserve Bank boards of directors have become markedly more diverse in recent years through focused efforts both at the Board and in each District. Given the central role that directors play in the search and appointment process, this progress is

critical. Where directors are more diverse, the search committees will be more diverse, and a broader set of perspectives will be represented in the process.

Furthermore, the directors of the Reserve Bank Boards and Reserve Banks' Offices of Minority and Women Inclusion (OMWI) have served as advisers to the president search committees at the Boston and Dallas reserve banks and the search firms. Diverse interview panels are also used to ensure that different points of view and opinions are part of the hiring decision. In addition, the Board has worked closely with the search committees to underscore the importance of an effective, inclusive, and equitable process, beginning with the identification of a large and diverse pool of outstanding internal and external candidates, and continuing through assessments that do not inadvertently favor individuals from any particular background, including candidates who are currently or were previously employed at the Federal Reserve.

While there is surely value in the transparency that would come from providing detailed information on candidates and candidate pools, experience has also shown that, unless there is a high degree of confidence that privacy will be protected, many highly-qualified candidates will choose not to participate in these search processes. Often, they are concerned about the reaction of current employers, or about the reputational implications of their candidacy becoming public if they are ultimately not selected.

Regarding the current president searches, on February 9 the Federal Reserve Bank of Boston announced Dr. Susan M. Collins as its next president. Prior to that, the bank had established a dedicated presidential search webpage focused on all aspects of the search process, including information about the diverse search committee members, a video overview from search committee leadership, frequently asked questions (FAQs), contact information for directing applications and nominations to the executive search firm, a detailed job description, and information about the application process.

The Federal Reserve Bank of Dallas officially launched its presidential search process on November 17, and likewise has a dedicated presidential search webpage¹ focused on all aspects of the search process, including information about the diverse search committee members, a video overview of how a Reserve Bank president is selected, FAQs, contact information for directing applications and nominations to the executive search firm, a detailed job description, and information about the application process. The search committee states on the webpage that its priority is to consider a broad and highly-qualified candidate pool that reflects the diversity of the communities that are served in the Eleventh District. The Dallas vacancy has not yet been filled.

¹ <https://www.dallasfed.org/fed/presidentialsearch.aspx>.

U.S. House of Representatives
Committee on Financial Services
Hearing on Oversight of the Treasury Department's and Federal Reserve's Pandemic Response
Thursday, September 30, 2021

Questions for the Record

Responses from Treasury Secretary Janet Yellen

Rep. Maxine Waters (D-CA-43), Chairwoman

SIFI Designation Process

1. Secretary Yellen, last December, I wrote then President-elect Joseph Biden regarding a number of financial regulatory issues, including the importance of reversing the damage done by the Trump Administration with respect to financial stability.¹ I appreciate that you as Secretary of the Treasury and Chair of the Financial Stability Oversight Council (FSOC) have already implemented several of my recommendations, including reconstituting the FSOC's Hedge Fund Working Group and addressing risks posed by climate change to the U.S. financial system and economy. Additionally, I was troubled that after eliminating enhanced oversight of all previously designated nonbank financial companies as systemically important financial institutions (SIFIs), Trump's FSOC adopted designation procedures that you previously described in a letter, along with other former Treasury Secretaries and Fed Chairs, would, "make it impossible to prevent the build-up of risk in financial institutions whose failure would threaten the stability of the system as a whole."² Moreover, these flawed procedures are inconsistent with the authority Congress provided to FSOC to identify and mitigate threats to financial stability, and is a matter a number of advocacy organizations and academics recently have also urged you to take action on.³ What steps is FSOC taking to promptly revise the nonbank financial company designation procedures to ensure efforts to address any potential threat to financial stability is not delayed or otherwise impeded?
 - **Answer: I strongly support the Council's mission and have been encouraged by the interagency work this year on risks related to nonbank financial intermediation, the U.S. Treasury market, climate change, and other areas. We believe that it is critical that the Council has all the tools provided by the Dodd-Frank Act to respond to potential threats to U.S. financial stability, whether those threats arise from a single firm or an array of firms. The Council's authority under section 113 of the Dodd-Frank Act is a critical tool that Congress provided to the Council based on the lessons of the 2007-2009 financial crisis. As with all of its authorities, if the Council chooses to use this tool, it will do so responsibly and in a manner that seeks to maximize transparency to the extent possible.**

¹ See House Financial Services Committee, [Waters Provides Recommendations to President-Elect Biden on Trump Actions to Reverse](#) (Dec. 4, 2020).

² See [Letter](#) from The Honorable Timothy F. Geithner, Jacob J. Lew, Ben S. Bernanke, and Janet L. Yellen to Steven L. Mnuchin and Jerome H. Powell, (May 13, 2019).

³ See Americans for Financial Reform, et al, [Letter to Secretary Yellen on Repealing Treasury's 2019 Guidance on SIFI Designation](#) (Sep. 28, 2021).

Rep. Nikema Williams (D-GA-05)

As we come out of this pandemic, our goal shouldn't just be recovery. It should be building back better. As we work toward an inclusive economic recovery, we must emphasize equity and include people in our infrastructure investments.

My home, Atlanta, is unfortunately the worst in the nation when it comes to the racial wealth gap, and we can't build back better without addressing this issue.

1. Secretary Yellen, which investments would be most meaningful to include in our upcoming legislative packages to address closing the racial wealth gap?
 - **Answer: The Build Back Better agenda addresses rising wealth and income inequality head on. Programs like universal pre-K and the expanded child tax credit will benefit minority communities. Ensuring that wealthy Americans pay their fair share in taxes and using those revenues to support lower income households is key to reducing inequality and ensuring fairness. Items like the premium tax credit and expanded EITC will also support minority communities, many who are in states that failed to expand Medicaid.**

Building wealth is also dependent on having equitable access to employment. Disruptions in childcare and schooling have impacted all parents' employment but have had disparate impacts on many of my constituents, especially Black and Latinx women.

2. Secretary Yellen, what are the most important things that Congress can be doing to remove barriers to labor force participation for the benefit of the people and businesses in my district?
 - **Answer: The Build Back Better agenda is instrumental to reversing a decades-long stagnation in labor force participation, particularly for women. Universal pre-K, support of childcare providers, and the child and dependent care tax credit will help more parents enter the workforce. Funds from the American Rescue Plan are also helping schools reopen safely to allow parents to go back to work after more than a year of disrupted schooling. I urge Congress to adopt the Build Back Better agenda and help provide quality affordable childcare for American parents.**

As we build back better from a devastating pandemic, we can't afford to take any steps backward. I'd like to address the importance of suspending the debt ceiling in fostering a full, inclusive economic recovery.

3. Secretary Yellen, if Republicans refuse to join Democrats in suspending the debt ceiling, what would the impact be in the everyday life of one of my constituents? How would inaction impact people who are trying to get back on their feet and build a better life for themselves and their families?
 - **Answer: Failure to raise the debt ceiling would impair the federal government's ability to meet its obligations, such as responding to the ongoing pandemic and making on-time and complete payments on which people rely. Inaction could**

jeopardize Social Security payments to over 65 million beneficiaries, child tax credit payments to 30 million families, and paychecks to members of the military.

Inaction could result in a default on the debt of the United States, which would likely cause a recession and could result in a financial crisis, raising borrowing costs for consumers and lowering asset prices at a time when many continue to suffer the economic pains brought on by the pandemic.

Rep. Bill Posey (R-FL-08)

The Corporate Transparency Act (CTA) requires the Treasury Department’s Financial Crimes Enforcement Network (FinCEN) to publish regulations on requirements for reporting companies to submit information about their beneficial owners (the individual natural persons who ultimately own or control the reporting companies) by **January 1, 2022**.

At your Senate confirmation hearing in January 2021, you said of the passage of the CTA, *“we will try to get up and running as quickly as possible ...and we will certainly be looking to give this a very high priority.”*

Additionally, in response to a question for the hearing record submitted by Senator Toomey on the NDAA’s instructions to “reach out to members of the small business community” when promulgating the regulations on the new beneficial ownership reporting requirements, you responded:

“I agree strongly on the need for federal banking agencies, including but not limited to FinCEN, to consult with the small business community when promulgating regulations, including on the promulgation of rules and guidance to implement the beneficial ownership reporting requirements. If confirmed, I will ensure this consultation occurs.”

With approximately 90 days until the January 1, 2022 deadline, FinCEN has yet to propose a rule.

1. Does FinCEN intend to meet this statutory deadline?

- **Answer: Timely and effective implementation of the Anti-Money Laundering Act of 2020, including the Corporate Transparency Act (CTA), is a top priority. FinCEN is working hard to promulgate rules to implement the CTA.**

On April 5, 2021, FinCEN issued an Advanced Notice of Proposed Rulemaking (ANPRM) regarding the implementation of the CTA and received more than 200 comments from the public, including members of the small business community. FinCEN has worked diligently to review these comments as part of the rulemaking process to prepare a Notice of Proposed Rulemaking (NPRM) for the beneficial ownership reporting rule for further public comment. The timing of our final beneficial ownership reporting rule is dependent on the publication of and public response to the NPRM.

2. Is it possible to meet this deadline while still allowing for a sufficient public comment period that will honor your commitment to consult with the small business community?

- **Answer: FinCEN intends to provide ample time to stakeholders to comment on the NPRM, including by members of the small business community. Public comments play an important role in the APA process, and FinCEN intends to carefully consider all the comments it receives. We encourage all interested parties to submit comments to the forthcoming NPRM once it is published in the Federal Register.**

Rental Assistance Questions:

3. Can you please give me some good reasons why it makes sense to create a rental assistance program at the Department of the Treasury that has no expertise in rental assistance and no existing network to deliver such assistance?
 - **Answer: As of September 30, 2021, the Emergency Rental Assistance Program, established on a bipartisan basis in the Consolidated Appropriations Act, 2021, and expanded in the American Rescue Plan Act of 2021, had delivered more than 2 million payments to support the housing stability of low-income renters across the country. The program is on track to be fully utilized by the Congressionally established end date of September 2022. Since the end of the federal eviction moratorium, levels of evictions remain substantially below pre-pandemic levels. The Treasury team is highly qualified to implement the Emergency Rental Assistance program. We also recognized the expertise our fellow federal agencies, particularly HUD, could bring to strengthen the program design and implementation. Since the beginning of the Administration, the Treasury team has worked closely with HUD to develop and strengthen the Emergency Rental Assistance program, in particular HUD provided guidance on the initial sets of FAQs, informed the creation of our High Needs Formula for ERAP 2, provided advice on data collection metrics, and were a critical partner to help Treasury properly implement ERAP 1 in tribal communities.**

4. Couldn't we substantially improve the delivery performance of emergency rental assistance by moving the program to the housing agency – the Department of Housing and Urban Development – that already has a network in place to deliver rental assistance?
 - **Answer: As of September 30, 2021, the Emergency Rental Assistance Program had delivered more than 2 million payments to support the housing stability of low-income renters across the country and the program is on track to be fully utilized by the Congressionally established end date of September 2022. Since the end of the federal eviction moratorium, levels of evictions remain substantially below pre-pandemic levels. HUD has been a critical partner with Treasury on the design and implementation of the Emergency Rental Assistance program, in addition to the USDA, the White House and the Department of Justice. It has been an ‘whole of government’ approach to eviction prevention and each agency has brought their particular expertise to this work. The Treasury team is in frequent contact with HUD. HUD has contributed to our FAQs, informed our reallocation policy, helped build partnerships among Tribes and Tribal Designated Housing Entities, and informed our data collection efforts. Treasury and HUD also have Interagency Agreements in place to deliver technical assistance to a select group of grantees including grantees in Indian country.**

5. Are there any downsides to letting HUD deliver rental assistance rather than Treasury that we ought to be aware of? Can you give me any good reasons to not give emergency assistance to HUD?

- **Answer: Treasury has already launched the Emergency Rental Assistance Program and developed the program infrastructure to administer the program in accordance with the statute passed by Congress. It would substantially slow the delivery of assistance to low-income people to undertake such a dramatic change in program administration at this time. We have developed strong relationships with HUD staff which has been essential to the success of the Emergency Rental Assistance Program.**

6. Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA, P.L. 104-193) established comprehensive restrictions on the eligibility of noncitizens, especially unauthorized aliens, for federal public benefits. Can you please tell us whether this law is being applied to the emergency rental assistance program, and if not, why not?

- **Answer: In the Emergency Rental Assistance program, Treasury does not provide assistance to landlords, utility providers, or tenants but rather, as directed by the Consolidated Appropriations Act of 2021 and the American Rescue Plan Act, has made payments to states and local governments to establish and administer their own assistance programs. Treasury has issued guidance for these recipients regarding the eligibility of households for assistance under those statutes.**

Restaurant Revitalization Fund

7. Does the Administration support the replenishment of the Restaurant Revitalization Fund? And, if so, by how much?

- **Answer: The Biden-Harris Administration has made supporting small businesses, including small restaurants, a top priority. The Restaurant Revitalization Fund, a \$28.6 billion program to aid food and drink establishments, which was established by the American Rescue Plan Act of 2021, is a program administered by the Small Business Administration. As Small Business Administration Administrator Isabel Guzman has noted, the program closed in July 2021 after awarding the funds allocated by Congress.**

Taxes

8. What will be the impact on the economy of the Biden tax increases to pay for the new wave in social spending?

- **Answer: Build Back Better will help grow our economy by allowing more American parents to go to work, tackling climate change, and strengthening our workforce. In short, Build Back Better helps increase economic potential, lowering price pressures in the medium-term. The tax provisions guarantee that we do this in a fiscally**

responsible way and ensure the wealthiest Americans pay what is legally owed and will end a destructive race to the bottom in the taxation of multinational corporations.

9. What does your research show will be the impact of the increase in corporate tax rates on investment in the United States, investment that will be lost to other countries and associated job losses?

- **Answer: The proposed corporate tax changes should improve the environment for U.S. job creation in three ways. First, countries compete on fundamentals, based on the strength of their institutions, the knowledge and abilities of their workers, the soundness and modernity of their infrastructure, and their ability to foster innovation and entrepreneurship. These tax proposals put the U.S. fiscal system on sounder footing, enabling investments in education, research, climate change mitigation, and infrastructure.**

Second, the U.S. should be a competitive place for U.S. companies to locate business activity and profits, and U.S. companies decide where to locate business activities and profits in part based on tax incentives. The proposed international tax provisions greatly reduce the tax advantage of foreign income relative to domestic income. Under current law, foreign income is tax-advantaged relative to domestic income due to both the 10% QBAI exemption and the 50% deduction.

Third, U.S. companies compete with foreign companies, often through global merger and acquisition bids. Presently, there is no bottom on foreign tax rates, and U.S. companies facing a 10.5% GILTI contend with foreign companies that may pay no tax whatsoever on foreign income. In contrast, a once-in-a-generation agreement on international taxation will ensure that foreign multinational companies pay at least 15% on their foreign income, bringing the tax treatment of U.S. companies, even with a higher GILTI rate, much closer to that of the tax treatment faced by foreign companies relative to current law.

Finally, these tax reforms would also lower the tax advantages of major multinational companies relative to smaller U.S. businesses, who often pay tax at a rate that is much closer to the statutory rate.

10. If President Kennedy could say that low corporate tax rates and capital gains taxes would stimulate economic growth, what changed in the Biden Administration?

- **Answer: Current tax rates are a long way away from those in the Kennedy era and it is misleading to draw any equivalence. The tax provisions in Build Back Better ensure that the wealthiest Americans pay what is legally owed and end a damaging race to the bottom in the taxation of multinational companies. The challenges facing our economy today – high income inequality, lack of affordable childcare and housing, and climate change – are not solved by further reductions in corporate taxation. The Biden Administration's agenda is targeted to tackling these issues to ensure strong growth in the coming years and decades.**

11. What do you have to say to the children of farmers who may be forced to sell their family's farms because you want to increase the size of inheritance subject to taxes?

- **Answer: The Administration has not proposed changes to the existing estate tax rates or exemption limits. Nor does the Build Back Better draft legislation propose to change the estate tax rules.**

Climate Change

12. The Administration's climate change plan would boost electric vehicles. What do your studies show about the energy requirements for fueling these vehicles, how will the electricity be generated, and what will be the impact on greenhouse gas emissions from generating this electricity?

- **Answer: The electricity will be generated by the resources that connect to the regional electricity grid where the vehicles are charged. Notably, emissions from the nation's power system have been consistently falling over recent years and are expected to fall further over the lifetime of these electric vehicles. Early Department of Energy estimates show that an electric vehicle was responsible for one-third as much emissions as gasoline-powered one. Given improvements in vehicle efficiency and increased penetration of renewable energy, the proportion is even lower today.⁴**

13. Is the government better able to assess the financial risk associated with climate change than private sector firms and others closer to the economic activities involved?

- **Answer: The government has a critical role in assessing climate-related financial risks and acting in ensuring the resilience of the financial system to such risks. As part of its assessment of risk, it will be important for the government to work closely with the private sector. In its October 2021 report, the Financial Stability Oversight Council recommended that Council members should work together, and where possible, in concert with climate experts across the government and the private sector, to develop tools to assess financial risk associated with climate change. While it will be important for regulators and the private sector to both develop a range of tools as they assess climate-related financial risks and financial stability, the Council identifies scenario analysis as a useful tool that has already been deployed within the private sector to assess climate-related financial risk. The Council recommends that its member agencies use scenario analysis, where appropriate, as a tool for assessing climate-related financial risks, considering their supervisory and regulatory mandates and the size, complexity, and activities of regulated entities. FSOC members may execute this recommendation in a variety of ways, linked to different goals and mandates. To develop and use scenario analysis most effectively to understand the effects of climate related financial risks on financial stability, Council members will benefit from coordination amongst themselves, external experts, and their international counterparts. As also outlined in the FSOC's climate report, the Council will form a Climate-related Financial Risk Advisory Committee**

⁴ See "[Emissions from Hybrid and Plug-In Electric Vehicles](#)" from Department of Energy's Alternative Fuels Data Center.

(CFRAC) that will be composed of climate science experts and members of academia, the financial services industry, commercial businesses as well as other key stakeholders.

Treasury has a demonstrated history of compliance with applicable federal requirements to consider the costs and benefits of the Department's activities. Treasury is generally subject to the requirements of Executive Order 12866, which among other things, sets forth principles for federal agency rulemaking, including that federal agencies assess both the costs and the benefits of an intended regulation and, recognizing that some costs and benefits are difficult to quantify, propose or adopt regulation only upon a reasoned determination that the benefits of the intended regulation justify its costs.

14. Will the Administration evaluate the risk associated with renewable energy sources like we saw last winter in Texas in assessing whether to adopt such measures?

- **Answer: No energy source is perfectly reliable, so we need to think proactively about increasing reliability from the grid as a whole. For instance, in Texas's outages last February, 55% of unplanned outages were from natural gas, 22% from wind, and 18% from coal.⁵ The IIJA provides significant funding for grid resilience and transmission. Additional transmission leads to a more robust grid, as afflicted areas can import power from other regions. We saw this in Texas, where parts of the state that aren't isolated on the ERCOT grid were able to import power and largely avoid outages.⁶**

⁵ See FERC's "[February 2021 Cold Weather Grid Operations: Preliminary Findings and Recommendations - PPT Version](#)" slide 6.

⁶ Texas Tribune, Feb 18, 2021 "[You might have heard that Texas has its own power grid. Did you know not all parts of the state use it?](#)"

Rep. French Hill (R-AR-02)IMF Special Drawing Rights

1. Secretary Yellen, I was relieved to see that the Treasury Department moved to prevent the International Monetary Fund (IMF) from allowing the Taliban-led regime in Afghanistan to access an estimated \$450 million in Special Drawing Rights (SDRs). As you know, your actions were in response to an August 17, 2021 letter from myself and 17 House Republicans urging you to intervene at the IMF. While I applaud you for your actions, long-standing issues with SDRs remain, and the IMF and Treasury must do more. As the U.S. representative on the IMF's governing board, you have considerable leverage to push for commonsense changes to SDRs, like which countries are eligible to receive these funds. Please provide specific steps on the measures you will take, as Treasury Secretary, to ensure that IMF funds from the next SDR allocation, which should be dedicated to the poorest countries and those most in need, will not be made available to wealthy nations, authoritarian regimes, and state sponsors of terror.
 - **Answer: IMF Special Drawing Rights are international reserve assets that are allocated to IMF members to address global liquidity needs. Based on current global liquidity conditions, Treasury does not support an additional SDR allocation beyond the August allocation of \$650 billion. Treasury will only consider an additional allocation in the future if circumstances justify it at that time. The recent SDR allocation has already generated substantial benefits for vulnerable countries: since the August allocation, low-income and lower-middle-income countries have used nearly \$4 billion in SDRs to service IMF obligations and to access hard currency liquidity, which can be used to ease foreign exchange constraints in member economies and to support critical spending priorities to fight the pandemic and limit economic scarring. We are looking to further enhance the effectiveness of the SDR allocation by creating avenues for major economies to channel some of their SDRs to countries in need through IMF trust funds, including the Poverty Reduction and Growth Trust and the proposed Resilience and Sustainability Trust. Treasury has requested authorization to lend up to 15 billion SDRs for this purpose.**

WilmerHale World Bank report

2. Secretary Yellen, the law firm WilmerHale released an investigative report last month that concluded Kristalina Georgieva, current Managing Director of the IMF, pressured staff to manipulate the 2018 Doing Business Report to favor China while she was serving as CEO of the World Bank. Is Treasury conducting its own review of the WilmerHale report? If the findings are true, what steps will you be taking to remove Kristalina Georgieva from her position as Managing Director of the IMF?
 - **Answer: Our primary goal in this area is to maintain and bolster the credibility and trustworthiness of the international financial institutions and prevent their misuse. The United States pressed for a thorough process at the IMF Executive Board to evaluate the findings in the WilmerHale report, which included discussions with both WilmerHale and the Managing Director. Following that process, we have made clear that, in our view, there is not currently a basis for a change in IMF leadership absent further direct evidence of wrongdoing. We agree, however, that the findings**

of the WilmerHale report are concerning. In light of these findings, Treasury staff will continue working closely with World Bank and IMF leadership as well as the U.S. Executive Directors' Offices at both institutions to better identify potential institutional weaknesses and to improve mechanisms to support transparency and accountability, including from their leaders. We will continue to closely monitor any new facts or findings and act as appropriate to uphold high standards of integrity at both institutions.

Emergency Rental Assistance Program

3. Secretary Yellen, Treasury's rollout of the Emergency Rental Assistance Program (ERAP) has been an undeniable failure. The ERAP places additional and burdensome conditions on property owners. These requirements disincentivize property owners from participating in the ERAP and slowing the disbursement of aid to the renters who need it the most. What can be done to better incentivize property owners to participate in the program?
 - **Answer: As of September 30, 2021, the Emergency Rental Assistance Program had delivered more than two million payments to support the housing stability of low-income renters across the country and the program is on track to be fully utilized by the Congressionally established end date of September 2022. Since the end of the federal eviction moratorium, levels of evictions remain substantially below pre-pandemic levels. While Congress established the Emergency Rental Assistance Program primarily to benefit low-income tenants, we are pleased that it has been critical for stabilizing the financial position of hundreds of thousands of landlords who are providing much needed housing to low-income tenants. Additionally, Treasury has released through its FAQs best practices for its state grantees to implement. These include multiple suggestions to ease burdens for property owners, like allowing for bulk applications and bulk payments that can be made, in part, prior to a full evaluation of said applications, in good faith. As part of Treasury's recapture process, we are encouraging slow spending grantees to implement these best practices and others.**

Treasury Sanctions Review

4. Secretary Yellen, Congress plays an important part of U.S. sanctions policy. The Biden Administration's blatant disregard for the law and continued failure to implement the Nord Stream II sanctions demonstrates why Treasury must not be allowed to unilaterally determine U.S. sanctions policy. During your Senate confirmation hearing earlier this month, you committed to completing a full review of all current Treasury sanctions in order to ensure U.S. sanctions are achieving their stated objectives while avoiding unintended consequences. Please provide a written report to the House Financial Services Committee within 60 days on the status of this critical review and what, if any, changes you intend to make to U.S. sanctions policy.
 - **Answer: Sanctions are a critical tool to advance our national security and U.S. interests. Sanctions policy in this administration continues to be determined through robust interagency coordination. Treasury's sanctions review has shown that this powerful instrument continues to deliver results but also faces new challenges: possible challenges associated with new payments systems, the growing use of digital**

assets, and situations where careful calibration is needed to help ensure that sanctions do not inhibit the flow of legitimate humanitarian aid through transparent channels. To enhance our sanctions and ensure they remain a critical tool of U.S. foreign policy, the review recommends:

- i. Adopting a structured policy framework
- ii. Renewing our commitment to multilateralism
- iii. Calibrating sanctions to mitigate unintended impact
- iv. Ensuring sanctions are easily understood, enforceable, and adaptable; and
- v. Investing in modernizing our sanctions technology, workforce, and infrastructure

Some of these recommendations can be implemented by internal policy or procedural changes, while others will require further deliberation and analysis. In many cases, the support of key partners, such as Congress, will be critical.

We look forward to working with Congress and our interagency partners to safeguard this critical tool and taking the steps we need to preserve and enhance our sanctions for the future.

Global Minimum Tax

5. Secretary Yellen, Treasury is leading efforts at the OECD to negotiate a global minimum tax of 15 percent, commonly referred to as Pillar One. As you are aware, any changes to tax treaties require a two-thirds majority vote in the Senate in order to be ratified. Please provide an update regarding the status of these negotiations, what Treasury will be formally advocating for at the G20 Rome Summit on October 2021, and specifically what steps you anticipate will be necessary to have Congress adopt a global minimum tax.

- **Answer: 137 jurisdictions, representing nearly 95% of the world's GDP, have recently agreed to a new framework for international taxation. In this once-in-a-century accomplishment of economic diplomacy, these countries agreed to adopt a global corporate minimum tax on foreign earnings, thus ending the race to the bottom on corporate tax rates and levelling the playing field between U.S. and foreign companies. These countries also agreed to a new taxing right, which recognizes that the old international tax rules, where corporations only pay tax in countries where they have a physical presence, do not reflect the modern digital economy. Progress is being made in Congress to strengthen GILTI in the pending Build Back Better legislation to align with the new global minimum tax. At a 15% rate, the legislation that passed the House would ensure that the new country by country minimum tax system is aligned with Pillar Two and the commitments undertaken by the members of the Inclusive Framework. The OECD agreement commits countries to do implement the model rules of Pillar Two in 2022, with the rules coming into force in 2023, just like the House draft legislation brings the GILTI changes into effect in 2023.**

Homeowner Assistance Fund

6. Secretary Yellen, as the Homeowner Assistance Fund begins to review state plans, how is Treasury working with the states and the Consumer Financial Protection Bureau to ensure there is consistent and coordinated guidance for borrowers, servicers, and program administrators? What is the expectation for servicers when Treasury's and state programmatic rules conflict with CFPB's expectations for borrower outreach? Will the CFPB be providing a safe harbor for following state and Treasury guidance?

- **Answer: Treasury is well into the review of HAF Plans from States, territories and Tribes and has already approved plans from both states and tribes. Treasury has provided consistent guidance and feedback to states and tribes with regard to the utilization of HAF Funds. Treasury has coordinated regularly with federal partners, including the CFPB, to ensure that HAF is one important element of a whole of government approach to protecting vulnerable homeowners.**

Rep. Tom Emmer (R-MN-06)

1. Statements made from proponents on the plan to require financial institutions to report data to the IRS on the inflows and outflows of any account valued at \$600 or more, including you, Secretary Yellen, say that banks and credit unions will minimize costs because they already convey this information related to interest income. However, banks tell us there is no existing reporting structure to build upon for many of the types of financial accounts included in the proposal. For example, certain reporting now is within interest-bearing account systems that are totally separate from other systems the proposal includes. These and other systems don't include any yearly calculations related to any activity except for interest income.
 - a. With that in mind, do you think the costs of this proposal have really been assessed?
 - **Answer: The bank reporting proposal was designed to minimize any costs for financial institutions associated with providing this information to the IRS. Our hope is financial institutions will be our good governance partners in ensuring there is a tax system that is equitable, efficient, and effective—where everyone pays their fair share, and their customers are not disadvantaged by others who skirt tax laws. Importantly, this proposal was designed with potential concerns of community banks in mind. The Administration is seeking ways to reduce any new burden on financial institutions associated with this reporting requirement. Further, in order to ensure that this reporting regime is comprehensive—and that community banks are not at a competitive disadvantage, this requirement extends to payment services providers as well.**
 - b. How long do you think tax preparers and CPAs will now take in assessing this new information provided to them? Is the cost to understand and reconcile this information built in within your estimates? Won't it be small businesses that will be hit with such costs, even though the Administration claims to be targeting the top 1% of earners?
 - **Answer: Please see the previous answer for some useful context. In addition, compliant taxpayers would not have to use this information at all. They would report their taxes as usual, and they will face lower audit probabilities if the IRS has access to information that allows them to better target audits toward those evading tax.**
2. We understand that it is your belief that significant investments in the IRS will modernize the agency and assist in shrinking the tax gap. That said, we understand that any significant additional funding that is approved will take several years to deploy technology, train personnel, and develop significant audit programs for sophisticated tax topics.
 - a. Can you help us understand the logic of requiring significant amounts of new information right now when the IRS is not able to effectively use the information it currently receives? Why recommend something like this now?
 - **Answer: The purpose of information reports is to provide a lens into previously opaque income streams. IRS can use new information to better**

understand when there are differences between taxpayers' reported financial positions and their true ones. Imagine a taxpayer who reports \$100K in income to the IRS but has \$1 million of inflows and outflows. There may be a benign explanation for this—but it's something the IRS can prioritize looking into in its audit selection. It's also important to emphasize the flip side here: today when the IRS audits those who accrue income in opaque ways, like proprietorships, it is essentially shooting in the dark. It has no way of trying to disentangle compliant taxpayers from those who are not. This is a piece of evidence that the IRS can usefully deploy in that inquiry. So honest small business owners, for example, will hugely benefit from this reporting regime, because their chances of a costly and burdensome audit will be decreased once the IRS has a lens into these income streams.

Imperative to the efficacy of this new regime will be giving the IRS resources to implement it. For reporting to be most useful, the IRS needs the funding to understand and process the information it receives.

It is also important to emphasize that giving the IRS the resources it needs to overhaul its technological infrastructure will be hugely valuable in providing the IRS the capacity to best deploy this new information in its enforcement activities—but also the information that it already collects.

3. Over the past several years, banks and community development financial institutions have had significant outreach to under-banked and non-banked citizens to get them within the regulated financial system. Right or wrong, one of the reasons for citizens not participating in the banking system is that they often do not trust banks or the government because of various concerns, including governmental respect for privacy of information and security.
 - a. Have you and your team heard these concerns, and if so, how would you address them? What additional efforts will be needed in this respect?

- **Answer: The Administration has designed these proposals with taxpayer privacy concerns front of mind. That is why, as opposed to other compliance proposals that have been advocated by outside actors, in the Administration's framework, information is flowing only one way—from financial institutions to the IRS, as is the case with existing information reports. Further, the proposal includes significant resources to protect taxpayer information more broadly, giving the IRS the resources it needs to invest in overhauling antiquated technology and meet threats to the security of the tax system, like the 1.4 billion cyberattacks the IRS experiences annually.**

Low-income, minority taxpayers are today disadvantaged by a tax system that requires ordinary wage-earners pay their fair share; whereas wealthy taxpayers have significant opportunities to skirt tax laws. The President's proposals will address the informational asymmetry that contributes to this two-tiered tax system.

Rather than be burdened by a new reporting regime, compliant taxpayers will benefit from it: When the IRS determines who to audit today, it is essentially shooting in the dark, since it has no lens into opaque income streams that allow it to ascertain which taxpayers may be skirting their tax liabilities—and which taxpayers are fully compliant. Honest small business owners—who are the vast majority—will benefit from the IRS’s ability to better target enforcement actions against those who are evading their tax obligations.

4. You and IRS representatives have referred to addressing “opaque sources of income” when referring to the new bank account inflow and outflow information. With that in mind, the American Rescue Act greatly decreased the de minimus amount to report a summary of credit, debit, and third-party transactions. This is reporting to the IRS by payment companies and third-party payment networks – not by banks. By dropping the de minimus from \$20,000 per year to \$600 per year, this should significantly increase the amount of information that the IRS receives. The JCT estimated that the new information would bring in \$8.4 billion over ten years.
 - a. Now we are hearing that \$200 billion to \$460 billion in additional revenue will be raised by now reporting additional inflows and outflows? Considering a huge amount of business revenue is coming in from credit and debit cards, does the \$400 billion make sense? Isn’t the vast majority of business revenue now going to be subject to reporting?
 - **Answer: The revenue estimate associated with any narrow financial reporting proposal is going to be miniscule relative to the amounts estimated to be raised from a comprehensive regime, so revenue potential depends on the regime. For a full discussion of related revenue issues, see pages 4-7 of this letter: https://home.treasury.gov/system/files/136/Yellen_Neal_Congressional_Budget.pdf**
5. IRS staff indicate comparing the total revenue reported on a tax return to the bank account inflows that are proposed to be on the newly reported 1099. However, many small businesses, including contractors and handymen, buy and install their materials for the benefit of their clients. They go to Home Depot and Lowes, buy kitchen cabinets and pass those costs on to their customers. They earn a profit on these materials and services which will differ from the inflows shown in their financial accounts.
 - a. As a result, won’t these returns be more likely subject to audit under this kind of thinking? Will the IRS be sophisticated enough to identify flows in the tax return details?
 - **Answer: Imperative to the efficacy of this new regime will be giving the IRS resources to implement it. For reporting to be most useful, the IRS needs the funding to understand and process the information it receives.**

It is also important to emphasize that giving the IRS the resources it needs to overhaul its technological infrastructure will be hugely valuable in providing the IRS the capacity to best deploy this new information in its enforcement activities—but also the information that it already collects.

With time and experience, the IRS can use updated technology and additional staff to find patterns in data that are indicative of tax evasion, targeting their audits more efficiently and saving compliant taxpayers from costly and burdensome audits in the process.

- b. Are these the kinds of businesses of the top 1% of earners that are supposedly targeted by the proposal?

- **Answer: The President's proposals are about giving the IRS the resources that it needs to pursue high-end evasion, and audit rates will not rise relative to recent years for those with less than \$400,000 in actual income.**

This focus is justified by the composition of the tax gap, which accrues disproportionately to those at the top who accrue income in opaque categories like partnership and proprietorship income, where misreporting rates are high.

6. When Congress passed the FATCA (the Foreign Account Tax Compliance Act) in 2010, it was expecting that such additional reporting would result in many billions of dollars in additional tax receipts. However, we are also hearing that because of the antiquated systems at the IRS, the IRS might not be able to process the FATCA information.

- a. How much additional revenue is being collected by FATCA? Does this contribute to the estimates provided by the tax gap people? How is FATCA information being used?

- **Answer: The IRS Civil and Criminal Divisions utilize FATCA information to address non-compliance of both foreign financial institutions (FFIs) and U.S. individuals with accounts abroad through a variety of workstreams. For example, the IRS Large Business & International (LB&I) Division has campaigns that compare the FATCA filings of FFIs and U.S. individuals to identify non-filers and those who do not report accounts held abroad. The FATCA information is also used to evaluate compliance by FFIs with FATCA certification.**

When FATCA was adopted, revenues were projected to top \$8.5 billion over the budget window. FATCA revenues are not measured directly, but independent revenue calculations suggest that revenues may be in excess of the original revenue projections. Research findings point to significant declines in worldwide equity investment out of financial accounts in tax havens post-FATCA, which is consistent with a decrease in offshore tax evasion by U.S. investors after FATCA implementation (DeSimone et al. 2019). The authors of this study estimated potential annual revenues from FATCA of \$1.3 billion to \$3.6 billion per year if declines in tax haven equity investments post-FATCA are associated with increased U.S. taxation of income from such investments. However, the authors' analysis suggest that some investors may have substituted from equity investments into non-

financial assets not reportable under FATCA, which would mute the increased revenues from FATCA.

- b. Shouldn't the focus on FATCA take precedence over other projects if you are trying to address the top 1% of earners?

- **Answer: There are various efforts underway to address high income individuals, including utilizing information reporting in identifying noncompliance and a robust examination effort. However, U.S. individuals with FATCA reporting obligations do not necessarily equate to high income or high wealth individuals given the FATCA reporting thresholds.**

