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

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

Tuesday, June 30, 2020

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

The committee met, pursuant to notice, at 12:45 p.m., in CVC-200, Congressional Auditorium, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Maloney, Velazquez, Sherman, Meeks, Clay, Scott, Green, Cleaver, Perlmutter, Himes, Foster, Beatty, Heck, Vargas, Gottheimer, Gonzalez of Texas, Lawson, San Nicolas, Tlaib, Porter, Axne, Casten, McAdams, Ocasio-Cortez, Wexton, Gabbard, Adams, Dean, Garcia of Illinois, Garcia of Texas; McHenry, Wagner, Lucas, Posey, Luetkemeyer, Huizenga, Stivers, Barr, Tipton, Williams, Hill, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Hollingsworth, Gonzalez of Ohio, Rose, Steil, Gooden, Riggleman, Timmons, and Taylor.

Chairwoman WATERS. The Financial Services Committee will come to order. First, I want to thank Secretary Mnuchin and Chair Powell for your patience while we wrapped up our votes. I appreciate that there may be a vote called during the hearing as well; however, I plan to continue the hearing if votes are called. I am told by my staff that both of you have agreed to be here for 2 hours from the start of the hearing, and I thank you.

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

I want to welcome the Members and our distinguished witnesses to the first Full Committee hybrid hearing being conducted by the Committee on Financial Services. As Congress breaks new ground with these remote hearings, I want to remind Members of a few matters, including some required by the regulations accompanying H. Res. 965, which established the framework for remote and hybrid committee proceedings.

First, I would ask all Members on the Webex platform to keep themselves muted when they are not being recognized. This will minimize disturbances while Members are asking questions of our witnesses. Members on the Webex platform are responsible for muting and unmuting themselves. The staff have been instructed not to mute Members except when they are not not being recognized by the Chair, and there is inadvertent background noise. Members on the Webex platform are reminded they may only at-tend one remote hearing at a time, so if you are participating today, please remain with us during the hearing. Members should try to avoid coming in and out of the hearing, particularly during the question period. If, during the hearing, Members wish to be recognized, the Chair recommends that Members identify themselves by name so as to facilitate the Chair's recognition.

I would also ask that Members be patient as the Chair proceeds, given the nature of the online platform the committee is using. In addition, the Chair informs the Members participating in person that in enforcing order and decorum in the hearing room, the Chair has a duty to protect the safety of the Members. The attending physician provided the following guidance: "For U.S. House of Representatives meetings in a limited enclosed space, such as a committee hearing room, for greater than 15 minutes, face coverings are required."

Accordingly, the Chair will treat wearing masks as a matter of order and decorum, and all Members should wear masks. The Chair has a strong preference for Members to continue to wear a mask, even while being recognized by the Chair. Members who do not wish to wear masks may participate virtually through the Webex platform.

Before proceeding to the hearing, I have one committee business matter. Without objection, two resolutions, distributed in advance to all Members' offices establishing committee task forces for the remainder of 2020, are approved.

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

I would like to inform Members that our witnesses have a hard stop today at 2:00.

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

Secretary Mnuchin, Chair Powell, welcome back. The pandemic continues to have a terrible impact. More than 126,000 people have lost their lives in the United States, and, this past Sunday, there were 40,000 new cases of COVID-19, the highest number of daily cases. And the unemployment rate in May was 13.3 percent, nearly 4 times higher than it was last May. All of the job gains of the past decade have been wiped out.

Communities of color have been affected disproportionately both by the virus and its economic impact. The Centers for Disease Control reports that Jewish, Black, and Latinx Americans are 4 to 5 times more likely than Whites to be hospitalized for COVID-19, and half of all Black adults are not working. During the 2008 foreclosure crisis, we saw a similarly disproportionate impact on communities of color. This was followed by an unequal recovery where White households gained the wealth they lost, and Black and Brown households are still trying to catch up. We cannot endure another unequal crisis or unequal recovery. Your agencies and Congress must do all that we can to ensure that history does not repeat itself.

I want to thank both of you for your efforts thus far, and for the ways that you have worked with me and the members of this committee, including taking my many calls to strengthen the implementation of the CARES Act.

Secretary Mnuchin, you have used your authority to provide Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) greater access to the Paycheck Protection Program (PPP), including by setting aside $10 billion for them to lend to ensure that more loans go to small, minority-owned businesses.

Chairman Powell, you have worked with us to reduce the minimum loan size at the Main Street Lending Facility from $1 million to $250,000, and to extend the length of the loans. You have also expanded eligibility of the Municipal Liquidity Facility to increase access to a greater number of cities and towns.

The CARES Act has provided important relief to struggling families and communities, but as the pandemic has strengthened, so must our efforts.

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

Mr. MCHENRY. Thank you. Thank you all for being before the committee and behind the salad guards that we have arranged for you. It's good to see your smiling faces behind your masks, but I am grateful that we are able to assemble. This is certainly a large undertaking for the second-largest committee in Congress, and I do want to commend the chairwoman for these efforts so that we could actually have this hybrid hearing. I think it shows that Congress and our government are still working, even if we have to do so using technology. Thank you all for your response and your active response since this crisis began.

I want to say, first of all, I believe that the Fed's and Treasury's decisive actions prevented the worst of the economic catastrophe, but there is still much work to be done. It is important to remember this is not a crisis that was caused by irresponsible choices by any specific industry or corporation. What we have seen is the impact of a voluntary shutdown of our economy in an effort to save lives. The bipartisan CARES Act directed both the Treasury Department and the Federal Reserve to stand up responsible programs that would have been unthinkable even months ago, and to do so quickly, and you have done so rather quickly.

Now that many of these programs are up and running, we must be forward-thinking to seek solutions to return us to the roaring economy that we experienced right before the global health crisis. That means we need to understand the nature of what we have done and what we need to do going forward. We know the pandemic has touched nearly every aspect of our economy and every family. Facilities discussed today need to be similarly far-reaching and responsive to economic conditions, not political ones. And I know there are a number of programs that have been desired by policymakers to be company-specific or something like that, but that is not the appropriate response nor commensurate with the law.

Moreover, Members are going to have a lot of questions about fiscal policy, which I think Secretary Mnuchin is best fitted to, and monetary policy, which Chairman Powell is best suited to. And I think the understanding of that is important for us as policymakers to experience at the beginning of this hearing rather than to hear you defer to one another. Our role in Congress is to assess the effectiveness of existing programs, determine the goals for additional relief programs, and identify the appropriate entity to provide that relief. That is our role.

Of course, we need to access the key programmatic data, and so I want to commend Secretary Mnuchin for coming forward with this type of oversight material in a massive, unprecedented way, with the type of low-level data that we requested in Congress, and to provide that in a transparent way. The thousands of pages of documents that you and your team have assembled for just this committee alone is staggering in such a short period of time. I hope my colleagues will use this data appropriately so that we can assess these programs and make sure they are working.

I do want to commend you, Secretary Mnuchin, for the delivery of the PPP program so effectively and so quickly. It wasn't perfect, of course, but it saved millions of jobs. And Chairman Powell, I want to commend you. You have made your words good in terms of action, and that builds confidence in the institution of the Federal Reserve, that your words actually are as good as action by the Federal Reserve. So, thank you for following through on your word and your commitment. I think there is positive news in terms of the assessment for this initial response, and I want to thank you for being here at the first quarterly oversight hearing under the CARES Act.

Madam Chairwoman, on a personal note, I would like to welcome back our friend and colleague, the ranking member of the Oversight Subcommittee, Andy Barr, from his family concerns he has been attending to. So, thank you, Andy. We welcome you back.

I yield back.

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

Mr. GREEN. Thank you, Madam Chairwoman. And I thank everyone. It is an honor to serve under your leadership, Madam Chairwoman.

The 2019 Home Mortgage Disclosure Act (HMDA) data were released last week and demonstrate that unequal access to credit on the basis of race and ethnicity remains the norm in America today. This is something that we can do something about, but there is a problem. Many of the people who have the authority and who are in positions to make a difference refuse to even acknowledge that the problem exists. I have the evidence. I have pictures from prior hearings. The one to my right asks, "Do you believe that discrimination in lending exists?" One person has his hand up. He is with the NAACP. He is African American. The four Anglo persons on this panel refused to raise their hands. These are the problems that we have to contend with. I yield back the balance of my time.

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

Mr. BARR. Madam Chairwoman, before I deliver my opening statement, I rise to ask a question of personal privilege.

Chairwoman WATERS. Without objection, certainly.

Mr. BARR. Thank you, Madam Chairwoman. As you know, 2 weeks ago, I lost my wife unexpectedly to a heart condition, and I want to express my sincere appreciation to you, Madam Chairwoman, Ranking Member McHenry, and to all of my colleagues on this committee on both sides of the aisle for the outpouring of prayers and expressions of sympathy for Carol and her greatest legacy, our two daughters. Your friendship and kindness during this difficult time for me and my family means so much, and I thank all of you.

Chairwoman WATERS. Thank you very much, Mr. Barr, and now you may take 1 minute if you would like—

Mr. BARR. Thank you.

Chairwoman WATERS. —on the subject that is before us today.

Mr. BARR. Thank you. And thank you, Secretary Mnuchin and Chairman Powell, for appearing before the committee today and for your continued efforts to ameliorate the effects of the government-imposed shutdown of the economy arising out of the pandemic. Congress acted decisively through the passage of the CARES Act and other legislation to mitigate the damage to the economy, and keep people employed and businesses strong to ensure that the economy can emerge on the other side in a position for long-term growth. Congress directed the Fed and Treasury to play a critical role in the response, and throughout, you both have been decisive and aggressive in using the tools at your disposal and been incredibly responsive to congressional concerns. You have made appropriate adjustments, each of you personally, and there are elements of Treasury's and the Fed's responses to the pandemic that could still be improved or adjusted to honor congressional intent. I look forward to talking to you about those today, including and especially in commercial real estate. I look forward to discussing that today. And, again, thank you, both of you, for being here today. I yield back.

Chairwoman WATERS. Thank you, Mr. Barr. I want to welcome today's witnesses. First, we have Steven T. Mnuchin, Secretary of the Treasury. He has served in this current position since 2017. Mr. Mnuchin has testified before the committee on previous occasions, and I do not believe he needs any further introduction.

Next, we have Jerome Powell, Chair of the Board of Governors of the Federal Reserve System. Mr. Powell has served on the Board of Governors since 2012, and as its Chair since 2017. Mr. Powell has testified before the committee on previous occasions, and I do not believe he needs any further introduction.

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

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

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

Secretary MNUCHIN. Thank you very much, and, Mr. Barr, let me express my condolences for your loss.

Chairwoman Waters, Ranking Member McHenry, and members of the committee, I am pleased to join you today to discuss how the Treasury Department and the Federal Reserve are working together to provide liquidity to credit markets, businesses, and households, as well as State and municipal governments. We remain committed to making sure that every American gets back to work as quickly as possible.

America's economy continues to recover from the challenges posed by the COVID-19 pandemic. The jobs report for the month of May vastly exceeded expectations with a record gain of 2½ million jobs after experts had predicted a loss of nearly 8 million jobs. While the unemployment rate is still historically high, we are seeing additional signs that conditions will improve significantly in the 3rd and 4th quarters of this year.

The "Blue Chip Report" is forecasting that our GDP will grow by 17 percent annualized in the 3rd quarter and by 9 percent in the 4th quarter. The U.S. Chamber of Commerce reported this month that 79 percent of small businesses are at least partially open, and half of the remaining businesses are opening very soon. Retail sales rose in May by 18 percent, more than double the expectation. Investors and businesses have historically high cash positions, the highest level since 1992, indicating that private capital is ready to return as communities reopen.

We are in a strong position to recover because the Administration worked with Congress on a bipartisan basis to pass legislation and provide liquidity to markets in record time. In particular, the PPP is keeping tens of millions of employees connected to their jobs. Economic impact payments are also helping millions of families and workers through these challenging months. We are monitoring economic conditions closely. Certain industries, such as construction, are recovering quickly, while others, such as retail and travel, are facing longer impacts and may require additional relief. We look forward to continued conversations with you to address these critical economic issues.

Treasury has been hard at work implementing the CARES Act Program. The PPP: we have approved over 4.8 million small business loans for $519 billion. Economic impact payments: we distributed nearly 160 payments in record time. Programs to support aviation and other eligible businesses: we have approved and dispersed over $27 billion to over 500 airlines and other aviation businesses, preserving hundreds of thousands of jobs. We are in the process of documenting loans to business and critical national security for approximately $25 billion. The Coronavirus Relief Fund: from this fund, we have distributed $150 billion across States and local governments and additional money to tribal governments.

The CARES Act granted Treasury the authority to provide $454 billion to support Federal Reserve Lending Facilities under Section 13.3. Since March 17th, using funds available, I have approved a number of Federal Reserve programs: the Commercial Paper Program; the Primary Dealer Program; the Money Market Mutual

Program; the TALF; the Primary Market Corporate Credit Facility; the Secondary Facility; the Main Street Facility; the Municipal Facility; and the PPP Lending Facility. We have committed approximately $200 billion to support these. The announcements of these programs have helped unlock markets and promote much-needed access to liquidity. We have over $250 billion to create or expand programs as needed.

While we are beginning to have conversations about supplemental relief legislation, we look forward to working with Congress on a bipartisan basis in July on any other further legislation that will be necessary. Treasury has already been entrusted with a tremendous amount of funding to inject into the economy. We are closely monitoring these results and seeing conditions improve. We would anticipate that any additional relief would be targeted to certain industries that have been especially hard hit by the pandemic, with a focus on jobs and putting all Americans back to work who have lost their jobs through no fault of their own.

The Treasury Department is implementing the CARES Act with transparency and accountability. We are providing information to the government-wide reporting on USAspending and updates to Congress. We are also cooperating with the congressional oversight committee, GAO, and others. We are pleased that the Federal Reserve has announced plans to boost loan information on its website regarding its facilities. Chair Powell and I have had very productive initial meetings with four members of the Oversight Committee, and we look forward to continuing to work with them. Thank you very much.

[The prepared statement of Secretary Mnuchin can be found on page 38 of the appendix.]

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

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

Mr. POWELL. Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity to testify today to discuss the extraordinary challenges our nation is facing and the steps we are taking to address them.

We meet as the pandemic continues to cause tremendous hardship, taking lives and livelihoods both at home and around the world. This is a global public health crisis, and we remain grateful to our healthcare professionals for delivering the most important response, and to our essential workers who help us meet our daily needs. These dedicated people put themselves at risk day after day in service to others and to our country.

Beginning in March, the virus and the forceful measures taken to control its spread induced a sharp decline in economic activity and a surge in job losses. As the economy reopens, incoming data are beginning to reflect a resumption of economic activity. Many businesses are opening their doors, hiring is picking up, and spending is increasing. The economy has entered an important new phase and has done so sooner than expected.

While this bounce-back in economic activity is welcome, it also presents new challenges, notably the need to keep the virus in check. While recent economic data offers some positive signs, we are keeping in mind that more than 20 million Americans have lost their jobs and that the pain has not been evenly spread. The rise in joblessness has been especially severe for lower-wage workers, for women, and for African Americans and Hispanics. This reversal of economic fortune has caused a level of pain that is hard to capture in words as lives are upended amid great uncertainty about the future. The path forward for the economy remains extraordinarily uncertain and will depend, in large part, on our success in containing the virus. A full recovery is unlikely to occur until people are confident that it is safe to engage in a broad range of activities. The path forward will also depend on policy actions taken at all levels of government to provide relief and support the recovery for as long as needed.

The Federal Reserve is strongly committed to using our tools to do whatever we can for as long as it takes to provide some relief and stability to ensure that the recovery will be as strong as possible and to limit lasting damage to the economy. After lowering the Federal funds rate to essentially zero, our actions so far fall into four categories: stabilizing Treasury and agency MBS markets; money market, and liquidity and funding measures; direct efforts to support the flow of credit in the economy; and targeted regulatory measures to support those efforts.

So far, we have created 11 Facilities under Section 13.3 of the Federal Reserve Act to support liquidity, funding, and the flow of credit to households and businesses and State and local governments. Without access to credit, families could be forced to cut back on necessities or even lose their homes. Businesses could be forced to downsize or close, resulting in further losses of jobs and incomes and worsening the downturn.

Our emergency lending facilities have all been undertaken with the approval of the Treasury Secretary, and many are supported by funding from the CARES Act. Their status and effects are discussed in greater length in my written statement, which I have provided to the committee. The Fed will continue to use these powers forcefully, proactively, and aggressively until we are confident that the nation is solidly on the road to recovery. When the time comes, after the crisis has passed, we will put these emergency tools back in the toolbox.

I would stress that these are lending powers, not spending powers. I will also note that we design our facilities to work for broad ranges of businesses and municipalities. We do not target particular firms or industries. Elected officials have the power to tax and spend and to make decisions about where to direct such targeted relief. The CARES Act and other legislation provides direct help to people, businesses, and communities. This direct support is making a critical difference, not just in helping families and businesses in a time of need, but also in limiting long-lasting damage to our economy.

Public faith in our operations depends on transparency. At the Fed, we are committed to that transparency, particularly in deploying our emergency powers. Thank you. I look forward to answering questions.

[The prepared statement of Chairman Powell can be found on page 41 of the appendix.]

Chairwoman WATERS. Thank you very much, Chairman Powell. I now recognize myself for 5 minutes for questions.

As I mentioned in my opening, the pandemic is strengthening, and so, too, must our response. Two weeks ago, Chair Powell, when I asked you about the need for more congressional action to protect our communities, you said, "There are something like 25 million people who are still dislodged from their job, in full or in part, due to the pandemic. I would think it would be a concern if Congress were to pull back from the support that it's providing too quickly."

Unfortunately, tomorrow, this is exactly what will happen if the Senate does not pass the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act. Tomorrow, the PPP program stops taking new loan applications. The PPP should be extended immediately so that the remaining $135 billion in funding can support small businesses. Also happening tomorrow, millions of families will be unable to pay their rent and mortgages. In June, one-third of renters couldn't pay rent, 4.2 million homeowners are currently in forbearance because they are unable to pay their mortgages, and evictions have already started in many States where local eviction moratoria have expired. While the moratoria should be extended, it is not conscionable to simply delay an eviction and foreclosure crisis. Congress and the Administration must provide assistance to struggling low-income families to cover their rent and utility payments.

So, Chairman Powell, millions of families are at risk of being stripped of their homes. Do you think Congress should provide financial assistance to ensure that people can stay in their homes?

Mr. POWELL. Thank you, Madam Chairwoman. I try to keep my fiscal comments at a very high level, and actually that comment you referred to, was referring to the unemployment insurance that expires at the end of July. And I think for the specifics of what you need to be doing, we have the Treasury Secretary here, and I would defer to the Treasury Secretary on fiscal matters here.

Chairwoman WATERS. Okay. So, you put it off on Mr. Mnuchin. While you have made some changes to broaden the Municipal Liquidity Facility, many jurisdictions, like the Territories, are still locked out. When we last spoke, you mentioned that it was difficult, but perhaps there was a way that Guam may be eligible. Did you find a way to take a serious look at that and determine whether or not something could happen?

Mr. POWELL. Yes, we are taking a serious look at that. The Territories themselves are not investment grade-rated, and they were not before the pandemic set in, and that is the minimum standard for access to the Municipal Liquidity Facility. Of course, businesses in the Territories would be eligible for the Main Street Facility. Some of the revenue-based facilities that Guam has are investment grade-rated, but below the minimum, and we are actually reviewing our credit standards in the Municipal Liquidity Facility at the moment to determine if there is a way to adjust the Facility in a way that would make eligible some creditworthy issuers without violating the spirit or the letter of Section 13.3.

Chairwoman WATERS. Thank you. Secretary Mnuchin, with critical unemployment support expiring next month, and today marking the last day that Treasury and the Small Business Administration's (SBA's) claim that new PPP loans can be approved, does the Administration support extending these programs as proposed in the HEROES Act?

Secretary MNUCHIN. We do support additional legislation, and we look forward to working with the House and the Senate on that. As it relates to the PPP, I have already had conversations with the Small Business Committee in the Senate about repurposing that $135 billion, and I think that should be done, and I look forward to working with both the House and the Senate so that we can pass legislation by the end of July.

Chairwoman WATERS. Thank you very much. The ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, is now recognized for 5 minutes.

Mr. MCHENRY. Thank you. Thank you for your testimony. Secretary Mnuchin, I think there is wide agreement that your engagement in the PPP program made things largely better, right? The Treasury expertise in making sure that SBA could deliver on this really seminal program of the CARES Act is proven out because you have 4½ million small businesses that have benefited from it. The average loan size is quite modest in the context for our economy, but the effect is pretty widescale. So, what would you say regarding the additional funds that are purposed for PPP? What should be our focus as policymakers on repurposing that $134 billion? How can we best do that? Is that the 7(a) Program? Is that an expiry loan program? How do you see this fitting in, given the actions of Main Street and other Facilities you stood up through this Act?

Secretary MNUCHIN. Thank you, and I appreciate your comments. I think at the time when we passed the last CARES Act, the economy was in very difficult shape, and we needed to get money quickly. And I have said before, programs that took 3 or 4 months were not the focus. I think that there appears to be bipartisan support in the Senate to repurpose the $130 billion for PPP, and extending it to businesses that are most hard hit, that have a requirement that their revenues have dropped significantly, things like restaurants and hotels and others where it is critical to get people back to work.

Mr. MCHENRY. Okay. That seems like a reasonable step in the right direction. Chairman Powell, the reputation you have garnered this year, in particular, is that your actions have been predictable, and that you signal what you are going to do and you follow through on it, transparent in that you lay out the metrics for action. You, therefore, follow those metrics. Incredible. One example is that at announcement, you said that you were going to support corporate bonds, and by saying you are going to support corporate bonds, the market acted as if the Fed already had the program up and running, to the point where once you were up and running, people asked why you followed through on that program.

Now, I think that is important to note. That transparency, that guidance, that communication has been effective in this opening stage in setting up these responses. So along those lines, the Fed took, what I would call, strong medicine in terms of action on the stress test to restrict dividends and buybacks, and in restraints on these large financial institutions. I would call that quite strong medicine. I think what we want to understand are the metrics that the Fed is going to use in order to make these judgments and assessments in this next phase over the next couple of months for these large financials?

Mr. POWELL. I think you have to start with two major facts here. One is that the banking system is very strong, and has been a source of strength. The banks have been taking on a wave of deposits. They have been engaging in forbearance. They have been making loans. So, they are a source of strength in this situation, unlike the last crisis, where they were a source of weakness. It is also a fact that things are highly uncertain, and so to preserve that strength, what we have done is we have stopped all share repurchases and we have stopped increases in dividends, so we are preserving the level of capital in the system.

To address the uncertainty, looking forward, we did run these three sensitivity analyses, and they were really to assess the overall strength of the system in the face of these downside cases. We found that the majority of firms were still adequately capitalized, sufficiently capitalized, in all of those scenarios. Notwithstanding that, for the first time in the history of these tests, we said that we are going to ask the banks to resubmit their capital plans. We are going to distribute scenarios, and we are going to look at the results again as we learn more about the path of the crisis. And in terms of the precise metrics we are going to be looking at, we will be providing more clarity about that, going forward.

Mr. MCHENRY. But based off of that uncertainty, you are asserting as a regulator that you will actively review this to ensure that we don't have a financial crisis as a result of this health crisis?

Mr. POWELL. Yes, we are going to keep monitoring this. We are learning so much every quarter, and the path of the economy is highly uncertain. In our system, dividends are declared every quarter. We have already stopped the overwhelming majority of distribution, so we think that is the right place to be.

Mr. MCHENRY. Thank you. Thanks for your leadership and effectiveness, and thank you as well, Secretary Mnuchin, for your effectiveness in leadership. I yield back.

Chairwoman WATERS. Thank you. I now recognize the gentlewoman from New York, Mrs. Maloney, for 5 minutes.

Mrs. MALONEY. Thank you, and welcome. Secretary Mnuchin, I would like to ask you about a very troubling oversight issue. As you know, I am the Chair now of the House Oversight and Reform Committee, and I take these matters very seriously, and I hope that you do, too.

In the CARES Act, we created the Pandemic Response Accountability Committee, or PRAC, which is a committee of independent inspectors general that is charged with overseeing all of the money spent in the CARES Act, and identifying waste, fraud, and abuse. Last month, the General Counsel's office in Treasury issued a legal opinion that questions PRAC's authority to oversee trillions of dollars of CARES Act spending. To put it bluntly, this legal analysis is so bad that it borders on bad faith.

The opinion claims, with no evidence, that Congress did not intend for the PRAC to have oversight authority over anything in the first half of the CARES Act, including the PPP program and any of the Fed's Lending Facilities or the $150 billion in funding for State and local governments. So I would say, Secretary Mnuchin, that this interpretation is wrong, that it is just plain wrong.

Senator Gary Peters and I proposed and authored this section of the law, the PRAC Act, and I was heavily involved in negotiating those provisions in the CARES Act, and I am telling you that Congress' intent was for the PRAC to oversee all of the spending in the CARES Act, not just one-half of the CARES Act, but all of it. That was our intent, and that was what the bill said explicitly. The interpretation from your general counsel's office is already causing problems because it is hindering the PRAC's ability to monitor how the States are spending their CARES Act money.

So now, Secretary Mnuchin, I would say that we have worked very productively together and in good faith negotiations on the Beneficial Ownership Bill and other bills before Congress, so I hope that you will take my concerns about this erroneous legal opinion seriously, and this is what I would like to ask today: I would like you to commit to interpreting this section of the CARES Act as Congress intended, with the PRAC's oversight authorities applying to all of the CARES Act spending. I think this is a small step, but a very important one, that you can take to show that you are serious about the oversight of the trillions of dollars in the CARES Act.

Secretary MNUCHIN. Thank you. I appreciate your comments, and I assure you we are very much committed to working with the Oversight Committee on transparency. Now, as it relates to this, I can assure you it was not bad faith. I am happy to have our office follow up with you. It has to do with a technical issue of recipients reporting. As it relates to the issue of monitoring State spending, I am more than happy to put the PRAC in touch with our Inspector General, who has primary oversight, and to make sure that whatever information specifically the PRAC wants on the States, that we accommodate.

Mrs. MALONEY. That is not what I am asking. What I am asking is, will you commit to interpreting the PRAC's oversight authorities as applying to all of the CARES Act spending? That was our intent. I wrote that section of the law. That was what Congress wanted. There is no problem with the interpretation. It is very clear and explicit. Will you commit to allowing the oversight that was in the bill?

Secretary MNUCHIN. I appreciate that you wrote that portion. I would also say I appreciate I had very direct discussions with people in the Senate about various different oversight. That is why we agreed to a new oversight committee with full transparency. We agreed to provide information that was not required under Section 13.3 so we have full transparency. And, again, I am happy to follow up with you on the specific concerns as to which different entities should receive what information. I think it is important that there is not bureaucratic overlap. But, again, let me emphasize, if the PRAC needs certain information, we will try to do what we can to accommodate it.

Mrs. MALONEY. I am very disappointed with that answer, and I guess we will have to pursue a legislative solution. It was very clear that the intent of Congress was that PRAC would have oversight of all of the CARES spending. I yield back. I am out of time.

Chairwoman WATERS. Thank you.

The gentlewoman from Missouri, Mrs. Wagner, is now recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman, and thank you for joining us today, Secretary Mnuchin and Chairman Powell. I want to commend you both at the outset here for your leadership during this unprecedented time. Both the United States Department of the Treasury and the Federal Reserve System have shown their ability to both effectively and rapidly respond to the economic crisis caused by COVID-19 by providing trillions of dollars to stabilize our economy.

Chairman Powell and Secretary Mnuchin, lender registration for the Main Street Lending Program went live on June 15th, I believe. Do either of you know how many lenders have registered so far, and do you know the average size of the lenders participating? If not, when do you think this information might be made available? I will toss it to either of you?

Mr. POWELL. Sure. In the range of 300 banks, and it may be higher than that—that number is a few days old—have entered the registration process. It takes a few days, so I can't tell you exactly how many, but that is how many will come out of the pipeline.

Mrs. WAGNER. Average size of lenders?

Mr. POWELL. I don't know. The size ranges from the large to the very small, and the very small are particularly well-represented, but it does range across the full spectrum.

Mrs. WAGNER. And you will be providing this information to us on a regular basis?

Mr. POWELL. We are working with the borrowers to figure out the right way to connect lenders and borrowers and borrowers and lenders so they can get in touch with each other. So we are working with the lenders to put something together that will make that happen in the most efficient way.

Mrs. WAGNER. Thank you. Chairman Powell, in your efforts to create broad-based programs, do you think that the Main Street Facility will need to expand any further to meet the needs of our businesses?

Mr. POWELL. Let me say, as you have seen, the Secretary and I work very closely on this, and we have been very willing to learn from experience and learn from what we are hearing from different parts of the economy, so we—

Mrs. WAGNER. You certainly did with the PPP program, so I would hope that you would approach this the same way.

Mr. POWELL. We will. As you know, we are in the relatively early stages of opening up a non-profit Main Street Facility, and I think will be watching as the regular Main Street fully comes online, and continuing to look to see whether there are ways we can improve it.

Mrs. WAGNER. Thank you. Chairman Powell, last week's release of the Federal Reserve's Comprehensive Capital Analysis and Review (CCAR) outcome and, more importantly, the results of their

COVID-19 sensitivity analysis, underscores the resilience, I think, of the banking system. While we can all agree that the level of uncertainty in the economy continues to be high given the progression of the COVID-19 pandemic, I believe the Federal Reserve subjected CCAR filers to extraordinary assumptions regarding unemployment and GDP contraction. Despite these assumptions, the 33 largest banks remained above minimum Tier 1 capital requirements. Given that, I am wondering why the Federal Reserve has indicated that firms will need to resubmit capital plans, and, in addition, there will be an off-cycle supervisory stress test in the "latter part of the year." The Federal Reserve has already- ncluded firms' capital planning management processes and, I think, approaches and assumptions, passed the toughest test. So, could you explain that, please?

Mr. POWELL. Sure. What the 33 institutions all passed was the regular-way, severely-adverse scenario that we wrote before the pandemic arrived. That is what controlled the outcome at this time. Also, though, remember, the pandemic arrived right in the middle of the stress test period, so we quickly devised, without going through our usual very thorough vetting process, three alternative sensitivity analyses, one of which was a V-shaped recovery, one of which was U-shaped, and one of which was a serious double dip, and these are very serious downside side cases. We didn't use them to evaluate individual institutions, but, rather, to evaluate the broad range of institutions, and we didn't—

Mrs. WAGNER. I am running out of time. Why lock up additional capital now? This has the potential to have, I think, a chilling effect on the economy at exactly the point where banks need to provide credit and liquidity to households and businesses to facilitate economic recovery and support and financial intermediation in the capital markets. So, I will leave you with that.

Mr. POWELL. No, we didn't do that. We are not looking to raise capital standards during a crisis. That is not what is going on here.

Mrs. WAGNER. Thank you for that clarification, and I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from New York, Ms. Velazquez, is now recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman, and Ranking Member McHenry. Mr. Secretary, at any time, have you been blocked by President Trump or anyone else at the White House from providing access to information requested by Congress or an oversight body?

Secretary MNUCHIN. No.

Ms. VELAZQUEZ. Have you ever prevented anyone within the Treasury Department, or the Administration, more broadly, from providing access to information requested by Congress or an oversight body?

Secretary MNUCHIN. If you are referring to an oversight body, not that I am aware of, no.

Ms. VELAZQUEZ. Okay. So, tonight, the PPP program expires, and you are advocating for extending that authorization. You are telling us that you are already discussing this with the Senate, but there is a role for the House.

Secretary MNUCHIN. Of course.

Ms. VELAZQUEZ. Yes, and I will remind you that nothing will move unless we have those conversations. As Chair of the House Small Business Committee, I cannot in good sense make a determination as to where the program should go or what tweaks or what reforms the program needs unless we have access to the data. When are you going to provide the data to our committee?

Secretary MNUCHIN. I believe we said by the end of this week, and we have reached out to your committee to make sure we establish secure—

Ms. VELAZQUEZ. No, we got a letter, but no date has been—

Secretary MNUCHIN. It is supposed to be delivered by the end of this week. Let me just say, I am more than happy to speak to you if you would like to set up a time to speak.

Ms. VELAZQUEZ. Sir, we have been contacting your office every week asking for you to appear before the Small Business Committee with the administrator. I spoke to her last week. She intends to come before the committee. You are saying here that we need to take care of those most hard-hit businesses in this next repurpose of the $135 billion that is left, but we need to know if the program worked as intended by Congress. We know that 4 million businesses accessed the program, but what about the millions of minority- and women-owned businesses that were not able to access the program? You said that maybe a restaurant might need to get a second loan. I just heard Senator Marco Rubio—well, no one should get a second loan unless we know that most businesses who are struggling get a chance to get a loan.

Chairman Powell, as Chair of the House Small Business Committee, I am particularly concerned about the state of our nation's small businesses as the pandemic poses an acute risk to their survival. How would the failure of small businesses, especially those that are women- or minority-owned, adversely affect the communities they serve, particularly those of color? What impact could these failures have on future labor market conditions?

Mr. POWELL. Of course, the effects could be very significant. Small businesses generate most of the jobs and most of the growth in the economy, so that could be very important, particularly in minority communities.

Ms. VELAZQUEZ. Chairman Powell, earlier this month, the Organisation for Economic Co-Operation and Development (OECD) said the pandemic has triggered the most severe recession in a century and warned that the global economy could contract by 7.6 percent this year should a second outbreak hit. Do you agree with this assessment?

Mr. POWELL. That particular number—there is a range of assessments, but I would say that is in the range. And, yes, I can't think of a more—

Ms. VELAZQUEZ. And what impact do you see a second outbreak having on both the U.S. and the global economy?

Mr. POWELL. I certainly wouldn't forecast that, and, just hypothetically, a second outbreak could force governments and force people to withdraw again from economic activity. And I think the worst part of it would be to undermine public confidence, which is what we need to get back to lots of kinds of economic activity that involves crowds.

Ms. VELAZQUEZ. Thank you. I yield back.

Chairwoman WATERS. Thank you. Mr. Lucas, you are now recognized for 5 minutes.

Mr. LUCAS. Thank you, Madam Chairwoman. Chairman Powell and Secretary Mnuchin, thank you for attending this hearing today. And I want to begin by commending Chairman Powell on finalizing the Inter-Affiliate Margin Rule. This may be the last time we discuss this, sir. While these rules may seem abstract and difficult to understand, they have a real impact on agriculture and oil and gas producers back home that use financial derivatives, manage risk, and plan for the future, which can be, as we have seen in past months, to put it mildly, unpredictable.

That said, as both of you know, commercial paper finances a wide array of economic activity and provides liquidity for companies to meet their operational needs. With the commercial paper market under significant strain due to COVID-19, in mid-March, the Federal Reserve established the Commercial Paper Funding Facility to encourage investors to lend in the commercial paper market, which ultimately supports businesses and jobs across the country. Chairman Powell, could you describe the current indicators of how the commercial paper market responded to the creation of the facility, and has there been a discussion to expand the facility to address liquidity issues faced by Tier 2 issuers?

Mr. POWELL. The Commercial Paper Facility has substantially healed. As you point out, it really closed there in the beginning part of March, as so many markets did, and when we announced the facility, the highest-graded borrowers were able to start borrowing. So largely, but not completely, that market has returned to fairly normal function, and we are watching it carefully. I would say we are not currently assessing whether to broaden that facility, but should the situation deteriorate, we would have that as an option.

Mr. LUCAS. Thank you. Secretary Mnuchin, there have been reports that China is restricting global agricultural imports due to COVID-19. How are we working to resolve this with China, and do you anticipate this impacting the terms of the Phase 1 trade agreement to purchase $200 billion in U.S. goods and services, particularly the commitment to purchase $40 billion in U.S. farm products?

Secretary MNUCHIN. Let me just first emphasize that we have very serious concerns about the lack of transparency from China as it relates to COVID. Having said that, we have every expectation that they will support and live up to the Phase 1 agreement, and they are well on their way for those commitments.

Mr. LUCAS. One last question. Native American tribes have been hit particularly hard by COVID-19. Tribal employment is often concentrated in the arts, recreation, and accommodation industries. How has the Federal Reserve and Treasury been looking specifically at the economic challenges faced by tribes?

Mr. POWELL. As to Main Street, of course, the tribal businesses are eligible for participating in Main Street, and that is where a lot of the economic activity is there. The tribes themselves are not really general obligation issuers, so they are not particular candidates for the Municipal Facility.

Mr. LUCAS. Thank you. And with that, Madam Chairwoman, I yield back the balance of my time.

Chairwoman WATERS. Thank you. Mr. Sherman, you are now recognized for 5 minutes.

Mr. SHERMAN. Thank you. Secretary Mnuchin, I am a very nice guy, so I won't mention the press reports that say that over $1 billion in stimulus payments have gone to people who are deceased. But I will urge you to adhere quickly to the agreement that you have made with the Senate Small Business Committee to very quickly release the names and data of all PPP borrowers that have borrowed over $150,000.

Chairman Powell, back on March 12th, I sent you a letter urging that you prohibit stock buybacks by banks. You have done so. Thank you very much. About 2 weeks ago, you went on the record to say, "I would think that it would be of concern if Congress were to pull back their support," having just said that there are 25 million people who have been dislodged from their jobs. I thank you for that advocacy, and I hope Congress listens. We need to do more to stimulate this economy under these circumstances.

Secretary Mnuchin mentioned the support that he's providing to local and State Governments, but that is all in the form of loans, and, of course, almost all State and local governments can't run a deficit. So with their revenues down by hundreds of billions of dollars, I hope we pass the HEROES Act and actually provide aid to State and local governments. And one issue, Chairman Powell, for the Main Street Lending Program that is particularly relevant to commercial real estate is that if they get a loan from you, they violate the loan covenants that they have in their existing mortgage, and I look forward to working with you on that. One possible solution is the bill that I submitted, and we have had hearings on in this committee, the Business Borrowers Protection Act. Certainly, getting a loan on a program that we have authorized because of the COVID crisis should not trigger the violation and make a pre-existing mortgage immediately due and payable.

I spent this morning at the White House with a few of our colleagues getting briefed on Russian involvement in Afghanistan, and it appears to me, Secretary Mnuchin, that they have been bold. They have killed our soldiers, because when they do something else that we catch them on, we don't sanction them very much. The debate now is whether they took the obscene step of putting a bounty on the head of individual soldiers, or whether they have limited their involvement in Afghanistan to just aiding the Taliban, but not correlating that aid to how many dead Americans this or that operation created. And, of course, the response from the Administration to this seems to be, well, let them into the G-8 and otherwise help them. That kind of lax response will lead to more deceased American soldiers.

Under the Chemical Weapons Act, which Congress passed a couple of years ago, your Department was supposed to sanction Russia for their violation of the Chemical Weapons Act when they used poison to try to assassinate a Russian dissident in Britain, but you opted for the weakest sanctions allowed by the Act. What it does, is it prohibits certain loans from Americans to the Russian government, but it doesn't apply to ruble transactions. It doesn't apply to loans to state-owned enterprises, and it apparently doesn't apply to purchases in the secondary market.

Given the fact that our under-sanctioning of Russia has led, at least, to their aiding the Taliban in a general sense and, according to press reports, has led to the specific putting of a bounty on our soldiers, could you revisit your decision on this existing law and impose these bans on ruble transactions, state-owned enterprises, and secondary markets?

Secretary MNUCHIN. You covered a lot—

Mr. SHERMAN. It must be a tough question. You took off your mask.

Secretary MNUCHIN. Let me just comment, we believe we followed the law and selected amongst a series of items at the time, but I am happy to go back—I recall the situation—and look at it again.

Mr. SHERMAN. There are credible reports that they put bounties on our troops. Please, look at it again.

Secretary MNUCHIN. Again, on that, I just want to be clear. For the record, I am not commenting on classified information, nor do I think it is appropriate in this setting to talk about alleged information that is in the press.

Chairwoman WATERS. Mr. Posey, you are now recognized for 5 minutes.

Mr. POSEY. Thank you, Madam Chairwoman and Mr. Ranking Member, for holding this hearing today to review the Treasury and the Federal Reserve's pandemic responses.

Mr. Secretary, I want to commend your efforts and those of the President's team, but most especially you, in working with Congress to put relief in place during these extraordinary times. The stimulus checks and the Paycheck Protection Program have been tremendously successful in bringing much-needed relief to hard-hit American families. It has been huge. Nothing like it before. It is great, the very best there is.

Secretary MNUCHIN. Thank you.

Mr. POSEY. I also want to commend Chairman Powell for his leadership in keeping the financial markets stable and liquid in the face of the downturn in the general economic conditions. We await full implementation of the Main Street Lending Program, and I am looking forward to hearing more about that.

My first question is, our nation's hoteliers have been facing one of the most severe downturns in demand of any sector of our economy. Revenues have plummeted as much as 80 percent during the shutdown, and extreme curtailment of travel, as you know.

I am wondering—and I would like a response from both of you—if you have the authority you need under Section 13(3) of the Federal Reserve Act, and more broadly, the CARES Act, to address the liquidity and cash flow crisis that the hotel sector will be going through?

Mr. POWELL. I will go first. We are not looking for additional authority under 13(3). Our authority is, of course, to lend to solvent institutions and in programs of broad applicability, and any company in any sector that meets those tests can borrow at one of our facilities.

Mr. POSEY. Okay.

Secretary MNUCHIN. The only thing I would just add to that is that we do appreciate, and certain comments have been made by this committee and others as it relates to loans that are in securitizations, and particularly hotels and other real estate that was properly levered beforehand. It does not lend itself as well to the 13(3) facilities, and we continue to look at that.

Mr. POSEY. Okay. Mr. Chairman, some of our businesses, including, again, the hoteliers, are warning that their inability to make payments is threatening the servicing of commercial-backed securities, and I just wonder if you can bring us up to date on the status of the commercial mortgage-backed securities (CMBS) market?

Secretary MNUCHIN. As I just mentioned, one of the problems of the CMBS market is there are very strict contractual obligations, and that is why one of the things I do think we need to look at in the next CARES Act is additional funding for these industries that are the hardest hit, so they can continue to rehire people, so that as occupancy increases, they have employees that they can maintain.

Mr. POSEY. Great. Thank you. I recently wrote to both of you expressing my concern for businesses that are asset-based and I believe they will face hurdles to assessing Main Street Lending facilities because of the nature of their business challenges, their ability to meet lending criteria, based on the earnings before interest, taxes, and amortization, the so-called EBITA. For example, an aircraft developer in my district, especially an R&D organization, falls into this category, and I wonder if you could tell me what the possibilities are of providing access to Main Street Lending facilities for businesses like that? And you can go first, Mr. Secretary.

Secretary MNUCHIN. We have discussed looking at asset-based financing, and that is something we continue to discuss with the Federal Reserve.

Mr. POSEY. Okay. Mr. Powell?

Mr. POWELL. Yes, that is where we are.

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

Chairwoman WATERS. Thank you. Mr. Clay, you are now recognized for 5 minutes.

Mr. CLAY. Thank you so much, Madam Chairwoman, and I thank both witnesses for your participation today.

Mr. Secretary, I am somewhat troubled by recent reports that some banks have taken stimulus payments from individuals and families, where the garnishment orders are negative account balances, to offset unrelated debts owed to them. I find it troubling that banks would serve as debt collectors at a time like this when families need resources most.

When will Treasury issue guidelines articulating your expectation that financial institutions refrain from taking stimulus funds away from their customers during a time like this?

Secretary MNUCHIN. Let me first say I agree with you, and that I think it would be awfully unfortunate if banks are doing that. We have had inquiries about the issue of garnishment, and we agree, from a policy standpoint, that there should have been no garnishment. Unfortunately, that is something we need to address in the next CARES Act if we do additional direct payments, because there are certain State laws that were not overridden in the existing

CARES Act. But my understanding is that is a State issue and not a Federal issue. But we agree from a policy—

Mr. CLAY. But think about the cruelty of the policy. Wouldn't you want to—

Secretary MNUCHIN. As I said, I agree with you on the policy.

Mr. CLAY. Couldn't you all issue a blanket—

Secretary MNUCHIN. We have asked our legal department, and unfortunately we can't, and that is one of the things we would want to fix in the next CARES Act. So, we agree with you from the policy standpoint.

Mr. CLAY. Thank you. Chairman Powell, for many nonprofits and small businesses, earnings before interest, taxes, depreciation and amortization is not a widely used metric. Have you considered applying other metrics of debt, future growth, or financial health to the Main Street Lending Program so that nonprofits and small businesses are fully able to participate?

Mr. POWELL. Yes. As a matter of fact we have, particularly for nonprofits, of course, earnings before interest taxes doesn't make any sense. So, you don't need to take taxes out. They are nonprofits. They don't pay tax. We are looking at a range of—and we actually put this out for comment, and we got a lot of very thoughtful comments from the nonprofit community, looking at cash flow and also financial resources, more broadly.

In terms of companies, EBITA is just basically pre-tax cash flow. It is a very widely used metric. But there are other metrics, and as the Secretary mentioned, one of them, probably the next one in line, is something along the lines of asset-based, and that is something that we are looking at with the Treasury.

Mr. CLAY. Under the Main Street Lending Program, you reduced the minimum loan threshold from $1 million to $250,000, and then by expanding the program to nonprofits with more than 50 employees. However, many small businesses may not need $250,000.

Mr. Chairman, has the Fed considered eliminating the minimum loan threshold altogether?

Mr. POWELL. We have not considered eliminating it yet, of course, and we are just now getting rolling with loans, as you know. So we can, once we get up and running, look at lowering it again, but you get into a very different kind of lending when you are down lower. These are really personal loans rather than business loans. They are generally guaranteed by the business operator, and we could look at that. But that would be something we would look at once we get up and running.

Mr. CLAY. Yes, but it is kind of concerning that you have that threshold at $250,000 when, say, a small business in St. Louis needs $100,000 to survive through this pandemic until they get back on their feet. Any consideration given to accommodate that?

Mr. POWELL. Yes. No, we can see ourselves possibly lowering the threshold again, but just logistically, for us to be making very, very small loans would be difficult, and those people may be better dealt with through fiscal policy. But I can see us down the road looking at a lower threshold.

Mr. CLAY. I see. Thank you both for your responses, and Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you. Mr. Scott, you are recognized for 5 minutes.

Mr. SCOTT. Thank you, Madam Chairwoman. Chairman Powell, we all know that job losses have disproportionately impacted women, African Americans, and other minorities, but at the same time, our capital markets have improved significantly since the epidemic. Why is that? Is there something you are doing more so to help the capital markets than helping job losses corrected?

Mr. POWELL. No. In fact, the objective of everything we are doing, every single thing we are doing is to take the 25 million people whose working lives have been disrupted and create a situation in which they have the best chance to go back to their old job or to get a new job. That includes all the facilities that we are doing. That is the overriding goal of what we are doing, and every one of them helps in that direction.

Mr. SCOTT. Yes, I know that is your goal, but what I am trying to get at is, is it correctable? Are there some things you can do to fix this imbalance between staggering lowering unemployment and soaring rise in our financial capital markets?

Mr. POWELL. What we have been trying to do is to create accommodative financial conditions and supportive financial conditions so that when the economy reopens—remember, we sort of deliberately closed it down—that expansion can be vigorous and strong, and it is just beginning now. Our support for that is part of what is driving the job growth that you saw in May, which was surprising to the upside.

Mr. SCOTT. Yes. Also, while we have both of you all here, I want to pick up on what Chairwoman Waters was saying. We have a great opportunity here to do both of these things, with our housing and homeowner tranche that we are putting forward. This goes right into the belly of our economic wheelhouse jobs, keeping people secure, because it is coming. When 25 or 30 million people lose their jobs, how are they going to pay their house note? How are they going to pay the rent? How are they going to pay utilities? And more than that, how are the banks and the financial institutions going to get their mortgage payments so that they can make payments for the securitization of those mortgages that keeps our financial system healthy?

So, I want to ask you to make sure that you all start talking about these things that we are putting forward. You my not agree with us on everything, but this is one that is very important.

Let me go to one other area, to you, Secretary Mnuchin. None of the lending facilities established have targeted the needs of our agriculture industry. Now, why do I mention that? Food. It is coming. I don't know why people can't see this crisis. Food shortages are coming. It is almost like the farmers have been the forgotten ones. Are they qualifiable as small businesses? Many of them don't know. They are sort of out there, just dribbling along the misty flats.

What are you all doing to help lift up and make sure that we give our farmers, our rural communities the kind of help that they need? Because all of the food chain is going down, and you hear about the closures, the food processors are going down. Farmers are coming. These are small. Most of them, they are very important. Why can't they be qualified as small businesses? Where are they? They are getting lost in the shuffle. And if we get a food shortage, we are in—

Chairwoman WATERS. Thank you. Mr. Luetkemeyer, you are now recognized for 5 minutes. I would encourage all of the Members to keep their mask on, please.

Mr. LUETKEMEYER. Thank you, Madam Chairwoman, and thank you, Secretary Mnuchin and Chairman Powell, for being here today, and for your great leadership during this time. As we have gone through this, you guys have been very responsive, and you have been very cooperative. I can tell you from discussions that we have had in different settings, you have implemented lots of suggestions that we have come up with as a group, as a Congress, and for that, we are grateful. Leaders make tough decisions in tough times, and you have both exhibited the ability to make those tough decisions, so thank you very much.

Both of you, in the past, have expressed your support for housing finance reform and GSE credit risk transfer (CRT). In prior testimony, you have committed to reviewing your prospective policies to determine whether capital relief is appropriate for U.S. banking organizations that engage in CRT with sound counterparties. FHFA recently re-proposed a capital framework for Fannie Mae and Freddie Mac, which adopts much of the U.S. banking framework, but in doing so, seems to have taken a confused and more punitive approach to certain types of CRT.

I am encouraged by the questions posed in the proposal that would seem to indicate that there remains room for revision before the rule is final. I ask each of you gentlemen whether you still agree that it is appropriate that the Enterprises should receive meaningful capital credit for sound CRT transactions that they conduct with sound counterparties and avoid the accumulation of credit risks on the balance sheets of two institutions that remain taxpayer-backed.

Secretary MNUCHIN. Yes. I agree that they should receive relief, that we should encourage them to do credit risk transfers with creditworthy counterparties, and I can also tell you that the Financial Stability Oversight Council (FSOC) is beginning to review these issues as well.

Mr. LUETKEMEYER. Chairman Powell, do you want to comment on that as well?

Mr. POWELL. No, I do agree, and we are actually in the middle of doing a careful review of the whole capital proposal as well.

Mr. LUETKEMEYER. Okay. Thank you. As you know, it is hard for me to let a hearing go without talking about Current Expected Credit Losses (CECL), so we are going to try it one more time.

In March of this year, the Federal Reserve and the FDIC and the OCC issued an interim rule to delay for 2 years estimated impact on regulatory capital at CECL, followed by a 3-year phase-in. In addition, the CARES Act included an optional delay in CECL implementation until the end of 2020 or the end of the pandemic, which 25 percent of applicable entities actually opted for.

The Department of the Treasury is also conducting a study about the impact of Current Expected Credit Losses (CECL)—we were directed to do that—and most recently, my colleagues and I sent a bipartisan letter to the Financial Stability Oversight Council

(FSOC), urging for a delay on CECL implementation for all entities until 2022, set every entity, both banks and non-banks, which were not included in the CARES Act, on the same footing, and Treasury can conduct the study with the input of a real-life scenario that we have ongoing today.

Given the actions by Congress and the prudential regulators, should we delay CECL, as I and my colleagues have called for, and should the Treasury examine the real-life scenario we have gone through when conducting their study?

Mr. Mnuchin?

Secretary MNUCHIN. I think that should be seriously considered, and yes, we are working on the study.

Mr. LUETKEMEYER. The President issued an Executive Order with regards to each agency, going through and looking at all of the rules and regulations that were either waived, declined, changed, whatever. If they don't work now, why should we continue them down the road when we get out of this mess? And so, I assume everybody is doing that.

And this particular accounting principle would seem to fall in that area of, we need to be looking at this as something down the road that we need to get rid of in its entirety.

Chairman Powell, would you like to comment on this as well?

Mr. POWELL. No, I would agree.

Mr. LUETKEMEYER. Okay. Thank you. I appreciate that, because I think there is a time and a place for rules and regulations. There is a time and a place that if they are nonfunctioning, we need to get rid of them and start over.

With the Nationally Recognized Statistical Rating Organizations (NRSROs) and the Federal Reserve emergency facilities, I know you have heard a lot about this issue from members on both sides of the aisle, Chairman Powell, especially. The Fed took modest steps to include smaller NRSROs in the most recent FAQs, but only if those ratings are accompanied by one of the three incumbent NRSROs. I remain concerned that the Fed's unilateral and haphazard chairing of these NRSROs is going to have serious implications for small to mid-sized businesses. Have you examined the impact delineating between the large and smalls is having in the marketplace?

Mr. POWELL. As you mentioned, we started out getting these facilities set up very quickly, and we just went with the big three. After that, I think more than a month ago, we broadened it out to another group after taking a look. And we are balancing the need to move quickly and to move with institutions that we know well, or that are well-known, and that we included more and more, and that is a process that we are still looking at.

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

Chairwoman WATERS. Thank you. Mr. Huizenga, you are now recognized for 5 minutes.

Mr. HUIZENGA. A point of inquiry, Madam Chairwoman. Should that be on the other side of the aisle? Oh, I am sorry. Okay.

Thank you. I appreciate that. Mr. Chairman and Mr. Secretary, the word, "unprecedented" has been banned in my house by my college graduate—well, he graduated remotely—because he was looking around and was a little tired of that word being used.

He has a history. His grandfather, my dad, was born in 1921, on a kitchen table in the hired hand's home. My mother was born in 1931 in Flint, Michigan—yes, that Flint, Michigan—and had to move to Oklahoma, to the Dust Bowl, in the middle of the Depression, to try to survive, when they lost their house and my grandfather lost his job.

We know that there is history behind this. So, I am not sure if this is, "unprecedented." It certainly may be unprecedented in a way, in the modern era, where we have seen the government come in and sort of shut this down.

But what we do know, from looking at history, is that we need to get the economy moving again. Now the question is how, whether it is getting kids back to school, as some have suggested, because if you can't get kids into school, that is not going to then free up those parents to be available to work.

Anecdotally, in my area, I know that manufacturers and service companies are having a very difficult time getting enough workers to come in to complete a full contingent of line workers, for example, or to get a full shift filled. And there are various reasons. Some have debated about the $600 additional per-week kicker as being a bit of a disincentive.

But nonetheless, we know that we have to address those folks who really, truly are not able to get a job, and how do we distinguish them from those who are just deciding not to take that job?

One of the things that I have proposed is something called the Patriot Bonus. The Patriot Bonus would be a 50 percent tax credit to any company that would give a per-hour bump to their employees, or a weekly bonus to their employees, or even a one-time bonus to their employees, to incentivize them to come off of that unemployment insurance system and get back engaged in the workforce, and I think it is critical that we do that.

I do want to say, also, thank you for your work on the Paycheck Protection Program. I have talked to Cheryl, who owns a very popular bagel and coffee shop in my hometown, who knows that she survived because of it. And Don, who owns a bowling alley in my district, who was able to keep his folks on the payroll. Those types of things are critical and were very, very important.

As we are shifting to the Main Street program, I do want to draw attention, and Chairman Powell and I had this conversation a couple of weeks ago. I brought up La Colombe. La Colombe is a Philadelphia-based company that has a manufacturing production facility in my district. It is a 26-year-old, fast-growing company. You may have gotten their coffee in the can. They produce a number of great products. But for the last 6 years, they have been really focused on their growth, and that also means they have had to borrow a tremendous amount of money, and that led to an accumulation of debt. Under some of the rules as they are currently written, La Colombe would not qualify to participate in the Main Street Lending Program, and I believe that the way that the leverage ratio requirements in the program are currently drafted really sort of, frankly, punishes companies like La Colombe and others who would otherwise be viewed as really, frankly, success stories.

So if it is the way the rules are currently written, it is designed to prevent funds from going to companies that have this debt, but sometimes those companies might be some of those that need it the most.

I am hoping that you will commit, Mr. Secretary, to working with me on that, to address that issue.

Secretary MNUCHIN. Yes. I am not familiar with the company but we are happy to follow up with you and see if it can work.

Mr. HUIZENGA. Great. And then in the remaining time, I talked to Jeff this morning. Jeff is 52. I talked to Jim and Eliza. He is 64, she is slightly younger, but she won't tell me exactly how old. But what I do want them to know is, I want them to hear from you, what do you want to tell them, and the rest of Joe and Jane 401k who have their small investments in the markets, that are there, frankly, to help them as they approach retirement? What assurances can we give them about the economy?

Secretary MNUCHIN. I want to tell them and all the other people that we are going to work with Congress to make sure we can do whatever we can do to get everybody back to work who lost their job due to COVID. And I am also extremely optimistic about the research that is being done on vaccines and virals and us combatting this terrible disease.

Mr. HUIZENGA. Thank you.

Mr. POWELL. I would just say—

Chairwoman WATERS. Mr. Meeks, you are recognized for 5 minutes.

Mr. MEEKS. Thank you, Madam Chairwoman. Mr. Powell, you and others at the Fed have written and spoken about the importance of maintaining the economy, full employment, as a way to pull a greater share of the minority workforce up, which is often the first to be laid off and the last to be hired. And while this is helpful, this is incredibly frustrating, as it is an admission that everyone else gets a head start in the economy, and communities of color only get out of the starting block after everyone else has been running the race for months, years, or decades.

Let me ask you first, Mr. Powell, would you agree that structural discrimination exists in the United States in the economy today and impedes the economic success of communities of color and is a key to understanding why Black wealth is just 10 percent that of White communities?

Mr. POWELL. Yes, I do agree.

Mr. MEEKS. Mr. Mnuchin, would you agree also?

Secretary MNUCHIN. I agree we need to do everything we can to create a level playing field, yes.

Mr. MEEKS. I also believe that our approach to addressing the legacy of economic racism and discrimination must include equity investments. Communities that have been financially excluded for decades, or hundreds of years, that were disproportionately impacted by the financial crisis, and now by the COVID pandemic, cannot borrow their way out of poverty and economic—I believe that sizable equity investments over the coming decade into communities of color will be essential to substantially lift them out of poverty and build resilience.

I am working on a proposal for creating a national investment fund, pulling together capital from both the private sector and the government, to invest in these communities over the next decade or more.

Secretary Mnuchin, do you agree that massive amounts of equity investments will be required to lift these communities, and that debt alone cannot solve the problem?

Secretary MNUCHIN. I definitely think investments in these communities is important, and we look forward to working with you on your specific ideas.

Mr. MEEKS. Great. And Mr. Powell, can we count on the funds and you working with us?

Mr. POWELL. We would be delighted to.

Mr. MEEKS. Given that, Secretary Mnuchin, the Treasury Department has the capacity and the authority to invest Tier 1 capital into Minority Depository Institutions (MDIs), but has never done so. Similarly, the Treasury Department could use existing authority to mobilize deposits from trust funds into MDIs, either directly or through custodial accounts, but it does not do so. And since we agree that we need to have investments, would you agree that MDIs play a critical role, as we found doing PPP, in providing minority communities access to capital, and I will ask you then, will the Treasury use its existing authority and capital to provide direct support to MDIs?

Secretary MNUCHIN. I will have to review those authorities and get back to you. If that is something we have, it sounds very interesting. I am not familiar with those specific authorities so let me look into it.

Let me just say also, the CDFIs did a terrific job as well.

Mr. MEEKS. I agree. I should have added the CDFIs. We concur on that.

But I look forward to working with you to make sure that we are investing. We have public money as well as private money to invest in those MDIs so that they have the capital and the wherewithal to move forward. That is the way to govern.

Mr. Powell, has the Fed made a requirement of all asset managers and broker-dealers with which they contract to partner with minority firms in fulfilling contracts and transactions?

Mr. POWELL. Yes. We do have obligations, for example, with the companies we have contracted with during the pandemic. They have to address diversity and inclusion issues at their company, and they have to also reach out to minority suppliers as well.

Mr. MEEKS. And the Treasury? Secretary Mnuchin?

Secretary MNUCHIN. Yes.

Mr. MEEKS. Okay. So, I am hearing from both of you that you will commit to incorporating this as standard to the Federal Reserve and the Treasury policies across all capital market programs that involve partnership with private sector asset managers, broker-dealers going forward, with minority broker-dealers and asset managers. Is that correct?

Mr. POWELL. That is really part of our rulebook now, actually.

Mr. MEEKS. Mr. Mnuchin?

Secretary MNUCHIN. Yes. That is something we will work on as well.

Mr. MEEKS. Thank you. I am out of time, so I yield back.

Chairwoman WATERS. Mr. Stivers, you are now recognized for 5 minutes.

Mr. STIVERS. Thank you, Madam Chairwoman. And thanks for being here, Mr. Secretary and Mr. Chairman. I really appreciate it.

Secretary Mnuchin, I am hearing from some lenders that are being accused of failing to pay agents who assisted businesses in preparation of their Paycheck Protection Program loan submissions. And before participating in PPP, I heard comments from banks that they were worried they might be exposed to legal liability without sufficient safeguards in what is essentially a government grant program. But they largely participated anyway, because obviously, they felt like they had a duty to their customers and the country during a time of need.

Now I am told that many banks are being targeted by litigation. It takes advantage of the lack of clarity about how agent fees are supposed to be processed and how they work. For example, banks don't have precise answers on where the fees were supposed to come from, is an agreement between a bank and an agent required before any work on the application is completed or processed? Is this an issue you are aware of, and does Treasury have a plan to offer any additional FAQs to clarify the issue of agent fees and when they are due and how that works?

Secretary MNUCHIN. I have recently become aware of this issue as well. What our guidance did say is that banks could pay agent fees out of the fees that they received. That was intended to be based upon a contractual relationship between the agent and the bank. And to the extent there is any confusion on that, we will look at clarifying that.

Mr. STIVERS. It would be great if you could do a clarifying FAQ, because I think it will prevent some litigation, or at least allow for that litigation to move expeditiously and less costly through the process.

Secretary MNUCHIN. We will review that. Thank you.

Mr. STIVERS. Thank you, Mr. Secretary.

Chairman Powell, Treasury and the International Association of Insurance Supervisors (IAIS)have stated publicly that proposals to retroactively amend business interruption insurance policies to cover COVID-19 claims would endanger financial stability. Specifically, IAIS stated that they cautioned against initiatives seeking to require insurers to retroactively cover COVID-19-related losses such as business insurance, and that those things were excluded in the insurance contracts. Such initiatives could ultimately threaten policyholder protection and financial stability.

Do you share the concern requiring payoffs of uncovered policies and that they could result in insurer insolvencies and destabilize our financial system?

Mr. POWELL. Actually, that is an issue that is really kind of outside the periphery of our authority, except as you point out, to the extent to which it relates to financial stability. We are monitoring it, but so far, we haven't taken a position on it.

Mr. STIVERS. Please, continue to monitor it. If it results in any kind of destabilization of the financial system, that is your role. I get it. And I am not asking you to exceed your role, but please pay attention to it.

Chairman Powell, could you kind of give us an overview of the current state of municipal finance markets and the effectiveness of the Fed's efforts to stabilize those markets?

Mr. POWELL. I would be glad to. The municipal markets, like so many other markets, really just about shut down in the middle of March, and we announced the municipal liquidity facility, and really that announcement has had an enormous effect on the functioning of that market. So, you see a lot of healing in that market. You see plenty of issuance of issuers of different credit ratings and also different kinds of issuers, revenue issuers. It hasn't returned to where it was in February of 2020, but there has been a lot of progress.

As an example, the State of Illinois did most of its financing in the private markets without our support and then came to our facility for its last piece of financing. So, I am very pleased that the announcement effect was very strong and effective, and is helping a lot of borrowers now.

Mr. STIVERS. Finally, I just want to say thank you, Secretary Mnuchin, and thank you, Chairman Powell, for your incredible leadership and availability through this crisis. This hasn't been easy. Clearly, mistakes will happen when we are in uncharted waters. But you both have been bold in your leadership. You have made a difference. You have helped businesses survive. You helped the economy survive. Thank you for your incredible leadership, and we wouldn't be doing as well without it. There is more work to be done. I appreciate everything you have done and hope you will continue to focus on small businesses and medium-sized businesses around Main Street, because they are still struggling. Thank you so much.

Chairwoman WATERS. Mr. Green, you are now recognized for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman. I thank the witnesses for appearing as well, and I would like to lay a proper predicate for my questions.

According to the latest Home Mortgage Disclosure Act (HMDA) data, in 2019 the vast majority of home purchase loans went to White borrowers, at approximately 10 times that of loans that went to Black and Asian Americans and Pacific Islanders (AAPI) borrowers. Here are the numbers: the share that went to White borrowers, 60.3 percent; to Hispanic borrowers, 9.2 percent; to AAPI borrowers, 5.7 percent; and to Black borrowers, 7 percent—60.3 percent to White borrowers, 7 percent to Black borrowers.

And even when lending discrimination does not result in outright denials of credit, it drives up borrowing costs for minority home buyers. Loans to Black and Hispanic borrowers continue to be higher-priced for both conventional and nonconventional loans in 2019. Home purchase loans were higher-priced for the following share of borrowers: to Black borrowers, 20.3 percent; to Hispanic borrowers, 23 percent; and to White borrowers, 8.3 percent.

Consistently we see empirical evidence indicating that there is invidious discrimination in lending, especially as it relates to people of color. So here are my questions, dear friends. Adjusting for education, credit score, assets, and other relevant factors, do you believe that invidious discrimination in lending exists against borrowers of color?

I have been collecting these pictures. I keep them in my office. These are pictures of people who denied the existence of invidious discrimination as it relates to people of color.

So my question to you is, do you believe that this invidious discrimination exists in lending as it relates to people of color? If you do believe so, would you kindly extend a hand into the air?

[Hands raised.]

Mr. GREEN. Okay. Would you kindly hold them up? I'd just like to get a good picture of you, Mr. Secretary. Thank you very much.

Next question. Do you believe that this invidious discrimination against borrowers of color can be addressed with legislation? Can we craft legislation to help end this invidious discrimination? If you think so, would you kindly raise a hand? Legislation. Can we craft legislation?

[Mr. Powell raises his hand.]

Chair Powell seems to think so. Mr. Mnuchin?

Secretary MNUCHIN. Can I respond to the answer?

Mr. GREEN. You can respond, but if you will be so kind as to let me know where you are going first. Sometimes, when people finish, I don't know what they said. This wouldn't apply to you, of course.

Secretary MNUCHIN. I think we have legislation, so I think we need to do a better job. So I will say we can look at legislation, but I think it is more than just legislation.

Mr. GREEN. Okay. I agree with you that it is more than legislation, but would you agree that legislation can be a part of the remedy? If you would kindly extend a hand.

[Secretary Mnuchin raises his hand.]

Mr. GREEN. Thank you. Now, I am in agreement with you. We have a couple of pieces of legislation. H.R. 149, the Housing Fairness Act, helps to deal with discrimination in housing as it relates to people of color and others as well. And then, H.R. 166, the Fair Lending for All Act, would put an end to this race-based lending and discrimination. That is two pieces of legislation, and hopefully, they will move in Congress.

But here is my final question. I believe that it is time for us to reconcile in this country. We have survived COVID but didn't reconcile. We survived the invidious discrimination that exists now, segregation, but we haven't reconciled. If we had a Department of Reconciliation with a Secretary of Reconciliation, would you work with a Secretary of Reconciliation, your departments, the agencies that you represent, would you work with such a person to help us reconcile in this country? If so, raise your hand.

Okay.

Secretary MNUCHIN. Not knowing what that is, I guess—if there is a department then—

Mr. GREEN. I can tell you, it would be a department designed to eliminate invidious discrimination and racism. That is what it would be all about, at the Cabinet level, hopefully.

Thank you both. And thank you, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you. Mr. Barr, you now are recognized for 5 minutes.

Mr. BARR. Thank you, Madam Chairwoman, and to Secretary Mnuchin and Chairman Powell, I want to thank you both for the very decisive and aggressive actions that you have both taken from the outset of this pandemic. I think both the Fed and the Treasury, through the emergency lending, and with the tools that we have given you through the Exchange Stabilization Fund, really made a difference in making a bad situation a lot less bad, given the circumstances. So, thank you for your actions.

And as an example of the agility that you have shown, Secretary, let me thank you, in particular, for responding favorably to a letter that Representative Hill and I sent to you about streamlining and making less bureaucratic the loan forgiveness application under the PPP program. That was tremendously helpful for both borrowers and lenders, cutting that red tape. The EZ form is very welcome, and I appreciate the fact that you were responsive to that.

Let me ask you a follow-up question about commercial real estate. We have had a couple of questions from Mr. Sherman, and Mr. Posey. This is a problem we have not addressed yet. And I am hearing from many commercial property owners and borrowers in my district, and across the country, especially hoteliers, where occupancy rates remain very, very low. Shopping center owners—retail clearly has not recovered. And other businesses have been significantly disrupted by the pandemic.

I think we are going to see, without intervention, a wave of foreclosures and defaults. And Secretary, you did identify the problem with the inflexibility of these servicing agreements. But I think you mentioned that we might need additional legislation to allow hoteliers to hire back workers. That is really not the issue. The issue is debt. They can't service their debt because they don't have revenue.

So my question is, both of you all recently received a letter from me, Congressman Taylor, Congressman Heck, and Congressman Lawson, plus over 100 of our colleagues, urging the Fed and Treasury to establish a facility to assist commercial real estate borrowers, especially those with CMBS loans. Secretary, you testified that you have $250 billion remaining in the Exchange Stabilization Fund (ESF).

To both of you, does the Fed currently have the authority to establish such a facility, and do you feel that market conditions in commercial real estate warrant action by the Fed and Treasury?

Secretary MNUCHIN. Let me just appreciate and thank you for your letter. This is a large challenge, so working with the Fed, we have not yet figured out a way to set up a facility. It is not out of a lack of interest or a lack of desire. There are structural problems.

And let me just add, in many of these cases, these companies don't need more debt. They need support. So one of the things we will want to look at in the next CARES Act, as I said, is additional support for these hardest-hit industries. As the Chair has said, there is a difference between lending and spending.

Mr. BARR. Right. Chairman Powell?

Mr. POWELL. I just would echo, and I have your letter right here, that I have been very focused on this. And you said it in your comments, and it is in the letter, that more debt may not be the answer here. Debt doesn't solve every problem you have. People can't currently service debt. You have hese inflexible arrangements.

So, there is a serious problem here that needs to get fixed, and we are racking our brains to see how it could be something we could do by lending. But that is really what we can do, is create more debt.

Mr. BARR. I would encourage you to consider, in some cases, that the covenants against additional indebtedness may be too restrictive, that these owners could take on additional debt to get them through this period of time. But I look forward to working with you, whatever the answer is.

Quickly, on Main Street, Chairman Powell, I have heard from a number of lenders and business owners who have indicated that the terms of Main Street may discourage borrowers from applying and lenders from participating. Some lenders had welcomed the changes made recently by the Fed, but many are still far from enthusiastic about participating.

What has been the response thus far from the lender community, and how is the Fed going to encourage lender participation, given the hesitations?

Mr. POWELL. We have had a lot of interest. We do webinars. We do outreach. And as I mentioned earlier, we have had something like 300, a little more than 300 now, I think, turn up. What the banks tell us is, though, is that it is sort of a mixed thing. They are not getting a ton of interest from borrowers, and many of them say that they expect that will change—over the course of the next few months, they do expect the demand from borrowers will increase. And I will just echo that we continue to be open to playing with the formula and making adjustments going forward.

Mr. BARR. My time has expired, but the reason why Main Street doesn't work for commercial real estate is that EBITDA limitation, as you know. But thank you. I yield back.

Chairwoman WATERS. Thank you very much. Mr. Powell, the issue of rules that we have talked about is on my radar. We will continue to talk about this issue and pay attention to what you are saying to us about it.

With that, Mr. Cleaver, you are recognized for 5 minutes.

Mr. CLEAVER. Thank you very much, Madam Chairwoman. Secretary Mnuchin, thank you for being here. Chairman Powell, thank you for being here again.

I know that you have been asked by a number of Members before me about the issue with Black and Brown business owners being left out of that pot that was clearly intended to help during these down times. And so I am frustrated, like a lot of people, not only in Congress, but a lot of people around the country.

What is your philosophy, Mr. Secretary—well, maybe not your philosophy, but what do you have to say as to why weren't rural and minority businesses more equally supported in the emergency program? And what do you think happened?

Secretary MNUCHIN. Let me just first say that we need to all do a better job at making sure that we have sources of funds for those businesses and to support those businesses. In the PPP, we have worked with lots of different people to make sure the CDFIs and the MDIs get there. But across-the-board, we can always be doing a better job.

Mr. CLEAVER. Thank you. I guess I am where I am now because I am here dealing with these minority businesses right now, and if I say we all agree we need to do a better job, do you have any ideas on specifically, what we can do better?

Secretary MNUCHIN. We would be happy to work with you on that. We have been working with Robert Smith and a bunch of external people to try to figure out how we can use the CDFIs, how we can make sure MDIs have more access to capital. And I think there is a lot of good ideas out there that we need to continue to explore before we have one solution. I think there are multiple solutions.

Mr. CLEAVER. Okay.

Mr. POWELL. Mr. Cleaver, I will just add that we are doing a great deal of outreach with MDIs and CDFIs to get them access to the programs that we are doing, including the PPP. And in fact, we have a meeting with the National Bankers Association tomorrow, on July 1st. So, we are doing a lot of outreach, and we think it is having an effect.

Mr. CLEAVER. Thank you. Actually, after you appeared before our committee, I did have an approximately 40-minute meeting with Esther George here, at the Kansas City Fed office. And I said I appreciated her going into detail about the issues that we were raising as best as she could.

So, thank you for doing that. I appreciate that. I just was hoping that the Secretary would understand the pressure that these businesses are under, which means that as representatives of theirs, we are also in a tremendously pressurized situation. I was hoping that I could go back and say, "This is what we are going to do henceforth."

But I appreciate where we are. You can't respond to any classified intelligence, so I won't ask those questions. But I am, nevertheless, going to send you a letter, and I don't even expect a response. I am doing this for my own personal historic concern, and that is, I am sure that the next generation and the generation after that will be asking us, "Grandpa, what did you do?" "Grandma, what were you doing during those times when things were going off the rails?"

So, thank you both for appearing, and I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. Mr. Tipton, you are recognized for 5 minutes.

Mr. TIPTON. Thank you, Madam Chairwoman. I appreciate, Mr. Secretary, and Chairman Powell, you both taking the time to be here.

And I do appreciate all of the efforts that you have made to stimulate the economy and to help our folks at home. I did want to bring up an issue that we have heard back in our district. As you know, under the CARES Act, the government did provide for communities of 500,000 or more people to be able to apply directly to Treasury for assistance. In Colorado, that translated into 59 of the

64 counties in Colorado were unable to be able to receive direct assistance. In full recognition, obviously, the traditional dollars went in over and above the direct assistance that was able to be applied for.

And I guess, Mr. Secretary, I would like to be able to see from you, has there been any oversight to be able to do what I believe was the congressional intent, to be able to get those dollars back into small communities, like those that I represent, and have we had any sort of examination of how those dollars are being spent by the States?

Secretary MNUCHIN. Let me just say, we agree with you. We thought the purpose was that we sent money to cities above 500,000. The reason why we didn't do it to less was purely administrative. We have put out guidance saying that the States should distribute money down. We have also had discussions with the Inspector General to review this. So, we appreciate your comments.

Mr. TIPTON. Thank you, and I appreciate the recognition that the small communities happen to—when we look at small businesses—that was my real life—we create 7 out of 10 jobs, and a lot of that does happen to be in rural America. And I appreciate your attention to that as we are looking forward to any other package that may come forward.

One of the biggest aspects, I think, that you have both spoken to is the ability to be able to get the economy going and to make sure that we are going to be able to create jobs once again. But providing access to credit is going to be ultimately critical to being able to do that. We have some that are tempted to wipe that credit slate clean during the pandemic. But I believe it is important that we do have an accurate and a full credit profile to be able to have risk mitigation that will help ultimately reignite lending in the country quickly.

Secretary Mnuchin, would you speak maybe to the importance of being able to maintain unaltered and complete credit profiles so that lenders can evaluate the creditworthiness of borrowers?

Secretary MNUCHIN. Yes. I believe that is very important.

Mr. TIPTON. One of the bigger issues that we are hearing on PPP is that lenders across the country, big and small, readily answered the call to be able to make those loans out to our small businesses during the crisis. And since there was essentially no guidance when lenders began providing PPP loans, what can agencies do, Mr. Secretary, to the extent to hold them harmless in terms of provisions to the entirety of the PPP process and adequately protecting the lenders who are trying to do the right thing?

Secretary MNUCHIN. The lenders were merely intended to be an intermediary. They were the fastest way that we could get money to the businesses. Most of the certifications were certifications that the borrowers had to make and that they would be liable for. There were a few things that the lenders had to do, which was check the payroll and payroll documents. But yes, it was supposed to be predominantly a pass-through mechanism.

Mr. TIPTON. Okay. Thank you. And there is an interim final rule on lender fees out of the SBA, indicating that if they conduct loan review and determined that the borrower was ineligible for a PPP loan, the lender is not eligible for the processing fee. The SBA was also able to draw a claw-back feature of the fee, within one year, if they determined that a borrower is ineligible for the PPP loan.

Considering that those lenders, as we noted, did act in good faith through the PPP process and have dedicated significant amounts of resources to be able to help the economy, why did the agencies decide to take this approach?

Secretary MNUCHIN. Let me just say I hope that is a very small number of loans that that turns out to be. But the thought of the taxpayers paying fees to loans that weren't made seems to be unfair, and I would just say, in general, I think the fees were very attractive to the lenders. So, if there were a small number of loans that they made where that was the case, I think they were still well-compensated.

Mr. TIPTON. Thank you, Mr. Secretary, and I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you. Mr. Perlmutter, you are recognized for 5 minutes.

Mr. PERLMUTTER. Thank you, Madam Chairwoman. Gentlemen, thank you for your testimony today. And thank you for your leadership in the first 3 months of this emergency.

The pandemic dealt a real blow to the economy, and you helped cushion the blow. But we are not out of this thing, by any stretch of the imagination. Around Colorado, we see California, Utah, Arizona, and Texas with rising case numbers, rising hospital patients, rising death counts. And we also know that at the end of July, the Pandemic Unemployment Insurance payments cease, as it is currently written. We know that a number of the moratoria on evictions and foreclosures begin to cease. And the 8 weeks provided under the PPP, certainly for those initial takers of the loans, start to run out.

So, I see a brick wall at the end of July. And Mr. Secretary, you played a key role in helping to fashion the fiscal pieces of this, the CARES Act. We call what we have done as this next iteration the HEROES Act, so that law enforcement, teachers, transportation workers, and medical staff don't get laid off, in addition to the ones who have already been laid off by local governments, by State Governments, and by school districts.

I asked Mr. Powell a question when he was in front of our committee a couple of weeks ago, on State and local government assistance to backfill the tax revenue.I will say, though, from a standpoint, State and local governments employ something like 13 million people. States have to balance their budgets. And revenues go down and expenses go up, and what States do is they cut costs. And we have seen State and local governments lay off 1.5 million people already. State and local governments provide essential services, as we all know, so you know they are a great and a big employer, and I would say it is certainly worth considering.

If we don't do something, it will hold back the economic recovery if they continue to lay people off and if they continue to cut essential services. And, in fact, that is kind of what happened after the global financial crisis.

Mr. Secretary, as you again are sort of in the middle, between the House and the Senate and the White House, where are you on assisting State and local and school districts to help backfill the lost revenue that we have seen hit them already?

Secretary MNUCHIN. Let me just first say, within the context of the last CARES bill, we tried to issue guidance that was as flexible as possible, particularly for firefighters, first responders, and policemen, so that States could use that money, and have a safe harbor, and didn't need to let any of those people go, which, as you said, this would be the worst time, when we need to support all of those people.

I am committed to working with both the Democrats and the Republicans, in the House and the Senate. In July, as you said, we have a lot of important features that all come to an end, and I commit to continuing to have these conversations, and I take great pride in the fact that we had enormous bipartisan support in the previous bills, and I look forward to working with everyone.

Mr. PERLMUTTER. And I would just ask you, because what we have seen—as a Democrat, we passed this. The Senate has been sitting on it, even as time is ticking. And in Colorado, for instance, we are looking at probably a $2.5 to $3 billion drop in tax revenues this year, and will see it again next year, and probably the year after that.

And so, I would just ask you to really push on that one, or there are going to be a lot of people laid off at just the worst time, in very essential services.

And so, gentlemen, you have done a heck of a job. You get patted on the back now, but we are still in this emergency, and now we have to focus on going forward, which is this next iteration, or there is going to be a lot of trouble come the end of the summer.

With that, I yield back.

Chairwoman WATERS. Thank you very much. I would like to thank our witnesses for their testimony today.

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

This hearing is now adjourned.

[Whereupon, at 2:45 p.m., the hearing was adjourned.]

A P P E N D I X

June 30, 2020

Statement of Secretary Steven T. Mnuchin
Department of the Treasury
Before the Committee on Financial Services
United States House of Representatives
June 30, 2020

Chairwoman Waters, Ranking Member McHenry, and members of the Committee, I am pleased to join you today to discuss how the Department of the Treasury and the Federal Reserve are working together to provide liquidity to credit markets, businesses, and households, as well as state and municipal governments. We remain committed to making sure that every American gets back to work as quickly as possible.

Economic Recovery

America's economy continues to recover from the challenges posed by the COVID-19 pandemic. The jobs report for the month of May vastly exceeded expectations with a record gain of 2.5 million jobs after experts had predicted a loss of nearly 8 million. While the unemployment rate is still historically high, we are seeing additional signs that conditions will improve significantly in the third and fourth quarters of this year. The Blue Chip Report is forecasting that our GDP will grow by 17 percent annualized in the third quarter, and by 9 percent in the fourth quarter.

The U.S. Chamber of Commerce reported this month that 79 percent of small businesses are at least partially open, and half of the remaining businesses are opening very soon. Retail sales rose in May by 18 percent, more than double the expected rise of 8 percent. Investors and businesses have historically high cash positions, the highest level since 1992, indicating that private capital is readily available to re-invest into commercial operations as communities re-open.

We are in a strong position to recover because the Trump Administration worked with Congress on a bipartisan basis to pass legislation and provide liquidity to workers and markets in record time. In particular, the Paycheck Protection Program (PPP) is keeping tens of millions of employees connected to their jobs. Economic Impact Payments are also helping millions of families and workers to make it through these challenging months.

We are monitoring economic conditions closely. Certain industries, such as construction, are recovering quickly, while others, such as retail and travel, are facing longer-term impacts and may require additional relief. We look forward to continued conversations with you to address these critical economic issues.

CARES Act Program Implementation

Treasury has been hard at work implementing CARES Act programs.

- **PPP:** As of June 27, SBA has approved nearly 4.8 million small business loans for $519 billion, supporting an estimated 50 million jobs and at least 72 percent of the small business payroll in all 50 states. We are pleased to have worked on a bipartisan basis on two subsequent pieces of legislation to provide additional funding for the program and more flexibility for borrowers.

- **Economic Impact Payments:** We distributed nearly 160 million payments totaling more than $260 billion in record time.

- **Programs to Support Aviation and Other Eligible Businesses:** We have approved the disbursement of over $27 billion to over 500 airlines and other aviation businesses, preserving hundreds of thousands of jobs. We are in the process of documenting loans for airlines and businesses critical to maintaining national security for approximately $25 billion.

- **Coronavirus Relief Fund:** From this $150 billion fund, we have disbursed all of the amount appropriated for state and local governments and nearly all of the amount for tribal governments. In doing so, we have provided recipients with as much flexibility as possible under the statute. We are in the process of reaching out to states to receive updates on their current uses of the funds.

Lending Facilities with the Federal Reserve

The CARES Act also granted Treasury the authority to provide $454 billion to support Federal Reserve lending facilities under Section 13(3) of the Federal Reserve Act.

Since March 17, using funds available, I have approved a number of Federal Reserve programs and facilities:

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

We have committed approximately $200 billion in CARES Act funding for credit support to some of these facilities. The announcements of these programs have helped to unlock markets and promote access to much-needed liquidity for businesses, households, and state and local governments. We have over $250 billion remaining to create or expand programs as needed.

Phase Four

We will be beginning to have conversations about supplemental relief legislation. We look forward to working with Congress on a bipartisan basis in July on any further legislation that may be necessary. Treasury has already been entrusted with a tremendous amount of funding to inject into the economy. We are closely monitoring the results of these efforts, and we are seeing conditions improve. We would anticipate that any additional relief would be targeted to certain industries that have been especially hard-hit by the pandemic, with a focus on jobs and putting all American workers who lost their jobs, through no fault of their own, back to work.

Transparency

The Treasury Department is implementing the CARES Act with transparency and accountability. We have released a significant amount of information on our website. We are also providing information on the government-wide reporting site USAspending.gov, and in updates to Congress. We are also cooperating with various oversight bodies, including three inspectors general, the new Congressional Oversight Commission, and the Government Accountability Office (GAO).

Treasury and SBA have regularly released data regarding PPP loans, including lender sizes, loan sizes, lending by state, lending by industry, funds remaining, and other information. We recently reached an agreement with the bipartisan leadership of the Senate Committee on Small Business to release PPP loan-level data in the near future in a way that strikes the appropriate balance of providing public transparency while protecting the payroll and personal income information of small businesses, sole proprietors, and independent contractors. We are also committed to providing transparency regarding the loan-level data to the Government Accountability Office (GAO) and congressional committees to assist them with carrying out their responsibilities.

Treasury and the Internal Revenue Service have made data and information regarding the millions of Economic Impact Payments available on their respective websites. The Department also has posted documentation on Treasury.gov about Payroll Support Agreements for airlines, and Coronavirus Relief Fund payments to States, local governments, and Tribes.

We are pleased that the Federal Reserve has also announced plans to post loan information on its website regarding its lending facilities. Chairman Powell and I had a very productive initial meeting with the four members of the Congressional Oversight Commission, and we look forward to continuing to work with them.

Conclusion

I would like to thank the members of the Committee for working with us to help the American people. I would be pleased to answer any questions you may have. Thank you.

For release at
4:00 p.m. EDT
June 29, 2020

Statement by

Jerome H. Powell

Chair

Board of Governors of the Federal Reserve System

before the

Committee on Financial Services

U.S. House of Representatives

June 30, 2020

Chairwoman Waters, Ranking Member McHenry, and other members of the Committee, thank you for the opportunity to testify today to discuss the extraordinary challenges our nation is facing and the steps we are taking to address them.

We meet as the pandemic continues to cause tremendous hardship, taking lives and livelihoods both at home and around the world. This is a global public health crisis, and we remain grateful to our health-care professionals for delivering the most important response, and to our essential workers who help us meet our daily needs. These dedicated people put themselves at risk day after day in service to others and to our country.

Beginning in March, the virus and the forceful measures taken to control its spread induced a sharp decline in economic activity and a surge in job losses. Indicators of spending and production plummeted in April, and the decline in real gross domestic product, or GDP, in the second quarter is likely to be the largest on record. The arrival of the pandemic gave rise to tremendous strains in some essential financial markets, impairing the flow of credit in the economy and threatening an even greater weakening of economic activity and loss of jobs.

The crisis was met by swift and forceful policy action across the government, including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). This direct support is making a critical difference not just in helping families and businesses in a time of need, but also in limiting long-lasting damage to our economy.

As the economy reopens, incoming data are beginning to reflect a resumption of economic activity: Many businesses are opening their doors, hiring is picking up, and spending is increasing. Employment moved higher, and consumer spending rebounded strongly in May. We have entered an important new phase and have done so sooner than expected. While this bounceback in economic activity is welcome, it also presents new challenges—notably, the need to keep the virus in check.

While recent economic data offer some positive signs, we are keeping in mind that more than 20 million Americans have lost their jobs, and that the pain has not been evenly spread. The rise in joblessness has been especially severe for lower-wage workers, for women, and for African Americans and Hispanics. This reversal of economic fortune has caused a level of pain that is hard to capture in words as lives are upended amid great uncertainty about the future.

Output and employment remain far below their pre-pandemic levels. The path forward for the economy is extraordinarily uncertain and will depend in large part on our success in containing the virus. A full recovery is unlikely until people are confident that it is safe to reengage in a broad range of activities.

The path forward will also depend on the policy actions taken at all levels of government to provide relief and to support the recovery for as long as needed.

The Federal Reserve's response to these extraordinary developments has been guided by our mandate to promote maximum employment and stable prices for the American people as well as our role in fostering the stability of the financial system. Our actions and programs directly support the flow of credit to households, to businesses of all sizes, and to state and local governments. These programs benefit Main Street by providing financing where it is not otherwise available, helping employers to keep their workers, and allowing consumers to continue spending. In many cases, by serving as a backstop to key financial markets, the programs help increase the willingness of private lenders to extend credit and ease financial conditions for families and businesses across the country. The passage of the CARES Act by Congress was critical in enabling the Federal Reserve and the Treasury Department to establish many of these lending programs. We are strongly committed to using these programs, as well as our other tools, to do what we can to provide stability, to ensure that the recovery will be as strong as possible, and to limit lasting damage to the economy.

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

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

Let me now turn to our open market operations. As tensions and uncertainty rose in mid-March, investors moved rapidly toward cash and shorter-term government securities, and the markets for Treasury securities and agency mortgage-backed securities, or MBS, started to experience strains. These markets are critical to the overall functioning of the financial system and to the transmission of monetary policy to the broader economy. In response, the Federal Open Market Committee purchased Treasury securities and agency MBS in the amounts needed to support smooth market functioning. With these purchases, market conditions improved substantially, and in early April we began to gradually reduce our pace of purchases. To sustain smooth market functioning and thereby foster the effective transmission of monetary policy to broader financial conditions, we will increase our holdings of Treasury securities and agency

MBS over the coming months at least at the current pace. We will closely monitor developments and are prepared to adjust our plans as appropriate to support our goals.

Amid the tensions and uncertainties of mid-March and as a more adverse outlook for the economy took hold, investors exhibited greater risk aversion and pulled away from longer-term and riskier assets as well as from some money market mutual funds. To help stabilize short-term funding markets, we lengthened the term and lowered the rate on discount window loans to depository institutions. The Board also established, with the approval of the Treasury Department, the Primary Dealer Credit Facility (PDCF) under our emergency lending authority in section 13(3) of the Federal Reserve Act. Under the PDCF, the Federal Reserve provides loans against good collateral to primary dealers that are critical intermediaries in short-term funding markets. Similar to the large-scale purchases of Treasury securities and agency MBS that I mentioned earlier, this facility helps restore normal market functioning.

In addition, under section 13(3) and together with the Treasury Department, we set up the Commercial Paper Funding Facility, or CPFF, and the Money Market Mutual Fund Liquidity Facility, or MMLF. Millions of Americans put their savings into these markets, and employers use them to secure short-term funding to meet payroll and support their operations. Both of these facilities have equity provided by the Treasury Department to protect the Federal Reserve from losses. After the announcement and implementation of these facilities, indicators of market functioning in commercial paper and other short-term funding markets improved substantially, and rapid outflows from prime and tax-exempt money market funds stopped.

In mid-March, offshore U.S. dollar funding markets also came under stress. In response, the Federal Reserve and several other central banks announced the expansion and enhancement of dollar liquidity swap lines. In addition, the Federal Reserve introduced a new temporary

Treasury repurchase agreement facility for foreign monetary authorities. These actions helped stabilize global U.S. dollar funding markets, and they continue to support the smooth functioning of U.S. Treasury and other financial markets as well as U.S. economic conditions.

As it became clear the pandemic would significantly disrupt economies around the world, markets for longer-term debt also faced strains. The cost of borrowing rose sharply for those issuing corporate bonds, municipal debt, and asset-backed securities (ABS) backed by consumer and small business loans. In effect, creditworthy households, businesses, and state and local governments were unable to borrow at reasonable rates and other terms, which would have further reduced economic activity. In addition, small and medium-sized businesses that traditionally rely on bank lending faced large increases in their funding needs as measures taken to contain the spread of the virus forced them to temporarily close or limit operations, substantially curtailing revenues.

To support the longer-term financing that is critical to economic activity, the Federal Reserve, in cooperation with the Department of the Treasury and using equity provided for that purpose under the CARES Act, announced a number of emergency lending facilities under section 13(3) of the Federal Reserve Act. These facilities are designed to ensure that credit would flow to borrowers and thus support economic activity.

On March 23, the Board announced that it would support consumer and business lending by establishing the Term Asset-Backed Securities Loan Facility (TALF). The TALF is authorized to extend up to $100 billion in loans and is backed by $10 billion in CARES Act equity. This facility lends against top-rated securities backed by auto loans, credit card loans, other consumer and business loans, commercial mortgage-backed securities, and other assets. The TALF supports credit access by consumers and businesses and provides liquidity to the broader ABS market. The facility made its first loans on June 25, and, to date, has extended $252 million in loans to eligible borrowers. Since the TALF was announced, ABS spreads have contracted significantly. Thus, the facility might be used relatively little and mainly serve as a backstop, assuring lenders that they will have access to funding and giving them the confidence to make loans to households and businesses.

To support the credit needs of large employers, the Federal Reserve also established the Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF). These facilities primarily purchase bonds issued by U.S. companies that were investment grade on March 22, 2020. The two facilities have a combined purchase capacity of up to $750 billion and are backed by $75 billion in CARES Act equity. Final terms and operational details on the PMCCF were announced on June 29, and it stands ready to purchase newly issued corporate bonds and syndicated loans, serving as a backstop for businesses seeking to refinance their existing credit or obtain new funding. The SMCCF buys outstanding corporate bonds and shares in corporate bond exchange-traded funds (ETFs) to facilitate smooth functioning of the secondary market. The SMCCF complements the PMCCF, because improvements in secondary-market functioning associated with the SMCCF facilitate access by companies to bond and loan markets on reasonable terms. The SMCCF launched with ETF purchases on May 12. Earlier this month, the facility began gradually reducing purchases of ETFs as it started buying a broad and diversified portfolio of individual corporate bonds to more directly support smooth functioning and market liquidity in the secondary market. Purchase volumes are tied to market functioning and are currently at very low levels. The facility currently holds a total of about $10 billion in bonds and ETF shares.

Following the announcement of the two corporate credit facilities in late March, conditions in the corporate bond market improved significantly. Credit spreads on investment-grade bonds retraced much of the widening experienced in February and March, and issuance in the primary market rebounded strongly. In the secondary market, liquidity also improved, and by mid-April, flows out of mutual funds and ETFs specializing in corporate bonds reversed.[1]

The Federal Reserve also launched the Main Street Lending Program, which is designed to provide loans to small and medium-sized businesses that were in good financial standing before the pandemic; such firms generally are dependent on bank lending for credit because they are too small to tap bond markets directly. Under the Main Street program, banks originate new loans or increase the size of existing loans to eligible businesses and sell loan participations to the Federal Reserve. The facility is backed by $75 billion in CARES Act equity and can purchase up to $600 billion in loan participations. The Federal Reserve has published all of the legal documents that borrowers and lenders will need to sign under the program and lender registration began on June 15. Loan participations will be purchased soon. Additionally, the Federal Reserve recently sought feedback on a proposal to expand the Main Street program to include loans made to small and medium-sized nonprofit organizations, such as hospitals and universities. Nonprofits provide vital services around the country, and the program would likewise offer them support.

While businesses in certain sectors that were particularly hard hit by the pandemic have reported continued difficulty in accessing credit, the Small Business Administration's Paycheck Protection Program (PPP), which draws from existing bank lines, has apparently met the

[1] See Nina Boyarchenko, Richard Crump, Anna Kovner, Or Shachar, and Peter Van Tassel (2020), "The Primary and Secondary Market Corporate Credit Facilities," Federal Reserve Bank of New York, *Liberty Street Economics* (blog), May 26, https://libertystreeteconomics.newyorkfed.org/2020/05/the-primary-and-secondary-market-corporate-credit-facilities.html.

immediate credit needs of many small businesses. In the months ahead, Main Street loans may prove a valuable resource for firms that were in sound financial condition prior to the pandemic.

To bolster the effectiveness of the Small Business Administration's PPP, on April 16, the Federal Reserve launched the Paycheck Protection Program Liquidity Facility. The facility supplies liquidity to lenders backed by their PPP loans to small businesses and has the capacity to lend up to the full amount of the PPP. As of last week, the facility held over $65 billion in outstanding term loans to participating financial institutions. The most recent monthly survey from the National Federation of Independent Business released in May indicates that small businesses have been able to meet their funding needs in recent months largely due to the PPP.[2]

To help state and local governments better manage cash flow pressures in order to continue to serve households and businesses in their communities, the Federal Reserve, together with the Treasury Department, established the Municipal Liquidity Facility (MLF). The MLF is backed by $35 billion of CARES Act equity and has the capacity to purchase up to $500 billion of short-term debt directly from U.S. states, counties, cities, and certain multistate entities. The facility became operational on May 26, and, to date, the MLF has purchased $1.2 billion worth of short-term municipal debt. With the MLF and other facilities in place as a backstop to the private market, many parts of the municipal bond market have significantly recovered from the unprecedented stress experienced earlier this year. Municipal bond yields have declined considerably, issuance has been robust over the past two months, and market conditions have improved.[3]

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[2] William C. Dunkelberg and Holly Wade (2020), *NFIB Small Business Economic Trends* (Washington: National Federation of Independent Business, May), https://assets.nfib.com/nfibcom/SBET-May-2020.pdf.
[3] See Board of Governors of the Federal Reserve System (2020), *Financial Stability Report* (Washington: Board of Governors, May), https://www.federalreserve.gov/publications/2020-may-financial-stability-report-purpose.htm.

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

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

The Federal Reserve has been entrusted with an important mission, and we have taken unprecedented steps in very rapid fashion over the past few months. In doing so, we embrace our responsibility to the American people to be as transparent as possible. With regard to the facilities backed by equity from the CARES Act, we have conducted broad outreach and sought public input that has been crucial in their development. For example, in response to comments received, the Treasury and the Federal Reserve have made a number of changes to expand the scope of the Main Street Lending Program to cover a broader range of borrowers and to increase the flexibility of loan terms. And we are now disclosing and will continue to disclose, on a monthly basis, names and details of participants in each facility; amounts borrowed and interest rate charged; and overall costs, revenues, and fees for each of these facilities.

We recognize that our actions are only part of a broader public-sector response. Congress's passage of the CARES Act was critical in enabling the Federal Reserve and the

Treasury Department to establish many of the lending programs. The CARES Act and other legislation provide direct help to people, businesses, and communities. This direct support can make a critical difference not just in helping families and businesses in a time of need, but also in limiting long-lasting damage to our economy. We understand that the work of the Federal Reserve touches communities, families, and businesses across the country. Everything we do is in service to our public mission. We are committed to using our full range of tools to support the economy and to help assure that the recovery from this difficult period will be as robust as possible.

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

Credit Union National Association
CUNA

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99 M Street SE
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June 30, 2020

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
Washington, DC 20515

Dear Chairwoman Waters and Ranking Member McHenry,

On behalf of American's credit unions, I am writing to express our views ahead of the hearing titled "Oversight of the Treasury Department's and Federal Reserve's Pandemic Response." The Credit Union National Association (CUNA) represents America's credit unions and their 115 million members.

Under Chairman Powell and Secretary Mnuchin's leadership, the Board of Governors of the Federal Reserve System (the Board) and the Department of the Treasury have taken unprecedented actions to stabilize the economy during the COVID-19 pandemic. The unprecedented shutdown of the American and world economies has led to economic uncertainty for individuals and businesses of all types. Changes to regulations and the creation of new lending programs have and will continue to help individuals and business weather the storm.

Regulation D
Credit unions fully supports the changes the Board made to reserve requirements of transaction accounts. The changes announced on March 15th reduced reserve requirement ratios to zero percent, eliminating the requirements for all depository institutions. After eliminating the reserve requirements, the Board announced on April 24th an interim final rule to amend Regulation D (Reserve Requirements of Depository Institutions) to delete the six-per-month limit on convenient transfers from the "savings deposit" definition. This interim final rule made it clear that credit unions and other depository institutions could immediately suspend the six-transfer limit. This change to Regulation D allows consumers to make an unlimited number of convenient transfers and withdrawals from their savings deposits.

The amendment to Regulation D is a change that credit unions have long sought and CUNA thanks the Board for simplifying the operation of accounts and eliminating a requirement that can confuse credit union members. Removing the transfer limit also gives consumers more access to their money, which is especially important during the pandemic when consumers have more limited access to their accounts.

Paycheck Protection Program
We appreciate Congressional efforts to establish the Paycheck Protection Program (PPP) created by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. PPP has provided loans to many small businesses in need across the United States during these challenging times.

Credit unions welcomed the opportunity to help Americans by making PPP loans to small businesses that desperately needed help. We understand that rolling out this unique lending program was challenging for the Small Business Administration (SBA) and clearly the product was still being developed as credit unions and other lenders were originating loans.

Unfortunately, the compressed timeframe in which the PPP was enacted and implemented resulted in many challenges for our member credit unions in making, processing, and disbursing loans. Although money did flow to small businesses through the PPP, the launch and relaunch of the PPP after the second round of funding was difficult for both borrowers and financial institutions, as there were many problems with the process. We remind the Committee and Treasury Department that credit unions are a vital component to the delivery of financial services to many Americans and that credit union members should have equal access to the PPP just as those that choose to borrow from large banks. At times during the initial phase and start of the second phase of the PPP, access was not uniform across all financial institutions, which may have frustrated Americans that accessed PPP loans through smaller financial institutions.

Paycheck Protection Program Liquidity Facility

We also note the Board quickly created the Paycheck Protection Program Liquidity Facility to provide liquidity to eligible financial institutions that made PPP loans. This facility provided a source of liquidity to financial institutions that may have needed flexibility after making PPP loans. This program made it easier for credit unions and other financial institutions to make PPP loans without causing anxiety about liquidity from the loans.

Liability concerns

Credit unions expressed concern with liability stemming from the PPP at the outset of the program. Nevertheless, credit unions charged ahead and made loans to desperate small businesses before many aspects of the PPP were developed. Now, partially as a consequence of this planned concurrence, lawsuits are being filed to remedy perceived issues with aspects of the PPP. The interim final rules provided little guidance on critical aspects of the program, such as the documentation required to determine eligibility, the process for submission and approval of the loans by the SBA, the collection of servicing fees, and the determination of funds to be forgiven. Historically, collection of SBA guarantees has proved challenging and, at times, frustrating. This lack of guidance shifts too much liability to the lender and, despite the guarantee, creates too much process risk relative to the limited interest rate.

Lawsuits have recently been filed over agent compensation and the denial of loans to certain types of business. It remains to be seen whether financial institutions even had impact over these and many other issues, but as the lenders, many will be dragged into lawsuits with little ability to address risk prior to making PPP loans. The SBA must address lender liability or it will risk losing lenders willing to make PPP loans.

Easing process for loan forgiveness is imperative

As you know, the key to PPP is loan forgiveness. This unique feature effectively turns a PPP loan into a grant if specific conditions are met for the use of the borrowed funds. Loan forgiveness helps support businesses by providing them funding to pay employees and certain other expenses that will not have to be repaid, allowing businesses to stay solvent in a time of decreased revenues. The size and sophistication of borrowers varies widely from large public corporations to the self-employed. In fact, some credit unions made PPP loans to members for less than $1,000. Although borrower size and sophistication varies widely, we suspect that nearly all borrowers envision applying for and receiving forgiveness for these loans. Credit unions are concerned that the recently published application for loan forgiveness is overly complex for most businesses.

We ask Congress to ensure Treasury and the SBA simplify the forgiveness application process for loans under $350,000. This threshold would capture the vast majority of loans and is the amount at which the CARES Act makes the lowest cutoff in determining lender processing fees. Additionally, the agencies should consider making forgiveness of these loans automatic or simply require a good faith certification that the funds were spent on forgivable expenses.

Ongoing Concerns with the Paycheck Protection Program

CUNA recently submitted a comment letter to the SBA outlining ongoing challenges and concerns with the PPP, some of which are included briefly in this letter.

Although the pace of PPP lending has slowed operational challenges remain and should be addressed if additional funding is provided. These include:

- Lack of support from the SBA to provide timely feedback on issues;

- Lack of updating guidance and forms to reflect privately insured state-chartered credit unions are eligible
- to be PPP lenders;
- Lender prioritization guidance;
- Official guidance formalizing the use of SBA forms; and
- Lack of guidance on the purchasing process of loans.

Central Liquidity Facility (CLF)
The CARES Act included a much-needed expansion of the National Credit Union Administration's Central Liquidity Facility (CLF), allowing corporate credit unions to act as agents for natural person credit unions and expanding the CLF's borrowing authority from 12 times the paid in capital to 16 times. These changes make the CLF more accessible to credit unions and expand the amount of liquidity NCUA could provide credit unions. These measures are currently scheduled to sunset at the end of 2020.

Given the unprecedented nature and the depth of this pandemic and the subsequent economic crisis, we urge Congress to:

- Expand the CLF's borrowing authority to 25 times the paid in capital;
- Extend the expanded borrowing authority until December 31, 2021; and to
- Make permanent the ability of corporate credit unions to act as agents for credit unions.

The consequence of not having these provisions in place prior to this crisis is that NCUA has had to engage in a membership campaign for the CLF, asking credit unions to contribute capital to the facility at the very time credit unions are most reluctant to give up capital. Congress should take steps to ensure the long-term viability of the CLF so that it can be prepared to help credit unions in future crises.

Economic Impact Payments (EIP)
We understand the vast majority of eligible Americans have received their Economic Impact Payments (EIP). There were many challenges in rolling out these payments, but believe the process could have been handled better. The Internal Revenue Service (IRS) and Treasury provided little information to our members through this process. Furthermore, the IRS was unable to provide our members real-time information on checks, which would have helped mitigate fraud. Although most payments have been sent, the IRS and Treasury should study errors made and fix problems to prepare for any future additional payments. Congress should also act to adopt legislation that protects stimulus payments from garnishment. This is a complex issue but we understand Congress is working on legislation that would mostly remedy this problem. Senators Grassley and Brown have introduced legislation, S. 3841 which would protect EIP payments from garnishment.

On behalf of America's credit unions, thank you for the opportunity to share our views.

Sincerely,

Jim Nussle
President & CEO

Attachment: May 29, 2020 - Letter to Secretary Mnuchin and Administrator Carranza

Credit Union National Association CUNA

AACUL American Association of Credit Union Leagues

May 29, 2020

The Honorable Steven Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Jovita Carranza
Administrator
U.S. Small Business Administration
409 Third Street, SW
Washington, DC 20416

Dear Secretary Mnuchin and Administrator Carranza:

We, the undersigned state credit union associations and leagues (Leagues), which comprise the American Association of Credit Union Leagues (AACUL), and the Credit Union National Association (CUNA), thank you for your hard work and ongoing leadership during this crisis. State credit union leagues, AACUL, and CUNA represent credit unions across the nation and their 115 million members.

We appreciate the Department of Treasury and Small Business Administration's (SBA) diligent efforts to facilitate the Paycheck Protection Program (PPP) created by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. PPP has provided loans to many small businesses in need across the United States during these challenging times. Credit unions have used this program to help their member small businesses meet important financial needs.

As you know, the linchpin of PPP is loan forgiveness. This unique feature effectively turns a PPP loan into a grant if specific conditions are met for the use of the borrowed funds. Loan forgiveness helps support businesses by providing them funding to pay employees and certain other expenses that will not have to be repaid, allowing businesses to stay solvent in a time of decreased revenues.

As the PPP transitions from lending money to small businesses to the loan forgiveness phase, lenders and borrowers are starting to wrestle with the requirements for loan forgiveness. The size and sophistication of borrowers varies widely from large public corporations to the self-employed. In fact, some credit unions made PPP loans to members for less than $1,000. Although borrower size and sophistication varies widely, we suspect that nearly all borrowers envision applying for and receiving forgiveness for these loans.

Credit unions are concerned that the recently published application for loan forgiveness is overly complex for most businesses. The complexity of the forgiveness process presents an even greater challenge for small business as they have fewer resources to deploy on an overly complex application process. Moreover, feedback from our members indicates that the forms will likely require help from outside accountants and even attorneys for most businesses. This is an expense many of the smallest businesses cannot afford. Creating an overly complex forgiveness process would seem to be the antithesis to the spirit of a program designed to rapidly deploy resources to small business especially when the expectation is that the funds appropriated to PPP were never expected to be repaid.

Particularly troubling for small businesses is calculating covered expenses. The process requires that business make several calculations to determine the highest covered expenses. This requires borrowers to determine if it is better to use the traditional covered period, or the alternative covered period. Payroll costs can include items as far ranging as salary, wages, commission, and cash tips to parental, family, medical or sick leave, and payment for the provision of employee benefits consisting of group health care coverage, insurance premiums, and retirement among many other items. For an independent contractor or sole proprietor, wages, commissions, income, or net earnings from self-employment, or similar compensation must be determined. The process becomes even more complex if a small business has to consider pension costs. These are cumbersome calculations to make without assistance.

Credit unions are concerned borrowers may rely on them for assistance in checking whether business have properly calculated forgiveness amounts. Although credit unions are required to review a forgiveness application and supporting documentation to make a forgiveness decision, this review process should not be relied on by borrowers to help complete applications. The calculation worksheet provided in the guidance is very helpful, but this is a serious undertaking for any borrower to calculate correctly.

We recommend that Treasury and the SBA revamp the forgiveness application process for loans under \$350,000. This threshold captures the vast majority of loans and is the amount at which the CARES Act makes the lowest cutoff in determining lender processing fees. Furthermore, the process could be simplified even more or made automatic for the smallest of borrowers requiring nothing more than a good faith certification that the funds were spent on forgivable expenses. This threshold could be set much lower, for example at \$50,000.

Credit unions are committed to providing financial services to Americans through this crisis and recovery. On behalf of the state credit union leagues, AACUL, CUNA and our 115 million members, thank you for your leadership during this crisis and the consideration of our views.

Sincerely,

Jim Nussle, President and CEO
Credit Union National Association

Diana Dykstra, AACUL Chair
President and CEO
California & Nevada Credit Union League

Daniel McCue, President and CEO
Alaska Credit Union League

Bruce Adams, President & CEO
Credit Union League of Connecticut

Dan Schline, President and CEO
Carolinas Credit Union League

Ron McLean, President and CEO
Cooperative Credit Union Association

Caroline Willard, President and CEO
Cornerstone Credit Union League

Patrick Conway, President and CEO
CrossState Credit Union Association

Jeff Olson, President and CEO
Credit Union Association of the Dakotas

Dennis Tanimoto, President and CEO
Hawaii Credit Union League

Brad Douglas, President and CEO
Heartland Credit Union Association

Tom Kane, President and CEO
Illinois Credit Union System

John McKenzie, President and CEO
Indiana Credit Union League

Murray Williams, President and CEO
Iowa Credit Union League

Debbie Painter, President and CEO
Kentucky Credit Union League

Patrick La Pine, President and CEO
League of Southeastern Credit Unions

Bob Gallman, President and CEO
Louisiana Credit Union League

Todd Mason, President and CEO
Maine Credit Union League

John Bratsakis, President and CEO
Maryland | DC Credit Union Association

Dave Adams, President and CEO
Michigan Credit Union League & Affiliates

Mark Cummins, President and CEO
Minnesota Credit Union Network

Charles Elliott, President and CEO
Mississippi Credit Union Association

Tracie Kenyon, President and CEO
Montana's Credit Unions

Scott Earl, President and CEO
Mountain West Credit Union Association

J. Scott Sullivan, President and CEO
Nebraska Credit Union League & Affiliates

Paul Stull, President and CEO
Credit Union Association of New Mexico

William Mellin, President and CEO
New York Credit Union Association

Troy Stang, President and CEO
Northwest Credit Union Association

Paul Mercer, President and CEO
Ohio Credit Union League

Fred Robinson, President and CEO
Tennessee Credit Union League

Scott Simpson, President and CEO
Utah Credit Union Association

Ken Watts, President and CEO
West Virginia Credit Union League

Joe Bergeron, President and CEO
Association of Vermont Credit Unions

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NAFCU
National Association of Federally-Insured Credit Unions

June 30, 2020

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Re: Today's Hearing, "Oversight of the Treasury Department's and Federal Reserve's Pandemic Response"

Dear Chairwoman Waters and Ranking Member McHenry:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share our thoughts on some key areas ahead of today's hearing, "Oversight of the Treasury Department's and Federal Reserve's Pandemic Response." NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 120 million consumers with personal and small business financial service products.

Paycheck Protection Program
Credit unions greatly appreciate that they were included as lenders under the Paycheck Protection Program (PPP), which is administered by the Small Business Administration (SBA) in coordination with the Treasury Department. The PPP been very successful and an important tool that credit unions have used to help their small business members survive the lockdowns required by the current pandemic. However, there remain some issues that we believe need to be addressed. As you know, credit unions and their members were initially overwhelmed by the complexity of the PPP loan forgiveness process. We greatly appreciate that the SBA and Treasury acted swiftly to release a revised, borrower-friendly loan forgiveness application implementing changes made by H.R. 7010, the *Paycheck Protection Program Flexibility Act*, as well as a new "EZ" version of the forgiveness application for borrowers who meet certain criteria. However, more still needs to be done to help the smallest of businesses, many of whom may not have the staff or expertise for the application, especially with the current economic challenges.

NAFCU member credit unions report making PPP loans in amounts much lower than the national average of both rounds of funding. As such, NAFCU is supportive of automatic loan forgiveness for PPP loans under a $150,000 threshold. Loans under $150,000 account for 85 percent of PPP recipients but only account for 26 percent of the funds disbursed by the SBA. This level would cover the majority of credit union loans, the vast majority of which have been to smaller businesses that could most benefit from this automatic forgiveness. A smaller PPP loan is less likely to pose a high risk of fraud so the benefits to all small businesses and lenders of providing this automatic or simplified forgiveness significantly outweigh the potential risks. Moreover, automatic forgiveness frees up human capital at a time when credit unions and small businesses may be short-staffed due to ramifications of COVID-19.

Understandably, the forgiveness application is one mechanism to uncover fraudulent activity; however, there are others and the SBA retains the right to review a borrower's loan documents for six years after the date the loan is forgiven or repaid in full. NAFCU would urge Congress, the SBA and Treasury to improve the forgiveness process by considering automatic loan forgiveness for loans below a $150,000 threshold.

Regulation D Transfer Limit
Furthermore, NAFCU would like to express our support for the Federal Reserve's recent interim final rule that eliminates the Regulation D transfer limit. NAFCU agrees that implementation of monetary policy through an ample reserves regime does not necessitate a limit on the number of withdrawals or transfers made from a savings deposit. The interim final rule will provide important relief to credit union members during a time of elevated anxiety and financial stress by permitting unrestricted access to funds in savings accounts. Moreover, the interim final rule reduces the compliance burdens borne by credit unions that were previously required to enforce the limit and monitor member savings accounts. We were pleased to see that the Federal Reserve has clarified that they have no plans to reimpose this transfer limit in the future.

FedAccounts Proposal
Finally, NAFCU would like to reiterate our concern with the Committee's proposal to create a new "FedAccounts" system in order for consumers to deposit stimulus payments. The development of such a system may not realistically happen soon enough to help Americans during this crisis and could create major disruptions in the U.S. banking system that have not been fully vetted. NAFCU recognizes that it is critical that consumers have a fast and safe means to receive their much-needed economic impact payments (EIPs) during these uncertain times. To that end, we have worked to identify technical improvements to EIP delivery mechanisms through dialogue with Treasury. These improvements are designed to promote the fast and secure delivery of EIPs using electronic payment rails and direct deposit. NAFCU is open to continuing to work with Treasury and other financial agencies to advance the end goals of financial inclusion and better delivery of EIPs, but tasking the Federal Reserve with developing a wholly new retail banking operation would divert resources away from other important initiatives and overlook opportunities to improve the ability of credit unions to reach underserved or underbanked communities. Moreover, the Federal Reserve may not have the bandwidth to develop a FedAccounts system, and NAFCU believes its resources would be better directed toward finalizing FedNow, its proposed real-time payment system, so that Americans can more quickly receive their EIPs.

Instead of creating an entirely new paradigm via the proposed FedAccounts, to expeditiously promote financial inclusion, we suggest that you consider steps to take advantage of underused capacity in our current banking system. For instance, credit unions want to help Americans who are unbanked, underbanked or underserved by a financial institution, but many are statutorily limited in their ability to add underserved areas to their field of membership. Currently, only multiple common bond federal credit unions are permitted to add underserved areas to their fields of membership under the *Federal Credit Union Act* (FCU Act). As such, financial inclusion can be advanced by amending the FCU Act to allow all credit unions to add underserved areas to their field of membership. This request has bipartisan support from National Credit Union Administration (NCUA) Chairman Rodney Hood and Board Member Todd Harper. It has also had bipartisan support in previous Congresses. We strongly urge you to include this proposal in your next pandemic response package.

We thank you for your leadership and ongoing efforts to support American consumers and financial institutions during these uncertain times. We appreciate the opportunity to share our input and look forward to continuing to work with the Committee on these issues. Should you have any questions or require any additional information, please contact me or Sarah Jacobs, NAFCU's Associate Director of Legislative Affairs, at (571) 289-7550.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Committee on Financial Services

Questions for the Record
Full Committee Hearing, "Oversight of Treasury Department's and Federal Reserve's Pandemic Response"
Tuesday, June 30, 2020

Chairwoman Maxine Waters

Question:

Economic Impact Payments. On June 25, 2020, GAO issued its 90 Day Report mandated under the CARES Act that identified several issues with the delivery of economic impact payments specifically "(1) identifying and then delivering payments to people who did not file tax returns for 2018 or 2019, including recipients with low adjusted gross incomes or whose sole income is federal benefits, such as Social Security; (2) delivering payments to recipients without bank accounts or who have limited or no internet access; and (3) quickly distributing paper checks, given that Treasury has capacity to deliver 5 to 7 million paper checks a week in addition to checks for other federal programs."

Secretary Mnuchin, can you please describe the efforts being made to deliver economic impact payments to individuals who did not file income tax returns in 2018 and 2019 and to individuals without bank accounts or with limited or no internet access?

Response:

Treasury and the Internal Revenue Service (IRS) have taken steps to deliver Economic Impact Payments (EIPs) to as many eligible individuals as quickly as possible. We have worked with the Social Security Administration (SSA) and the Department of Veterans Affairs (VA) to automatically distribute payments to retirees, veterans, and other individuals who receive certain federal benefits but have no need to file a tax return. We also established a Non-Filers online tool at IRS.gov for others who typically do not file a tax return to register for their payments. Over seven million individuals and families have taken advantage of that tool.

Further, on September 8, the IRS announced that they will be sending letters to roughly 9 million Americans who typically do not file federal income tax returns and may be eligible for, but have yet to claim, an EIP.[1] This effort reflects a significant commitment of resources by Treasury and the IRS to identify individuals for whom tax return and federal benefit information was not readily available and who may not have yet received a payment, and the letters will go out as soon as possible this month.

Additionally, in April 2020, the IRS created the EIP Initiative to nationally distribute communications to stakeholders and community organizations serving individuals experiencing homelessness. The IRS created numerous publications, including two flyers to help publicize the EIP to Americans experiencing homelessness. Many of our outreach materials have been

[1] *See* https://www.irs.gov/newsroom/irs-to-mail-special-letter-to-estimated-9-million-non-filers-urging-them-to-claim-economic-impact-payment-by-oct-15-at-irsgov.

translated into more than 30 languages. We used existing federal agency partnerships with the VA, Department of Health and Human Services, Office of Child Support Enforcement, Office of Community Services, Office of Head Start, Office of Family Assistance, and Department of Housing and Urban Development. We also engaged in partnerships with state governments, local governments, and thousands of non-government organizations that help the homeless. We created these partnerships to emphasize greater coordination, outreach, and leveraging of existing services. For additional detail regarding these efforts, please refer to our answer to Question 5.

Question:

Secretary Mnuchin, it has been reported that many recipients of these cards inadvertently threw away these cards that were delivered in plain white envelopes that did not indicate they were from the federal government.[1] What if any action was taken to alert individuals that would be receiving their economic payments in the form of prepaid debit card? How is Treasury assisting recipients who inadvertently discarded these cards obtain replacement ones?

Response:

Currently, 92 percent of all delivered EIP debit cards (EIP Cards) have been activated—and this percentage continues to increase.

Plans to issue some EIPs by debit cards were publicly announced in April and described in greater detail in a Treasury press release in May. Additionally, significant outreach was conducted to groups such as the National Consumer Law Center and American Association of Retired Persons, as well as to other federal agencies such as the Consumer Financial Protection Bureau, to help notify various constituencies.

When we began receiving reports of discarded EIP Cards, we quickly worked with our financial agent and the card issuer, MetaBank, to address this matter. We waived the fee for the first reissuance of any EIP Card and reversed any initial reissuance fee that was charged to a recipient from an earlier date. In early July, a letter was sent to those cardholders who had not yet activated their EIP Cards. This letter included instructions on how to request a replacement card at no cost for those who may have inadvertently thrown their EIP Card away.

As you note, EIP Cards were delivered in a plain white envelope, which we chose for security reasons.

Question:

Secretary Mnuchin, the cardholder agreement for this prepaid debit card includes a fee schedule for certain transactions, including a $5 fee for withdrawing cash from the card through a bank teller, and a $17 priority shipping fee if you want replacement card shipped within 4-7 business

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[1] *People are accidentally throwing out their stimulus payments – because they look like junk mail,* NBC News (May 28, 2020), *available at* https://www.nbcnews.com/business/consumer/people-are-accidentally-throwing-out-their-stimulus-check-because-it-n1216991.

days. How did Treasury set the fee schedule? Did it negotiate with Metabank or Money Network Financial the fees that would be charged? How much is Treasury paying Metabank or Money Network Financial to issue and administer these prepaid cards?

Response:

EIP Cards were issued under a longstanding Treasury program known as the U.S. Debit Card Program. Treasury selected MetaBank as its financial agent for that program pursuant to a competitive process conducted in 2016. Fee negotiations comprised a part of that competitive process. For the EIP Card, MetaBank agreed to eliminate an inactivity fee, waive the fee for the first over-the-counter cash withdrawal from a bank teller, reduce the fee for subsequent withdrawals, and waive the fee for the first replacement card.

There are many ways individuals can use their EIP Card with little to no fees. For example, they can make signature or PIN-debit purchases anywhere Visa Debit Cards are accepted, including in stores, online, or over the phone. Individuals can get free cash back at in-network ATMs and can transfer funds to a personal bank account with no fee.

In fiscal year 2020, Treasury has paid $10,946,634 to MetaBank for operating the U.S. Debit Card program.

Question:

Garnishing Stimulus Payments.

As everyday hardworking Americans try to deal with this unprecedented crisis, I am troubled by recent reports that some banks have taken stimulus payments from individuals and families with garnishment orders or negative account balances to offset unrelated debts owed to them. As you know, Congress passed the CARES Act to provide direct assistance to the millions of Americans experiencing economic hardship as a result of the COVID-19 pandemic, not to enable financial institutions to engage in debt collection.

Secretary Mnuchin, when will Treasury issue guidance articulating your expectation that financial institutions refrain from taking stimulus funds away from their customers during a time when they need it the most?

Response:

Treasury shares Congress' desire to provide direct economic assistance to Americans during this time. As provided in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Treasury delivers an EIP without offsets, except for any delinquent child support obligations owed by the payee. An EIP may not be offset for other types of delinquent debts, such as unpaid student loans, and any such payment cannot be reduced to collect delinquent taxes.[2] Once

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[2] *See* CARES Act, Pub. L. 116-136, § 2201(d).

Treasury has delivered the payment, state law controls whether it is subject to garnishment or other debt collection.

Question:

FedAccounts. To date, over 150 million individuals have received an economic income payment (EIPs) through check, ACH, Direct Express Debit cards, or through the new prepaid card partnership with MetaBank and Visa. However, it is unclear how these payments will reach the unbanked and homeless populations, populations that are predominantly black and brown. This Committee has put forth the idea of providing unbanked individuals access to a basic, no fee FedAccount that could be used to ensure that any future stimulus payments will be easily transmitted to accounts without lag or delay.

Chair Powell and Secretary Mnuchin: As witnesses testified before our Fintech Task Force, we have had millions of unbanked for decades, and we should start exploring a public option like postal banking or FedAccounts. What are your thoughts on those ideas, and what can we learn from the CARES Act stimulus payments to design a more safe and efficient way to deliver payments to individuals and families?

Response:

The Treasury Department and the IRS would consider the potential effectiveness of those EIP delivery proposals. Since the enactment of the CARES Act, we have continued to explore ways to improve our ability to deliver this much-needed relief to the American people.

For example, the IRS has leveraged its experience in delivering EIPs as part of its specialized outreach to potential organizations nationwide that might (i) assist individuals experiencing homelessness in receiving an EIP, and (ii) share IRS-related EIP resources with them. The IRS has asked these organizations to act as a "trusted partner" to receive payments on behalf of their homeless clients. More than 300 organizations agreed when asked by the IRS if they would act as a "trusted partner" and allow homeless persons to use their physical address to receive an EIP. In addition, organizations across the country continue to work in local communities with the homeless and other under-served individuals to share EIP information, including information on how homeless individuals can provide a mailing address for a payment. These efforts include (i) volunteer efforts at IRS-supported Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites, as well as low-income taxpayer clinics, and (ii) sharing information with social service groups, non-profits, faith-based institutions, and an array of federal, state, and local agencies such as the Consumer Financial Protection Bureau. Thousands of organizations have been reached, and these efforts continue.

In addition, and following up on our response provided to Question 1, the Treasury Department and the IRS have conducted outreach with homeless service providers as well as other organizations that work closely with the homeless and other underserved groups. The IRS has made tens of thousands of contacts with a variety of non-profits, social service agencies, state and local organizations, and many others with millions of members to share information related to EIPs. This includes food banks, faith-based organizations, and SNAP organizations. For example, as of June 12, 2020, the IRS has reached out to more than 4,500 homeless shelters with information on how to obtain an EIP. The IRS has shared information with the Department of Housing and Urban Development, including the Continuum of Care Program,[3] to provide information to individuals experiencing homelessness to assist them in submitting information needed to obtain an EIP.

Question:

Oversight. As the result of Congressional directives to bolster the U.S. economy during the COVID-19 pandemic, hundreds of billions of dollars of funds have been distributed in a matter of weeks. Congress recognized the potential for fraud and abuse with the distribution of these funds and created the Special Inspector General for Pandemic Recovery, Pandemic Response Accountability Committee, and Congressional Oversight Commission to investigate and audit COVID-19 programs. Despite efforts by the White House to limit the effectiveness and authority of these oversight bodies, they must have unlimited access to necessary information to protect against waste, fraud, and abuse in the distribution of stimulus funding.

Secretary Mnuchin and Chair Powell, what actions have been taken by your agencies to cooperate with the oversight bodies created by the CARES Act?

Response:

We have dedicated teams of people working around the clock responding to near-daily requests from Congress and six oversight bodies related to either the CARES Act or the COVID-19 pandemic more generally. Since the CARES Act's enactment on March 27th (6 months ago), we have sent approximately 600 letters in response to inquiries or feedback from Members of Congress. Since enactment, our oversight bodies have initiated more than 25 formal audits or engagements, and we've responded to hundreds of requests for documents and meetings.

Secretary Mnuchin and Chair Powell, will you commit to providing full and transparent information to the oversight bodies created in the CARES Act, including the Congressional Oversight Commission, within a reasonable time?

Response:

As noted above, we have dedicated teams of people working around the clock responding to near-daily requests from Congress and six oversight bodies related to either the CARES Act or the COVID-19 pandemic more generally. Since the CARES Act's enactment on March 27th (6 months ago), we have sent approximately 600 letters in response to inquiries or feedback from Members of Congress. Since enactment, our oversight bodies have initiated more than 25 formal audits or engagements, and we've responded to hundreds of requests for documents and meetings. We will continue to provide information to accommodate our oversight bodies' various interests related to the CARES Act.

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[3] *See* https://www.hud.gov/hudprograms/continuumofcare.

Question:

Operations / Cybersecurity. Implementing the requirements of the CARES Act during the pandemic has surely been a demanding task for both the Federal Reserve and the Treasury Department. Redirecting assets and changing priorities while the workforce at both agencies are in a predominately full-time telework posture must pose serious challenges. Even before the pandemic, major cyber threats posed a serious risk and key positions such as cybersecurity personnel and other specialists remained understaffed government wide. In the midst of these risks, both agencies are required to administer CARES Act programs and funding.

Chair Powell and Secretary Mnuchin, please describe efforts of your agencies to ensure they are fulfilling their obligations under the CARES Act while also meeting the challenges of maintaining operations, including a robust cybersecurity program, during the pandemic.

Response:

Treasury maintains a robust telework capability and was able to quickly and robustly provision telework capabilities for all staff of Departmental Offices. Treasury was also able to pivot its unclassified cybersecurity operations center to a virtual construct. Treasury quickly implemented additional collaborative capabilities including video teleconferencing to support stakeholders both within and outside the Department.

Treasury has reprioritized technology staff workloads to accommodate the urgent delivery of applications related to the implementation of the CARES Act, including the Payroll Support Program, Treasury's loans to air carriers and other businesses, and the Coronavirus Relief Fund. The Department leveraged existing development platforms to build and deploy multiple secure web portals, a case management system, and an administration hub for post-award Payroll Support Program recipient compliance.

Furthermore, Treasury increased focus on threat awareness and mitigation by issuing over a dozen threat advisories, primarily dealing with Treasury remote work capabilities and remote VPN best practices to ensure remote connections are secured and carefully monitored. In addition, overall Treasury's cyber risk management performance improved after necessary cyber control metrics were implemented across the enterprise, resulting in increased cyber compliance. Finally, Treasury also ensured that high-value assets supporting the CARES Act continued to operate in a secure manner.

Question:

Lack of Participation by Minority-Owned Businesses in the PPP Program. Global Strategy Group recently conducted a survey on the impact of the pandemic on Black and Hispanic owned small businesses and non-profits. According to the survey, 45% of these businesses report that they will have to close by the end of the year, perhaps sooner, despite the hundreds of billions of dollars provided for small businesses through the PPP program.[4] The survey also found that only 12% responded that they received the full amount they requested from the PPP program, even though 51% of those surveyed indicated they applied for less than $20,000.

Secretary Mnuchin, how do you respond to these findings, and what steps are you taking to ensure that lenders participating in the PPP program provide much needed funding to small minority-owned businesses?

Response:

The Secretary shares your interest in making the PPP available and accessible to as many of America's job creators and their employees as feasible. The Small Business Administration (SBA) and Treasury engaged in extensive efforts to expand the PPP's reach. As of August 8, 2020, more than 5 million PPP loans had been approved by nearly 5,500 lenders, helping to support an estimated 51 million jobs and more than 80 percent of small business payroll. Guidance was issued to all lenders asking them to redouble their efforts to assist eligible borrowers in underserved and disadvantaged communities.[5] More than 430 Community Development Financial Institutions and Minority Depository Institutions participated as lenders, approving over 221,000 loans for more than $16 billion. With an average loan size of approximately $100,000, the program is serving the smallest of businesses. PPP loans have also been broadly distributed, with about 27 percent of the funds going to low and moderate income communities, which is in proportion to their percentage of the population.

A recent study by the D.C. Policy Center, looking at the distribution of PPP loans in the District of Columbia, determined that "despite accounting for only 5.9 percent of all businesses in the District, women-owned businesses constituted 10.3 percent of establishments that received loans above the $150,000 threshold (203 out of the 1,989 establishments that we were able to match)." Businesses owned by people of color followed a similar trend, accounting for 12 percent of the loans, while representing just 6 percent of overall businesses in D.C. Importantly, women-owned businesses formed 18.2 percent of loans above $5 million, and people of colored-owned businesses represented 27.3 percent of loans above $5 million."

Question:

Secretary Mnuchin and Chair Powell, a New York Times article last month[6] describing the Global Strategy Survey referenced a survey of small businesses by the Census Bureau indicating that three quarters of those surveyed had requested a PPP loan and of those 38% received funding. The overall numbers for small businesses are vastly different from those of small minority-owned businesses. While the loan forgiveness forms voluntarily request demographic information, what is the status of efforts to gather information, including collecting data from

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[4] https://www.unidosus.org/about-us/media/press/releases/051820-UnidosUS-Press-Release-COVID-19-Survey-Black-and-Latino-Small-Business.
[5] See https://www.sba.gov/sites/default/files/2020-07/SBA%20Administrator%20Letter%20re%20Underserved%20Communities%206-15-20-508.pdf.
[6] https://www.nytimes.com/2020/05/18/business/minority-businesses-coronavirus-loans.html.

lenders, to better understand the demographics of the businesses receiving PPP loans and those that have been denied those loans?

Response:

The SBA is working to collect more demographic information from borrowers to better understand which small businesses are benefiting from PPP loans. The loan forgiveness application expressly requests demographic information from borrowers, but SBA has no authority to require PPP borrowers to submit information on race and ethnicity.

Question:

Supporting Workers through Emergency Lending. **Secretary Mnuchin and Chair Powell**, it seems that your two agencies are interpreting the CARES Act to mean that major corporations that receive direct support through the Primary Market Corporate Credit Facility do not have to comply with the CARES Act restrictions on pausing share buybacks, dividend payments, and executive compensation. The corporate credit facilities are perceived to be a key factor in keeping the stock markets functioning effectively, but that does not mean that our economy is healthy. The CEO of Cinemark told shareholders on an earnings call that corporate bond markets "didn't come with any of the strings attached that government-backed facilities can include. It was really no more complicated than that."

Chair Powell and Secretary Mnuchin, are you concerned that by not applying any conditions to the corporate credit facilities, you are enabling corporations to receive public money with no strings attached and contributing to the dynamic where Wall Street recovers quickly but American workers do not?

Response:

Following the passage of the CARES Act, the Department of the Treasury, working with the Federal Reserve Board, established and implemented the Primary Market Corporate Credit Facility (PMCCF) and Secondary Market Corporate Credit Facility (SMCCF) to support the flow of credit and provide important relief to American workers and businesses that have been negatively impacted by the COVID-19 pandemic. The PMCCF and SMCCF have been established in compliance with the requirements of the CARES Act and section 13(3) of the Federal Reserve Act.

Question

The CARES Act language instructing Treasury to work with the Fed to set up what a facility for assistance to mid-sized businesses required recipients of aid to maintain their workforce at 90%, but the Main Street Lending Program merely requires firms to make "commercially reasonable" efforts to maintain their workforce. The Congressional Oversight Commission published its second report last week, and suggested that your answer to an inquiry about Main Street Lending borrowers' compliance with the programs' workforce maintenance restrictions suggest that

Treasury and the Fed will not monitor whether individual businesses that receive Main Street loans are making 'commercially reasonable efforts' to maintain payroll.

Secretary Mnuchin and Chair Powell, is the Congressional Oversight Commission's conclusion accurate? Setting aside the legal question of whether you technically could design the facility in the manner that you did, do you believe that the Main Street Lending Program is consistent with congressional intent to provide support for various businesses? Was it so they could take the money and be allowed to lay off a bunch of workers or not otherwise be required to rehire workers?

Response:

We appreciated the Commission's various suggestions for Main Street and continue to explore ways to improve the program. We note that the nonprofit Main Street facilities became operational on September 4, subsequent to the Congressional Oversight Commission's hearing. Additionally, the aggregate amount and volume of loans, as well as the number of banks extending Main Street loans, continue to expand. Currently, banks registered for Main Street account for over 60% of banking assets. We acknowledge that while the opening of Main Street had a long lead time given the program's complexity and lack of precedent, we underscore that the program's goal is to provide longer term bridge financing. Additionally, Main Street came online shortly after the Paycheck Protection Program had already provided small businesses with a liquidity boost. We concur that many borrowers are unfamiliar with Main Street. To increase awareness, the Federal Reserve and the Small Business Administration are hosting lender and borrower webinars. Additionally, we are exploring how to support borrowers as they navigate the various programs and increase the borrowers' awareness through alternative channels.

We believe that Main Street has fulfilled Congress's intent to balance economic growth with guarding taxpayer funds. The program provides medium-term loans to companies that were in good standing before the crisis to bridge the economic disruption caused by the Coronavirus. While economic conditions have improved considerably since work began on designing Main Street, we have continued to make changes to the program to address public comments. We recognize that there remains, nonetheless, a degree of uncertainty over the short-to medium-term impact of the virus on economic activity, and potential changes that companies may need to make to be successful in the short and long-term. In the interim, restricting borrowers' flexibility to adjust to these challenging times may limit their sustainability, result in greater job losses, and ultimately increase taxpayer losses. We underscore that recent business surveys have indicated that there is limited unmet demand for credit.

Question:

Unspent emergency lending funds. The second report from the Congressional Oversight Commission notes that funds set aside for "national security" in the CARES Act were expected to be utilized by Boeing and General Electric, but neither firm has used CARES Act funds. Boeing announced in April that it was able to obtain a $25 billion in the corporate credit market, then announced that it would lay off 12,000 employees. General Electric announced in May that it was laying off 25% of its workforce.

Secretary Mnuchin and Chair Powell, do you know why these firms did not take advantage of the CARES Act funds that would have required them to maintain their workforce?

Response:

These companies were able to obtain the necessary financing in the markets.

Question:

Secretary Mnuchin, the Congressional Oversight Commission also quotes you saying with regard to the funds GE and Boeing did not use, "[i]f for whatever reason we don't have enough demand, we may go back to Congress and reauthorize that for other areas." Secretary Mnuchin, are you able to identify areas of the economy that are in need of assistance if you seek reauthorization of these funds?

Response:

Treasury is constantly evaluating the needs of different sectors of the economy.

Question:

Oil and gas company bailout. There's concern that some of the Fed programs and facilities announced to date are neglecting the Fed's own longstanding financial stability warnings about leveraged lending in order to prioritize support for the oil and gas industry. The Fed's most recent financial stability report, published on May 15, warned that corporate default rates are "likely to increase sharply, with acute stress in the energy sector." Yet, the Fed's April 30 changes to the Main Street Lending Program appear to accommodate oil and gas firms on the verge of a downgrade or bankruptcy by removing the restriction on loans being used to refinance old debt, and expanding the program to larger businesses with up to 15,000 employees and $5 billion in 2019 revenue, which among other changes, mirror the demands made by the oil and gas industry. Energy Secretary Dan Brouillette told *Bloomberg* on May 12 that Secretary Mnuchin worked with the oil and gas industry to make these changes.

Secretary Mnuchin, can you confirm what Secretary Brouillette said? Is it true that you pushed for the Main Street Lending Program to assist a specific sector rather than a broad segment of businesses?

Response:

In April, at the direction of the President, Secretary Mnuchin and Energy Secretary Brouillette began working together to consider ways in which to support the oil and gas sector and the many thousands of hardworking Americans it employs. Although the U.S. energy industry is of critical and strategic importance to the U.S. economy, and U.S. energy independence is a key policy priority of the Administration, Secretary Mnuchin was clear in stating that any such support must not be a "bailout" and—unless specifically directed otherwise by Congress—

should be available under terms that are consistent with the CARES Act and broadly applicable to all businesses and industries across the U.S. economy. The changes made to the Main Street Lending Program (Main Street) were made in response to over 3,400 comments received from the public representing a diversity of stakeholders. In response to concerns from the public regarding the breadth of availability of Main Street for small and medium-sized businesses, the Federal Reserve amended the program's initial terms to expand the available loan options as well as the pool of businesses eligible to borrow. The changes to Main Street were designed to allow an even wider range of American companies and industries to access the program in order to help support their workers and operations, without favoring any particular sectors.

Question:

Secretary Mnuchin, you have said the Trump administration is actively exploring options for assistance to the oil and gas sector, but the oil and gas industry's problems really predated the coronavirus. A recent analysis by Deloitte found that one-third of U.S. shale companies are technically insolvent, while another analysis of credit ratings by the British nonprofit Influence Map found that the oil and gas sector has seen an 8% decline over the past five years, which is significantly worse than credit rating deterioration over the same time period in any other sector.

Secretary Mnuchin, if there is an uptick in oil and gas bankruptcies and downgrades—as the Fed's own analysis predicts there will be — will the term sheets for the Fed's corporate credit or Main Street Lending Program be further revised to help risky, failing companies?

Response:

Given the unprecedented nature of this pandemic, the nation's policy responses, including the facilities established by the Federal Reserve under section 13(3) of the Federal Reserve Act, must remain flexible and evolve over time as we learn where our efforts have been effective and where revisions are needed to assist more U.S. businesses that were in sound financial condition before the pandemic. To this end, Treasury is committed to safeguarding taxpayer funds while ensuring that their use is consistent with the CARES Act and provides the broadest possible impact to carry our nation through this crisis.

Question:

Support for States, Territories and Local Governments through the Coronavirus Relief Fund (CRF). Secretary Mnuchin, Title V of the CARES Act established the CRF, which appropriated $150 billion for making payments to states, territories, and other units of government to help them deal with the COVID-19 pandemic. The Department of the Treasury, Office of Inspector General (Treasury OIG) has warned that the CRF lacks sufficient accountability and transparency guarantees.

Secretary Mnuchin, please describe the progress Treasury has made in ensuring transparency, accountability, and adherence to statutory requirements applicable to the Coronavirus Relief Fund.

Response: Treasury has provided frequently asked questions to ensure adherence to statutory requirements. Treasury has worked closely with our Office of Inspector General (OIG) in the development of that guidance and OIG's reporting requirements to ensure accountability. Treasury has published information on the allocations available to recipients, amounts provided to recipients, and amounts spent by recipients to ensure accountability. We understand that data reported to the OIG will be provided to the Pandemic Response Accountability Committee (PRAC), which will report the data on its website.

Question:

Financial Stability and Deregulation. Chair Powell, the minutes from the FOMC meeting April 28 indicate that "A few participants stressed that the activities of some nonbank financial institutions presented vulnerabilities to the financial system that could worsen in the event of a protracted economic downturn." The Fed's financial stability report released May 15 repeatedly cited risks and high levels of leverage at large insurance companies and hedge funds.

Secretary Mnuchin, as the Chair of the Financial Stability Oversight Council (FSOC), you've presided over a significant reduction of FSOC staff as well as staff for the Office of Financial Research. In addition, FSOC has de-designated the last remaining nonbank financial companies that were labeled Systemically Important Financial Institutions. As our financial system and economy undergoes significant stress, are you concerned these actions were a mistake?

Response:

FSOC has continued to play its vital role of promoting information sharing and collaboration among federal and state financial regulators, and identifying and responding to potential risks to U.S. financial stability. We regularly review staffing levels throughout Treasury, and FSOC will continue to leverage the considerable expertise that exists across all of its member agencies to support the mission of the Council. The activities-based approach adopted by the Council in December 2019 enhances the Council's ability to identify, assess, and respond to potential risks to U.S. financial stability.

Question:

Secretary Mnuchin, Treasury released a series of reports proposing a deregulatory agenda to reduce or otherwise roll back capital, liquidity, leverage, stress testing, and living will requirements, as well as the Volcker Rule, for our biggest financial institutions, and Chair Powell, the Fed has implemented many of those proposals. Can we attribute these deregulatory actions for the new concerns we saw with one-fourth of the largest banks in the recent stress test?

Response:

In its 2017 report *A Financial System that Creates Economic Opportunities: Banks and Credit Unions*, Treasury offered a number of recommendations to improve the strength, efficiency, and effectiveness of the banking system, including by tailoring stress-testing requirements based on the size and complexity of banks. We are encouraged that the Federal Reserve's recent tests indicated that the U.S. banking system remains strong, and we will continue to closely monitor the banking sector during the ongoing challenges posed by the COVID-19 global pandemic.

Question:

Secretary Mnuchin, FSOC previously engaged in a work stream to examine asset management and hedge funds to better ascertain potential risks they may pose. FSOC formed a hedge fund working group that conducted analysis and in a 2016 update, noted there were data gaps and limitations and stressed the need to conduct further analysis and closely monitor this sector.[7] It appears that work abruptly stopped after you arrived.[8] Is FSOC actively monitoring risks with respect to asset management and hedge funds today? If so, how is this crisis affecting that segment of the market and what economic or financial stability risks do they pose as the crisis plays out?

Response:

FSOC continues to actively monitor the U.S. financial system for potential threats to financial stability. The Council's activities-based approach to monitoring risk, which is described in detail in the interpretive guidance on nonbank financial company determinations issued by the Council in December 2019, involves monitoring a broad scope of financial markets and market developments, which may include new or evolving financial products, activities, practices, and developments affecting the resiliency of financial market participants. If the Council's monitoring of markets and market developments identifies a product, activity, or practice that could pose a potential risk to U.S. financial stability, the Council, in consultation with the relevant financial regulatory agencies, will evaluate the potential risk to determine whether it merits further review or action.

Rep. Denny Heck

Construction Lending

Question:

I have been working for several years to figure out how to increase home construction, with the goal of lowering the cost of housing. One of the side benefits of that research has been that I have a newfound appreciation of the critical role that construction plays in pulling the economy out of recession. Typically, cutting interest rates would be enough to spur more buying of homes (and commercial buildings) and in turn boost construction, but that clearly didn't happen in the 2010s, and I worry that this critical economic recovery mechanism could fail again.

In my state, there are large construction projects that are stalled because of lack of access to financing. I worry that the Fed's facilities to support credit availability are leaving construction

[7] See https://www.treasury.gov/press-center/press-releases/Pages/jl0612.aspx and https://www.treasury.gov/press-center/press-releases/Pages/jl0431.aspx.
[8] https://www.americanprogress.org/issues/economy/reports/2017/09/21/437726/hedge-funds-systemic-risk-missing-fsocs-agenda/.

lending behind. For example, the Main Street Lending Program excludes "ineligible businesses," as defined in Small Business Administration regulations, which prevents "passive businesses owned by developers" from participating in the Main Street Lending Program.

How are the Fed's existing credit facilities supporting construction and what more are your agencies considering doing to protect construction jobs and ensure construction can play its historical role in driving economic recovery?

Response:

The Main Street Lending Program is designed to assist all types of small and medium-sized businesses and their employees during the current period of financial strain by supporting the provision of credit to such businesses. The availability of additional credit is intended to help companies that were in sound financial condition prior to the onset of the COVID-19 pandemic maintain their operations and payroll until conditions normalize. The Federal Reserve and the Treasury are continuously monitoring different sectors of the economy and considering adjustments to Main Street and the other Federal Reserve lending programs to broaden the impact of these programs and to provide access to credit to assist businesses, non-profit organizations, states, and municipalities.

Rep. Jim Himes

Question:

Secretary Mnuchin, what will you commit to do to support the domestic offshore energy sector and ensure offshore wind projects can fully utilize their existing tax credits, while supporting their economic recovery?

Response:

As you may know, in May we issued Notice 2020-41 providing an extension to the beginning of construction safe harbor applicable to wind projects claiming energy tax credits. We continue to be engaged with stakeholders in the offshore energy sector in order to better understand the challenges they face in terms of permitting, supply chains, and financing so we can determine if additional guidance is needed.

Rep. Anthony Gonzalez

Question:

Mr. Secretary, a major provision within the CARES Act was the support for the US airline industry. While most people may think that this meant only a handful of name brand airlines are receiving funding, in actuality there are many smaller airlines throughout the country that also applied for funding for both the paycheck program and also the airline loan program. Can you provide an update on the status of the loan program? I understand that this is a complicated process that requires documentation and proper accountability, but I have heard concerns about these loans not being administered in a timely manner.

Response:

Treasury has been diligently working to review loan applications, including by conducting detailed credit underwriting to protect taxpayers. Treasury executed letters of intent for the loan program with 10 large passenger air carriers in July, and expects to close and fund loans with such passenger air carriers that continue to seek loans in the coming weeks. Treasury expects to close and fund loans to all other approved eligible businesses soon thereafter.

Rep. Al Lawson

Question:

Secretary Mnuchin, I have received many concerns from my caseworkers and constituents about the IRS's congressional inbox for EIP inquiries. Many individuals have put their information into "Get My Payment" in April and it issued an automatic message along the lines of "we have received your information, a payment will be scheduled into that account and a date will be reflected on Get My Payment when the payment is scheduled." That was 2 months ago, when it should have been two weeks max.

Can you commit to making improvements to the Congressional EIP inbox? And, what improvements is the Treasury looking to make, in order to better assist these individuals struggling to get a response?

Response:

The EIP Congressional Mailbox is a widely used venue for Congressional members to reach the IRS directly, allowing the IRS to respond to thousands of additional inquiries. The demand, however, far exceeded available resources, with the mailbox receiving more than 25,000 constituent requests and over 100,000 individual emails.

Due to the amount and type of account research required to handle each of these inquiries, the work requires highly experienced Customer Service Representatives (CSRs). These CSRs are also responsible for assisting taxpayers through the toll-free helpline, responding to correspondence in connection with notices that were delayed due to COVID-19 closures, and providing disaster relief support to the Federal Emergency Management Agency.

The IRS has dramatically increased resources focused on this mailbox. In addition, to assist with these requests, we encourage Congressional offices to please inform the IRS if the taxpayer currently has a case open with the Taxpayer Advocate Service on the same EIP-related request or if the taxpayer has received any correspondence from the IRS.

Please remember, the new mailbox only accepts emails from valid senate.gov and house.gov email addresses. We urge you to direct your constituents to IRS.gov first, and the dedicated EIP phone line (1-800-919-9835) as another service option.

Question:

Chair Powell and Secretary Mnuchin, Recently, I helped to lead a letter with over 100 of my colleagues calling for the Fed and Treasury to create a facility that would help commercial real estate borrowers protect jobs and communities. I am concerned that the Main Street lending facility is not helping asset heavy businesses like student housing facilities, senior housing complexes, hotels and shopping centers. During these challenging times, borrowers need a liquidity facility to help them keep employees employed and communities that rely upon these assets thriving.

Imagine in a college town, if a hotel were to close or student housing was not available this fall? It would be a devasting disruption to communities across my district and result in permanent job losses.

Are you going to make the Main Street facility work better for commercial real estate borrowers?

Response:

Treasury, in conjunction with the Federal Reserve Board and other government agencies, continues to study the commercial real estate market to determine whether and what kind of appropriate relief could be provided, including whether current programs, including 13(3) programs, could be utilized for this purpose.

Rep. Bryan Steil

Question:

As you know, the co-chairs of the Congressional Native American Caucus, Rep. Deb Haaland (D-NM) and Rep. Tom Cole (R-OK), sent you a letter on June 11, 2020 asking for additional information on the distribution of Coronavirus Relief Fund (CRF) resources to tribal governments. I have attached a copy of this letter along with my question.

I respectfully request that you provide my colleagues with a prompt response to their letter. I also ask you to share your response with members of the Financial Services Committee.

Draft Response: Treasury will respond to your letter and distribute the response to the members of the House Committee on Financial Services as requested.

Rep. Rashida Tlaib

Non-profits

Question:

Does the draft nonprofit loan facility impose certain liquidity, asset, and reserve requirements that are not required in Main Street New Loan Facilities available to for-profit businesses?

Response:

The credit metrics in the Main Street Lending Program that are applied to for-profit businesses are not appropriate for non-profit organizations. The Federal Reserve and Treasury replaced these metrics with the metrics frequently used by banks and rating agencies to assess the creditworthiness of non-profit organizations, with assistance from public comments.

Question:

The IRS includes a public support test on the annual Form 990 that requires nonprofits to maintain a rate above 33(1⁄3)% in order to ensure that nonprofits are relying more heavily on donations from the public, rather than other funding sources like investment income. Why does the Federal Reserve's criteria require organizations to have revenues from donations that are less than 30% which appears to be inconsistent with what the IRS requires? Would the Fed consider eliminating this requirement that no more than 30% of an organization's 2019 revenues come from donations?

Response:

The Federal Reserve and Treasury have designed a minimum non-donation revenue criteria for Main Street loans to non-profit organizations to control risks to the taxpayer of reductions in donations similar to those experienced in prior crises. The maximum for donation revenue was raised to 40% in response to public comments. The final test is that total non-donation revenues be equal to or greater than 60% of expenses for the period from 2017 through 2019, and the term sheets and FAQs provide detailed guidance on what does and does not constitute donation revenue.

Question:

One of the eligibility criteria for borrowers (#6) is that they must have "a ratio of adjusted 2019 earnings before interest, depreciation, and amortization ("EBIDA") to unrestricted 2019 operating revenue, greater than or equal to 5%." This criteria requires nonprofits to essentially have a 5 percent profit. Nonprofits function in a model that does not turn a profit, and where any surpluses are used fund critical services to the public such as social services and health research. Would the Fed consider eliminating this requirement which would be disqualifying for many nonprofits?

Response:

The Federal Reserve and Treasury have amended the minimum EBIDA criteria to 2% from 5%. The EBIDA metric is a standard metric used by banks and rating agencies to evaluate the creditworthiness of non-profit organizations.

Question:

Please provide clarity on the calculation methodology — in the context of nonprofit operating budgets—regarding both restricted funding from grants in annual operating budgets, as well as capital funds for improvements that are part of an annual operating budget.

Response:

The Eligible Lender should calculate "operating revenue" as unrestricted operating revenue, excluding funds committed to be spent on capital, and including a proxy for endowment income in place of unrestricted investment gains or losses. The methodology used by the Eligible Lender to calculate the proxy for endowment income must be the methodology it has used for the Eligible Borrower or similarly situated borrowers on or before June 15, 2020.

Question:

The term sheet for the proposed nonprofit loan facility imposes a size minimum that is not imposed in the Main Street New, Priority, or Expanded Loan Facilities for for-profit businesses. Why is the Federal Reserve proposing that nonprofits with fewer than 50 employees be ineligible for Main Street loans for which their small business counterparts of equal size could secure lending support? Is there a concern that this employee floor would disqualify many smaller, community-based nonprofit groups responding to COVID-19?

Response:

Based on public comments received, the Federal Reserve reduced the nonprofit organization minimum employee requirement from 50 to 10 to expand the potential universe of borrowers.

Rep. Juan Vargas

Question:

Secretary Mnuchin, as you know, many states and local economies cannot run a deficit. Therefore, given that states and local governments are taking in a lower level of funds from tax revenue, taking out additional loans from the Federal Reserve's Municipal Liquidity Facility may soon not be an option for many of these governments, if the recession continues. Moreover, communities in my district and many around our country depend on their local governments for essential community-focused services. Please explain what fiscal policy the Treasury Department plans to implement to ensure state and local governments are able to fully maintain their services to our constituents, and are able to fully maintain their staffing levels, in order to obviate any additional rise in unemployment under this administration.

Secretary Mnuchin, please provide examples of how you could broaden fiscal funding to other types of municipalities with smaller populations, to tribal governments, and to other entities that are non-conventional municipalities but are just as essential to our economy, such as ports.

Response:

Treasury acknowledges the critical role of local governments in delivering essential public services. The following sections of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) are being implemented so that recipients can funnel federal grants and loans to sub-recipients within their jurisdiction looking to provide essential public services in the face of the COVID-19 public health emergency.

The Coronavirus Relief Fund, authorized by Section 5001 of the CARES Act, has been distributed directly by Treasury to 227 states, territories, and localities and 564 tribal entities. Treasury's guidance to primary recipients encourages them to transfer a portion of the funds to other public entities within their jurisdiction. Specifically, Treasury advises that States should transfer funds to local governments of 500,000 persons or less on a per capita basis consistent with the needs of all local governments for funding to address the public health emergency. In addition, guidelines allow recipients to use Coronavirus Relief Fund resources for grant and loan programs to further disseminate the funds. While the allocated funds have been distributed to primary recipients, there are still opportunities for those recipients to downstream the funds to additional local governments.

The Municipal Liquidity Facility, using funds appropriated to the Exchange Stabilization Fund under section 4027 of the CARES Act, is currently active and available to help manage state and local cash flow pressures. The facility may purchase up to $500 billion of short term notes maturing in up to 36 months directly from states, as well as cities and counties over a population threshold, and certain multi-state entities. States may also use bond proceeds to provide support to local governments within their jurisdictions. In addition, Governors may designate two issuers in their jurisdictions whose revenues are generally derived from operating government activities to directly utilize the Municipal Liquidity Facility. For example, this includes public transit, airports, ports, toll facilities, and utilities.

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

JEROME H. POWELL
CHAIR

February 19, 2021

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

Dear Madam Chairwoman:

Enclosed are my responses to questions 13, 21, 27, 29, 30, 32, 38, and 39 that you submitted following the June 30, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. This concludes my responses to your questions.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on July 21, 2020.

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

CDFIs and MDIs – On May 28, Treasury and the SBA announced an additional set aside of $10 billion in second round funds for Community Development Financial Institutions (CDFIs), many of which are minority depository institutions (MDIs) or other community lenders that serve low-income and minority communities.

13. Chair Powell, how many MDIs and CDFIs have been able to access the PPP Liquidity Facility? What steps is the Fed taking to proactively reaching out to these entities, including nonbank CDFIs, to ensure they can utilize the facility?

To bolster the effectiveness of the SBA's PPP, the Federal Reserve established the PPPLF to supply liquidity to PPP lenders through term financing backed by PPP loans to small businesses. The Federal Reserve remains committed to ensuring that all PPP lenders have access to the PPPLF to continue their important work.

As of January 15, 2021, there are 87 institutions with outstanding PPPLF loan balances that are designated as minority depository institutions (MDI), community development financial institutions (CDFI), or both. We have made concerted efforts in our extensive outreach activities to encourage all eligible PPP lenders to participate in the PPPLF, including efforts to ensure MDIs and CDFIs have the necessary information to access the program. We hosted several "Ask the Fed" webinars, which have attracted over 10,000 registrations. The Federal Reserve's public PPPLF website includes all necessary documents for PPP lenders to participate in the PPPLF, including documentation guides and sample forms, along with an extensive list of FAQs to provide further information for PPP lenders. We have been encouraged by the wide participation among PPP lenders in the PPPLF, particularly among MDIs and CDFIs.

21. Chair Powell, a revision to the Secondary Market Corporate Credit Facility appears to be aimed at making sure there is sectoral balance among the bonds purchased. What is the Fed doing to assure that its junk bond purchases are not skewed toward sectors experiencing systemic decline? Has the Fed done any sectoral analysis to ensure that assistance is prioritized for sectors whose problems stem mostly from the pandemic?

The Secondary Market Corporate Credit Facility (SMCCF) ceased purchasing eligible assets, including corporate bonds, as of December 31, 2020. However, the Federal Reserve addressed sectoral balance when the SMCCF was purchasing corporate bonds.

On June 15, 2020, the SMCCF had announced that it would use a broad market index developed for the SMCCF (the Broad Market Index) to guide its purchases of corporate bonds. The Broad Market Index consisted of a broad and diversified portfolio of corporate bonds intended to support market liquidity and the availability of credit for large employers. The index consisted of all the bonds in the secondary market that had been issued by U.S. companies that satisfied the facility's minimum rating, maximum maturity, and other criteria as outlined in the term sheet and FAQs. From mid-June to the end of December 2020, the SMCCF purchased bonds in a manner that tracked as closely as possible the composition of the Broad Market Index, including sector weights, and did not prioritize assistance for individual sectors or issuers.

The design of the Broad Market Index and the SMCCF's bond purchases were focused on implementing a fundamental goal of the PMCCF and the Secondary Market Corporate Credit Facility (SMCCF, and together with PMCCF, the CCFs), which was to support the availability of credit to large U.S. employers. The Federal Reserve's aim was to improve credit conditions in the economy broadly. Government decisions to influence the allocation of credit are the province of the fiscal authorities.

Municipal Liquidity Facility. Before the Fed announced the municipal liquidity facility, municipal bond markets were facing "unprecedented" stress that was reportedly worse than after 9/11 and the 2008 financial crisis combined. Testifying last week, Chair Powell confirmed numerous times that know this kind of distress—followed by steep budget cuts in states and cities — were a factor in prolonging the Great Recession. So, it's concerning that the terms of the municipal liquidity facility may not make it very useful to the vast majority of eligible issuers. According to the terms of the facility released on May 11, cities will face steep penalty rates in accessing the facility. Here's how one news report described it: "Even municipalities with the most pristine finances -- bearing AAA ratings -- would pay an extra 1.5 percentage points above an overnight indexed swap rate...That penalty may not be attractive to cities and states." Not only is the pricing of the municipal liquidity facility higher than other facilities, but the maturity is much shorter. The facility will only purchase bonds with a maturity of three years, compared with the five-year loans that businesses can obtain in the corporate credit or Main Street facilities.

So far, only Illinois has formally announced its intention to utilize the Municipal Liquidity Facility. Because Illinois has a BBB- investment grade, even the penalty rates of the facility are more attractive than what it can obtain in the private market. But the vast majority of states and cities have much higher investment grades. As an example, the city of Nashville, Tennessee examined the MLF and found that it had better options, concluding that "the pricing and costs are not intended to be competitive with market rates." In fact, a recent analysis of the MLF by an economic researcher at Employ America found that the "pricing of the Municipal Liquidity Facility (MLF) makes it virtually irrelevant for most municipal debt issuers," and another analysis by the Center for Popular Democracy found that "97% of the 255 eligible cities, states and counties are functionally excluded from the lending as a result of highly costly and restrictive loan terms set by the Fed."

27. Chair Powell, is the purpose of the facility to restore calm to the municipal bond markets or to support states and cities? Are you concerned that the current terms may only help a few jurisdictions?

Following considerable strains in the municipal securities market in mid-March 2020, the Federal Reserve established the MLF. The immediate goals of the MLF were to ensure that state and local governments had assured access to short-term liquidity to maintain the delivery of critical public services during the pandemic and enhance liquidity within the overall municipal securities market, including the supply and access to low-cost long-term capital. By ensuring the smooth functioning of the municipal securities market, particularly in times of strain, the Federal Reserve helped provide credit to support families, businesses, and jobs in communities, large and small, across the nation.

Strong evidence suggests that the announcement and implementation of the MLF has led to significant improvement in municipal bond market conditions. For example, interest rates for a wide range of bond issuer types and credits, which rose significantly in mid-March 2020, have steadily decreased to historically low levels, reflecting greater investor demand for these securities. Furthermore, after experiencing sharp outflows from municipal bond funds, the funds experienced consistent inflows since April 2020. The volume of municipal bond issuance for 2020 set an all-time record, allowing state and local governments to refinance their outstanding debts and realize significant budgetary cost savings.

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

Stress Tests/Dividends. Chair Powell, even at the height of financial market turmoil during this current crisis, the Federal Reserve has allowed banks to continue to distribute capital to wealthy shareholders. In the recent earnings season big banks paid out dividends at a $50 billion annual rate. While banks voluntarily suspended share buybacks for the second quarter, it was not until last week when the Fed took action to prohibit share buybacks and to limit dividend payments, however banks can continue to pay out dividend payments. This ignores lessons learned from the 2008 crisis, as explained by IMF's Managing Director, Kristalina Georgieva, in an op-ed urging jurisdictions to halt all bank buybacks and dividend payments.[8]

[8] https://www.imf.org/en/News/Articles/2020/05/22/kristalina-georgieva-halt-bank-dividends-and-buybacks-now

29. Chair Powell, upon the onset of the coronavirus crisis, why did the Fed not direct the largest banks to suspend share buybacks and dividend payments?

The actions the Federal Reserve took in light of the stress test results largely preserve capital in the system by placing restrictions on dividends and repurchases which limit payouts to shareholders. The dividend limitations allow firms that perform well to continue their dividend but firms that do not may have to reduce their dividend.

Most large firms voluntarily suspended share repurchases through the second quarter of 2020. In addition to the dividend limitations, the Federal Reserve required all large banks subject to the stress test to suspended share repurchases for the third and fourth quarters of 2020 to ensure those banks maintain a high level of capital resilience. Share repurchases have historically accounted for 70 percent of payouts at large banks and those are now restricted.

As a result of the continued uncertainty surrounding the COVID-19 crisis, the Federal Reserve required banks to re-assess their capital needs and resubmit their capital plans. The Board also limited dividend payments in the third and fourth quarters of 2020.

On December 18, 2020, the Federal Reserve published the results of its second round of stress tests. The December 2020 Stress Test results indicate that while firms are projected to experience higher losses they will remain well positioned to continue lending to households and businesses. The results showed that large banks had strong capital levels and all firms remain above their minimum risk-based capital requirements under the two separate hypothetical recessions.

30. Chair Powell, were you surprised at last week's stress test results? Why did the Fed decide to conceal the results for individual banks, unlike the 2008 crisis when the disclosure of bank specific results helped restore confidence in the banking system? Why has the Fed not taken the prudent step of simply halting all bank share buybacks and dividend payments, especially since no one can predict how this crisis will play out in the coming months?

As in prior years, we published the full firm-specific stress test results as part of the annual Dodd-Frank Act Stress Test disclosure released June 25, 2020.[1] Those results are based on a framework designed in accordance with the Stress Testing Policy Statement, scenarios designed in accordance with the Policy Statement on the Scenario Design Framework for Stress Testing, and the models described in the Supervisory Stress Test Methodology.

In addition to the annual stress test and in light of the uncertainty associated with COVID-19, we conducted additional sensitivity analysis under a range of plausible downside scenarios for the purpose of understanding the performance of the banking system as a whole.[2]

The sensitivity analysis, as the name implies, was not a stress test. Significantly, given the need for timely analysis, we did not follow our scenario design policy statement in formulating the alternative scenarios and we did not publicly disclose these scenarios ahead of time; we chose near approximations of economic conditions rather than detailed scenarios; and we made targeted adjustments to, rather than a full recalculation of, the balance sheets of banks to better reflect the current conditions.

For these reasons, we did not disclose firm-specific results. Consistent with our objective for the sensitivity analysis, we have released comprehensive results for each analysis and in many dimensions—capital ratios, loan loss rates, and loan loss amounts.

As noted in the response to question 29, the Federal Reserve also required banks to re-assess their capital needs and resubmit their capital plans. The results of its second round of stress tests published in December 2020 indicate that while firms are projected to experience higher losses they will remain well positioned to continue lending to households and businesses.

Financial Stability and Deregulation. Chair Powell, the minutes from the FOMC meeting April 28 indicate that "A few participants stressed that the activities of some nonbank financial institutions presented vulnerabilities to the financial system that could worsen in the event of a protracted economic downturn." The Fed's financial stability report released

[1] https://www.federalreserve.gov/publications/files/2020-dfast-results-20200625.pdf.
[2] https://www.federalreserve.gov/publications/files/2020-dfast-results-20200625.pdf.

May 15 repeatedly cited risks and high levels of leverage at large insurance companies and hedge funds.

32. Chair Powell, can you tell us more about the concerns your FOMC colleagues expressed in the last meeting? Are you concerned that economic recovery from this crisis will be impaired if the risk from nonbank financial institutions carries over to our broader financial system?

Speaking generally on the risk that nonbank financial institutions (NBFIs) pose to the economy, the Federal Reserve's November 2020 Financial Stability Report (FSR) and the June 2020 Monetary Policy Report highlighted several vulnerabilities for NBFIs, including potential runs in money market funds, fire sale risks arising from the liquidity transformation by asset managers and insurers, liquidity strains associated with deleveraging by leveraged investors such as hedge funds, and funding stress faced by mortgage servicers.[3] In particular, some mutual funds and exchange-traded funds that offer daily or even intraday liquidity to investors while holding less liquid assets, such as corporate bonds and leveraged loans, are particularly vulnerable to liquidity transformation risk. Large redemptions by investors could induce funds' fire sales of relatively illiquid assets. Similarly, life insurers have been increasing the share of risky and illiquid assets on their balance sheets. Large-scale withdrawals (runs) by liability holders, for example as a response to losses from capital market turmoil, can force insurers to sell investment grade corporate bonds and other less-liquid assets. This may then cause fire sale externalities especially if the sales occur when other parties such as mutual funds are also attempting to sell these bonds. The resulting downward spiral in asset prices can trigger margin calls on other investors, whom may in turn need to de-lever by selling their own holdings.

The FSR describes these risks in more detail, as well as actions that the Federal Reserve took in March 2020 to alleviate these pressures. The Federal Reserve continues to monitor these vulnerabilities and work with relevant regulators through the Financial Stability Oversight Council to consider potential solutions.

Federal Reserve actions, both its monetary policy actions and actions taken in consultation with the U.S. Department of the Treasury (Treasury) under unusual and exigent circumstances, have eased short-term funding market strains and have supported credit flows to businesses and households.[4] So far, these actions have not exacerbated financial vulnerabilities, but rather, have stemmed the consequences of pre-existing financial vulnerabilities. At the onset of COVID-19, with economic activity halted abruptly and financial markets severely dislocated, the Federal Reserve took a series of extraordinary measures quickly and forcefully to mitigate the shock (the boxes "The Federal Reserve Actions and Facilities to Support Households, Businesses, and Municipalities during the COVID-19 Crisis" and "Federal Reserve Actions to Stabilize Short-Term Funding Markets during the COVID-19 Crisis" of the November FSR describe these facilities in more detail). These actions eased market stresses and restored credit flows to businesses and households. Additionally, the President's Working Group on Financial Markets released a report in December 2020 outlining potential reforms to address the underlying risks

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[3] www.federalreserve.gov/publications/2020-may-financial-stability-report-purpose.htm.

[4] The corporate bond purchases and Main Street Lending Program were undertaken with equity backing from and in consultation with the Treasury.

stemming from the money market fund sector.[5] Some of these reforms, if properly calibrated—such as swing pricing, capital buffers, and a minimum balance at risk—could significantly reduce the threat money funds pose to the financial system.

The Federal Reserve will continue to closely monitor changes in vulnerabilities arising from NBFIs, and will continue to evaluate the effectiveness and unintended consequences, if any, of the policy actions taken in the coming months and years.

BlackRock. The Federal Reserve Bank of New York entered into an Investment Management Agreement with BlackRock Financial Management (BlackRock) to perform investment management services for the Fed's Corporate Credit Facilities. The Congressional Oversight Commission's June 18, 2020 Report included the Federal Reserve's responses to several questions regarding BlackRock's duties and responsibilities. The Federal Reserve noted that the Investment Management Agreement "imposes stringent requirements on BlackRock to protect confidential information and to mitigate conflicts of interests" that are subject to "audit and review by the FRBNY and, the Board."

38. Chair Powell, what requirements, if any, does the Fed have in place to ensure that BlackRock discloses whether it contracts with any diverse asset managers or broker dealers? Why or why not?

The PMCCF and SMCCF ceased purchasing eligible assets as of December 31, 2020.
As noted above, the Federal Reserve Bank of New York (FRBNY) has terminated the PMCCF investment management agreement with BlackRock Financial Management (BlackRock) and has initiated competitive procurement processes for services that BlackRock is performing under the SMCCF investment management agreement. Nevertheless, the continuing and historical contractual relationship between BlackRock and the FRBNY in relation to BlackRock's role as the investment manager for the CCFs is documented in the investment management agreements for the PMCCF and SMCCF, which continue to be public and can be found on the FRBNY's public website.

Section 32.2 of the investment management agreement for the SMCCF states that BlackRock shall not discriminate on the basis of race, sex, color, religion, national origin, age, or disability in its selection of intermediaries, third-party agents, or otherwise in its management of facility assets or performance of services under the investment management agreement. Section 32.2 also requires BlackRock to take reasonable measures to ensure minority-, women-, and veteran-owned business enterprises (MWVBEs) have an equal opportunity to participate in the facility and as service providers to the facility. Additionally, section 4.3 of the investment management agreement states that BlackRock may not delegate (by subcontracting or otherwise) administrative duties to any third-party agents without the written consent of the facility's special purpose vehicle.

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[5] "Report of the President's Working Group on Financial Markets: Overview of Recent Events and Potential Reform Options for Money Market Funds," December 2020, at https://home.treasury.gov/system/files/136/PWG-MMF-report-final-Dec-2020.pdf.

When the PMCCF investment agreement was active, the agreement included the same contractual provisions mentioned above for the SMCCF. Following the launch of the PMCCF, BlackRock conducted a request for proposal for external legal services in connection with potential transactions in which the PMCCF would be the sole investor. Consistent with the abovementioned contractual provisions, BlackRock selected a panel of three law firms to provide services. The panel included BurgherGray LLP, a minority-owned law firm.[6]

39. Chair Powell, the Congressional Oversight Commission's June 18, 2020 Report noted that BlackRock was chosen through a non-competitive bid process. Why didn't the Federal Reserve utilize a competitive bid process? You previously testified before the Senate Banking Committee that with respect to the Corporate Credit Facilities' contract, "[w]e will rebid the contract as we would in practice do going forward . . ." Does the Federal Reserve currently have plans to rebid the contract?

The CCFs ceased purchasing eligible assets as of December 31, 2020. When the facilities were announced in March 2020, the FRBNY retained the services of BlackRock as the initial investment manager for each of the CCFs without a competitive bidding process due to exigent circumstances that required the swift implementation of the CCFs to support market functioning. The FRBNY did so with a view that, once the immediate need to commence operations of the facilities had passed, BlackRock's role would be subject to a competitive procurement process.

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

The investment management agreement between BlackRock and the FRBNY for the SMCCF is still active, but on October 5, 2020, the FRBNY announced that it was beginning the competitive procurement process for all services provided by BlackRock. On February 8, 2021, the FRBNY announced the selection of a cash manager, Payden & Rygel, a majority women-owned investment management firm, to replace BlackRock in performing cash management services for the CCFs.[7] Additionally, on February 1, 2021, the FRBNY announced the launch of a prequalification process for the remainder of the investment management roles for the SMCCF, taking into account that the SMCCF has ceased purchasing eligible assets.[8]

The contractual relationship between BlackRock and the FRBNY regarding BlackRock's role as the investment manager for the CCFs is detailed and memorialized in the investment management agreements for each facility. These agreements continue to be public and can be

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[6] See https://www.newyorkfed.org/medialibrary/media/markets/pmccf/PMCCF-Law-Firm-Panel-Agreement-Sole-Investor-Transactions.pdf.
[7] For the press release, see www.newyorkfed.org/newsevents/news/markets/2021/20210208.
[8] For the press release, see www.newyorkfed.org/newsevents/news/markets/2021/20210201.

found on the FRBNY's public website.[9] The investment management agreement between BlackRock and the FRBNY for the SMCCF includes a number of provisions intended to support the inclusion of minority-, women-, and veteran-owned business enterprises (MWVBEs). In particular, section 32.2 requires BlackRock to take reasonable measures to ensure MWVBEs have an equal opportunity to participate in the facilities and as service providers to the facilities. When the PMCCF investment agreement was active, it included the same contractual provisions mentioned above.

Finally, as announced on July 23, 2020, the FRBNY sought expressions of interest for counterparties and agents for various emergency lending facilities, including broker-dealers in the SMCCF, and strongly encouraged smaller firms and MWVBEs to serve as counterparties and agents for these facilities.[10] The FRBNY ultimately added 18 additional eligible sellers for the SMCCF through this process, including eight MWVBEs.[11] BlackRock assisted the FRBNY's efforts to expand the list of broker-dealers eligible to transact with the SMCCF. By widening the eligibility criteria for counterparties and engaging in outreach to MWVBEs and encouraging them to apply for these roles, the FRBNY took affirmative steps directed at expanding the pool of counterparties for the SMCCF.

[9] For the Primary Market Corporate Credit Facility Investment Management Agreement, see www.newyorkfed.org/medialibrary/media/markets/pmccf/PMCCF-Investment-Management-Agreement.pdf. For the Secondary Market Corporate Credit Facility Investment Management Agreement, see www.newyorkfed.org/medialibrary/media/markets/SMCCF_Investment_Management_Agreement.pdf.

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

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

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

JEROME H. POWELL
CHAIR

January 15, 2021

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

Dear Madam Chairwoman:

Enclosed are my responses to questions 5 through 10, 12, 14 through 17, 22 through 24, 26, 28, 31, 36 and 37 that you submitted following the June 30, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. My responses to your remaining questions will be forthcoming.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on July 21, 2020.

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

<u>FedAccounts.</u> To date, over 150 million individuals have received an economic income payment (EIPs) through check, ACH, Direct Express Debit cards, or through the new prepaid card partnership with MetaBank and Visa. However, it is unclear how these payments will reach the unbanked and homeless populations, populations that are predominantly black and brown. This Committee has put forth the idea of providing unbanked individuals access to a basic, no fee FedAccount that could be used to ensure that any future stimulus payments will be easily transmitted to accounts without lag or delay.

5. Chair Powell and Secretary Mnuchin: As witnesses testified before our Fintech Task Force, we have had millions of unbanked for decades, and we should start exploring a public option like postal banking or FedAccounts. What are your thoughts on those ideas, and what can we learn from the CARES Act stimulus payments to design a more safe and efficient way to deliver payments to individuals and families?

The Federal Reserve has long supported socially-beneficial innovation in the financial system. Reaching the unbanked and underbanked populations in the United States is an important motivation for innovation. We know from data sources—such as the Federal Reserve's Survey of Household Economics and Decision Making—that consumers who are unbanked or underbanked exhibit higher stress in various aspects of their financial lives. Further, the rapid expenditure of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) emergency relief payments highlights the urgency of immediate access to funds for the many households and businesses managing cash-flow constraints. Therefore, we understand the importance of this issue.

The Federal Reserve serves as fiscal agent for the U.S. Department of the Treasury (Treasury), settling transfers from the Treasury's account at the Federal Reserve to government payment recipients, as directed by Treasury. Federal Reserve payment systems are all interbank systems. The Federal Reserve provides accounts to depository institutions, which, in turn, provide accounts and services to individuals. The Federal Reserve currently does not have the authority to provide direct accounts and services to individuals.

In the longer term, the decision to provide Federal Reserve accounts and services directly to consumers would require careful thought. Moving from the current structure to having the Federal Reserve provide direct consumer account and payments services would substantially redefine the current authorities, roles, and operational footprint of the Federal Reserve and the banking and financial system more broadly. It could entail a large shift in the balance of public and private sector roles in financial services.

Nonetheless, we are committed to improving the public's access to instant payments, which provide immediate funds, through our interbank payment services. The Federal Reserve is building a new 24x7x365 interbank settlement service—the FedNow℠ Service—to support the growing need and demand for instant payments in the United States. The FedNow Service will be broadly available to the more than 10,000 diverse financial institutions across the country, and is intended to be a catalyst for innovation by providing a neutral platform on which the private sector can build to offer safe, efficient, and instant payment services to users across the country. In addition, Treasury would have access to the FedNow Service should it direct the Federal Reserve, as fiscal agent, to use it for payments. The FedNow Service will provide a modern payment infrastructure for the future, while maintaining existing consumer protections and other legal and regulatory safeguards associated with payment services based on bank accounts.

<u>GAO's July 2011 Recommendations for Fed Reserve Lending Facilities.</u> After reviewing emergency Federal Reserve lending facilities meant to stabilize financial markets during the 2007-2009 financial crisis, GAO released several recommendations for implementing similar programs in the future.[4] GAO recommended, inter alia, that the Federal Reserve "strengthen procedures in place to guide the Federal Reserve Banks' efforts to manage access to the programs by high-risk borrowers." This recommendation remains relevant because of similar lending facilities created by the Federal Reserve and supported by the CARES Act.

[4] GAO, GAO-11-696, FEDERAL RESERVE SYSTEM: Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance (Jul. 21, 2011).

6. Chair Powell, please describe all actions taken by the Federal Reserve to to guide Federal Reserve Banks' management of high-risk borrowers' access to Federal Reserve facilities.

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

7. Chair Powell, another recommendation made by GAO in its July 2011 report encouraged the Federal Reserve to "document a plan to estimate and track losses that could occur under more adverse economic conditions within and across all emergency lending activities and to use this information to inform policy decisions."[5] Please describe all efforts at the Federal Reserve to implement this recommendation. Assuming the Federal Reserve conducted the loss estimation and tracking recommended by the GAO, please describe how the Federal Reserve used this information during the creation of the

emergency lending facilities responsive to the COVID-19 pandemic.

[5] GAO, GAO-11-696, FEDERAL RESERVE SYSTEM: Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance (Jul. 21, 2011).

Before the facility is operational, the Board undertakes loss modeling to analyze the extent to which the facility might experience losses in a range of scenarios, including in one or more severely adverse economic outcomes. The exercises explore losses in severe loss scenarios, and the analysis varies from facility to facility because of differences in data availability and experiences with actual losses. This analysis helps to inform decisions regarding the terms of the facility, including risk exposure, and is used to determine the amount of Treasury equity contributed to the facility. After the facility is operational, the Board monitors the use of the facility along with other indicators in the target market. In some cases, the Federal Reserve produces additional analysis of assets held in the facilities. As needed, the responsible Reserve Banks have hired, or are hiring, vendors with specific expertise in modeling losses on these assets in order to support the special purpose vehicles. Accordingly and as needed, the Board and the Secretary of the Treasury (Secretary) may review and make adjustments to the terms and conditions of the programs, including pricing and eligibility requirements.

Oversight. As the result of Congressional directives to bolster the U.S. economy during the COVID-19 pandemic, hundreds of billions of dollars of funds have been distributed in a matter of weeks. Congress recognized the potential for fraud and abuse with the distribution of these funds and created the Special Inspector General for Pandemic Recovery, Pandemic Response Accountability Committee, and Congressional Oversight Commission to investigate and audit COVID-19 programs. Despite efforts by the White House to limit the effectiveness and authority of these oversight bodies, they must have unlimited access to necessary information to protect against waste, fraud, and abuse in the distribution of stimulus funding.

8. Secretary Mnuchin and Chair Powell, what actions have been taken by your agencies to cooperate with the oversight bodies created by the CARES Act?

The Board is committed to cooperating with the various oversight bodies created by the CARES Act to protect against waste, fraud, and abuse in the distribution of stimulus funding. To date, the Board has taken numerous actions to cooperate with the oversight bodies. For example, the Board, along with Treasury, provided timely written responses to questions from the Congressional Oversight Commission (COC).

On June 24, 2020, I met with members of the COC to discuss the 13(3) facilities and answer the members' questions. At the COC's first hearing, held on August 7, 2020, President Eric Rosengren of the Federal Reserve Bank of Boston (FRBB) provided testimony regarding that Reserve Bank's administration of the Main Street Lending Program (Main Street). Additionally, President Rosengren provided responses to written questions for the record from that hearing. The COC held its second hearing on September 17, 2020, and Board staff provided expert testimony on the operations and functions of the Municipal Lending Facility (MLF). Board staff has also been in touch with staff of the various oversight bodies to provide briefings and requested information and answer questions about the facilities and their operations. The Board looks forward to continued cooperation with these oversight bodies in the future.

9. Secretary Mnuchin and Chair Powell, will you commit to providing full and transparent information to the oversight bodies created in the CARES Act, including the Congressional Oversight Commission, within a reasonable time?

The Board is committed to providing full and transparent information to the oversight bodies created in the CARES Act, including the COC. The Board has provided timely responses to all formal inquiries from various oversight bodies and has cooperated in the preparation of periodic reports by the COC as well as other oversight bodies, such as the Government Accountability Office. The Board will continue to provide responsive information requested by the oversight bodies on a timely basis.

To further promote transparency and accountability, the Board has published substantial amounts of information on a monthly basis for the liquidity and lending facilities using CARES Act funding, including the names and details of participants in each facility; amounts borrowed and interest rate charged; and overall costs, revenues, and fees for each facility. The Board also issues regular public reports, pursuant to section 13(3) of the Federal Reserve Act, regarding the operation of lending facilities established by the Board, including those that make use of funds appropriated in the CARES Act.

Operations / Cybersecurity. Implementing the requirements of the CARES Act during the pandemic has surely been a demanding task for both the Federal Reserve and the Treasury Department. Redirecting assets and changing priorities while the workforce at both agencies are in a predominately full-time telework posture must pose serious challenges. Even before the pandemic, major cyber threats posed a serious risk and key positions such as cybersecurity personnel and other specialists remained understaffed government wide. In the midst of these risks, both agencies are required to administer CARES Act programs and funding.

10. Chair Powell and Secretary Mnuchin, please describe efforts of your agencies to ensure they are fulfilling their obligations under the CARES Act while also meeting the challenges of maintaining operations, including a robust cybersecurity program, during the pandemic.

The Federal Reserve System (System) has a robust digital infrastructure in place supporting its operations, staff, and communications with regulated entities and the public. The System's cybersecurity program is a major component supporting the digital infrastructure and continues to operate in an effective and efficient manner. The System remains vigilant about its cybersecurity posture, investing in risk-mitigation initiatives and programs and continuously monitoring and assessing cybersecurity risks to operations and protecting systems and data. The System implemented several cybersecurity initiatives over the past year that enhanced identity and access management capabilities; enhanced the ability to respond to evolving cybersecurity threats with agility, decisiveness, and speed by streamlining decision making during a cybersecurity incident; and continue to improve continuous monitoring capabilities of critical assets. Staff are also regularly reminded of good cyber-hygiene practices while working remotely.

Attracting and retaining Information Technology (IT) and Cybersecurity staff has been a priority for the System. At the start of COVID-19, both IT and Cybersecurity programs were adequately staffed. During COVID-19, our recruitment of employees was initially slowed by the shift to full-time telework. Our Human Resources programs quickly adjusted to a full-time telework posture and shifted to remote recruitment and onboarding of new staff. This is exemplified by our 2020 Summer Internship Program. During the 2020 season, all student interns were onboarded remotely and completed their internships remotely. Interns made important contributions individually and as part of a team. Interns represent an important resource since many of them return as employees after graduation. The Reserve Banks also have quickly pivoted during COVID-19 to using video conferencing in place of in-person interviewing and have been successfully onboarding new employees remotely.

The shift to full-time telework was facilitated by existing IT capabilities. The ability for staff to work remotely remains an integral component of our Continuity of Operations Planning (COOP) capabilities. Telework also benefits staff by providing flexible work arrangements and by permitting staff to meet objectives while being physically away from the office on business travel or for personal reasons.

Leading up to COVID-19, a large percentage of staff were remote-capable and teleworked periodically. In response to COVID-19, the System made adjustments to its digital infrastructure to facilitate a full-time telework posture for the majority of its staff. The digital infrastructure supporting a full-time telework posture includes a Virtual Private Network (VPN) that permits staff to remotely access the System network in a secure manner; virtual telephone services and voicemail; a robust office automation suite supporting email and collaboration services; and teleconferencing and video conferencing services that enable staff to hold meetings with multiple parties, including internal and external participants. Moreover, when staff establish a remote access connection, they have access to all of the resources hosted on the secure internal networks supporting their specific business functions and job duties. The System has, as normal practice, deployed mobile devices to most staff to support day-to-day communication needs and supplement COOP capabilities. Our telework capabilities are exercised daily and are stress-tested during COOP exercises and significant weather events. With regard to communications with the public and with regulated entities, these communications largely rely on business processes supported by existing digital capabilities that have continued to operate in an effective and efficient manner.

At the onset of COVID-19, the System took immediate steps to identify staff who were not already telework-capable. Those individuals were issued devices and equipment to permit them to telework. Consequently, the transition to a full-time telework posture went smoothly and was executed in a timely manner.

Two areas that required additional enhancement to support a prolonged full-time telework posture included our VPN and video conferencing with external parties. While our VPN was engineered to support routine operations and COOP requirements, it had never been used to support the full, nationwide complement of staff working remotely and simultaneously for an extended period. Capacity was added to the VPN network to ensure that adequate bandwidth was in place to support a full-time telework posture for an extended period. These upgrades to the infrastructure are now part of our ongoing operations.

A second area that required enhancement was the use of a cloud-based video-conferencing service supporting collaboration with external parties. While we had video-conferencing services in place supporting the workload within the System, the demand for video-conferencing calls with external parties grew significantly once we entered into a full-time telework posture. In response, the System expanded its utilization of a secure cloud-based video-conferencing service to hold secure calls with third parties. Additionally, this service is being used to hold meetings with a large amount of staff without affecting internal network services.

The Board also has leveraged virtual-meeting technology to continue communicating with the public through virtual press conferences following Federal Open Market Committee (FOMC) meetings, at Fed Listens events, and for Board member speeches. Virtual meeting technology is being used to ensure that FOMC meetings are conducted in a timely, secure, and effective manner.

Finally, staff development has also adjusted to support our full-time telework posture. Staff development has shifted to virtual, instructor-led courses and on-demand computer-based training courses. Additionally, managers and staff received additional instruction on how to manage and work effectively in virtual teams. Conferences, which are an important source of self-directed training, are increasingly being offered as virtual events. This permits staff to maintain an awareness of industry trends and developments.

<u>Lack of Participation by Minority-Owned Businesses in the PPP Program.</u> Global Strategy Group recently conducted a survey on the impact of the pandemic on Black and Hispanic owned small businesses and non-profits. According to the survey, 45% of these businesses report that they will have to close by the end of the year, perhaps sooner, despite the hundreds of billions of dollars provided for small businesses through the PPP program.[6]The survey also found that only 12% responded that they received the full amount they requested from the PPP program, even though 51% of those surveyed indicated they applied for less than $20,000.

12. Secretary Mnuchin and Chair Powell, a New York Times article last month[7]describing the Global Strategy Survey referenced a survey of small businesses by the Census Bureau indicating that three quarters of those surveyed had requested a PPP loan and of those 38% received funding. The overall numbers for small businesses are vastly different from those of small minority-owned businesses. While the loan forgiveness forms voluntarily request demographic information, what is the status of efforts to gather information, including collecting data from lenders, to better understand the demographics of the businesses receiving PPP loans and those that have been denied those loans?

[6] https://www.unidosus.org/about-us/media/press/releases/051820-UnidosUS-Press-Release-COVID-19-Survey-Black-and-Latino-Small-Business

[7] https://www.nytimes.com/2020/05/18/business/minority-businesses-coronavirus-loans.html

The Small Business Administration (SBA), in consultation with the Treasury, administers the Paycheck Protection Program (PPP). Questions about the design and function of the PPP are best directed to the Administrator of the SBA and the Secretary. To bolster the effectiveness of the PPP, the Federal Reserve is supplying liquidity to participating financial institutions through term financing backed by PPP loans to small businesses. The Paycheck Protection Program Liquidity Facility (PPPLF) extends credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value. Eligibility requirements for financial institutions are based on SBA requirements.

CDFIs and MDIs – On May 28, Treasury and the SBA announced an additional set aside of $10 billion in second round funds for Community Development Financial Institutions (CDFIs), many of which are minority depository institutions (MDIs) or other community lenders that serve low-income and minority communities.

14. Chair Powell, how many MDIs and CDFIs have signed up as lenders for the Main Street Lending Program? What steps is the Fed taking to proactively reaching out to these entities, including nonbank CDFIs, to ensure they can be lenders?

As of December 15, 2020, 34 MDIs and 20 CDFIs registered as lenders for Main Street. Please note that there is some overlap between the two groups.

The Federal Reserve recognizes the role that MDIs and CDFIs play in generating economic growth in some of the country's most distressed communities. In order to encourage these lenders to participate in Main Street, the Federal Reserve conducted outreach to provide potential lenders with information about Main Street and address their questions in real time. On June 24, 2020, the Federal Reserve hosted a webinar on Main Street targeting minority and women-owned businesses. On July 1, 2020, as part of the Federal Reserve's Partnership for Progress program, staff of the Board and the FRBB, together with the National Bankers Association, held a briefing on Main Street for MDIs. On August 4, 2020, the Board and FRBB staff attended a National Business Inclusion Consortium event to present the details of Main Street. On August 12, 2020, staff participated in an event sponsored by the Department of Commerce's Minority Business Development Agency and provided a Main Street overview. The Federal Reserve conducted additional outreach to raise awareness of the program among women- and minority-owned businesses and in low- and middle-income communities, including sharing program information and updates with more than 70 associations and networks working with minority-owned and women-owned businesses.

Main Street includes CDFIs that are depository institutions as eligible lenders. While non-bank CDFIs play a very important role in providing credit to underserved markets and communities across the country, nonbank financial institutions were not considered Eligible Lenders for purposes of the program.

As you know, Main Street has been supported by funding from the CARES Act, which assigns sole authority over its funds to the Treasury Secretary, subject to the statute's specified limits. The Secretary has indicated that these limits do not permit the CARES Act-funded facilities to make new loans or purchase new assets after December 31, 2020.

<u>Supporting Workers through Emergency Lending.</u> Secretary Mnuchin and Chair Powell, it seems that your two agencies are interpreting the CARES Act to mean that major corporations that receive direct support through the Primary Market Corporate Credit Facility do not have to comply with the CARES Act restrictions on pausing share buybacks, dividend payments, and executive compensation. The corporate credit facilities are perceived to be a key factor in keeping the stock markets functioning effectively, but that does not mean that our economy is healthy. The CEO of Cinemark told shareholders on an earnings call that corporate bond markets "didn't come with any of the strings attached that government-backed facilities can include. It was really no more complicated than that."

15. Chair Powell and Secretary Mnuchin, are you concerned that by not applying any conditions to the corporate credit facilities, you are enabling corporations to receive public money with no strings attached and contributing to the dynamic where Wall Street recovers quickly but American workers do not?

The Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF) (together, the CCFs) were established to ensure that creditworthy companies that rely on capital markets to fund their operations have access to credit during the recent unusual and exigent circumstances in which financial markets have experienced extraordinary disruptions, volatility, and illiquidity. Corporate bonds support the operations of companies with more than 17 million employees based in the United States. If companies are unable to issue corporate bonds, they may be unable to invest in inventory and equipment, meet current liabilities, or pay employees.

The Treasury supported the CCFs with funds appropriated through the CARES Act through December 31, 2020. Accordingly, the CCFs comply with all applicable CARES Act provisions. Under the terms and conditions of the PMCCF, and consistent with the CARES Act, an eligible issuer in the PMCCF must have been created or organized in the United States or under the laws of the United States and must have significant operations in and a majority of its employees based in the United States. Before participating in the PMCCF, issuers were required to certify to CARES Act requirements, such as the United States business requirement and the conflicts of interest requirement under section 4019 of the CARES Act.

While the CARES Act applies capital distribution and executive compensation restrictions to programs or facilities that provide direct loans, Congress explicitly exempted securities and capital markets transactions, as well as syndicated loans, from these provisions. The PMCCF purchases bonds, which is a securities and capital markets transaction, and participates in syndicated loans. As noted above, by improving credit conditions across a swath of large employers, the Federal Reserve's aim with the PMCCF was to promote employment and payrolls at large U.S. corporations during this challenging time. By supporting the flow of credit to these corporations, the CCFs also can contribute to positive downstream effects for smaller businesses in the supply chain and indirectly support employment throughout the U.S. economy.

As you know, the CCFs have been supported by funding from the CARES Act, which assigns sole authority over its funds to the Treasury Secretary, subject to the statute's specified limits. The Secretary has indicated that these limits do not permit the CARES Act-funded facilities to make new loans or purchase new assets after December 31, 2020.

The CARES Act language instructing Treasury to work with the Fed to set up what a facility for assistance to mid-sized businesses required recipients of aid to maintain their workforce at 90%, but the Main Street Lending Program merely requires firms to make "commercially reasonable" efforts to maintain their workforce. The Congressional Oversight Commission published its second report last week, and suggested that your answer to an inquiry about Main Street Lending borrowers' compliance with the programs' workforce maintenance restrictions suggest that Treasury and the Fed will not monitor whether individual businesses that receive Main Street loans are making 'commercially reasonable efforts' to maintain payroll.

16. Secretary Mnuchin and Chair Powell, is the Congressional Oversight Commission's conclusion accurate? Setting aside the legal question of whether you technically could design the facility in the manner that you did, do you believe that the Main Street Lending Program is consistent with congressional intent to provide support for various businesses? Was it so they could take the money and be allowed to lay off a bunch of workers or not otherwise be required to rehire workers?

Under Main Street, borrowers are expected to use commercially reasonable efforts to maintain payroll and retain employees during the life of a Main Street loan. As specified in frequently asked questions (FAQs),[1] this means that a Main Street borrower should make a good-faith effort to maintain its payroll and retain its employees in light of its capacity, the economic environment, its available resources, and the business need for labor. This standard reflects an expectation that efforts to retain employees be consistent with the ability of a business to sustain operations over the long run, thus preserving a business's operational capacity after COVID-19 conditions pass.

Casting the employee retention expectation in these terms allows the diverse range of small and medium-sized businesses that are targeted by Main Street to determine how best to support the viability of their businesses and continue to operate as employers through this period and beyond. Businesses that maintain their operations through COVID-19 will be well positioned to support the economic recovery and contribute to strong employment. For many employers, the workforce that had been assembled prior to the onset of the COVID-19 disruption is a core element of the long-term value of the enterprise, and we would expect it to be in their interest to keep many of their employees through periods of shutdown and disruption. But first and foremost, under Main Street, we expect businesses to maintain their underlying operational

[1] See FAQ G.8 at https://www.bostonfed.org/-/media/Documents/special-lending-facilities/mslp/legal/frequently-asked-questions-faqs.pdf?la=en.

readiness so they can get back up and running as quickly and successfully as possible and contribute to a robust economic recovery.

Under the express terms of the CARES Act, Main Street loans cannot be forgiven, in contrast to the other major CARES Act loan program that targets small businesses, the PPP. In view of its fundamental character as a lending program, not a grant program, Main Street loans can best achieve the goal of maximizing employment by permitting businesses greater latitude than the PPP to take actions necessary to sustain their operational capacity to support employment as ongoing enterprises. Exercising such latitude and retaining employees in a commercially reasonable manner will place borrowers in a strong position to rehire a full complement of workers once COVID-19-related shutdowns and acute disruptions have passed.

As noted earlier, Main Street has been supported by funding from the CARES Act, which assigns sole authority over its funds to the Treasury Secretary, subject to the statute's specified limits. The Secretary has indicated that these limits do not permit the CARES Act-funded facilities to make new loans or purchase new assets after December 31, 2020.

Unspent emergency lending funds. The second report from the Congressional Oversight Commission notes that funds set aside for "national security" in the CARES Act were expected to be utilized by Boeing and General Electric, but neither firm has used CARES Act funds. Boeing announced in April that it was able to obtain a $25 billion in the corporate credit market, then announced that it would lay off 12,000 employees. General Electric announced in May that it was laying off 25% of its workforce.

17. Secretary Mnuchin and Chair Powell, do you know why these firms did not take advantage of the CARES Act funds that would have required them to maintain their workforce?

The Treasury is responsible for making determinations regarding the timing of loan approvals and disbursements for the funds set aside for national security in section 4003 of the CARES Act. Questions about the program requirements, restrictions, and the disbursement of loans should be directed to the Treasury.

Financial Holding Companies relating to Oil and Gas. Chair Powell, on April 9, Reuters reported that large financial holding companies like Wells Fargo and JPMorgan Chase are exploring acquiring and actively managing oil and gas assets. According to the Reuters story, banks are seeking to engage in a fundamentally commercial activity—essentially becoming oil and gas firms on a temporary basis in order to restore oil and gas reserves to profitability. The Federal Reserve has the authority to block or approve these acquisitions, and must confirm that these activities do "not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally." In a September 2016 report to Congress, the Federal Reserve highlighted financial risks of oil and gas activities, and recommended that loopholes allowing banks to be involved in commodities ownership be closed. That same month, the Fed issued a proposed rule that would have limited banks' ownership of commodities and required them to hold more capital against assets like the ones that banks are reportedly looking to acquire.

22. Chair Powell, have any financial holding companies sought approval from the Board to acquire oil and gas assets?

The Board has approved 12 financial holding companies to engage in physical commodities activities as complementary to financial activities. These activities include physical commodities trading, energy tolling, and energy management. The Board's last approval was in 2011 (Scotiabank).

Banks are able to engage in commodity activities under many authorities. Financial holding companies (FHC) are also able to engage in various commodity-related activities pursuant to other statutory authorities, such as merchant banking authority or the authority to take possession of assets that were collateral to a defaulted loan. FHCs need no Board approval to use these authorities.

Banks have generally been shrinking their commodity footprint over the past decade. The Board began a review of the physical commodities activities of FHCs after an increase in these activities among FHCs during the financial crisis. Over the past decade, the physical commodities activities of FHCs have declined significantly.

The Board has placed limits on complementary physical commodities activities to protect against risks to safety and soundness and to the financial system. For example, physical commodities trading is limited to no more than five percent of the tier one capital of the FHC. In addition, FHCs are prohibited from owning, operating, or investing in facilities that extract, transport, store, or alter commodities under complementary authority.

23. Chair Powell, does the Fed continue to support the repeal of the banks' "merchant banking authority," and the standards enunciated in the 2016 proposed rule, which you voted for?

Merchant banking is an activity that the 1999 Gramm-Leach-Bliley Act expressly authorized for financial holding companies, which are bank holding companies that are well capitalized and well managed. Since authorization, merchant banking activities have represented a very small portion of the activities of financial holding companies.

In terms of the 2016 recommendation in the report under section 620 of the Dodd-Frank Act, I would need to discuss those recommendations with the members of the Board and consider that recommendation in light of developments since the report was issued and current facts and circumstances.

24. Chair Powell, in light of the Fed's recent conclusion that corporate default rates are "likely to increase sharply, with acute stress in the energy sector," do you think it is possible that these activities do "not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally"?

Banking organizations are able to engage in commodity activities under many authorities without prior approval. Bank holding companies, like banks, have the authority to hold assets that were collateral to a defaulted loan. FHCs are also able to engage in various commodity-related activities pursuant to other statutory authorities, such as merchant banking authority. FHCs need no Board approval to use these authorities.

The Board has approved 12 financial holding companies to engage in physical commodities activities as complementary to financial activities. These activities include physical commodities trading, and, for about half of the 12 FHCs, energy tolling, and energy management services. The Board's last approval was in 2011 (Scotiabank). The Board has placed limits on complementary physical commodities activities to protect against risks to safety and soundness and to the financial system. For example, physical commodities assets held under complementary authority are limited to no more than five percent of the tier one capital of the FHC. In addition, FHCs are prohibited from owning, operating, or investing in facilities that extract, transport, store, or alter commodities under complementary authority.

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Municipal Liquidity Facility. Before the Fed announced the municipal liquidity facility, municipal bond markets were facing "unprecedented" stress that was reportedly worse than after 9/11 and the 2008 financial crisis combined. Testifying last week, Chair Powell confirmed numerous times that know this kind of distress—followed by steep budget cuts in states and cities — were a factor in prolonging the Great Recession. So, it's concerning that the terms of the municipal liquidity facility may not make it very useful to the vast majority of eligible issuers. According to the terms of the facility released on May 11, cities will face steep penalty rates in accessing the facility. Here's how one news report described it: "Even municipalities with the most pristine finances -- bearing AAA ratings -- would pay an extra 1.5 percentage points above an overnight indexed swap rate...That penalty may not be attractive to cities and states." Not only is the pricing of the municipal liquidity facility higher than other facilities, but the maturity is much shorter. The facility will only purchase bonds with a maturity of three years, compared with the five-year loans that businesses can obtain in the corporate credit or Main Street facilities.

26. Chair Powell, many corporations entered this crisis with huge debt, while many states and cities were issuing strong investment grades prior to this crisis, so why are the terms

for the municipal liquidity facility so much less attractive than the corporate credit facilities? Secretary Mnuchin, you were tasked in the CARES Act with ensuring that a facility to help states and cities was created. Are you satisfied with a facility that has terms that are so much less favorable than corporations?

The purpose of the MLF is to enhance the liquidity of the municipal securities market by increasing the availability of funding to eligible issuers through purchases of their short-term notes. The 36-month maturity limit reflects the purpose of the MLF to provide near-term financing to eligible issuers facing severe liquidity constraints resulting from the increase in state and local government expenditures related to COVID-19 and the decrease and delay of certain tax revenue, while allowing eligible issuers access to funding over more than one budget cycle. By addressing the cash management needs of eligible issuers, the MLF was also intended to encourage private investors to reengage in the municipal securities market, including across longer maturities. Following the announcement and implementation of the MLF, strains in the municipal securities market seen in mid-March 2020 eased, with spreads on general obligation bonds across a wide range of maturities steadily decreasing and primary issuance activity picking up in recent months.

The pricing methodology under the MLF is based on the overnight indexed swap (OIS) rate for a comparable maturity plus a fixed spread that corresponds with the ratings of the eligible notes and their relevant tax status. The pricing methodology adjusts the interest rate based on credit rating, maturity, and tax status because these factors affect the pricing of similar municipal debt in markets during normal times. The fixed spread over OIS that applies for each credit rating category under the MLF was chosen because it meets the legal requirements under section 13(3) of the Federal Reserve Act and the Board's Regulation A. This regulation provides that an interest rate on eligible notes must be at a premium to the market rate in normal circumstances, affords liquidity in unusual and exigent circumstances, and encourages repayment of the eligible notes and discourages use of the facility as the unusual and exigent circumstances that motivated the program recede and economic conditions normalize. On August 11, 2020, the Federal Reserve announced revised pricing for the MLF, which reduces the interest rate spread for each credit rating category by 50 basis points and further reduces the amount by which the interest rate for taxable notes is adjusted relative to tax-exempt notes.

As you know, the MLF has been supported by funding from the CARES Act, which assigns sole authority over its funds to the Treasury Secretary, subject to the statute's specified limits. The Secretary has indicated that these limits do not permit the CARES Act-funded facilities to make new loans or purchase new assets after December 31, 2020.

The COVID-19 pandemic is devastating the economies of the states and cities on the front lines of responding. Over the last three months, public sector jobs at the state and local level have declined by nearly 1.6 million. California saw a multi-billion dollar surplus turn into a $54 billion deficit within a matter of weeks. Ohio's governor announced nearly $1 billion in budget cuts. New Jersey's governor cut over $1.3 billion. And the impact for communities of color is especially severe. While Black workers comprise 11 percent of the private sector workforce, they comprise 14 percent of the public sector workforce.

28. Chair Powell, what are the prospects for economic recovery if states and cities aren't given additional support, and what will be the impact to the U.S. economy?

Looking to past experience, state and local governments confronted significant fiscal strain following the 2007–2008 recession. As a result, their employment fell for several years. More broadly, the overall purchases of these governments fell for four years following the recession—outlays for infrastructure fell particularly sharply—and rose only anemically for several years thereafter. These outcomes likely weighed on broader economic growth.[2]

Currently, state and local governments are confronting acute budget pressure as the sharp decline in economic activity caused by COVID-19 has pushed down their tax collections. Indeed, the Federal Reserve established the MLF in order to help these governments better manage the cash-flow pressures they are confronting. In addition, Congress and the Administration have provided direct support to states and localities through the CARES Act and other legislation.

Going forward, the size of the drag on economic activity that will likely result from the budget pressures faced by these governments depends importantly on the path of the broader economic recovery—and the corresponding extent to which these governments' tax bases recover—and whether these governments receive additional support from Congress. Of course, the size and composition of any additional fiscal support for state and local governments is solely within the purview of Congress and the Administration.

Stress Tests/Dividends. Chair Powell, even at the height of financial market turmoil during this current crisis, the Federal Reserve has allowed banks to continue to distribute capital to wealthy shareholders. In the recent earnings season big banks paid out dividends at a $50 billion annual rate. While banks voluntarily suspended share buybacks for the second quarter, it was not until last week when the Fed took action to prohibit share buybacks and to limit dividend payments, however banks can continue to pay out dividend payments. This ignores lessons learned from the 2008 crisis, as explained by IMF's Managing Director, Kristalina Georgieva, in an op-ed urging jurisdictions to halt all bank buybacks and dividend payments.[8]

[8] https://www.imf.org/en/News/Articles/2020/05/22/kristalina-georgieva-halt-bank-dividends-and-buybacks-now

31. Chair Powell, the stress tests conducted by the Federal Reserve required banks to respond to a W-shaped recovery. In other words, what would banks' balance sheets look like if there is a resurgence of the virus in the fall, as is widely feared? When this scenario was applied, 25% of banks breached their regulatory minimums for capital. In light of this result, how can the Fed possibly justify continuing to allow dividend payments?

The Dodd-Frank Act Stress Test 2020 severely adverse scenario was designed in late 2019 and published in early February 2020, before COVID-19 had significantly affected the U.S.

[2] For example, see the analysis in D. Cashin, J. Lenney, B. Lutz, and W. Peterman, "Fiscal Policy and Aggregate Demand in the U.S. Before, During and Following the Great Recession," Finance and Economics Discussion Series 2017-061. Washington: Board of Governors of the Federal Reserve System.

economy. This scenario was developed with the Board's Policy Statement on the Scenario Design Framework for Stress Testing. The Federal Reserve's approach to specifying the severely adverse scenario is designed to limit the procyclicality in the stress test. This methodology is intended to generate scenarios that do not get easier as the economy improves.

The Federal Reserve conducted an additional sensitivity analysis with alternative downside scenarios once it became clear that COVID-19 was significantly disrupting U.S. economic activity. The alternative downside scenarios included:

- a rapid V-shaped recovery that regains much of the output and employment lost by the end of 2020;
- a slower, more U-shaped recovery in which only a small share of lost output and employment is regained in 2020; and
- a W-shaped double dip recession with a short-lived recovery followed by a severe drop in activity at the end of 2020 due to a second wave of containment measures.

While the additional sensitivity analysis indicated that banks were sufficiently capitalized, the Board took additional actions to preserve bank capital in light of the heightened uncertainty associated with COVID-19. Among those actions, the Board required banks to re-assess their capital needs and resubmit their capital plans, and further stated that additional analysis would take place late to consider incoming data from banks and evolving economic conditions. The Board also released its hypothetical scenarios for that analysis.[3]

An additional round of stress tests was performed due to the continued uncertainty from COVID-19. The Supervisory Scenarios for the Resubmission of Capital Plans in the Fourth Quarter of 2020 describes three supervisory scenarios—baseline, severely adverse, and alternative severe—that the Board will use to conduct its updated stress analysis. While the baseline and severely adverse scenarios were designed in accordance with the Board's Policy Statement on the Scenario Design Framework for Stress Testing, the alternative severe scenario departs from that framework. The alternative severe scenario is consistent with a number of adverse events, including a series of second waves of COVID-19 that are not synchronized across different regions of the United States and rest of the world, and is designed to assess the strength and resilience of banking organizations to an alternative set of unfavorable economic conditions.

As mentioned above, on December 18, 2020, the Federal Reserve published the results of its second round of stress tests. The December 2020 Stress Test results indicate that while firms are projected to experience higher losses they will remain well positioned to continue lending to households and businesses.

Market concentration/Bank size/mergers. While implementing the Federal Reserve's approach to post-crisis mergers in 2012, Governor Daniel Tarullo stated that he would apply a "significant presumption against acquisitions" by G-SIBs. The Federal Reserve should be especially cautious about approving acquisitions by G-SIBs during periods of market distress such as those we are currently experiencing to ensure that the United States does not emerge from the coronavirus pandemic with larger financial institutions

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[3] See https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200917a1.pdf.

and less competitive financial markets. Comments on Morgan Stanley's acquisition of E*Trade were initially due on May 1, but the comment period was extended to June 4 because of the pandemic.

36. Chair Powell, in light of the Federal Reserve's conclusion that "unusual and exigent circumstances" persist in the financial system, will you commit that the Board will not consider Morgan Stanley's application to acquire E*Trade until after the coronavirus pandemic has passed?

The Board undertakes a rigorous review of each merger or acquisition proposal that it receives, including financial and managerial considerations and future prospects, and the impact of the proposal on financial stability, competition, and customer convenience and needs. The Board will not act on a notice before it has evaluated all information necessary to make a determination. Additionally, the Board is subject to statutory timelines in considering merger and acquisition proposals, such as the Morgan Stanley/E*TRADE notice, and does not have the ability to unilaterally suspend these timelines. The Morgan Stanley/E*Trade notice was approved by the Board on September 30, 2020.

The Board evaluated the notice under the required statutory framework, which included analysis of the CRA performance of the involved insured depository institutions. Board staff requested and received considerable additional information related to the statutory factors from Morgan Stanley over the course of processing the notice. The Board found that the statutory factors were consistent with approval. The Board also considered the impact of COVID-19 on the parties and proposed transaction in taking final action on the notice.

BlackRock. The Federal Reserve Bank of New York entered into an Investment Management Agreement with BlackRock Financial Management (BlackRock) to perform investment management services for the Fed's Corporate Credit Facilities. The Congressional Oversight Commission's June 18, 2020 Report included the Federal Reserve's responses to several questions regarding BlackRock's duties and responsibilities. The Federal Reserve noted that the Investment Management Agreement "imposes stringent requirements on BlackRock to protect confidential information and to mitigate conflicts of interests" that are subject to "audit and review by the FRBNY and, the Board."

37. Chair Powell, can you elaborate on these requirements? What steps does the Fed intend to take to ensure that that Blackrock is satisfying these requirements?

The investment management agreements with BlackRock Financial Markets Advisory (BlackRock) for the CCFs are public and can be found on the Federal Reserve Bank of New York's (FRBNY) public website.[4] The agreements set expectations for the internal controls required by BlackRock and provide additional transparency on the Federal Reserve's relationship with the investment manager.

[4] For the PMCCF Investment Management Agreement, see www.newyorkfed.org/medialibrary/media/markets/pmccf/PMCCF-Investment-Management-Agreement.pdf. For the SMCCF Investment Management Agreement, see www.newyorkfed.org/medialibrary/media/markets/SMCCF_Investment_Management_Agreement.pdf.

Confidential information obtained by BlackRock or its affiliates—or their respective directors, officers, or employees—in the course of this engagement may not be leveraged for matters unrelated to the CCFs. This restriction prohibits, without limitation, use of any confidential information for the benefit of BlackRock, for the benefit of any other BlackRock client, or to inform any financial transaction, render any advice or recommendation, or attempt to influence any market or transaction for the benefit of any individual or entity other than the CCFs. This obligation survives the termination or expiration of the investment management agreements.

BlackRock employees providing investment management, trading, and/or advisory services to the CCFs or the FRBNY—for the duration of when they have access to material nonpublic information plus a two-week cooling-off period—are prohibited from providing investment management, trading, or advisory services to anyone other than the CCFs in any of the asset classes held by BlackRock and must also refrain from purchasing for him/herself investments in any of the asset classes held by BlackRock, unless authorized by the Chief Compliance Officer of the FRBNY. The two-week period is intended to ensure that material nonpublic information loses its value in the market. To be clear, even after the two-week cooling-off period, material nonpublic information may not be leveraged for matters unrelated to the CCFs. Additional information is available in Exhibit G of the investment management agreements, which sets forth the Information Barrier and Conflicts of Interest Mitigation procedures.

The investment management agreements also state that the FRBNY, the Board, and other governmental authorities that have oversight responsibilities under applicable law may conduct audits and ad-hoc reviews of the services provided by BlackRock under the investment management agreements. The FRBNY conducted diligence at the time of onboarding BlackRock and plans additional reviews during the facilities' operations that will cover areas of heightened risk. The Board performs periodic reviews of program operations and controls to obtain reasonable assurance that controls are present and are functioning in a manner that addresses identified risks. This may include reviews of service provided by vendors. Board staff consults and coordinates its oversight activities with Reserve Bank control functions, such as risk management and internal audit.

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

JEROME H. POWELL
CHAIR

December 23, 2020

The Honorable Joyce Beatty
House of Representatives
Washington, D.C. 20515

Dear Congresswoman:

Enclosed are my responses to questions 1, 2 and 3 that you submitted following the June 30, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on July 21, 2020.

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

1. This question is for Chairman Powell

I authored the provision of the HEROES Act, that required the Federal Reserve to include large nonprofits in the Main Street Lending Facility, after the Federal Reserve inexplicably determined nonprofits were not eligible. I am glad to see the Fed reverse course earlier this month and announce that large nonprofits will be eligible for these critically important loans, pursuant to Congress's intent.

Last month we had a hearing in the Joint Economic Committee on the precipitous drop in charitable giving and the financial hardships many of these nonprofits face. Chairman Powell, Congress appropriated the money with passage of the CARES Act in March, how quickly will nonprofits be able to apply for and receive loans?

The proposal released by the Fed on Monday, June 15 would only include nonprofits whose "2019 revenues from donations...are less than 30% of total 2019 revenues." This leaves out many nonprofits whose revenue from donations is above 30%. Why was this 30% cap proposed when organizations with a high percentage of revenue from donations are being so heavily impacted?

Additionally, the loan cap of $35 million is inadequate for nonprofits with thousands of employees. How was this cap amount arrived at and is the Fed flexible to work with Congress and charities to find metrics that work for this sector?

As you are aware, on June 15, 2020, the Federal Reserve announced it was seeking public feedback on a proposal to expand its Main Street Lending Program (Main Street) to provide access to credit for nonprofit organizations that were in sound financial condition prior to the coronavirus pandemic. On July 17, 2020, based on the public feedback, the Federal Reserve modified the eligibility criteria for nonprofit organizations to qualify as borrowers under the Main Street nonprofit organization facilities (the Nonprofit Organization Expanded Loan Facility (NOELF) and Nonprofit Organization New Loan Facility (NONLF)). The nonprofit facilities are intended to provide support to a broad set of nonprofit organizations, including educational institutions, hospitals, and social service organizations. The modifications to the program terms in the final term sheets should help the program accommodate a wider range of nonprofit organization operating models.

Under the revised terms, a nonprofit organization must have non-donation revenues equal to or greater than 60 percent of its expenses for the period from 2017 through 2019. The July 17 modifications also clarified how a nonprofit organization should calculate non-donations revenue, leveraging federal tax reporting terminology familiar to most nonprofit organizations. The modified test also requires the calculation of a three-year average to avoid disadvantaging nonprofits that had a large, one-time donation in 2019. Maintaining a donation cap helps ensure that nonprofit organizations that receive Main Street loans have stable sources of funding and addresses the risk that the current uncertain situation may create temporary or permanent shifts in philanthropy.

The NOELF and NONLF are both lending programs, authorized pursuant to section 13(3) of the Federal Reserve Act (FRA). Under section 13(3), the Federal Reserve is required to sufficiently secure all loans in order to protect the taxpayer. Accordingly, the NONLF and NOELF include features that are intended to mitigate risk to the taxpayer. The terms of the NOELF and NONLF largely mirror those of parallel Main Street lending programs directed at for-profit businesses, specifically the Main Street Expanded Loan Facility and the Main Street New Loan Facility. A nonprofit organization seeking a larger loan size may be able to take advantage of the higher lending limit under the NOELF.

As you know, Main Street has supported by funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which assigns sole authority over its funds to the Treasury Secretary, subject to the statute's specified limits. The Secretary has indicated that these limits do not permit the CARES Act-funded facilities to make new loans or purchase new assets after December 31 of this year.

For more information on the terms of the nonprofit facilities, please see the facility term sheets.[1]

2. This question is for Chairman Powell.

Will the Main Street Lending Facility loan application collect demographic data, so policymakers and the Fed can better ensure that minority-, women- and veteran-owned businesses are getting access to those funds? If not, how can you measure, what you don't collect?

The Federal Reserve will collect and disclose information regarding Main Street during the operation of the facilities, including information regarding names of lenders and borrowers, amounts borrowed and interest rates charged, and overall costs, revenues, and other fees.[2] The Federal Reserve does not plan to collect information regarding whether borrowers are owned by minorities, women, or veterans. We will continue to conduct outreach sessions to underserved communities to promote Program awareness. Further, we will continue to monitor broader credit conditions across different communities and geographies and weigh adjustments needed to reach eligible borrowers.

3. This question is for Chairman Powell.

According to transaction data of the Secondary Market Corporate Credit Facility the Federal Reserve published on Sunday, the Fed has purchased roughly $800 million dollars of high yield corporate bonds. While the Fed's emergency powers in Section 13(3) are

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[1] For the NOELF, see www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a11.pdf. For the NONLF, see www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a10.pdf.

[2] Borrower information is published on a monthly basis on the Federal Reserve's website. See www.federalreserve.gov/reports-to-congress-covid-19.htm.

broad, how does purchasing corporate bond exchange traded funds and, more specifically high yield or junk bonds, fall within the Fed's Section 13(3) authority?

The Federal Reserve, with the approval of the Secretary of the Treasury, established the Secondary Market Corporate Credit Facility (SMCCF) pursuant to authority under section 13(3) of the FRA. In particular, section 13(3) allows the SMCCF to purchase certain types of debt instruments.[3] Section 4003 of the CARES Act also contemplates that the Federal Reserve may establish programs or facilities that purchase obligations or other interests in secondary markets to provide liquidity to the financial system.[4]

Section 13(3) of the FRA requires facilities to be designed in a way that protects the Federal Reserve from losses. In the case of the SMCCF, the Federal Reserve Bank of New York (FRBNY) has recourse to all of the assets owned by the special purpose vehicle (SPV), including any earnings and fees accumulated in the course of the operation of the SPV. Moreover, the equity provided by the U.S. Department of the Treasury (Treasury) in connection with the SMCCF further protects the FRBNY from loss. Market participants use credit ratings to assess the likelihood that a company's debt will be repaid. Likewise, the SMCCF uses credit ratings to identify which debt instruments it may purchase and how much Treasury equity will be allocated to protect against losses from those instruments. The historical default rates of companies rated below investment grade are higher than those of companies rated above investment grade, but the SMCCF adjusts for heightened credit risk by allocating more Treasury equity to support purchases of companies rated below investment grade. In particular, the SMCCF leverages the Treasury equity at ten to one when acquiring corporate bonds of issuers that are investment grade but only at seven to one when acquiring corporate bonds of issuers that were previously rated investment grade but are now rated one rating grade below investment grade. When the SMCCF purchases exchange-traded fund (ETF) shares, it leverages the Treasury equity at between ten to one and three to one, depending on the risk profile of the ETF.

As you know, the SMCCF has been supported by funding from the CARES Act, which assigns sole authority over its funds to the Treasury Secretary, subject to the statute's specified limits. The Secretary has indicated that these limits do not permit the CARES Act-funded facilities to make new loans or purchase new assets after December 31 of this year.

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[3] The Federal Reserve Act allows the lending Reserve Bank "to discount for any participant in any program or facility with broad-based eligibility, notes, drafts, and bills of exchange when such notes, drafts, and bills of exchange are indorsed or otherwise secured to the satisfaction of the Federal Reserve bank." 12 U.S.C. 343(3).

[4] See, e.g., section 4003(b)(4)(B) of the CARES Act.

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

JEROME H. POWELL
CHAIR

November 13, 2020

The Honorable Denny Heck
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question you submitted following the June 30, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on July 21, 2020.

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

Construction Lending

I have been working for several years to figure out how to increase home construction, with the goal of lowering the cost of housing. One of the side benefits of that research has been that I have a newfound appreciation of the critical role that construction plays in pulling the economy out of recession. Typically, cutting interest rates would be enough to spur more buying of homes (and commercial buildings) and in turn boost construction, but that clearly didn't happen in the 2010s, and I worry that this critical economic recovery mechanism could fail again.

In my state, there are large construction projects that are stalled because of lack of access to financing. I worry that the Fed's facilities to support credit availability are leaving construction lending behind. For example, the Main Street Lending Program excludes "ineligible businesses," as defined in Small Business Administration regulations, which prevents "passive businesses owned by developers" from participating in the Main Street Lending Program.

How are the Fed's existing credit facilities supporting construction and what more are your agencies considering doing to protect construction jobs and ensure construction can play its historical role in driving economic recovery?

Consistent with section 13(3) of the Federal Reserve Act, the Federal Reserve's existing emergency facilities have broad-based eligibility requirements and do not target lending to any particular sector of the economy. These facilities and other recent actions taken by the Federal Reserve provide broad support to the economy, including consumers, businesses, and households affected by the impact of COVID-19. These actions have helped to stabilize financial markets and to put banks in a better position to make construction loans. Also, many Paycheck Protection Program loans have been made to firms in the construction industry. In addition, the Primary Market Corporate Credit Facility, Secondary Market Corporate Credit Facility, and Main Street Lending Program (Main Street) may aid certain borrowers involved in the construction industry that meet the borrower and loan eligibility requirements laid out in the facility term sheets. Most recently, to better target support to smaller businesses that employ millions of workers and are facing continued revenue shortfalls due to the pandemic, the Federal Reserve Board adjusted the terms of Main Street on October 30. In particular, the minimum loan size for three Main Street facilities available to for-profit and non-profit borrowers has been reduced from $250,000 to $100,000.

We are committed to using our tools to help businesses get through the current difficult period. We will continue to monitor economic conditions, including those in the construction industry, as well as the efficacy of existing facilities. We will consider changes in our approach as warranted by developments.

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

JEROME H. POWELL
CHAIR

December 23, 2020

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

Dear Congressman:

Enclosed are my responses to the questions you submitted following the June 30, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on July 21, 2020.

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

1. Chairman Powell,

Compliance and regulatory costs for banks can significantly impact the cost of services for consumers, the availability of credit, and subsequently the state of the economy. As a former board member for a community bank, I have seen the challenges associated with compliance costs firsthand. I recently spoke to the CEO of a community bank located in my district that serves primarily rural and suburban areas.
Many of the consumer loans it makes are under $1,000. Unfortunately, the bank is considering reducing or eliminating small dollar consumer loans from its portfolio due to high compliance costs which make many of these loans unprofitable. Specifically, documenting the compliance of fair lending laws tend to be especially burdensome. The elimination of these loans would significantly limit consumer access to credit in the market and lower the community's standard of living.

Are there any ways we can ease the documenting requirements for fair lending practices, while still ensuring financial institutions abide by fair lending laws and offer credit equally and fairly to all – regardless of race, religion, sex, etc?

The Federal Reserve encourages financial institutions to offer responsible small-dollar loans to both consumers and small businesses. Financial institutions should offer such loans consistent with consumer protection laws, including fair lending laws and regulations.

Managing fair lending risks associated with small-dollar loans need not be costly or burdensome.[1] For example, the Federal Reserve has provided practical tips for managing these risks, including by

- providing loan officers with rate sheets that clearly describe the bank's objective criteria for pricing decisions,
- ensuring that loan officers document the reasons for any exceptions to the pricing criteria, and
- monitoring exceptions (frequency and amount) for potential disparities on a prohibited basis.

We understand that institutions may have questions about particular products or services. We encourage institutions with questions about a particular product to discuss its plans with its supervisors before implementation.

Following the 2008 financial crisis, we saw a drastic decline in the number of community banks nationwide.

[1] For a full discussion, see Consumer Compliance Supervision Bulletin, July 2018, at https://www.federalreserve.gov/publications/2018-july-consumer-compliance-supervision-bulletin.htm.

As our economy begins to recover and Congress begins to consider new legislation, how do we ensure this doesn't happen again?

The population of community banks has been on a downward trend since the 1990s. Several factors have contributed to the decline in the number of community banks, including market and competitive forces incentivizing merger and acquisition activity. The decline in the population of community banks is also due to a lack of new entrants into banking. Individuals wishing to form a bank face high organizational costs, competitive pressures from other market participants, and limited earnings potential in the current environment. Recognizing these hurdles to the formation of a new bank, the Federal Reserve has implemented policies and practices in recent years to address these hurdles, while seeking to promote a safe and sound financial system.

When implementing regulations and issuing supervisory guidance, the Federal Reserve and the other federal banking agencies have considered the factors that contributed to the failure of more than 500 community banks as a result of the 2007-2008 financial crisis. New regulatory requirements and supervisory guidance have encouraged supervised institutions to improve their capital and liquidity positions and to implement more effective policies and procedures. Concurrently, efforts to reduce regulatory burden on smaller, less complex organizations have resulted in a significant amount of tailoring of both existing and new regulations and supervisory guidance based on the asset size, complexity, and risk profile of supervised institutions.

The Federal Reserve has a number of efforts in place that are directly intended to foster communication with community banks throughout the country to better understand their unique challenges. On a semiannual basis, the Federal Reserve Board (Board) meets with the Community Depository Institution Advisory Council, which provides details on lending and economic conditions across the country and provides a forum to discuss the concerns of community banks. The Board also meets with bankers' associations from different states throughout the year and with some banks individually to discuss topics of concern. These meetings provide valuable information towards understanding the issues faced by supervised institutions and further inform the development and tailoring of policy, guidance, and regulations. Additionally, the Board's governance includes a subcommittee that focuses on Smaller Regional and Community banking issues, led by our Governor Miki Bowman.

2. Chairman Powell,

I appreciate the Federal Reserve's recent efforts to expand the Municipal Liquidity Facility (MLF) and permit states to have at least two cities or counties use the MLF.
However, a large number of municipalities across the country, many who are facing severe budget shortfalls and need additional liquidity, still lack access to the facility.

Are there any plans to further expand the MLF to include more municipalities?

The budget deficits that many state and local governments currently face due to the COVID-19 pandemic could have very severe consequences for our communities.
I think it is important for Congress to consider all tools at its disposal to provide these

municipalities adequate relief. The last thing we need right now is a mass layoff of essential employees such as first responders and law enforcement officers.

In setting up the Municipal Liquidity Facility (MLF), we had to balance meeting the custom needs of over 50,000 diverse municipal bond issuers in the United States with the need to maintain the manageability and operational viability of the program. One key simplifying step we took was to rely on larger political entities to downstream funds to their political subdivisions or other government entities. To provide relief to smaller counties and cities, eligible states, cities, and counties may use the proceeds of eligible notes sold to the special purpose vehicle under the MLF to purchase the notes of, or otherwise assist, any of their political subdivisions or other government entities. Under this facility, political subdivisions and other government entities are defined broadly to include any county, city, municipality, township, village, school district, special district, utility, authority, agency or other unit of government, as determined by the eligible state, city, or county. This design therefore provides support for a larger number of municipalities. Additional information on the eligibility requirements under the MLF can be found in the facility term sheet.[2]

As you know, the MLF been supported by funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which assigns sole authority over its funds to the Treasury Secretary, subject to the statute's specified limits. The Secretary has indicated that these limits do not permit the CARES Act-funded facilities to make new loans or purchase new assets after December 31 of this year.

[2] The MLF term sheet, effective August 11, 2020: www.federalreserve.gov/newsevents/pressreleases/files/monetary20200811a1.pdf.

Board of Governors of the Federal Reserve System
Washington, D. C. 20551

Jerome H. Powell
Chair

November 13, 2020

The Honorable Al Lawson
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the June 30, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on July 21, 2020.

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

2. Chair Powell and Secretary Mnuchin, Recently, I helped to lead a letter with over 100 of my colleagues calling for the Fed and Treasury to create a facility that would help commercial real estate borrowers protect jobs and communities. I am concerned that the Main Street lending facility is not helping asset heavy businesses like student housing facilities, senior housing complexes, hotels and shopping centers. During these challenging times, borrowers need a liquidity facility to help them keep employees employed and communities that rely upon these assets thriving.

Imagine in a college town, if a hotel were to close or student housing was not available this fall? It would be a devasting disruption to communities across my district and result in permanent job losses.

Are you going to make the Main Street facility work better for commercial real estate borrowers?

The Main Street Lending Program (Main Street) may facilitate lending to certain borrowers involved in commercial real estate activities, provided that such borrowers meet eligibility requirements that are set out in the facility term sheets. However, earnings before interest, taxes, depreciation, and amortization (EBITDA) is the key underwriting metric required for Main Street, and we recognize that certain borrowers involved in commercial real estate activities typically rely on an asset-based lending model. The Federal Reserve and the U.S. Department of the Treasury have considered expansions of Main Street to include lending based on collateral values and have determined that conditions do not warrant such changes at this time.

Additionally, the Federal Reserve's main tool—lending—may not be an effective solution for commercial properties that already have significant debt. Loans extended under the Federal Reserve's emergency lending facilities are generally not contractually subordinated to other debt, and the Federal Reserve must take steps to design programs in a manner that protects taxpayers from losses. In addition, many commercial property owners are prohibited under their existing loan agreements from taking on more debt. In light of the nature and extent of the issues faced by the commercial real estate industry, the most viable route may be a fiscal program.

We are committed to using our tools to help businesses get through the current difficult period. We will continue to monitor economic conditions, including those in commercial real estate, as well as the efficacy of existing facilities. We will consider changes in our approach as warranted by developments. To better target support to smaller businesses that employ millions of workers and are facing continued revenue shortfalls due to the pandemic, the Federal Reserve Board adjusted the terms of Main Street on October 30. In particular, the minimum loan size for three Main Street facilities available to for-profit and non-profit borrowers has been reduced from $250,000 to $100,000.

3. Chairman Powell, none of the Federal Reserve's existing facilities provide meaningful support to the commercial real estate industry despite strong evidence that the commercial real estate industry -- and the businesses that the industry supports -- is still viable.

How does the Federal Reserve weigh the impact of inaction on the broader economy if the Federal Reserve does not do more to better support the commercial real estate industry given the industry's employment impacts, its impacts on consumer spending, and on local governments?

The Federal Reserve has taken action to provide support to businesses and households affected by COVID-19 and efforts undertaken to contain it. Of relevance to the commercial real estate sector, the Federal Reserve authorized the purchase of agency commercial mortgage-backed securities (CMBS) and established the Term Asset-Backed Securities Loan Facility (TALF), Primary Market Corporate Credit Facility (PMCCF), Secondary Market Corporate Credit Facility (SMCCF), and Main Street. Spreads and liquidity in the CMBS market have improved significantly since the Federal Reserve started these programs. The PMCCF, SMCCF, and the Main Street facilities may aid certain borrowers involved in commercial real estate activities that meet the borrower and loan eligibility requirements laid out in the facility term sheets. In addition, the Main Street and PPPLF programs may also facilitate the provision of financing to small and medium-sized businesses to maintain operations and meet their obligations—including paying rent—until conditions normalize.

Even with these measures in place, certain sectors of the commercial real estate market are experiencing significant strain. As I have previously said, the Federal Reserve's main tool—lending—may not be an effective solution for heavily indebted commercial properties that have suffered large revenue losses. Loans extended by emergency lending facilities under section 13(3) of the Federal Reserve Act are generally not subordinate to other debt, and the Federal Reserve must take steps to ensure that the taxpayer will be repaid. In addition, many commercial property owners are barred by their loan agreements from taking on more debt.

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

JEROME H. POWELL
CHAIR

January 29, 2021

The Honorable Alexander X. Mooney
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question you submitted following the June 30, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on July 21, 2020.

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

Chairman Powell, thank you for your testimony. In these unprecedented times you and your team have provided an invaluable service to this country and I applaud you for your work.

There are obviously a lot of proposals being put forth to help jump start the economy, but there is one in particular that I find has some merit that I would like to bring to your attention.

The proposal would be to stand up a new loan facility to enable the Federal Reserve to purchase sub debt from community banks. This proposal has some distinct advantages, chief among these is that it supports lending through existing, well-established community banks. Unlike the Main Street Lending Program, this sub debt proposal would not require the Fed to analyze individual corporate debt, leaving that to the community bankers, but would provide additional capital to allow banks to lend to businesses as they ramp up operations.

Has the Federal Reserve considered purchasing community bank sub debt and is this something that you believe might have potential, working alongside Paycheck Protection Program and the Main Street Lending Program?

Community banks have been active participants in a number of facilities established by the Federal Reserve. The Main Street Lending Program (Main Street) and the Paycheck Protection Program Liquidity Facility (PPPLF) have exhibited broad reach throughout the banking system, including community banks. For example, over 400 community banks registered to participate in Main Street, representing nearly 85 percent of all registered lenders. Moreover, community banks extended over half of the loans purchased by the Main Street special purpose vehicle.

As of January 21, the Federal Reserve has processed 15,352 PPPLF advances across 860 financial institutions. Community banks accounted for nearly 90 percent of active borrowers, which have amounted to over half of the total value of liquidity provided through the facility. The Federal Reserve has provided PPPLF advances to financial institutions in every state.

As you know, Main Street has been supported by funding from the CARES Act, which assigns sole authority over its funds to the Treasury Secretary, subject to the statute's specified limits. The former Secretary indicated that these limits do not permit the CARES Act-funded facilities to make new loans or purchase new assets after December 31, 2020.

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

JEROME H. POWELL
CHAIR

November 13, 2020

The Honorable Rashida Tlaib
House of Representatives
Washington, D.C. 20515

Dear Congresswoman:

Enclosed are my responses to the questions you submitted following the June 30, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on July 21, 2020.

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

During this critical time, nonprofits have stepped up to meet the unprecedented level of need in our country due to the COVID-19 pandemic. Nonprofits are the third largest employment sector and many hope to hire more employees as their organizations recover. Even though they face many of the same economic challenges as other industries, nonprofits are not shutting down. Rather, they are straining to meet the increasing demands of our communities by caring for the sick, feeding families, and keeping our communities connected.

As nonprofits continue stepping up to help communities, the federal government must include economic relief for nonprofits as part of any stimulus package. This includes recognizing the vital services nonprofits provide to communities and the economy by including loan forgiveness in the next round of COVID-19 relief legislation.

I was glad to see the Federal Reserve's proposal to expand its Main Street Lending Program (MSLP) facility to allow it to lend to nonprofit organizations, including mid-size nonprofits, hurt by COVID. Unfortunately, the eligibility criteria have a number of provisions that look to make it impossible for mid-sized charities to qualify, especially nonprofits that rely more heavily upon donations from the public to support their mission.

Questions on Non-profits

1. Does the draft nonprofit loan facility impose certain liquidity, asset, and reserve requirements that are not required in Main Street New Loan Facilities available to for-profit businesses?

On July 17, 2020, the Federal Reserve modified the eligibility criteria for nonprofit organizations to qualify as borrowers under the Main Street Lending Program (Main Street) nonprofit organization facilities (the Nonprofit Organization Expanded Loan Facility (NOELF) and Nonprofit Organization New Loan Facility (NONLF)), following a period of public feedback. These modifications included several adjustments to eligibility criteria intended to accommodate a wider range of nonprofit operating models. The NOELF and NONLF loan terms generally mirror those for Main Street for-profit business loans, including the interest rate, principal and interest payment deferral, and five-year loan term. The nonprofit organization facilities term sheets also include financial criteria aimed at identifying nonprofit organizations that were in sound financial condition prior to COVID-19. These financial metrics include requirements related to operating margin, liquidity, and debt repayment capacity. These financial eligibility criteria are commonly used by lenders in underwriting loans to nonprofit organizations. For additional details on the terms under the nonprofit organization facilities, please see the term sheets.[1]

[1] For the NOELF, see www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a11.pdf. For the NONLF, see www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a10.pdf.

2. The IRS includes a public support test on the annual Form 990 that requires nonprofits to maintain a rate above 33(1⁄3)% in order to ensure that nonprofits are relying more heavily on donations from the public, rather than other funding sources like investment income. Why does the Federal Reserve's criteria require organizations to have revenues from donations that are less than 30% which appears to be inconsistent with what the IRS requires? Would the Fed consider eliminating this requirement that no more than 30% of an organization's 2019 revenues come from donations?

The non-donations revenue test under the NOELF and NONLF term sheets serves a different purpose, and uses different defined terms, than the Internal Revenue Service (IRS) "public support" test applicable to some nonprofit organizations under federal tax law. As mentioned in the response to Question 1, on July 17, the Federal Reserve modified the eligibility criteria for nonprofit organizations to qualify as borrowers under the NOELF and NONLF, including modifications to the non-donations revenue test. Under the revised terms, a nonprofit organization must have non-donation revenues equal to or greater than 60 percent of its expenses for the period from 2017 through 2019. The modifications also clarified how a nonprofit organization should calculate non-donations revenue, leveraging federal tax reporting terminology familiar to most nonprofit organizations. The modified test also requires the calculation of a three-year average to avoid disadvantaging nonprofits that had a large, one time donation in 2019. Maintaining a donation cap helps ensure that nonprofit organizations that receive Main Street loans have stable sources of funding, and addresses the risk that the current uncertain situation may create temporary or permanent shifts in philanthropy.

3. One of the eligibility criteria for borrowers (#6) is that they must have "a ratio of adjusted 2019 earnings before interest, depreciation, and amortization ("EBIDA") to unrestricted 2019 operating revenue, greater than or equal to 5%." This criteria requires nonprofits to essentially have a 5 percent profit. Nonprofits function in a model that does not turn a profit, and where any surpluses are used fund critical services to the public such as social services and health research. Would the Fed consider eliminating this requirement which would be disqualifying for many nonprofits?

Please provide clarity on the calculation methodology — in the context of nonprofit operating budgets— regarding both restricted funding from grants in annual operating budgets, as well as capital funds for improvements that are part of an annual operating budget.

As discussed above, on July 17, the Federal Reserve modified the eligibility criteria for nonprofit organizations to qualify as borrowers under the Main Street nonprofit organization facilities. These modifications included a reduction in the ratio of adjusted 2019 earnings before interest, depreciation, and amortization (EBIDA) to unrestricted 2019 operating revenue, from greater than or equal to five percent to greater than or equal to two percent. Main Street, including the NOELF and NONLF, are loan programs, and borrowers are expected to pay back loans they receive under these programs. Therefore, the term sheets incorporate eligibility requirements similar to those used by lenders in making loans to nonprofit organizations.

The calculation methodology relies on two separate components: (1) 2019 EBIDA, and

(2) unrestricted 2019 operating revenue. EBIDA is a standard financial metric that is used in originating loans to nonprofit organizations. In underwriting such loans, lenders often take into account adjustments to EBIDA that may better reflect the nonprofit organization borrower's financial condition. The term sheet accommodates this standard underwriting practice by providing that the operating revenue metric is calculated on the basis of "adjusted" EBIDA. To calculate adjusted EBIDA, the lender provides the borrower a methodology it has previously used in extending credit to the borrower or similarly situated borrowers on or before June 15, 2020. The borrower then uses this methodology to calculate its adjusted EBIDA. The calculation methodology for unrestricted 2019 operating revenue is also specified in the nonprofit facilities term sheets and is defined as unrestricted operating revenue, excluding funds committed to be spent on capital and including a proxy for endowment income in place of unrestricted investment gains or losses. Using a proxy for endowment income in this eligibility criteria is a common practice in underwriting loans to nonprofit borrowers. To calculate the proxy for endowment income, the lender provides the borrower with a methodology it has used for the borrower or similarly situated borrowers on or before June 15, 2020.

4. The term sheet for the proposed nonprofit loan facility imposes a size minimum that is not imposed in the Main Street New, Priority, or Expanded Loan Facilities for for-profit businesses. Why is the Federal Reserve proposing that nonprofits with fewer than 50 employees be ineligible for Main Street loans for which their small business counterparts of equal size could secure lending support? Is there a concern that this employee floor would disqualify many smaller, community-based nonprofit groups responding to COVID-19?

In the final term sheets announced on July 17, the minimum employee threshold was lowered from 50 employees to ten employees. Many nonprofit organizations operate at a large scale and sophistication with few employees, due in part to reliance on volunteers. The new, lower minimum employee threshold under the Main Street nonprofit organization facilities is not expected to disqualify many smaller, community-based nonprofit groups. Please note that on October 30, the Federal Reserve Board (Board) adjusted the terms of Main Street to better target support to smaller businesses that employ millions of workers and are facing continued revenue shortfalls due to the pandemic. In particular, the minimum loan size for three Main Street facilities available to for-profit and non-profit borrowers has been reduced from $250,000 to $100,000.

Questions on Asset Management

1. Mr. Powell, have you done an analysis of who would benefit from a bailout of the hotel borrowers who have CMBS debt?

2. Are you aware that Tom Barrack of Colony Capital would be one of the largest beneficiaries? (Colony has hotels with $2 billion in outstanding debt currently in special servicing)

3. Are you aware that Monty Bennett at Ashford Companies would be one of the largest beneficiaries? (Ashford has $2.3 billion in special servicing)

4. Hospitality Investors Trust, which is controlled by Brookfield Asset Management, a $50 billion Canadian-based private equity company? ($723 million in special servicing)

5. Are you aware that seven of Gordon Sundland's Provenance Hotels are delinquent on their CMBS loans?

The Board has been closely monitoring the economy and the financial system during this difficult period, including the commercial mortgage-backed securities (CMBS) market. Our programs are designed to provide broad-based support to the economy and to the financial system and not to benefit any particular sector or borrower. We are committed to providing as much transparency about our lending programs as possible. Comprehensive information about our programs is available in our monthly reports to Congress that are published on our website at https://www.federalreserve.gov/reports-to-congress-covid-19.htm.

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

JEROME H. POWELL
CHAIR

November 13, 2020

The Honorable Juan Vargas
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question you submitted following the June 30, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

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[1] Questions for the record related to this hearing were received on July 21, 2020.

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

3. Chairman Powell, could you also provide ways in which we can broaden the scope of lending to tribal governments, and to the types of municipalities described in the previous question?

I am aware that Indian tribes are facing unique and difficult fiscal and economic challenges in combating the current crisis. At this time, tribal governments are not eligible to participate in the Municipal Liquidity Facility (MLF). Unlike state and local governments, tribal governments have limited taxing powers and generally do not issue notes into the municipal securities market for debt financing. Instead, tribal governments derive their revenues largely from federal aid and dividends paid by tribally-owned businesses. These tribal businesses may be eligible to participate in other emergency lending facilities, such as the Main Street Lending Program (Main Street). Additionally, the MLF relies primarily on credit ratings from nationally recognized statistical rating organizations (NRSROs) to ensure that credit risk to the Federal Reserve and taxpayers is appropriately limited—to be eligible to participate in the facility, issuers generally must have had an investment grade credit rating (or, in the case of revenue bond issuers and multi-state entities, minimum ratings of A-/A3) from at least two NRSROs as of the date when the facility was authorized. Based on our research, we believe that the vast majority of tribal governments in the United States would not meet these credit rating requirements. Fiscal support from Congress may therefore be a more appropriate response in assisting tribal governments.

Under the current terms of the MLF, eligible states, cities, and counties may use the proceeds of eligible notes sold to the special purpose vehicle under the MLF to purchase the notes of, or otherwise assist, any of their political subdivisions or other government entities. For the purposes of this facility, political subdivisions and other government entities are defined broadly to include any county, city, municipality, township, village, school district, special district, utility, authority, agency or other unit of government, as determined by the eligible state, city, or county. That being said, we recognize that it can be difficult for legal, financial or technical reasons for states to borrow on behalf of their cities and counties. In response, we broadened the MLF terms to ensure that every state has at least two cities or counties that may participate, regardless of population.

To assist other public entities, we expanded the MLF to allow the governors of each state to designate two revenue bond issuers in their jurisdictions whose revenues are generally derived from operating government activities (such as public transit, airports, toll facilities, and utilities) to be eligible to directly use the facility.

Following the announcement and implementation of the MLF, strains in the municipal securities market seen in mid-March eased, with spreads on general obligation bonds steadily decreasing and primary issuance activity picking up in recent months. We will continue to closely monitor conditions in the markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments. For additional information on the MLF, please see www.federalreserve.gov/monetarypolicy/muni.htm.