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THE QUARTERLY CARES ACT REPORT TO CONGRESS

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

ON

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

MARCH 24, 2021

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C O N T E N T S

WEDNESDAY, MARCH 24, 2021

WITNESSES

THE QUARTERLY CARES ACT REPORT TO CONGRESS

WEDNESDAY, MARCH 24, 2021

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

The Committee met at 10 a.m., via Webex, Hon. Sherrod Brown, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN SHERROD BROWN

Chairman BROWN. The Senate Banking, Housing, and Urban Affairs Committee will come to order. Thank you all for joining us.

This hearing, again, is in the virtual format. For those joining remotely, a few reminders.

Once you start speaking, there will be a slight delay before you are displayed on the screen. To minimize background noise, please click the mute button until it is your turn to speak or to ask questions.

You should all have one box on your screens labeled "Clock" that will show how much time is remaining. For all Senators, the 5-minute clock still applies for your questions.

At 30 seconds remaining, you will hear a bell ring to remind you the time is almost expired. It rings again when your time has expired.

If there is a technology issue, we will move to the next Senator until it is resolved. To simplify the speaking order process, Senator Toomey and I have agreed to go by seniority for this hearing.

One year ago, we were weeks into this pandemic. Already the United States had the most confirmed infections in the world.

By April, a million Americans had gotten the virus; 10 million were out of work. By the end of the year, more than 350,000 had died. We represent just 4 percent of the world's population, but we were 20 percent of the world's deaths.

A year later, things could not look more different.

Under President Biden's leadership, we are once again the envy of the world, on track to lead the world in vaccinations.

Think about that. After spending a year falling behind other countries, with more cases and more deaths, now in a matter of months things have reversed.

We are leading the world again, reminding everyone what we can achieve when we unleash American ingenuity and talent. We are showing people what we can do to make all our lives better when we invest in and follow, listen to and follow America's scientists and public health experts.

Because of that leadership, this summer we will again have hugs and barbecues and birthday celebrations. "Help Wanted" signs are going to go up in windows again. Customers will feel safe going back in stores. Families will be back in local restaurants.

And as Chair Powell has told us again and again, the best way to get the economy back on track is to get the virus under control.

This is not happening by accident. This is what leadership looks like. This is what a Government that is on your side looks like.

Last March, as we were staring down those staggering job losses, the Federal Reserve and Congress both sprang into action.

We came together bipartisanly to pass the CARES Act. It was a lifeline for so many, to help them pay their bills, to keep them in their homes, to keep businesses from going under.

And as a side effect of helping everyone else, the bottom did not fall out of the financial system. The stock market, as we know, did more than just fine.

That led the last administration and Republicans in Congress to think their job was done. After all, the stock market rebounded and corporate profits were soaring.

But for so many Americans, the past year has been the hardest of their lives.

More than 540,000 Americans have lost their lives from this virus. That is more than half a million families grieving grandparents, mothers, fathers, daughters, brothers.

We have lost 9.5 million jobs since last February. Many of those job losses, as we know, have fallen on women. Too many mothers feel like they have lost their livelihoods, lost their support system, lost the ability to have a moment to themselves to breathe.

We have missed far too many birthdays and weddings and graduations. Many Americans are about to celebrate their second Passover or their second Easter in a row without being able to attend services or celebrate in person.

We have missed hugs with grandparents and family dinners—all the little moments with our loved ones that make our lives full and meaningful.

As President Biden said, while it has been different for everyone, we all lost something.

But today help is here finally. After a year of Americans being told by their Government, "We cannot help you, we cannot afford it, you are on your own," after a year of inaction and indifference, the American Rescue Plan will deliver on the hope that Americans voted for: put shots in people's arms, money in people's pockets, kids back in school.

This is the investment we need that will defeat the virus, rescue the economy, and begin the work of building a better system for the future.

Our witnesses today, Treasury Secretary Yellen and Federal Reserve Chair Powell, play a key role and have played a key role for years but especially now in our economic recovery.

This is Secretary Yellen's first hearing before our Committee as head of the Treasury. That makes this the first time in American history a woman has come before this Committee as the head of our Nation's economic policy. It is about time.

Welcome, Secretary Yellen. You and your colleagues at Treasury will have a huge role to play in making the American Rescue Plan a success, making sure that renters and homeowners can stay in their homes, getting funding to our communities to make sure they can help keep small businesses' doors open.

I spoke to a Republican mayor in western Ohio this week who said she is going to use a big part of the dollars that we have sent her to work with local businesses so they can continue to exist and again grow.

You are all charged with expanding the Earned Income and Child Tax Credits, to put money directly in the pockets of workers, to help millions of working-class and middle- class parents keep up with the huge costs of raising a family. And you are responsible for getting direct stimulus checks to the vast majority of Americans. More than 100 million people already have their checks and a little more, just a little more, economic security and peace of mind.

The Fed can also make sure it uses all of its tools to support a strong economic recovery that reaches all workers and all communities, not just Wall Street.

That means we just cannot go back to the way things were before the pandemic. For too many Americans, the economy did not work for them, in fact, has not worked for a very long time for them.

The gap between workers' wages and corporate profits has soared over the past few decades. Black and brown workers, and women, in so many cases have never had their hard work pay off like it should.

And when Government is set up to benefit the richest corporations instead of the people who make our economy work, we get growing inequality, wealth concentrated at the very top, and a shrinking middle class. We are all too familiar with that.

The past year—not to mention the past third of a century—makes it obvious: When we funnel money to Wall Street and the largest corporations and the richest tiny sliver of people, it never trickles down to the rest of us.

We tried that approach repeatedly. It failed. The American Rescue Plan is the beginning of a new era, when we invest directly in the people who make our country work.

That means growing an economy where one job is enough to build a middle-class life. It means seizing every opportunity to lead the world in clean energy manufacturing and new, clean infrastructure.

It means giving people power over their own money and the financial security to weather an emergency.

It means building an economy where hard work pays off for everyone.

I look forward to hearing from Secretary Yellen and Chair Powell about how we will do that together.

Ranking Member Toomey.

OPENING STATEMENT OF SENATOR PATRICK J. TOOMEY

Senator TOOMEY. Well, thank you, Mr. Chairman, and thank you to Chair Powell and Secretary Yellen for appearing today.

You know, a year ago our economy and markets were roiled by COVID–19 and the Government-ordered business shutdowns. We saw extraordinary turmoil in credit markets, and that turmoil threatened the ability of households and businesses, States and municipalities to obtain the credit that they needed. That kind of turmoil presented, in my view, the very real threat of a full-blown depression that could have taken years to recover from.

In response, Congress passed the CARES Act to provide temporary relief to help the country weather a temporary storm. It was really an extraordinary response to an extraordinary situation, and thankfully, it proved remarkably effective, and we are now well on our way to a very strong recovery. The vaccine is being administered at a rate of over 2 million doses a day, states are reopening, and GDP is set to reach pre-pandemic levels, maybe as soon as this month—far earlier than either the CBO or the Fed originally projected.

The economy has been in strong recovery mode since last summer when we saw 38 percent GDP growth in the third quarter and well before our Democratic colleagues enacted a $2 trillion spending blowout that had little to do with COVID.

Congress must not use this pandemic as an excuse to permanently increase the size and role of the Federal Government. Congress certainly made this clear for the CARES Act emergency lending facilities. These facilities were established to stabilize turbulent credit markets so that households, businesses, States, and municipalities could access credit. The intent was clear. The facilities funded by the CARES Act were to be temporary, to provide liquidity, and to cease operations no later than the end of 2020. These facilities were extremely successful in achieving their intended purposes of restoring liquidity in the private capital markets. And in the December COVID relief bill, Congress ensured that these facilities would, in fact, be wound down by the year end as Congress had intended and the law required. They cannot be restarted or replicated in the future without congressional approval.

In addition to Congress' swift response, the Fed's response last spring was massive and played a crucial role in our ongoing economic recovery. But as is the case with Congress, the Fed also must fight the urge to continue this response beyond its original purpose. Last March, the Fed lowered interest rates to nearly zero and initiated a record expansion of its balance sheet. This accommodation has remained, and by both official forecasts and market expectations, it is going to continue well beyond the point of full recovery. And that raises at least two concerns.

The first concern is that the Fed's increased footprint is almost a permanent feature, and if this is the case and there is no eventual reduction in the size of the portfolio, then the Fed's quantitative easing to date would amount to a monetization of Government debt, and I certainly hope that that is not the case.

The second concern is that such an accommodative stance leaves our economy vulnerable to inflation. The Fed has signaled that its dovish monetary policy is here for a very long time. Its March summary of economic projections does not forecast any rate hikes until 2024 at the earliest, and the Fed appears to have no plans in place for reducing its monthly securities purchases.

Given the current economic recovery and the recent increases in commodity prices, inflation expectations, and Fed communications, I do worry that the Fed may be behind the curve when inflation inevitably picks up.

A final point and a warning. Very, very little of the Democrats' recent $2 trillion so-called American Rescue Plan had anything to do with COVID. It seemed more like a mad dash to claim credit for a recovery that was well underway and authorize as much money as possible to try to fundamental remake our society to one where the State is at the center of life for many more Americans. It was a partisan bloated spending bill. It contained stimulus checks for people with six-figure salaries who had no loss of income, expanded welfare benefits that eliminates incentives to work, and minimized personal responsibility. There were reparations, as the Chairwoman of the Senate Agriculture Committee called the loan forgiveness program that is based entirely on race and ethnicity. There were bailouts for chronically mismanaged States and cities despite their having record revenue in 2020 and half a trillion dollars in addition that had already been provided by Federal aid. And there was a Federal plus-up of unemployment insurance that will pay about half of unemployed people more money not to work than they make working.

In the long run, those kinds of policies will reduce productivity, diminish economic growth, and that in turn means a lower standard of living for all Americans. And it will exacerbate societal fractures. Fewer people will be paying taxes to an ever more growing Government, and those who do work will increasingly resent those who choose not to and yet enjoy the same or higher standard of living. That is unhealthy for the body politic, for our economy, and for our society, writ large.

I look forward to the testimony of our witnesses and the question period later. Thank you, Mr. Chairman.

Mr. Chairman, I think you are on mute.

[Pause.]

Secretary YELLEN. Still mute.

[Pause.]

Senator TOOMEY. Mr. Chairman, if you have got a technical problem here, would you like for me to kick this over to our witnesses and then get back to you? Give me a thumbs up. OK. Then in that case, until we can resolve this technical difficulty, I will recognize our witnesses.

I do not have a proper introduction prepared, but if there were ever two witnesses who do not need an introduction, it would be the two folks here. And I think we are leading off with Secretary Yellen, so, Madam Secretary, if you could begin.

STATEMENT OF JANET L. YELLEN, SECRETARY, DEPARTMENT OF THE TREASURY

Secretary YELLEN. Thank you, Senator Toomey. Chairman Brown, Ranking Member Toomey, members of the Committee, thank you for inviting me.

We are meeting at a hopeful moment for the economy, but still a daunting one. While we are seeing signs of recovery, we should be clear-eyed about the hole we are digging out of.

The country is still down nearly 10 million jobs from its pre-pandemic peak. When Congress passed the CARES and Consolidated

Appropriations Acts last year, it gave the Federal Government some powerful tools to address the crisis. But upon taking office, I worried they were not powerful enough. After all, there were—and still are—some very deep pockets of pain in the data.

One in ten homeowners with a mortgage are behind on their payments, and almost one in five renters are behind on their rent. There are 22 million people who say they do not have enough food to eat. One in ten adults are hungry in America.

I looked at data like these, and I worried that the COVID economy was going to keep hurting millions of people now and haunt them long after the health emergency was over. We know that when the foundations of someone's life fall apart—when they lose the roof over their head or the ability to eat dinner every night—the pain can weigh on them for years. Their earning potential is permanently lowered. I worried about this happening on a mass scale.

That is why I advocated very hard for the American Rescue Plan, and it is why my first—and most enthusiastic— message today is: Thank you. With the passage of the Rescue Plan, I am confident that people will reach the other side of this pandemic with the foundations of their lives intact. And I believe they will be met there by a growing economy. In fact, I think we may see a return to full employment next year.

Of course, the speed and strength of our recovery depends, in part, on how we implement the legislation. Treasury is tasked with much of that work, and there is nothing that I or my team take more seriously.

We appreciate your oversight on this matter, and I want to briefly tell you about how we have been working. Since taking office 2 months ago, we have been expediting relief to the areas of greatest need, for example, small businesses—and especially the smallest small businesses, which are disproportionately owned by women and people of color.

The pandemic has hit these businesses hard. The Paycheck Protection Program was an early lifeline, but because of issues with the program's design, the first rounds often did not reach the smallest sole proprietorships. We are addressing that now. We worked with SBA to tweak how the program was implemented. It is allowing the PPP to reach millions more microbusinesses and entrepreneurs, especially in rural and low-income areas.

We are also building capacity to support these communities over the longer term. Because of the December legislation, Treasury now has $12 billion to inject into community development financial institutions and minority depository institutions. In turn, these CDFIs and MDIs can lend that capital out, helping people buy homes and start businesses in places that the financial services sector traditionally has not served well.

Then there are the families I spoke about, the ones struggling to keep a roof over their head and food on the table. The American Rescue Plan provides more than $30 billion to help renters and homeowners at risk of losing their homes. And we are making sure that assistance flows as efficiently as possible.

For instance, the previous administration put in place rules that required tenants and landlords to provide quite a bit of documentation to get rental assistance, including detailed statements about their income. But some people do not have access to those documents. We are cutting through the red tape for them, while still taking reasonable steps to prevent fraud and abuse.

And, of course, we have been sending direct payments to Americans—a lot of Americans. As of last week, we had issued over 90 million payments. And all this is just a fraction of Treasury's work. There are so many more relief programs, including one that will provide $350 billion in aid to State and local governments. Implementing all of it is more complicated than it sounds, and we are working closely with stakeholders to make sure that these programs are both efficient and effective.

Behind these many relief programs, these millions of transactions, are a staff of very dedicated—and very tired- -Treasury and IRS employees. My final word is to them: Thank you. You are putting on a master class in how Government should work in the furnace of a crisis. I am grateful to be your colleague.

With that, I am happy to answer any questions you have.

Chairman BROWN. Thank you, Secretary Yellen.

Chair Powell, you are recognized for 5 minutes. And thank you, Ranking Member Toomey.

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

Mr. POWELL. Chairman Brown, Ranking Member Toomey, and other Members of the Committee, thank you for the opportunity to discuss the measures that we have taken to address the hardship wrought by the pandemic.

I would like to start by noting the upcoming 1-year anniversary of the CARES Act. With unanimous approval, Congress provided by far the fastest and largest response to any postwar economic downturn, offering fiscal support for households, businesses, health care providers, and State and local governments. This historically important legislation provided critical support in our Nation's hour of need.

As the virus arrived in force, our immediate challenge was to limit the severity and duration of the fallout to avoid longer-run damage. At the Fed, we also acted with unprecedented speed and force, using the full range of policy tools at our disposal.

Today the situation is much improved. While the economic fallout has been real and widespread, the worst was avoided by swift and vigorous action—from Congress and the Federal Reserve, from across Government and cities and towns, and from individuals, communities, and the private sector. More people held on to their jobs, more businesses kept their doors open, and more incomes were saved. But the recovery is far from complete, so at the Fed, we will continue to provide the economy the support that it needs for as long as it takes.

As we have emphasized throughout the pandemic, the path of the economy continues to depend on the course of the virus. Since January, the number of new cases, hospitalizations, and deaths has fallen, and ongoing vaccinations offer hope for a return to more normal conditions later this year. In the meantime, continued social distancing and mask wearing will help us reach that goal.

Indicators of economic activity and employment have turned up recently. Household spending on goods has risen notably so far this year, although spending on services remains low, especially in sectors that typically require in-person gatherings.

The housing sector has more than fully recovered from the downturn, while business investment and manufacturing production have also picked up. As with overall economic activity, conditions in the labor market have recently improved. Employment rose by 379,000 in February, as the leisure and hospitality sector recouped about two-thirds of the jobs it lost in December and January.

The recovery has progressed more quickly than generally expected and looks to be strengthening. This is due in significant part to the unprecedented fiscal and monetary policy actions I mentioned, which provided essential support to households, businesses, and communities.

However, the sectors of the economy most adversely affected by the resurgence of the virus, and by greater social distancing, remain weak, and the unemployment rate— still elevated at 6.2 percent—underestimates the shortfall, particularly as labor force participation remains notably below pre-pandemic levels.

We welcome this progress, but we will not lose sight of the millions of Americans who are still hurting, including lower-wage workers in the services sector, African Americans, Hispanics, and other minority groups that have been especially hard hit.

The Fed's response has been guided by our mandate to promote maximum employment and price stability for the American people, along with our responsibilities to promote the stability of the financial system. When financial markets came under intense pressure last year, we took broad and forceful actions, deploying both our conventional and emergency lending tools to more directly support the flow of credit. Our actions, taken together, helped unlock more than $2 trillion in funding to support businesses large and small, nonprofits, and State and local governments between April and December. This support, in turn, has helped keep organizations from shuttering and put employers in both a better position to keep workers on and to hire them back as the recovery continues.

Our programs served as a backstop to key credit markets and helped restore the flow of credit from private lenders through normal channels. We deployed these lending powers to an unprecedented extent last year. Our emergency lending powers require the approval of the Treasury and are available only in very unusual circumstances.

Many of these programs were supported by funding from the CARES Act. Those facilities provided essential support through a very difficult year. They are now closed, and the Fed has returned the large majority of the Treasury's CARES Act equity, as required by law. Our other emergency lending facilities are following suit imminently, although we recently extended the Paycheck Protection Program Lending Facility for another quarter to continue to support the PPP.

Everything the Fed does 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 on behalf of communities, families, and businesses across the country.

Thank you. I look forward to your questions.

Chairman BROWN. Thank you, Chair Powell, and thank you, Madam Secretary.

Chair Powell, do you think all this fiscal support will help us get to full employment and improve our overall economic and GDP growth?

Mr. POWELL. I think that the fiscal support that Congress has provided since the beginning has been really at the heart of the recovery and deserves much of the credit for the strength of the recovery over the course of the last year. I am loath to comment on particular fiscal bills, as you know, but I would just say generally this situation really called for a strong fiscal response, and we certainly had that.

Chairman BROWN. Thank you.

Secretary Yellen, how does the American Rescue Plan help women and people of color and the workers who have so often been left behind in our economy?

Secretary YELLEN. Well, the rescue plan is very much focused on getting aid in a whole variety of ways to those groups, starting with unemployment insurance, rental assistance for people who are in danger of losing their homes, food assistance, assistance to small businesses, especially in low-income minority communities, just aid to State and local governments, much of which can be directed toward those groups that have been most adversely affected by the pandemic. So there is also child support, an increase in the child tax credit to help families with burdens, household burdens. There is an expansion of the child dependent care credit that will help women who were at home with family responsibilities get back to work. So a broad range of features that are directed at those groups.

Chairman BROWN. Thank you, Madam Secretary. And I notice one of the first things you mentioned is particularly of interest in this Committee, and that is the work that a number of my colleagues did to help renters pay their bills and keep roofs over their heads. I hope you will continue to work with State, local, and tribal grantees to get this help out to renters quickly.

Secretary YELLEN. Absolutely.

Chairman BROWN. Thank you. Secretary Yellen, do you think getting people vaccinated as fast as possible, as the Biden administration and as the American Rescue Plan are doing, does getting vaccinated as fast as possible, does that help the economic recovery?

Secretary YELLEN. Oh, yes, absolutely. As Chair Powell indicated in his own remarks, ultimately the economic recovery depends on success in getting the pandemic under control, and vaccinations are critical to our ability to accomplish that.

Chairman BROWN. And, Chair Powell, as you had said earlier, you obviously agree with Secretary Yellen from what you had said earlier. Chair Powell, do you think direct payments to families help the economic recovery?

Mr. POWELL. Again, these matters are for Congress, for elected representatives, not for us. Nobody has elected us to make those decisions. I would just rather say at a high level, I think fiscal policy has provided a lot of support, and that has been appropriate.

Chairman BROWN. Secretary Yellen, do you want to expand on that same question briefly, direct payments helping the economic recovery?

Secretary YELLEN. Well, I think the direct payments are providing support to families for a wide range of burdens that many have suffered over the last years. There is other support that is clearly targeted, but I think this is helpful, and this spending will speed the recovery.

Chairman BROWN. One last question of both of you. Secretary Yellen, do you think that banks buying back their stock helps the economic recovery?

Secretary YELLEN. I have been opposed earlier when we were very concerned about the situation that banks would face about stock buybacks. But the financial institutions look healthier now, and I believe they should have some ability to, you know, abiding by the rules to make returns to shareholders.

Chairman BROWN. OK. My last—even though I said that was the last, my last joint question to both of you, to each of you. What are the lessons learned from the pandemic's impact on the economy that we should use to make the economy and financial system more resilient to the impacts of climate change? Do you want to start, Chair Powell, on that? Then we will close with Secretary Yellen.

Mr. POWELL. So on climate change, I will just quickly say that, you know, we have a mandate to supervise financial institutions and one to look at financial stability. So we do not have a mandate to do anything in particular regarding climate change. We look at it only to the extent it is within those particular existing mandates. And as you know, we are in the early stages of trying to understand what the implications are both for financial stability and on a microprudential basis for individual financial institutions, how should they think about those risks and ultimately manage them over a longer period of time.

Chairman BROWN. Secretary Yellen.

Secretary YELLEN. I agree with that. I think it is very important to make sure that financial institutions are resilient to the risks from climate change as well as other risks, and I think it is important for regulators to assess those risks both to understand them and to help the institutions themselves understand and manage their risks.

Chairman BROWN. Thank you, Madam Secretary.

Ranking Member Toomey is recognized.

Senator TOOMEY. Thank you, Mr. Chairman.

I just have to observe, if you pick up almost any newspaper in towns across Pennsylvania in the last week or so, a prominent story has been recurring all across the State, and that is the story of mayors and township commissioners and county commissioners meeting to try to figure out what in the world they are going to do with this mountain of cash that just got dropped on them after having collected all the revenue they expected last year. In some cases it is 50 percent of their entire budget, really just extraordinary.

My question, I will start with Chairman Powell, and what I would like to do, Mr. Chairman, is follow up on the conversation we had last week. I want to kind of understand how the recent Fed projections fit together because in some ways there are some apparent outliers. At least it appears that way to me. What I am referring to is the Fed's recent revisions, economic forecasting revisions, have a very significant upward revision in GDP growth; 6.5 percent I think is your real GDP number for this year, not inconsistent with where a lot of private economists are. But that is a 2.3-percentage-point increase.

The unemployment rate that you project is only a decline of half of a percent, and the inflation rate over the course of the full year, you guys are projecting that it will come in lower than it has been for the last 3 months. So, on average, for the remainder of the year, you are implicitly projecting inflation to decline.

So I think most economic models that would have that big an upward revision in economic growth would have a stronger reduction in unemployment and higher likelihood of inflation, and my concern is, if your models systemically work to understate the progress we are likely to make on employment and understate the risk of inflation, of course, it could lead to accommodative policy that goes too far for too long.

So can you walk us through why you have a relatively small improvement in the unemployment rate and a declining inflation despite the strong GDP growth?

Mr. POWELL. I would be glad to. Let me start by saying that what we publish in the Summary of Economic Projections is just that. It is individual projections that are totaled up and tabulated, really. It is not something we vote on. But I will address the medians, which are what we publish.

So the reason that unemployment does not go down further given the level of growth is really just that we see participation expanding. It is a different margin. It is people coming back into the labor market, and that actually holds the unemployment rate up. It is a highly desirable outcome. But this was the biggest drop in participation since World War II. That is part of it. There are a bunch of other things that go into it, and, of course, there is a good amount of uncertainty around that.

Senator TOOMEY. My concern is, because obviously private sector economists are aware of the decline in the workforce participation and seem to come to different conclusions. But I understand. This is an art, not a science.

Let me just—because I am going to run out of time here—direct my next question to Secretary Yellen. But, first, on the topic of IMF SDRs, I do want to thank Senator Kennedy for his leadership on this issue. Madam Secretary, as you know from our conversation, I am very concerned about the issuance of another $500, $600 billion of SDRs in the name of helping poor countries respond to COVID. SDR allocations are not meant to be a source of foreign aid. That is the realm of Congress to decide whether or not to extend foreign aid. And as you yourself have pointed out, this is an extremely inefficient way to deliver that aid since the money goes mostly to G–20 countries that have no need for this.

So I am just wondering why it is that you seem to have changed your position on the desirability of using SDRs for this purpose. And is this a final decision that has already been made, or is it still in flux?

Secretary YELLEN. Well, before committing to it, we will certainly, as the law requires, consult with Congress. I would say that the current crisis has increased the need for global reserves, and that is the IMF's assessment. The global economy suffered a very severe collapse in 2020. It contracted by 3.5 percent. The emerging market and developing economies faced considerable external financing needs, and the SDR allocation will help countries meet this need for reserves without forcing them to tighten fiscal policy, which could lead to further global divergence.

While this is a joint effort of the global community and there is broad support for an SDR allocation, it is true that rich countries will get SDR. That is how it works. It is tied to each country's quota in the IMF. But many countries have indicated a willingness and desire to recycle the SDRs they receive, either in the form of loans or grants, to low-income countries. And so that will magnify the impact of the SDR allocation in terms of providing resources to low-income countries.

Senator TOOMEY. I see I am out of time. Thank you, Mr. Chairman.

Chairman BROWN. Thank you.

Senator Reed from Rhode Island is recognized.

Senator REED. Thank you very much, Mr. Chairman. Welcome, Madam Secretary. Good to see you.

Secretary YELLEN. Good to see you, too.

Senator REED. We are all interested in getting everyone back to work. You have indicated, though, recently that it could be a full year until we reach full employment. In that interim, would you support enhanced unemployment benefits? I think the American Rescue Plan has done a great deal to help the unemployed, but that effort I think should continue. Your views, please?

Secretary YELLEN. Well, I think while unemployment remains high, it is important to provide the supplementary relief in the ARP, and that begins to expire I believe in the fall when I believe the economy will be getting back on its feet. People who have raised concerns about whether or not this additional aid will deter people from going back to work, that is certainly not an issue when unemployment is as high as it is now. And studies that have been done suggest that people receiving this have been accepting jobs. It has not deterred work. But I do think it is appropriate as the economy recovers—and I hope it will by the fall—that that should be phased out.

Senator REED. Just a follow-on point. I have noticed, coming from Rhode Island, in past recoveries some areas come back much faster for many different reasons. Some are slower. In the last major recession, Rhode Island and Nevada lagged behind significantly. Would it be appropriate for States to qualify for extended benefits if they are over a certain level of unemployment and even if other States have sort of broken through?

Secretary YELLEN. Well, I think, you know, the experience we have had suggests that the time may have come to modernize our unemployment system and to look for ways to tie the generosity of unemployment benefits to local conditions or to put in place automatic stabilizers that tie the local conditions to national unemployment rates. So that is an adjustment that would seem sensible to me.

Senator REED. Thank you, Madam Secretary.

A further question. Let me thank you because you responded to a letter that Senator Collins and I sent you with regard to the Coronavirus Economic Relief for Transportation Services, or the CERTS Act, which actually helps immensely the motorcoach, school bus, and passenger vessel companies around the country.

Can you give us an idea of when you will be issuing the guidance for the distribution of these resources? Because these companies are really hurting.

Secretary YELLEN. Well, I know they are hurting. They are mainly small businesses. It is a highly complex new grant program, and, unfortunately, our need to better understand eligibility and, you know, how to get money out to and inform those who are eligible for it, we have been working very hard on this, done a lot over the last couple of months. But we are working very hard to build an online application portal and to write up the standard agreement. So I hope soon we will be able to get it out. It turns out that there are a large number of companies that are eligible. We expect the demand to be very large relative to $2 billion in funding that is available, and we will have to sort through how to allocate it fairly.

Senator REED. Thank you. Chairman Powell, I have just a few seconds left, but we spoke about this previously, bottlenecks in the world economy, and today we have a classic example. The Suez Canal is tied up. But how are you reflecting those bottlenecks in the supply chain in your outcome, if at all, or your projections of economic growth?

Mr. POWELL. We have a literal bottleneck in the Suez Canal today.

Senator REED. Yeah, we do.

Mr. POWELL. Yes, we are monitoring all of that. Our staff is trying to model that as well. So we do have some slowdown in production. What has happened is that COVID has changed both demand and supply in some cases, and we are seeing it with chips that go into cars now. We are seeing it there. We are seeing it a various places in the economy. The sense of it, though, really is that there will be a little bit slower growth and maybe some modest upward pressure on prices of those goods, but that should be something that is temporary. You know, a bottleneck by definition is temporary as the supply side adjusts.

Senator REED. Thank you very much.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Reed.

Senator Shelby from Alabama is recognized for 5 minutes.

Senator SHELBY. Thank you, Mr. Chairman.

Secretary Yellen, in 2017, when you were Chair of the Federal Reserve, you noted that it was concerning to you that you the U.S. debt-to-GDP ratio was about 75 percent at that time. Today the Congressional Budget Office projects debt to reach 102 percent of GDP at the end of 2021. Is the Nation's growing debt something to be concerned about? And if not, why not? Because it seems like we are layering more and more debt because of the crisis and so forth.

Secretary YELLEN. So, of course, our finances need to be on a sustainable long-run path, and that is a very critical responsibility for all of us.

My views on the amount of fiscal space that the United States has, though, I would say have changed somewhat since 2017 when I said that, and it is partly because the interest rate environment has been so very low. And most economists and observers believe that interest rates have been trending down in developed countries now for several decades, but that trend predates the financial crisis, and is likely to continue. And what it means is that whereas in 2007 when we had a 35-percent debt-to-GDP ratio, now it is closer to 100 percent. In fact, interest payments on that debt relative to GDP have not gone up at all. And so I think that is a more meaningful metric of the burden of the debt on society and on the Federal finances.

And so I do believe we have more fiscal space, but it certainly does not mean that anything goes. I believe in responding to a crisis with a needed surge of spending that is temporary, that it was fully appropriate not to pay for it under the circumstances, but longer run, we do have to raise revenue to support permanent spending that we want to do.

Senator SHELBY. What long-term issues could come to haunt us dealing with substantial long-term debt to the economy? In other words, it cannot be a benefit for the economy except temporarily. What are some of the systemic things that could happen because of too much debt?

Secretary YELLEN. Well, if a country has too much debt, it may drive up interest rates, and in the process of doing that, it can crowd out other forms of productive investment in the economy, capital investment, housing, or other interest-sensitive sectors. And that may be a good thing or it may be a bad thing. It depends on what the expenditure is for.

If it were, say, for infrastructure spending or for investments in people that had a very high payoff, we might decide that that was a worthwhile trade to make, but it does have the potential to crowd out private spending.

Senator SHELBY. Chairman Powell, I have a question for you, if I could. The 10-year Treasury yield jumped above 1.7 percent last week, 1.7, which was its highest level in more than a year. I think it has dropped a little since then. But the yield curve between the 2-year and the 10- year notes were 160 basis points, the steepest since 2015. To what do you attribute this uptick in yields in recent weeks? And what about the yield curve? Could you get into that for just a minute?

Mr. POWELL. Sure. So it seems that rates have responded to news about vaccination and ultimately about growth, so higher growth, higher inflation, lower cases of COVID. So, in effect, there has been an underlying sense of an improve economic outlook, and that has to be part of why rates would move back up from the extraordinarily low levels they were at back up toward levels that we are more likely to see. And that has been an orderly process. I would be concerned if it were not an orderly process or if conditions were to tighten to the point where they might threaten our recovery.

Senator SHELBY. Mr. Chairman, we are all concerned about inflation price stability. That is one of your mandates at the Federal Reserve. In the event that inflation does rise precipitously and becomes an issue—we hope not, but it could—what tools would the Federal Reserve utilize or have left to maintain and work toward price stability?

Mr. POWELL. Those fundamental and well-understood tools really are for that purpose, for the purpose of guiding inflation. That is really our tools that create accommodative or less accommodative monetary policy. So that is interest rates, and it is also asset purchases.

Let me just say we do not expect the kind of inflation that you talked about, but we have those tools, and if we were to face inflation that moved up and that threatened to de-anchor inflation expectations materially above 2 percent, then we would have those tools, and we would use them in a way to guide inflation back to 2 percent.

Senator SHELBY. What do you believe is going to be——

Chairman BROWN. Senator Shelby, try to wrap up if you can, Senator Shelby.

Senator SHELBY. OK. My last question. What do you think will be the growth rate of the economy, real growth, in the next 9 months?

Mr. POWELL. Well, you know, I do not have a personal forecast I would disclose, but I will just point to the median of FOMC participants for this year was 6.5 percent, I believe, and, as I think Senator Toomey mentioned, that is very much in line with public forecasts. It is going to be a very, very strong year in the most likely case. There are, of course, risks to the upside and downside, but it should be a very strong year from a growth standpoint.

Senator SHELBY. Thank you.

Thank you, Mr. Chairman.

Chairman BROWN. Thanks, Senator Shelby.

Senator Tester from Montana is recognized for 5 minutes.

Senator TESTER. Thank you, Mr. Chairman, and I want to thank both Secretary Yellen and Chairman Powell for being here. Chairman Powell, thank you for your continued service, and, Secretary Yellen, it is good to see you back in the game again.

Secretary YELLEN. Thank you.

Senator TESTER. I am going to start with Chairman Powell. Following the passage of the American Rescue Plan, the Federal Reserve upgraded your economic projections. The FOMC estimated last week GDP will rebound and unemployment rates decrease more quickly. But as you highlighted already today, we still have a ways to go. Over the past year, I have shared your concerns of undershooting the economic recovery, and there are still many small businesses, workers, and families in Montana and across this country that are struggling because of this pandemic and the economic crisis that it has created.

How concerned are you about inflation once the economy gets on the plus side?

Mr. POWELL. Well, let me say we take the 2 percent inflation target very, very seriously. It is half of our mandate, so we are strongly committed to inflation at 2 percent over time. To us that means inflation expectations need to be anchored at 2 percent, and that means that inflation has to average 2 percent over time. So it is absolutely fundamental that we achieve that.

In the near term, we do expect, as many forecasters do, that there will be some upward pressure on prices, and also there will be a technical thing, base effects, as the very low readings from April and March of last year drop out of the 12-year calculation. We do not expect that that upward pressure will produce substantially higher prices or that the effects will be persistent. We expect that they will be transitory or temporary. If it turns out that we do see substantially higher inflation, you know, that would risk persistent inflation materially above our goal, then, of course, we would use our tools to bring inflation back down to 2 percent.

Senator TESTER. And from what you just said, then, you anticipate there could be some upward pressure, but long term you do not see this as being an issue?

Mr. POWELL. Long term, we think that the inflation dynamics that we have seen around the world for a quarter of a century are essentially intact and, you know, we have got a world that is short of demand, with very low inflation. The U.S. has had low inflation for some time. We think those dynamics have not gone away overnight and will not.

Senator TESTER. Thank you, Chairman Powell.

Secretary Yellen, I see you are working from your home. There are a bunch of decisions that you have to make about how this money is going to go out and what it can be used for and the kind of flexibility that is out there. I am talking about from the American Rescue Plan. Different localities face different challenges. But the fact is that there was a concerted effort to make sure that we get some money to municipalities without the States skimming off any money, and not only municipalities that are large, but municipalities of all sizes.

The question is: Are you committed to making sure that these funds make it to the smallest of towns that have not received any assistance yet without the States skimming off any money off the top or adding additional restrictions that were not included in the legislation or Treasury's guidance?

Secretary YELLEN. Well, we are committed to following the instructions that Congress gave us, and I would agree that that was Congress' intention where we have about 60 days to write the guidance on the use of those State and local funds. We are consulting broadly. Congress intended for there to be a lot of flexibility in how States and localities can use those funds, and we will certainly try to make sure that they are distributed as Congress intended and that the flexibility is there, although we also want to make sure that there—you know, we have requirements to make sure the money is used responsibly in accordance with Congress' direction.

Senator TESTER. I appreciate that. When do you—you say you have got 60 days to write up the guidance. Could you give me a ballpark figure? Will it take the full 60 days for the guidance for municipalities? Or do you intend to get it out sooner?

Secretary YELLEN. We are working as hard as we possibly can on this. There are a host of issues about how to interpret the requirements of this statute. I do not want to promise that it will take less than 60 days, but we are going to try to get this done as soon as we possibly can.

Senator TESTER. I appreciate that, and I appreciate your hard work on this. I get questions all the time about the flexibility on how these monies can be used. By the way, the municipalities and counties in Montana are very thankful for these dollars. They have been running on shoestring budgets forever, and this is the first time they are going to be able to make some real improvements in their counties and municipalities, plus being able to pay for police officers and fire departments and make sure the garbage gets picked up.

So thank you very much. I appreciate both of you, and we look forward to visiting on down the line.

Thank you, Mr. Chairman.

Chairman BROWN. Thanks, Senator Tester.

Senator Crapo from Idaho is recognized for 5 minutes.

Senator CRAPO. Thank you, Mr. Chairman. And, Secretary Yellen, I want to talk with you about another guidance issue that we need to focus on in the American Recovery Act. In the act there is a restriction on the use of funds under the State Fiscal Recovery Fund that was included that would prohibit States from using funds to, and this is a direct quote, "either directly or indirectly offset a reduction in the next tax revenue of such State or territory resulting from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax by providing a reduction in a rate, a rebate, a deduction, a credit, or otherwise, or delays the imposition of any tax or tax increase."

As you know very well, this has raised many questions and concerns. Eleven of my Republican colleagues and I introduced the State Fiscal Flexibility Act last week to simply remove this troubling restriction from the law. Twenty-one State Attorneys General wrote you asking for a clarification on this issue, and a lawsuit was filed by the Ohio Attorney General. This is an issue that needs immediate clarity, and I am aware of the letter that you responded to the Attorneys General with in which you said that you will provide guidance before the States must submit certification under 602(d)(1). But that does not really tell us how soon this guidance is going to come out. It seems to me the States are hamstrung right now. They cannot do anything until you give them the guidance. Could you give us some clarity on how soon this guidance will come out?

Secretary YELLEN. Well, we have a 60-day period to complete the work to get the money to distribute to the State and local governments, and there are a host of thorny questions that we have to work through that connect with the issue that you just mentioned. And we simply are going to have to try to craft guidance in that period of time. We are working on it 24/7 to get it out as rapidly as we possibly can.

Senator CRAPO. Well, thank you, and I appreciate that. I am going to encourage you to do everything you can in developing this guidance to answer those thorny questions in a way that gives maximum flexibility to the States and local communities.

Again, in the letter you wrote to the Attorneys General, you seemed to be moving in that direction. You stated that nothing in the act prevents the States from enacting a broad variety of tax cuts. It just cannot use the revenue from the act as an offset for those tax cuts.

Secretary YELLEN. That is correct.

Senator CRAPO. I really appreciate that perspective. As I am sure you are aware, that still leaves the question as to what is offsetting. How do you intend to approach the question of what is directly or indirectly offsetting a tax cut?

Secretary YELLEN. Well, when I said that we have thorny questions to work through, you have just indicated why we do. We will have to define what it means to use money from this as an offset for tax cuts, and given the fungibility of money, it is a hard question to answer. But that is what we are required to do, and we will do our best to offer guidance on it.

Senator CRAPO. Well, you just hit the nail on the head when you referenced the fungibility of money. So, again, I want to encourage you to be very restrictive in terms of the application of this prohibition and give the maximum flexibility to States and local communities as they administer these funds.

I just want to ask you an example question. I want to keep pushing on this issue with you.

Secretary YELLEN. All right.

Senator CRAPO. And I realize you may not be able to answer this any more specifically than you have been able to give specifics so far. But I am just going to give a hypothetical. What if a State decides that as with the Federal act's waiver of Federal taxation on a certain amount of unemployment compensation, the State would like to also waive a portion of its tax on those same unemployment compensation dollars? Would that be a penalty that the State would have to pay for if it did that?

Secretary YELLEN. So we have been asked this question by a number of States, and it is one we are going to have to consider and work through whether informing changes that States make, for example, with respect to unemployment insurance, whether or not that would qualify as a tax cut or be exempt, and we are examining that question carefully.

Senator CRAPO. Thank you. Again, I am just going to encourage you again to give the States the maximum flexibility you can. They are hamstrung, and the last thing we should do is put States in a predicament where they could lose the funding that was authorized by Congress to help them just because they want to manage their fiscal policy in a way that might include some reduction of tax revenue.

Thank you.

Chairman BROWN. Thank you, Senator Crapo.

Senator Menendez from New Jersey is recognized for 5 minutes.

Senator MENENDEZ. Thank you, Mr. Chairman.

The Paycheck Protection Program has delivered over $718 billion in critical relief to small businesses. It is set to expire exactly 1 week from today. Secretary Yellen and Chairman Powell, is the economy at a place where Congress can safely end PPP relief to small businesses?

Secretary YELLEN. So, of course, the economy is not at a place where small businesses that have been affected are able to thrive. I am not sure how much money remains in the program, but there is some, and I would be supportive of an extension.

Senator MENENDEZ. Chairman Powell.

Mr. POWELL. I would defer to the Secretary on that question. Thanks.

Senator MENENDEZ. Well, in February, three out of every ten small businesses said they would likely not survive 2021 without additional Government assistance. Now, fortunately, the American Rescue Plan included $7.2 billion for PPP loans and second-draw PPP loans, but if Congress does not reauthorize the program in the next 7 days, that money will never reach struggling small businesses. So I think it would be reckless and cruel to let the program expire when there are still about $50 billion of desperately needed PPP funding remaining and businesses waiting for relief. So I am glad to hear that you agree that it should be extended.

The Center on Budget and Policy priorities estimates that as of March 1st there were 13.5 million adults behind on rent and an additional 10.3 million adults behind on their mortgage payments. As we have seen throughout this crisis, the brunt of that pain is being felt in minority communities; 33 percent of black renters, 20 percent of Latino renters, and 16 percent of Asian renters said that they were behind on their rent compared to 13 percent of white renters.

The American Rescue Plan included $25 billion in rental assistance, nearly $10 billion in homeowner assistance, and one of my major priorities, $100 million in housing counseling to help renters and homeowners avoid foreclosure or eviction.

Now, Chairman Powell, you recently said that when there is a real crisis, "do not stop until the job is done." Would you say that current mortgage and rental payment delinquency rates, particularly among minority families, indicates that the job is done?

Mr. POWELL. Well, I would say actually the level of distress was very, very high and has recently been coming down a bit, but it is still quite material. And so that crisis is certainly not over.

Senator MENENDEZ. So is providing housing support both through rental and mortgage relief what you meant when you said, "Congress, of course, has come with quite a strong fiscal policy"? Would this be part of that fiscal policy?

Mr. POWELL. I meant that statement as a general statement, that the fiscal response overall has been remarkable, frankly.

Senator MENENDEZ. But a fiscal response that leaves millions of people out of their homes, whether they be as renters or homeowners, is not going to be a fiscal response that is going to provide us long-lasting benefits. Is that fair to say?

Mr. POWELL. I would say it is.

Senator MENENDEZ. OK. Let me ask you this: With 402 economists, the Board of Governors employs far more Ph.D. economists than the largest university department. However, only 24 percent of the Board's economists are minorities. Things are slightly better at Treasury. Only 30 percent of the 148 economists employed at the Department of Treasury are minorities.

Secretary Yellen, you previously stated that if economists are mainly of one gender or race, they are likely to miss things that matter. Chairman Powell, do you agree with Secretary Yellen's statement?

Mr. POWELL. I very strongly agree with it. But——

Senator MENENDEZ. So are—I am sorry. Please.

Mr. POWELL. I was just going to say we clearly benefit from diverse perspectives. We see that every day.

Senator MENENDEZ. Let me ask you both, then, considering the current make-up of Treasury and Federal Reserve economists, are either of you concerned they might be missing things that matter?

Secretary YELLEN. Yes, and I am very focused on pursuing diversity and hiring to make sure that we do have diversity in the economics team at Treasury and throughout Treasury. It is a very high priority.

Senator MENENDEZ. And at the Federal Reserve?

Mr. POWELL. So this is something very, very high priority, something we have worked hard at for some time, and we are not at all satisfied with where we are. We do a lot of outreach to historically black colleges and universities as well as Hispanic-serving institutions. I met with a class, actually, of minority students from a historically black college just last week. I spent an hour with them. But more than that, we have a systematic program to encourage more minority kids to study economics, and if they do study economics, to think about the Fed and that sort of thing. But there is a lot of work to be done there. It is a challenge we are very focused on.

Senator MENENDEZ. Well, I would be happy to work with both of you in providing individuals, I think, who presently could meet the challenge.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Menendez.

Senator Rounds from South Dakota is recognized for 5 minutes.

Senator ROUNDS. Thank you, Mr. Chairman. And thank you to both of our panelists for your service to our country.

Secretary Yellen, I would like to begin with you. I would like to direct this—as I am sure you are aware, the IRS is facing a severe backlog when it comes to processing tax returns. These problems, like the 2.4 million backlog in untouched tax returns and severe staffing issues at the IRS, were laid out at a recent oversight hearing conducted by the House Ways and Means Committee. The past processing issues at the IRS are troublesome enough, but what I thought even more disturbing is that there was no plan on the part of the IRS for how to fix the problem.

My question, I guess, is: What can be done to get the IRS to work through the backlog and to return a more normal state of operations? And I guess the reason why in particular I bring it up today is we are thinking about the fact that there are 2019 tax returns that since they have not been completed yet or been processed, it is going to make it a lot more difficult for the 2020 tax returns to be filed, and you are going to have some taxpayers that may very well end up in that position of having death spiral penalties being imposed on them simply because they cannot get responses back from the IRS.

No. 1, have you had a discussion about what the steps should be to begin fixing the issue? And then, second of all, will the IRS hold taxpayers that find themselves in this position harmless?

Secretary YELLEN. I have met with the IRS Commissioner and discussed a range of questions, including IRS' ability to distribute economic impact payments and the child tax credits on a periodic basis. I have not had a detailed discussion with the IRS Commissioner about the issue that you raise, but, you know, in general, the IRS needs more funding to be able to work appropriately to put in place the technology it needs to collect taxes. We know that there is a huge tax gap. It is estimated at something like $7.5 trillion over the next decade, and more generally, I think IRS needs funding to be able to appropriately manage the burdens it has, including, you know, providing support to taxpayers who call, a shortage of personnel makes it a frustrating matter to try to call to get advice over the telephone?

Senator ROUNDS. And it is not my point to be argumentative with you, Madam Secretary. I would just simply point out that you have now got $1.9 trillion that have been allocated, specifically some of it for pandemic relief, and the IRS suffered, too, because during the pandemic, they had a very difficult time in getting their folks to be able to work, and that is very understandable. But I do think that it is not unreasonable for us to ask for a plan to try to take care of that backlog. And I would simply ask for your commitment that you would go back and expect them to respond to you and then to us with a plan that is appropriate to get backlog resolved as quickly as possible.

Secretary YELLEN. I am certainly willing to do that and to work with you and your office and let you know what the plan is.

Senator ROUNDS. Thank you, Madam Secretary.

Also, I will just share with you, as we have just begun to highlight, you have a lot of challenges ahead of you, but one of the biggest tasks that the Treasury will be obligated to complete in the near term outside of pandemic relief is the implementation of the ILLICIT CASH Act. I partnered with Senator Warner on this, and we were able to get it into the National Defense Authorization Act. And so it is there. It has been signed into law.

Given everything on your to-do list—and I think I have just added a few more to that—can you lay out a rough game plan for how you would envision implementing the ILLICIT CASH Act?

Secretary YELLEN. FinCEN and Treasury more broadly have been very focused on implementing the provisions of the NDAA. It is a very high priority project for us, and we are already very hard at work in hiring people in order to be able to complete that work in a timely way.

Senator ROUNDS. Thank you, Madam Secretary.

I had a question for the Chairman, but I will put it in as a question for the record.

I see that my time has expired. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Rounds.

Senator Warren from Massachusetts is recognized for 5 minutes.

Senator WARREN. Thank you, Mr. Chairman.

So after the 2008 financial crisis, Congress passed the Dodd-Frank Act to put more cops on the beat and prevent Wall Street from wrecking our economy again. One of the protections that Dodd-Frank put in place was to automatically create a special designation for the too-big- to-fail banks, at the time those with assets of $50 billion or more. So they received stronger oversight from the Federal Reserve.

Chair Powell, why did Congress think it was a good idea to put stronger oversight in place for banks above a certain size?

Mr. POWELL. I think it was a wise decision. Particularly for the very large institutions, it was clear at the time that we needed to raise expectations across a very broad range of measures, including particularly capital liquidity risk management.

Senator WARREN. OK, and we needed better supervision to do that, I take it.

Mr. POWELL. I would agree.

Senator WARREN. But it is not just banks that pose a risk to the economy. In 2008, two investment companies— Bear Stearns and Lehman Brothers—failed, triggering the 2008 crash. So when Congress passed Dodd-Frank, they created the Financial Stability Oversight Council, or FSOC, and gave it the power to designate nonbank firms as too big to fail, or in the terms of the statute, to designate them as "systemically important," which means they get the same stronger oversight as the too-big-to-fail banks. Is that right, Chair Powell?

Mr. POWELL. Yes, it is.

Senator WARREN. OK. So let us look at an example of how that is working today. BlackRock is the world's largest asset management firm overseeing nearly $9 trillion in assets. That is more than double where it was 10 years ago. It also holds a stake in just about every company listed on the S&P 500.

To put that in perspective, BlackRock manages more assets than the entire GDP of Japan or Germany or Great Britain or any other nation in the world except the United States and China. And it is not just size. BlackRock also runs a technology platform that currently houses at least 10 percent of all the stocks and bonds around the world.

So, Secretary Yellen, just hypothetically, if a $9 trillion investment company failed, would that likely have a significant impact on our economy?

Secretary YELLEN. Well, Senator Warren, I believe it is important to look very carefully at the risks posed by the asset management industry, including BlackRock and other firms. And the FSOC began to do that I believe in 2016 and 2017. But the risks it focused on were ones having to do with open-end mutual funds that can experience massive withdrawals and be forced to sell off assets that could create fire sales.

Senator WARREN. Right, so——

Secretary YELLEN. That is actually a risk that we saw materialize last spring in March, and I think that with respect to asset management, rather than focus on designation of companies, I think it is important to focus on an activity like that and to consider what the appropriate restrictions are. It is not obvious to me that designation is the correct tool to address——

Senator WARREN. Wait just a minute. Designation is what gives the Fed its increased oversight power. Is that correct? Is that correct?

Secretary YELLEN. Yes.

Senator WARREN. And is BlackRock currently designated so that it receives that increased oversight?

Secretary YELLEN. It is not designated, but I think it is important to understand——

Senator WARREN. So that means that it is not receiving the increased oversight from the Fed. So my question is: Are you currently looking at designation for companies like BlackRock, $9 trillion companies like this?

Secretary YELLEN. Well, as I said, FSOC has looked at this issue in the past——

Senator WARREN. I understand we have done it in the past. I am not asking about what the last Secretary of the Treasury did. You are the head of FSOC now, and the question I am asking is whether or not FSOC is considering and looking at designation for these large financial institutions.

Secretary YELLEN. Well, I think it is appropriate to designate institutions whose failure would pose a material risk to U.S. financial stability.

Senator WARREN. Good. And that is why I started my question with: Does potentially a $9 trillion investment company pose some risk to the American economy if it should fail?

Secretary YELLEN. Well, one needs to analyze what the risk is. An asset management company is very different than——

Senator WARREN. So how do you analyze what the risk is if you are not actually doing the investigation through FSOC?

Secretary YELLEN. Well, FSOC has undertaken such work in the past, and as I said, when it looked at asset managers, it issued a report outlining what it sought as some of the most significant risk from those industries?

Senator WARREN. So I appreciate that they have done this in the past. Are you continuing that investigation now?

Secretary YELLEN. Well, I am just beginning a work program with FSOC, and certainly risks from asset management will be on the list.

Senator WARREN. All right. I understand that when the stock market is going up, it is easy to ignore risks that can be building up in the system. That was the mind-set of the regulators that led up to the 2008 crash, and that is how taxpayers ended up on the hook for a $700 billion bailout of the giant banks.

When the party is going strong, it is the job of the regulators to take away the punch bowl. My view on this is that Congress gave you the tools to monitor these companies for risk, and it is important to use them.

Mr. Chairman, thank you for allowing me to go a few minutes over with another brief question. Secretary Yellen, I am grateful to you and President Biden for your leadership in enacting the American Rescue Plan. A critical part of this bill is the $350 billion assistance for State and local governments. Some of our hardest-hit communities in Massachusetts are smaller cities under 50,000 in population, places like Chelsea and Everett and North Adams. So I want to ask you about how they get help from this bill.

Secretary Yellen, in general, communities with populations under 50,000 receive some direct Federal funding as a result of the American Rescue Plan. But they do not receive as much direct help as bigger cities. Is that correct?

Secretary YELLEN. Well, I believe there is a formula that determines how much they receive, and it is paid to them through States. I believe that that is——

Senator WARREN. Good. That is where I want to go, because direct funding is not the only money coming in to State and local government. In addition, State governments also receive a separate pot of money that was flexibly designed——

Secretary YELLEN. That is right.

Senator WARREN. ——to help our hardest-hit communities.

Secretary YELLEN. Sure.

Senator WARREN. And specifically the statute says that State funding can be used to respond to public health emergency with respect to the coronavirus disease or its negative economic impacts, including assistance to households, small businesses, and nonprofits or aids to impacted communities. Is that correct, Madam Secretary?

Secretary YELLEN. Yes, it is correct.

Senator WARREN. Good. And in Massachusetts, it looks like there will be about $4.5 billion going to the State government, so, Secretary Yellen, just to be clear, this statutory language provides our Governor with the flexibility to use State funding to provide extra help to address negative economic impacts in smaller communities that did not qualify for larger pots of direct funding. Is that right?

Secretary YELLEN. That is my understanding, but we will put out guidance and work through all of the legalities. But I believe that what you have said is correct. I want to be very careful about the legalities, but I believe that what you have said is correct.

Chairman BROWN. The Senator's time has expired.

Senator WARREN. I appreciate that. Thank you very much.

Thank you, Mr. Chairman.

Chairman BROWN. Senator Tillis from North Carolina is recognized.

Senator TILLIS. Thank you, Mr. Chairman. And, Chair Powell, Secretary Yellen, thank you for being here today.

Secretary Yellen, I have a quick question. During your confirmation process, you said that a global minimum tax could stop the destructive global race to the bottom on corporate taxation and help discourage harmful profit shifting. You went on to say that it is necessary for U.S. companies to be globally competitive, and that is why the OECD negotiations are so important.

But I am trying to understand, having been a State legislator and Speaker of the House, I am trying to understand how this is different from federalism and the States trying to be competitive. When I became Speaker of the House, we had the highest corporate tax rate of any State that had a corporate tax rate. Now we have one of the lower ones. We were also in fourth quartile from economic performance and for corporate job creation. Now we are in the top quartile.

So why would any country like a Vietnam or Thailand or any developing nation buy into the idea that they should have a minimum corporate tax rate?

Secretary YELLEN. Well, I——

Senator TILLIS. And why wouldn't we expect—just as an extension, why wouldn't we expect a flow into those jurisdictions that would have a lower corporate tax rate at the expense of the United States?

Secretary YELLEN. Well, we believe that the OECD negotiations can be productive in creating a regime in which there is a minimum corporate tax rate, and that it is a way of stopping the destructive race to the bottom in terms of countries competing for business based on their corporate tax rates. And this is something we are committed to working to try to accomplish internationally.

Senator TILLIS. So do you believe that the lowering of the corporate tax rate here in the United States did not have a material impact on economic expansion in the United States?

Secretary YELLEN. I do not think it had a very substantial impact on investment spending in the United States. People are still——

Senator TILLIS. So by extension——

Secretary YELLEN. ——studying that, but it does—I think it is necessary for U.S. firms to be competitive. President Biden has suggested raising the corporate tax rate back to 28 percent. We at this point collect only a tiny amount of revenue through the corporate tax, less than 1 percent of GDP. And I believe it is appropriate to raise the tax rates, but we need to worry about the competitiveness of American firms, and doing that in the context——

Senator TILLIS. So you think——

Secretary YELLEN. ——of a global agreement——

Senator TILLIS. I have got one other question. So in your opinion, the increase of the corporate tax rate up to 28 percent will not cause any significant competitive disadvantage for the United States for corporate expansion?

Secretary YELLEN. Well, it——

Senator TILLIS. Just yes or no.

Secretary YELLEN. Well, I think it would be important to make sure that it is done in the context of a global agreement.

Senator TILLIS. OK. Last month, you gave public support for the IMF's proposal to issue a new allocation of special drawing rights. Several proposals have been put forth. I think just yesterday the IMF announced that they are seeking $650 billion. I believe that there was a House proposal that was looking at $3 trillion.

I know proponents of the SDR say that this has no budgetary impact, but I do not think that tells the whole story. Isn't it the case that the U.S. Treasury has to borrow the dollars it gives out to the IMF when the SDR exchange is made?

Secretary YELLEN. Yes, it does, if we provide the dollars. That is true. But——

Senator TILLIS. If that is——

Secretary YELLEN. ——we also earn interest to the extent that we hold SDR above our allocation.

Senator TILLIS. But if you do the SDR allocations, you are either going to issue T-notes or T-bonds—right?—to finance increase in the SDR obligation. Is that correct?

Secretary YELLEN. So I believe that CBO scores this as not having a cost, a net cost.

Senator TILLIS. They say it has no budgetary cost. So is the U.S. really misrepresenting the situation with respect to longer-term taxpayer obligations?

Secretary YELLEN. I do not think so because there will be interests that are earned on the SDRs that offset the payment of interest to issue, say, T-bills. And it is not only the United States that will likely provide hard currency in exchange for SDR. There are other countries that also will take part in that.

Senator TILLIS. Well, Mr. Chairman, my time has expired. I am going to keep to the 5 minutes. Chair Powell, I had a question on asset bubbles and your insights into maybe global asset bubbles, but that is something I will just submit for the record.

Thank you both for being here.

Chairman BROWN. Thank you, Senator Tillis.

Senator Van Hollen of Maryland is recognized for 5 minutes. You are mute, Chris.

Senator VAN HOLLEN. Secretary Yellen—can you hear me OK?

Chairman BROWN. Yes.

Secretary YELLEN. Yes.

Senator VAN HOLLEN. All right. Well, thank you, Chairman Brown. I want to thank Secretary Yellen and Chairman Powell for your testimony.

Secretary Yellen, I think that the action you took with respect to SDR is in our national interest, and I appreciate you moving forward on that.

Secretary YELLEN. Thank you.

Senator VAN HOLLEN. I did want to ask you a question about long-term unemployment. I was heartened by your testimony this morning that you hope and anticipate that, because of the passage of the American Rescue Plan and other measures that have been taken, we may get back to full employment by the summer of next year. I remain very concerned about the long-term unemployment. Even before the pandemic hit, we had more than a million Americans who were long-term unemployed, meaning they were looking for work for more than 6 months and could not find anything. That number is currently 4 million.

I do expect that with the natural improvement of the economy that number will come down, but I also think that if we do not take deliberate measures to help bring the long- term unemployed back into the economy, we are going to be leaving them behind.

I did have a conversation with Chairman Powell about this at our last hearing. He agreed that deliberate, targeted measures were necessary beyond just the natural lift in the economy that we hope we will see as a result of measures taken. Do you agree with that assessment?

Secretary YELLEN. Well, I am worried about the long- term unemployed and think we should be focusing importantly on what we need to do to make sure that they are not permanently scarred, yes.

Senator VAN HOLLEN. And would you agree, though, that beyond measures we take to—you know, fiscal policies and other policies that we take to improve the economy, that in order to address the needs of the long-term unemployed, we are going to have to be more deliberate and have policies targeted to accomplish that?

Secretary YELLEN. We may very well, and I am not sure, Senator, exactly what you have in mind, but policies that focus on training, workforce development, may be appropriate as the economy recovers.

Senator VAN HOLLEN. Right. I appreciate that. Well, Senator Wyden and Senator Baldwin and I proposed different forms of long-term unemployment elimination bills. They do include a workforce training component, but they also include some level of subsidized employment for 1 or 2 years, combined with those wrap-around services, in order to make sure that we address this chronic problem.

As you said before, the longer somebody is out of work, the harder it becomes for them to find work; and when they do get it, they may be stuck with lower wages for the rest of their working life.

Secretary YELLEN. Yes.

Senator VAN HOLLEN. We hope to deal with this in the next piece of legislation on infrastructure improvement and other challenges.

Let me ask you about the IRS, because we have seen chronic underfunding of the IRS since really 2011, and as a result, it is hard for Americans to get their phone calls returned. It is harder for the IRS to process things like payment. Right now a lot of people are still waiting for their refunds from last year's tax season.

In addition to that, the estimate is that as a result of the lack of enforcement ability, about $570 billion in taxes that were owed last year did not get paid, 70 percent of that coming from the top 1 percent of Americans.

So for all of these reasons, do you agree that we need to better resource the IRS, both to improve customer service and to make sure that tax cheats do not get away with not paying their fair share?

Secretary YELLEN. I absolutely agree. The tax gap is huge, and I think we would have a fairer tax system and collect more tax revenue without the need to raise rates if we resourced the IRS properly to be able to address this issue.

Senator VAN HOLLEN. Well, I look forward to working with you on that. We were able to provide $1 billion as part of the American Rescue Plan.

Secretary YELLEN. Yes.

Senator VAN HOLLEN. But more is needed, and with my other hat, I chair the Subcommittee on Financial Services and General Government Appropriations, and we are going to be asking for your help as we look at this issue.

Thank you, Mr. Chairman.

Secretary YELLEN. I look forward to working with you on that.

Chairman BROWN. Thank you, Senator Van Hollen.

Senator Kennedy from Louisiana is recognized for 5 minutes.

Senator KENNEDY. Can you hear me OK?

Chairman BROWN. Yes.

Senator KENNEDY. Chairman Powell, I want to start, unusually for me, with a statement as opposed to a question. I have been very supportive of you and the Federal Reserve and its independence. That was my position with the Trump administration; it will be my position, for what it is worth, with the Biden administration. And, in fact, I have said both publicly and privately, Mr. Chairman, that the single most important thing that was done to save the world economy, not the American economy alone—the world economy—from melting down during the shutdown last March was your decision to implement a foreign currency swap line when the whole world was not looking for Treasurys, they were looking for dollars.

There is an effort going on worldwide to blur the line between government and politics on the one hand and central banks and their independence on the other. I see every day central banks getting more and more involved in fiscal policy and lobbying legislators with respect to the adoption of fiscal policy. I have noticed that the Bank of England has announced in its QE program that it is going to stop purchasing corporate bonds from companies that it thinks has too big of a carbon footprint.

I noticed recently that the Reserve Bank of New Zealand has decided it is going to start in its policymaking, its monetary policy, taking account of housing prices.

Now, this is where I am headed, Mr. Chairman. The Federal Reserve needs to maintain its independence in America. Your credibility depends on political independence. I give you Turkey if you do not believe me. And besides that, the Federal Reserve and the good people in it are unelected. They do not have democratic accountability. And my concluding point—and I am just going to ask you to respond briefly -some people are going to beat on you, Mr. Chairman, like you stole Christmas to get involved in social policy in the guise of economic policy. And for the long-term health of the Federal Reserve, you need to resist that.

Mr. POWELL. Thank you, Senator. And thank you for your strong support on Fed independence. I do think that Fed independence is an institutional arrangement that has served the public well over time, and I am strongly committed to continuing it. I also would agree that getting off of our home base and straying from our mandate is something that will put independence at risk over the long term, because we have this precious independence because we have a limited mandate and we stick to it. If we are going to be playing on every issue, then the case for our independence weakens. There should be very few examples of independent agencies that are not part of——

Senator KENNEDY. And you are one of them, Mr. Chairman, and I apologize for cutting you off, but I want to stay within my time, and I need to ask Secretary Yellen a question.

Mr. POWELL. Thank you.

Senator KENNEDY. Secretary Yellen, the Biden administration's plan—and it is your plan—to require the IMF to issue $1 trillion of these SDRs, new SDRs, is going to cost the American taxpayer about $180 billion.

Now, your reason for doing that is a good reason. You say you want to help poor countries. But you and I both know that only about 10 percent of that money is going to go to poor countries. It is not going to help poor countries. You know who it is going to help if they cash in their SDRs? It is going to help China; it is going to help Russia; it is going to help Venezuela. And besides that, under your plan, you are intentionally splitting the plan into two tranches of $500 billion each to avoid having to come before Congress. And I do not understand why it is efficient to charge the American taxpayer $180 billion, all of which we have to borrow, when only -and you say you are doing it to help poor countries, and only 10 percent is going to poor countries, and even more is going to Russia and to China.

Secretary YELLEN. I am sorry. It is not going to cost the taxpayer $180 billion.

Senator KENNEDY. Sure it is. You are going to have to borrow the money. You do not have the money sitting in a checking account.

Secretary YELLEN. The IMF——

Senator KENNEDY. They are going to redeem those SDRs, not just the poor countries but China.

Secretary YELLEN. There are many countries that can provide hard currencies in return for SDRs, including the United States. If the United States does agree to provide SDRs, it will have to issue Treasury bills or debt to do it, but it will also——

Senator KENNEDY. I rest my case. I rest my case.

Secretary YELLEN. I am sorry. I am sorry, but it will also earn interest on any amounts that it converts on behalf of other countries, and it will be essentially a wash.

Senator KENNEDY. But the money will need to be paid——

Secretary YELLEN. And it will—there is no money to be paid back. It does not matter——

Senator KENNEDY. Sure there is.

Secretary YELLEN. The interest that we earn on any excess SDR holdings offsets the cost of issuing Treasurys, and it is essentially a wash. And it is not costly.

Senator KENNEDY. I disagree with you, Madam Secretary. I think you—no disrespect, but I think you are wrong. I think we are going to have to borrow all $180 billion of this——

Secretary YELLEN. I do not know where you——

Senator KENNEDY. We are going to have to——

Secretary YELLEN. I do not know where you got a number like that from.

Senator KENNEDY. Well, when China comes to redeem its SDRs and says, "We want dollars," where do you think we are going to get the money? We are going to borrow it.

I have gone over. I am sorry, Mr. Chairman. But this is an important issue. I will call you, Madam Secretary.

Secretary YELLEN. OK. I would be glad to talk about it offline.

Senator KENNEDY. Thank you. Thank you for your time.

Chairman BROWN. Thank you, Senator Kennedy.

Senator Cortez Masto from Nevada is recognized for 5 minutes.

Senator CORTEZ MASTO. Thank you. Secretary Yellen, Chairman Powell, welcome back to the Committee.

Let me start by expressing my appreciation to the staffs at your agencies who are charged with implementing the laws that we have passed. I know that the staff at the Internal Revenue Service, Treasury Department, and the Federal Reserve have worked long hours to implement these laws, so let me just say on behalf of Nevada, on behalf of the American people, I so appreciate the work that your staffs have done to deliver financial assistance to Americans. So thank you for that.

Let me start, Chairman Powell, with you in a conversation we always have around our hospitality and tourism industries, as you know, that has been so hard hit. Can you talk to me about what you are seeing with respect to those economies and the recovery? I think you have said that about two-thirds of the tourism and hospitality jobs lost in March 2020 are back. So can you talk a little bit more about what you are seeing as a result of the relief that we have passed here in Congress and the impact it is now having on hospitality and tourism?

Mr. POWELL. Sure, I would be glad to. So, actually, it is just two-thirds of the jobs that were lost during the winter COVID spike came back. The travel and hospitality is still down several million jobs, and I am sure you are seeing that at home.

We are beginning to see airline travel; we are beginning to see people going to restaurants and hotels; and all of those things are just beginning to pick up. And all of that, of course, is motivated by declining COVID cases and increasing vaccinations. And, you know, if we can just stick to social distancing and mask wearing, if I can put that commercial in again, it will enable us really to get this done and get the economy reopen. And all of these small businesses that are hurting so much can get the relief that they need. And, you know, it is right there to be done if we can follow through on this in the coming months.

Senator CORTEZ MASTO. I am curious. Do you see any regional variations in jobs returning in this industry?

Mr. POWELL. Well, unemployment generally is very much concentrated in States like yours and others that have high tourism and travel and entertainment components. Those are the ones that are suffering. As between individual States within that group, I could not say much sitting here today about how much variation there is.

Senator CORTEZ MASTO. Thank you. And thank you for your work and always speaking up and out about the need to address the concerns that we see with the hospitality and travel industry that has been so hard hit because of this pandemic.

Secretary Yellen, as part of the American Rescue Plan, we also included $10 billion in assistance for homeowners, and so can I ask, what is your timeline for getting frequently asked questions and guidelines out to communities wanting to help homeowners? We talk a lot about rental assistance, but there is still a lot of homeowners in need of help, and that is why we included $10 billion in assistance. So, Secretary, can you talk a little bit about that as well?

Secretary YELLEN. Well, we are committed to getting this money into the hands of homeowners at risk of foreclosure and falling behind on their payments as soon as possible. We are working hard on it. We are conducting outreach to State housing agencies to understand their needs and to make sure these funds are quickly and effectively distributed to communities in need. We are working hard at it. I cannot give you a definite date when we will get the FAQs out.

Senator CORTEZ MASTO. Thank you. So then the same question to you. As you know, we have also talked about this. The hospitality and leisure industry has been so hard hit. The money that we fought for particularly in this last package was really just focused on those in that industry, not only those businesses that are directly involved but those that are indirectly involved. I am looking to you to help us to make sure that the guidelines get out as quickly as possible where they are needed to make sure we get this money to the communities. And I know this is a focus of yours as well, Secretary Yellen.

Secretary YELLEN. Yes, I think, you know, the money that was designated by Congress for restaurants and associated industries, that is being managed by the SBA rather than Treasury, but we stand ready to work with them to be helpful.

Senator CORTEZ MASTO. Yes, and thank you. I cannot stress enough the money that we fought for, the $350 billion to our State and local governments——

Secretary YELLEN. Oh, sure, absolutely.

Senator CORTEZ MASTO. I mean, this is literally lifesaving, and that is why I think the entire—Democrats have fought for this and will continue to fight for this. That is the only reason that this is in the bill. And I just cannot stress that enough because everybody is struggling from those States that are—whether they are Republican or Democrat States, whatever you want to call them, States are struggling, and it is in a bipartisan way. So that is why this is so important.

Secretary YELLEN. That help is going to get out very rapidly. We have a maximum of 60 days to work through all of the thorny questions. We are working very hard on it, and we are going to get that money into the hands of State and local governments to use to support their communities.

Senator CORTEZ MASTO. Thank you. Thank you both so much for what you are doing.

Chairman BROWN. Thank you, Senator Cortez Masto.

Senator Cramer is recognized for 5 minutes.

Senator CRAMER. Thank you, Mr. Chairman. And thank you, Madam Secretary and Chairman Powell, for being here.

First of all, I want to associate myself with the comments of Senator Kennedy specifically about the importance of the independence, Mr. Chairman, and I know you have talked about this in the past, and it is just really critical. I applaud you for your discipline in that.

What I wanted to talk about today a little bit is the banking agencies, of course, are starting to roll back last year's regulatory measures that responded to the pandemic stresses. As you know, we made some temporary—provided some temporary relief. And we are hearing now that community banks are under leverage ratio stress because of the influx of deposits, which, of course, they are holding largely in very low risk assets and, of course, somewhat because of their strong commitment to PPP Lending. So as the banks continue to work with their customers and communities, I am just wondering what factors will you consider in deciding how to address leverage ratio pressures. And how much lead time will the banks and their customers get to adapt to these ad hoc decisions? Either one of you can start. Maybe start with you, Mr. Chairman.

Mr. POWELL. Right. So on the community bank leverage ratio, that is something we will be watching carefully and will communicate it well ahead of time, and, you know, we are well aware of those stresses.

Senator CRAMER. Very good. Thanks.

Secretary Yellen, I am going to ask you another question, and, you know, if you want to address the CBLR as well, that would be great. But you have made, of course, addressing climate change one of the central points of your time at Treasury. It has been reported that President Biden's climate czar, John Kerry, has encouraged banks and other investment institutions to form a net zero banking alliance. He has also urged banks to provide as much support for alternative energy projects as possible, which seems to be at the expense of more traditional energy projects, possibly even forcing financial institutions to put political and social considerations ahead of sound business practices. And that would, of course, be a violation of their fiduciary responsibilities to their shareholders.

So in light of the weak unemployment numbers, do you think it is a good idea for private businesses to be forced by a Government official or even encouraged by one to make decisions about where they should or should not put their money, jeopardizing jobs and their energy and other sectors of the economy that represent legal commerce and industries and businesses?

Secretary YELLEN. Well, Senator Cramer, I think the world faces a profound crisis in connection with climate, and it is appropriate for Government, the private sector as well, to focus on how we can mitigate the risks to encourage banks and financial institutions, lenders more generally, to think about the potential adverse impacts of investments that they may make, and perhaps more importantly, to understand that eventually we are committed to going to net zero emissions by 2050, and that that can affect the returns that they receive on investment. I do not think that is inappropriate. But there are no requirements by Government that I am aware of to force anyone to lend for any particular project or not to lend to businesses that are involved in carbon-emitting activities.

Senator CRAMER. Well, there certainly are some very strong suggestions that border on pressure at the very least, and, of course, a lot of these bigger banks are responding to that pressure and to market forces as well. But that said, I might just bring up a scenario in, say, a cold place like North Dakota, or anywhere in the Midwest for that matter, you know, when we get to times where there is a very—like a "polar vortex," as some people like to call it; we just call it "winter," or for that matter, you get a peak hot summer stretch when the base load electricity that people used to rely on to keep their companies running, their manufacturing facilities going, or the gas that used to be the feedstock for a manufacturer becomes, you know, fuel for generating electricity, that could have a pretty negative impact on the companies and manufacturers, the server farms who suddenly find themselves with rolling blackouts. So I just hope that we can take a whole approach to these things and not try to pick entire categories of industries as we have talked about, particularly as we talk about fair access to banking.

Secretary YELLEN. Well, I agree this is a process that will unfold over time gradually, and we need to take account of those impacts.

Senator CRAMER. Thank you for your consideration. Again, thanks to both of you for being here and for your service.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Cramer. We call it "winter." Thanks for making me laugh. I noted you laughed and I laughed. Moran did not get it, so he did not laugh.

Senator Smith from Minnesota is recognized for 5 minutes.

Senator SMITH. Senator Smith definitely got the joke about that is just winter, so thank you, Senator Cramer. I appreciate it.

I think I am going to start with Secretary Yellen. It is great to be with both of you, Chair Powell and Secretary Yellen. Thank you again, Secretary Yellen, for another display of grace under pressure as you were getting talked over a minute ago. I appreciated that very much. And speaking of which, I want to just hone in on the issue of women in the workplace. You and I have spoken about this. The challenges that women are facing in the workplace right now, COVID has made it so much worse. Women dropping out of the work at roughly the same rates as men, but now what is happening are returning to the workforce and women are not. In Minnesota, it is an 11-percent decline in women participation in the workforce.

One of the two major—there are two basic issues that women face. One is lack of access to affordable child care, and the other is lack of access to paid family leave. And this is happening in the United States in different ways than it is happening in Europe, as I understand it.

So as part of the American Rescue Plan, as you well know, I worked with Senator Warren and others to make a significant investment in shoring up our child care system.

Secretary YELLEN. Yes.

Senator SMITH. Secretary Yellen, I was wondering if you could just talk a bit about this. How does this ability of women to participate in the workforce connect to our economic competitiveness? And what role does child care play in making sure that women can participate in the workforce and support their families?

Secretary YELLEN. Well, I think that women have contributed enormously in the United States, and in countries round the world, their labor force participation has boosted growth and has boosted household incomes. And we saw a surge in women's labor force participation in the 1970s and 1980s, but it has leveled off, and it has even declined somewhat. And there are a number of reasons for it, but we look at the fact that in many European countries and other developed countries, labor force participation of women is now higher than it is in the United States. What stands out is paid leave and affordable child care as to things that distinguish the United States from those countries. They are really critical to enabling women to successfully participate. And I think it is exciting that the American Rescue Plan really addresses these issues, providing additional, very meaningful support on both fronts.

Senator SMITH. Thank you. I think what we do in the American Rescue Plan not only with providing—shoring up our child care system but also the child tax credit, which is going to have the impact of lifting—reducing child poverty by half, shows us the policy levers that we have to make our economy work for women, and ultimately that contributes to our economic competitiveness, as you say.

Secretary YELLEN. Yes, and it also helps children, I think, in the long run succeed to have that additional support.

Senator SMITH. Absolutely. It addresses that opportunity gap, as I like to talk about it, rather than an achievement gap, because it is really a lack of access to opportunity that our children have if they are living in poverty.

This brings me to another thing, Secretary Yellen, I want to talk with you about. It is something that you and I have also talked about. Data shows us that people experiencing homelessness have been disproportionately impacted by COVID, and you and I have spoken about what we can do to get the recovery checks, the stimulus checks, to people who are experiencing homelessness. A particular challenge is getting the checks to them.

Secretary YELLEN. Yes.

Senator SMITH. Recently, your staff provided my office with a briefing on what Treasury is doing to connect with local shelters and providers and continuums of care to get checks to people. And I was really heartened by hearing what you are doing, and I want to make sure that these community-based efforts continue. So we just have a couple seconds, but I was wondering if you could just maybe talk about that for a minute, and then if you could commit to providing some sort of guidance or publishing best practices, because I think there are some great examples of what works around the country.

Secretary YELLEN. Great. I mean, I think pushing best practices, trying to figure out what they are, is a very important role that Treasury can play in this and in other programs that we are charged with implementing. One of the most difficult issues is getting impact payments, and it will also apply to the child tax credit, getting these payments to homeless individuals. And as you say, we are working very hard, and I am happy to work with you to try to do everything we can on that front. We are working with IRS on this as well.

Senator SMITH. Thank you.

Thank you, Mr. Chair.

Chairman BROWN. Thank you, Senator Smith.

Senator Moran from Kansas is recognized for 5 minutes.

Senator MORAN. Mr. Chairman, thank you very much. Chairman Powell, thank you for joining us. Secretary Yellen, a pleasure to be with you again.

Secretary YELLEN. Thank you.

Senator MORAN. I look forward to being in the circumstance in which it can be different than virtual. Thank you both for your public service.

My question will be directed to you, Madam Secretary. The American Rescue Plan included $350 billion for a State and local Fiscal Recovery Fund to be used for emergency funding to distribute to States, counties, local units of Government. I know that you are currently, the Department is currently developing guidance in this regard. I would be interested in knowing the time of that guidance, but I want to highlight for you a circumstance that Kansas and many other States, particularly in the middle of the country, are experiencing. No relief for COVID can be taken without looking at its broader consequences, and I will take us back to what the Chairman was talking about, winter.

A few weeks ago, we had this tremendous cold snap that invaded the country, north to south, from Canada to Texas. And that cold snap created huge increases in utility bills for consumers and even for businesses. It is estimated in Kansas, some places, nearly $100 million in utility increases because of 3 days of temperature below zero and the cost of natural gas. In other words, the purchase price that utility companies were encountering to purchase enough gas to keep homes warm, to keep businesses operating was so high that the utility bills now reflect that $100 million increase that was experienced over just a few days.

A few examples for you, Madam Secretary. There is a Kansas municipality—some of our communities generate their own electricity and then sell it to their citizens. But one of those cities in Kansas with a population of less than 300 people had a February gas bill three-fifths of the total amount of their annual city budget.

Another city, just over 1,000 people, with household incomes less than $30,000, had a February energy bill over $9 million. A school which typically has a $10,000-a-month gas bill, in the month of February it was $400,000. A small greenhouse in rural Kansas received a gas bill of just under $100,000, of course, crippling that business with an unexpected expense.

My question to you is: I would love to have a commitment that you would work with me and others—I think there are other Senators on the Banking Committee and certainly other Senators who have experienced the same circumstance, and I would like to see our State and cities, our local units of government, have the flexibility under the belief that you cannot take the financial condition of COVID in just a vacuum. All the things that pile on when a business is already so fragile or when utility bills— individuals and families are already struggling to pay their utility bills, we cannot take that just in isolation. And, Secretary Yellen, I would just ask two things. I want to make sure you are aware of this circumstance, tremendous damage to small businesses and consumers in Kansas and elsewhere, ask if you also would see that flexibility makes sense to you, a commitment that you would work with me to make sure that we can convince you that you have an understanding of the circumstance, and then an idea of the timeframe in which that relief might—the guidance might be in place so that relief could be used.

Secretary YELLEN. Well, Senator, first of all, let me say I appreciate your describing to me the problems that your State and others face because of the cold weather and the impact on utilities.

Second, I promise that we will work with you when our staff can be in contact with yours to discuss the needs that your State has to deal with this problem. There is a good deal of flexibility within the law on how the funds can be used. Over the next 60 days—the statute provides 60 days for payments to get out, and we need within those 60 days to clarify what the funds can be used for and cannot be used for. I am glad to confer with you about whether or not this is within the realm of what the statute has in mind. So why don't we have our staffs talk offline about this?

Senator MORAN. Secretary, thank you for your answer, and you and I make a great team. We ended this in just Sherrod Brown's 5 minutes exactly. Thank you for that today and your response. I appreciate your willingness to cooperate and your understanding of the tremendous challenge and burden that individuals are having at home. Thank you.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Moran.

Senator Daines, have you voted already?

Senator DAINES. I have, yes.

Chairman BROWN. OK. Well, I am going to call on you. I am going to go vote, and I apologize to the Chair and to the Secretary. We are going to take this—there are two or three more people that want to ask questions, so I am going to call on you. Then we will recess after your questioning until about 12:30.

Senator DAINES. OK.

Chairman BROWN. So if Secretary Yellen and Chair Powell could stay a little bit longer, Senator Daines will go for 5 minutes now. We will just recess after your 5 minutes, and then we will come back about 12:30 for two or three other Senators.

Thank you all.

Senator DAINES. Thanks, Mr. Chairman. I appreciate that.

Well, let me start off by saying I want to express my utter shock at the provision that was buried within the recent $1.9 trillion package that prohibits States from directly or indirectly cutting taxes. This provision was snuck into the bill at the very end of a more than 24-hour period of continuous voting. Process aside, this astonishing level of meddling by Congress in State fiscal affairs should be troubling to anyone—Republican, Democrat, Independent—who believes fundamentally in the concept of federalism. This is why I was very pleased to see your response last night to the letter from 21 Attorneys General who expressed concern about this provision, including my own Attorney General of Montana, Attorney General Knudsen, confirming that States can, in fact, still cut their taxes. And to quote from your response, "Nothing in the act prevents States from enacting a broad variety of tax cuts. That is, the act does not deny States the ability to cut taxes in any manner whatsoever. It simply provides that funding received under the act may not be used to offset a reduction in net tax revenue resulting from certain changes in State law."

I know that Senator Crapo mentioned earlier in this hearing a specific hypothetical scenario involving unemployment insurance trust funds, and he stated that Treasury is still working through some of these issues, and you have 60 days to issue guidance.

Secretary YELLEN. That is exactly right.

Senator DAINES. Great. Well, to clarify, our legislature in Montana, it meets every 2 years. They are meeting right now, and they are slated to adjourn on or about May 1st. Sometimes it bleeds over a couple of days into May. So they really need this guidance as quickly as possible as they are kind of now in the final throes of this biennial session.

Secretary Yellen, would you commit to issuing guidance well in advance of the 60-day statutory deadline?

Secretary YELLEN. I cannot commit to that. There are a host of complex questions that have to be resolved, and we need to confer with State and local governments, with Members of Congress, and work out thorny legal issues around this.

We are working as rapidly as we possibly can to get this guidance out, but I do not want to make a commitment that we can get it out a lot sooner than that. We will get it out just as soon as we possibly can. We want this money to be in the hands of State and local governments, but we will just do the best we can.

Senator DAINES. Thank you, Secretary Yellen. I appreciate it, just with what is at stake right now with legislators that are meeting more on a periodic basis.

Shifting over here to Chairman Powell, some have proposed the Federal Reserve change its operating model to include holding retail and commercial deposits through Fed accounts opened on their behalf by banks with over $10 billion in deposits. Where adequate coverage through banks is not achieved, post offices would open accounts for retail and commercial customers with the deposits held at the Fed. These accounts would be offered at no cost to consumer and retail customers.

My question, Chairman Powell: Is the Federal Reserve equipped to service individual retail and commercial accounts?

Mr. POWELL. No, and, of course, we are not permitted under current law. That has never been our role, and it has really not been the role of other major central banks. It would be a quite dramatic change in our role in the economy and one that I think should require very careful thought.

Senator DAINES. Thank you for that thoughtful answer, Chairman Powell.

In 2019, the Fed, the OCC, and FDIC took steps mandated by Congress to tailor banks' prudential regulation. We are a year into the COVID–19 crisis, and banks and lending institutions have been a critical source of relief, have maintained strong capital and liquidity reserves. I think it is crucial we continue to recognize that a bank's size and business model are very relevant to consider when looking at how much risk it poses.

My question, Chairman Powell, is: Do you agree that the tailoring of regulations, including capital and liquidity requirements, to the systemic footprint of a particular banking institution is still appropriate and that there has not been any demonstrated negative impact to the U.S. economy because of tailoring?

Mr. POWELL. Yes, I would agree with that.

Senator DAINES. OK. Thank you. I am out of time. I appreciate the answers of both Secretary Yellen and Chairman Powell. And I guess—do I need to recess the Committee?

The CLERK. Yes, so we are going to be in recess until about 12:30. If Secretary Yellen and Chairman Powell can please remain on the call, feel free to mute yourself and turn off your video until we are ready to come back, however you feel comfortable.

Senator DAINES. OK. So we are in recess until 12:30. Thank you.

Mr. POWELL. Just to be clear, you need us to keep sitting here until 12:30, or can we come back at 12:30 or 12:25?

The CLERK. You can come back.

Mr. POWELL. All right. Just making sure.

The CLERK. Yes, thank you. Please remain on the call.

[Recess.]

Chairman BROWN. OK. I am just going to call out the names of people who have checked in. Senator Warnock, are you here? Senator Lummis?

[No response.]

Chairman BROWN. OK. We are going to adjourn. Thank you, both of you, for your patience especially.

Secretary YELLEN. Of course.

Chairman BROWN. And thank you to your staffs. I know in informal conversations that I am privileged enough to have with both of you, I always learn something, and you are always so helpful. I know what incredible staff you have because of the immense workload you have.

I think our two witnesses today sent a clear message about fiscal support in the American Rescue Plan and what we need to do. It is clearly the right move for the economy. Getting money into people's pockets is good for workers and their families.

I am sorry. One more thing. For Senators who submit questions for the record, they have to be in Wednesday, the 31st, and, Secretary Yellen and Chair Powell, based on the change we made to our Committee rules, you have 45 days to respond to any questions, if there are any. So thank you, and the hearing is adjourned.

Secretary YELLEN. Thank you.

Mr. POWELL. Thank you. Always a pleasure.

Chairman BROWN. Thank you both very much.

Mr. POWELL. Good to be with you.

Secretary YELLEN. Good to be with you. Take care.

Chairman BROWN. You, too. Thanks.

[Whereupon, at 12:36 p.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF CHAIRMAN SHERROD BROWN

One year ago, we were weeks into this pandemic, and already the United States had the most confirmed infections in the world.

By April, a million Americans had gotten the virus and 10 million were out of work. By the end of the year, more than 350,000 had died. We represent just 4 percent of the world's population, but we were 20 percent of the world's deaths.

A year later, things couldn't look more different.

Under President Biden's leadership, we are once again the envy of the world, on track to lead the world in vaccinations.

Think about that—after spending a year falling behind other countries, with more cases and more deaths, now in a matter of months, things have reversed.

We are leading the world again, and reminding everyone what we can achieve when we unleash American ingenuity and talent. We're showing people what we can do to make all our lives better, when we invest in and follow America's scientists and public health experts.

Because of that leadership, this summer, we'll have hugs and barbecues and birthday celebrations. "Help wanted signs" are going to go up in windows again. Customers will feel safe going back in stores and families will be back in local restaurants.

And as Chair Powell has told us time and again, the best way to get the economy back on track is to get the virus under control.

This isn't happening by accident. This is what leadership looks like. This is what a government that's on your side looks like.

Last March, as we were staring down those staggering job losses, the Federal Reserve and Congress both sprang into action.

We came together to pass the bipartisan CARES Act. It was a lifeline for so many, to help them pay their bills and keep them in their homes, and to keep businesses from going under.

And as a side effect of helping everyone else, the bottom didn't fall out of the financial system, and the stock market did more than fine.

That led the last Administration and Republicans in Congress to think their job was done.

After all, the stock market rebounded and corporate profits were soaring.

But for so many Americans, the past year has been the hardest of their lives.

More than 540,000 Americans have lost their lives from this virus. That's more than half a million families grieving grandparents, mothers, fathers, daughters, brothers.

We've lost 9.5 million jobs since last February.

Many of those job losses have fallen on women. Too many mothers feel like they've lost their livelihood, lost their support system, lost the ability to have a moment to themselves to breathe.

We've missed far too many birthdays and weddings and graduations. Many Americans are about to celebrate the second Passover or the second Easter in a row without being able to attend services or celebrate in person.

We've missed hugs with grandparents and family dinners—all the little moments with our loved ones that make our lives full and meaningful.

As President Biden said, while it's been different for everyone, we all lost something.

But today, finally, help is here.

After a year of Americans being told by their Government, "we can't help you, we can't afford it, you're on your own,"—after a year of inaction and indifference, the American Rescue Plan will deliver on the hope that Americans voted for.

It gets:

- Shots in people's arms
- Money in people's pockets
- Kids back in schools

This is the investment we need that will defeat the virus, rescue the economy, and begin the work of building a better system for the future.

Our witnesses today, Treasury Secretary Yellen and Federal Reserve Chair Powell, play a key role in our economic recovery.

This is Secretary Yellen's first hearing before our committee as head of the Treasury. That also makes this the first time in American history a woman has come before this committee as the head of our nation's economic policy. It's about time.

Welcome, Secretary Yellen.

You and your colleagues at Treasury will have a big role to play in making the American Rescue Plan a success—making sure that renters and homeowners can stay in their homes, and getting funding to our communities to make sure they can help keep small businesses doors open.

You're charged with expanding the Earned Income and Child Tax Credits, to put money directly in the pockets of workers, and help millions of working class and middle class parents keep up with the huge costs of raising a family.

And you're responsible for getting direct stimulus checks to the vast majority of Americans—more than 100 million people already have their checks, and a little more economic security and peace of mind.

The Federal Reserve can also make sure that it uses all of its tools to support a strong economic recovery that reaches all workers and all communities, not just Wall Street.

That means we can't just go back to the way things were before the pandemic. For too many Americans, the economy didn't work for them and hasn't worked for a very long time.

The gap between workers' wages and corporate profits has soared over the past few decades. Black and brown workers, and women, have never had their hard work pay off like it should.

And when government is set up to benefit the richest corporations instead of the people who make our economy work, we get growing inequality, wealth concentrated at the very top, and a shrinking middle class.

The past year—not to mention the past third of a century—makes it obvious: When we funnel money to Wall Street and the largest corporations and the richest tiny sliver of people, it never trickles down to the rest of us.

We've tried that approach. It failed. The American Rescue Plan is the beginning of a new era—where we invest directly in the people who make our country work.

That means growing an economy where one job is enough to build a middle class life.

It means seizing every opportunity to lead the world in clean energy manufacturing and new, clean infrastructure.

It means giving people power over their own money, and the financial security to weather an emergency.

It means building an economy where hard work pays off for everyone.

I look forward to hearing from Secretary Yellen and Chair Powell about how we will do that, together

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PREPARED STATEMENT OF JANET L. YELLEN

SECRETARY, DEPARTMENT OF THE TREASURY

MARCH 24, 2021

Chairman Brown, Ranking Member Toomey, Members of the Committee, thank you for having me.

We are meeting at a hopeful moment for the economy—but still a daunting one. While we're seeing signs of recovery, we should be clear-eyed about the hole we're digging out of: The country is still down nearly 10 million jobs from its pre-pandemic peak.

When Congress passed the CARES and Consolidated Appropriations Acts last year, it gave the federal government some powerful tools to address the crisis. But upon taking office, I worried they weren't powerful enough. After all, there were— and still are—some very deep pockets of pain in the data.

One-in-ten homeowners with a mortgage are behind on their payments, and almost one-in-five renters are behind on their rent. There are 22 million people who say they don't have enough food to eat. One-in-ten adults are hungry in America.

I looked at data like these, and I worried that the COVID economy was going to keep hurting millions of people now and haunt them long after the health emergency was over.

We know that when the foundations of someone's life fall apart—when they lose the roof over their head or the ability to eat dinner every night—the pain can weigh on them for years. Their earning potential is permanently lowered. I worried about this happening on a mass scale.

That's why I advocated very hard for the American Rescue Plan, and it's why my first—and most enthusiastic—message today is: Thank you.

With the passage of the Rescue Plan, I am confident that people will reach the other side of this pandemic with the foundations of their lives intact. And I believe they will be met there by a growing economy. In fact, I think we may see a return to full employment next year.

Of course, the speed and strength of our recovery depends, in part, on how we implement the legislation. Treasury is tasked with much of that work, and there is nothing that I—or my team—take more seriously. We appreciate your oversight on this matter, and I want to briefly tell you about how we've been working.

Since taking office two months ago, we have been expediting relief to the areas of greatest need. For example, small businesses—and especially the smallest small businesses, which are disproportionally owned by women and people of color.

The pandemic has hit these businesses hard. The Paycheck Protection Program was an early lifeline, but because of issues with the program's design, the first rounds often didn't reach the smallest sole proprietorships. We're addressing that now. We worked with SBA to tweak how the program was implemented. It's allowing the PPP to reach millions more microbusinesses and entrepreneurs, especially in rural and low-income areas.

We're also building capacity to support these communities over the longer term. Because of the December legislation, Treasury now has $12 billion to inject into community development financial institutions and minority depository institutions. In turn, these CDFIs and MDIs can lend that capital out, helping people buy homes and start businesses in places that the financial services sector traditionally hasn't served well.

Then, there are the families I spoke about, the ones struggling to keep a roof over their head and food on the table.

The American Rescue Plan provides more than $30 billion to help renters and homeowners at risk of losing their homes. And we're making sure that assistance flows as efficiently as possible.

For instance, the previous Administration put in place rules that required tenants and landlords to provide quite a bit of documentation to get rental assistance, including detailed statements about their income. But some people don't have access to those documents. We're cutting through the red tape for them, while still taking reasonable steps to prevent fraud and abuse.

And of course, we've been sending direct payments to Americans—a lot of Americans. As of last week, we had issued over 90 million payments.

And all this is just a fraction of Treasury's work. There are so many more relief programs, including one that will provide $350 billion in aid to state and local governments. Implementing all of it is more complicated than it sounds, and we are working closely with stakeholders to make sure that these programs are both efficient and effective.

Behind these many relief programs, these millions of transactions, are a staff of very dedicated (and very tired) Treasury and IRS employees. My final word is to them: Thank you. You are putting on a master class in how government should work in the furnace of a crisis. I'm grateful to be your colleague.

With that, I am happy to answer any questions you have.

Testimony Addendum

Overview

Collectively, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act); Consolidated Appropriations Act, 2021; and American Rescue Plan Act of 2021 (ARP) have created more than 15 new programs either directly administered by the Department of the Treasury or administrated with significant Treasury involvement. These programs have provided critical support to sectors that run the gamut of the American economy, from state and local governments to small businesses to individual taxpayers, homeowners, and renters.

The funds distributed by Treasury through these programs have helped keep our economy afloat during this difficult time. In recent weeks, the IRS has distributed more than 90 million economic impact payments totaling $242 billion; Treasury has stood up a new program to invest $9 billion in community development financial institutions and minority depository institutions; Treasury's investments have resulted in airlines canceling 27,000 planned furloughs and kept employees on the payroll; and the SBA, with assistance from Treasury, has facilitated the approval of 2.7 million loans to small businesses totaling $181 billion in the most recent round of PPP. And with the ARP at the early stages of implementation, this is only the beginning.

The remainder of this addendum provides a summary of the progress to date and the plans to come for key Treasury -led or -backed initiatives under these three statutes. In addition to the programs described below, the Treasury Secretary also approved certain facilities established by the Board of Governors of the Federal Reserve System under section 13(3) of the Federal Reserve Act, and Treasury made investments in those facilities using funds provided by the CARES Act.

CARES Act Programs

Coronavirus Relief Fund

The CARES Act's Coronavirus Relief Fund provided $150 billion in aid for state and local governments, including Tribal governments, to help navigate adverse impacts of the COVID–19 public health and economic crisis. These funds could be used for necessary expenditures incurred due to COVID–19 which were previously unaccounted for in the recipient's most recent budget.

To date, Treasury has made $149.5 billion in payments (99.7 percent) from the Coronavirus Relief Fund to 785 governments. Remaining funds will be disbursed following final court decisions related to Tribal allocations. As of December 31, 2020, recipient governments reported that of the approximately $150 billion provided by Treasury, $96 billion (64 percent) had been expended in under nine months, providing rapid relief to many Americans in need. Recipients also reported that much of the spending went to priority categories related to payroll for public health and safety employees, small business assistance, housing services, and COVID–19 testing and contact tracing.

As a result, Coronavirus Relief Fund spending has supported keeping essential frontline employees on state and local government payrolls and funding critical investments to help keep Americans safe.

Payroll Support Program (PSP)

Treasury has awarded $41 billion so far under the two rounds of the PSP for over 650 passenger air carriers, cargo air carriers, and certain aviation contractors. These funds must be used exclusively for the payment of employee wages, salaries, and benefits. The PSP has preserved aviation jobs, compensated air carrier industry workers, and prevented involuntary furloughs during the pandemic. PSP awards have supported payroll for over 600,000 aviation employees. The requirements applicable to companies participating in the PSP have prevented tens of thousands of industry layoffs, and Treasury continues monitoring recipients for compliance with restrictions on share buybacks, dividend payments, and executive compensation.

Treasury continues to review and approve the remaining applications from passenger air carriers and certain aviation contractors for the second round of the PSP (PSP2), under the Consolidated Appropriations Act, 2021. PSP2 is designed to preserve aviation jobs by requiring certain participants to recall and rehire workers who were involuntarily furloughed or terminated before the establishment of PSP2. Thus far, PSP recipients have issued recall notices to an estimated 60,000 employees who had been involuntarily furloughed or terminated.

The ARP provides additional funding for the PSP (PSP3), including up to $14 billion for passenger air carriers and up to $1 billion for certain aviation contractors. Like prior iterations of the program, the ARP's PSP funding must be used exclusively for the continuation of payment of employee wages, salaries, and benefits. As required by the ARP, Treasury published guidelines for PSP3 just five days after the ARP's enactment.

As compensation for the assistance provided in the PSP, the largest PSP recipients have issued Treasury promissory notes with a total principal amount of $11 billion and equity warrants with a face value of approximately $1 billion. Treasury will continue to receive additional equity warrants and notes from the largest PSP recipients as additional disbursements in PSP2 and PSP3 are made.

Aviation Loan Program

The CARES Act provided $25 billion for Treasury to make loans directly to passenger air carriers; aviation maintenance, repair, and overhaul (MRO) companies; and ticket agents. The statute also provided $4 billion for Treasury to make loans to cargo air carriers. The availability of these loans served as an essential liquidity backstop for the aviation industry at a time of record low investor confidence in the industry.

In this program, Treasury entered into loan agreements for commitments totaling $20.8 billion with seven of the ten largest passenger air carriers. The loans to those large passenger air carriers are secured by collateral and, in some cases, rights to future cash flows from the airlines' loyalty programs. The loans bear interest rates comparable to each company's pre-pandemic cost of funds, and they mature in five years. The seven largest passenger air carriers have drawn only 10 percent of their loan commitments, which is the minimum amount that each carrier was required to draw at the time of the loan's closing in September 2020. Under the loan agreements, the carriers have until the end of May 2021 to choose to draw the remaining 90 percent of the loan commitments.

Treasury has also made 17 smaller loans under the Airline Loans Program totaling $69 million for smaller passenger air carriers, MROs, and ticket agents.

National Security Loan Program

The CARES Act also authorized Treasury to make loans of up to $17 billion for businesses critical to maintaining national security. Treasury consulted with the Department of Defense and the Office of the Director of National Intelligence to establish the eligibility criteria for the National Security Loan Program. To be eligible, applicants were required to (1) perform under a "DX-priority" DOD contract or (2) operate under a top-secret facility security clearance. Applicants were also eligible if the Secretary of Defense or the Director of National Intelligence certified that the applicant was otherwise critical to maintaining national security.

Under the National Security Loan Program, Treasury entered into 11 loans totaling $735.9 million, of which one loan comprised $700 million of the total. The loans are either secured by collateral, or, if a borrower passed Treasury's credit standards, are senior unsecured loans. Generally, secured loans have an interest rate of 3.5 percent and unsecured loans have an interest rate of 5.5 percent. All loans mature in five years.

Paycheck Protection Program (PPP)

The CARES Act authorized the first round of the Paycheck Protection Program, providing $349 billion for forgivable loans to small businesses to help them keep employees on the payroll and weather the effects of the COVID–19 economic crisis. In April, Congress added $310 billion in lending authority to the program under the Paycheck Protection Program and Health Care Enhancement Act. The Consolidated Appropriations Act, 2021 provided an additional round of $284 billion in funding to keep the program running into 2021.

Treasury works closely with the Small Business Administration on the rules and guidance for the program, especially regarding eligibility, application processes, and forgiveness. Following the change in Administration, we assisted the SBA in their introduction of several major changes to the PPP, including (1) instituting a two-week exclusive approval period for borrowers with fewer than 20 employees, (2) allowing Schedule C filers to calculate their loan amounts based on gross income rather than net profit, (3) removing student loan delinquency as a bar to receiving a PPP loan, and (4) removing the five-year felony lookback as a bar to receiving a PPP loan.

These policy changes have meaningfully improved the accessibility of the PPP program to the smallest businesses and enhanced the program's equity. The percentage of loans going to businesses with fewer than 20 employees has increased, as have the percentages of loans going to rural businesses and those in low- and moderate-income communities.

The ARP updates PPP by making certain non-profit organizations and online news organizations eligible for loans and appropriated an additional $7.25 billion in subsidy for the program.

Consolidated Appropriations Act, 2021 Programs

Emergency Capital Investment Program (ECIP)

Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities. Under the program, Treasury will provide nearly $9 billion in capital directly to depository institutions that are certified community development financial institutions (CDFIs) or minority depository institutions (MDIs) to, among other things, provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities that may be disproportionately impacted by the economic effects of the COVID–19 pandemic. Per the statute, Treasury will set aside $2 billion for CDFIs and MDIs with less than $500 million in assets and an additional $2 billion for CDFIs and MDIs with less than $2 billion in assets.

Treasury's investments under the ECIP will generally take the form of preferred stock issued by participating institutions, or subordinated debt if the institution cannot feasibly issue preferred stock. The maximum annual dividend rate for the preferred stock issued to Treasury is 2 percent, but institutions can qualify for a reduction in the dividend rate if the institution increases its qualified lending above an established baseline. Treasury recognizes the value of "deep impact" lending to the most underserved communities and understands that this lending may be more difficult or costly to undertake. In order to ensure a level playing field for lenders that choose to go the extra mile to have the greatest impact in the most underserved communities, lending that qualifies as deep impact lending will receive double credit in the calculation that determines a dividend or interest rate reduction.

Treasury has opened an application portal and issued guidance and term sheets regarding ECIP. The 60-day application window opened on March 4, 2021. Eligible CDFIs and MDIs have until May 7, 2021 to submit their applications. Treasury anticipates that the program will begin making investments in the summer of 2021.

CDFI Rapid Response Program (CDFI RRP)

The Consolidated Appropriations Act, 2021 provided $1.25 billion for grants to CDFIs to support, prepare for, and respond to the economic impacts of the COVID–19 pandemic. To deploy these resources in an effective and expedient manner, the Community Development

Financial Institutions Fund (CDFI Fund) at Treasury developed the CDFI RRP. The CDFI RRP is designed to quickly and broadly deploy capital to certified CDFIs through a streamlined, formula-driven application and review process. The CDFI RRP will provide emergency funding to CDFIs of all types and sizes that can support financial products and services. A portion of funds can be used to support operational expenses to increase the capacity of the CDFI.

Per the statutory deadline, the RRP application window opened 60 days from the enactment of the statute. Applications are due by March 25, 2021. To ensure strong participation, the CDFI Fund conducted webinars to provide an overview of the program and answer any questions. The CDFI Fund expects to make 1,000 awards with an average award size of $1.2 million. The funds expire at the end of fiscal year (FY) 2021.

RRP is the first of two tranches of CDFI grant funding authorized by the Consolidated Appropriations Act, 2021. The statute also made available $1.75 billion for grants to support CDFIs to expand lending, grant making, or investment activity in low- or moderate-income minority communities and to minorities that have significant unmet capital or financial services needs. This includes up to $1.2 billion for a new category of CDFIs called “minority lending institutions.” This program will be established in FY 2021.

Coronavirus Economic Relief for Transportation Services (CERTS)

CERTS is a $2 billion grant program established under the Consolidated Appropriations Act, 2021 to provide relief to certain transportation companies with significant loss of revenue due to the COVID–19 pandemic. These include motorcoach, school bus, passenger vessel, and pilotage vessel companies. Treasury has conducted outreach to the targeted industries and is developing policies and procedures to implement the program. Treasury will soon issue program guidelines and a grant application.

Thousands of transportation companies are eligible to apply for CERTS, many of which are small and family-owned businesses. In addition, Treasury will ensure equitable access to CERTS for small, minority-owned, and women-owned businesses.

American Rescue Plan

Economic Impact Payments (EIPs)

The first round of EIPs were enacted as part of the CARES Act, and additional EIPs were made under the Consolidated Appropriations Act, 2021 and the ARP. Since the ARP was signed into law, Treasury has issued over 90 million EIPs totaling more than $242 billion. The speed with which these payments have been delivered thus far reflects the dedication and hard work of the IRS, as well as other career officials across Treasury, building on the foundation laid in distributing earlier EIPs with assistance from our agency partners at the Social Security Administration, Veterans Administration, Railroad Retirement Board, and others.

With regard to the CARES Act EIPs, the IRS and Treasury began issuing payments within three weeks of the CARES Act’s passage. Eligible individuals received payments up to $1,200 ($2,400 for married couples filing joint returns), and households received up to $500 for each qualifying child. By the end of 2020, more than 160 million EIPs had been issued pursuant to the CARES Act. These payments totaled nearly $275 billion. Treasury issued this set of EIPs through December 31, 2020, though individuals who did not receive an EIP or who received less than the amount to which they were entitled may still file a tax year 2020 income tax return to claim the correct amount as a Recovery Rebate tax credit.

The second round of EIPs was enacted under the Consolidated Appropriations Act, 2021, and the IRS and Treasury began issuing payments within one week of enactment. Eligible individuals received payments of up to $600 ($1200 for married couples filing joint returns), and households received up to $600 for each qualifying child. By late January 2021, approximately 147 million EIPs had been issued pursuant to the December legislation. These payments totaled approximately $142 billion. Treasury issued this set of EIPs through January 15, 2021, though individuals who did not receive an EIP or who received less than they are entitled to may file a tax year 2020 income tax return to claim the correct amount as a Recovery Rebate tax credit.

The most recent round of EIPs was enacted under the ARP, and Treasury and the IRS began issuing payments within a few days of enactment. Under the ARP, eligible individuals will receive payments of up to $1400 ($2800 for married couples filing joint returns), and households can receive up to $1400 for each dependent (this is a broader category than qualifying child because it covers children age 17 and over and others who are supported by the taxpayer).

Emergency Rental Assistance Program (ERAP)

The Emergency Rental Assistance Program provides states, territories, local governments, and Tribes funding to assist renter households impacted by the pandemic. Section 501(a) of Division N of the Consolidated Appropriations Act, 2021 made available $25 billion in rental assistance funds for Treasury to disburse to eligible grantees. On March 11, 2021, the ARP provided an additional $21.55 billion for ERAP, including a portion of funding reserved for high-need grantees.

The Consolidated Appropriations Act, 2021 included requirements regarding the distribution of funds, such as assisting households that are unable to pay rent and utilities due to the COVID–19 pandemic. Grantees may use the funds to provide assistance to eligible households through existing or newly created rental assistance programs. Grantees are directed to prioritize households receiving at or below 50 percent the area median income or which have at least one household member that has been unemployed for at least 90 days. After an extension included in ARP, funds generally expire on September 30, 2022.

Treasury disbursed all payments to state and local grantees by the statutory deadline of January 26, 2021. Tribes were permitted to request payment through January 26, and the full $25 billion was disbursed by February 26, 2021. Treasury has published information pertaining to the grant award terms and the application process and answers to Frequently Asked Questions (FAQs) to assist grantees in launching their programs. Treasury continues to work with grantees to provide additional guidance, as appropriate, and to prepare deployment of the additional ARP funding.

Coronavirus State and Local Fiscal Recovery Funds

The ARP authorizes a total of $350 billion in relief for state and local governments, including $219.8 billion for states, territories, and Tribal governments and $130.2 billion for local governments. These funds may be used to cover costs incurred to respond to COVID–19 or its negative economic impacts, including assistance to households, small businesses, non-profits, and impacted industries (e.g., tourism, travel, and hospitality); provide premium pay to essential public employees or grants to employers of essential workers; provide government services to the extent of revenue loss due to COVID–19; or make necessary investments in water, sewer, or broadband infrastructure.

These payments will help ensure frontline workers and essential employees remain on state and local payroll at the time they are needed most. The Treasury Department is currently working to allocate these funds in line with Congress's statutory instructions and setting up procedures to ensure this money is efficiently distributed to the state and local governments that need it.

Coronavirus Capital Projects Fund (CCPF)

The CCPF provides $10 billion for state, territories, and Tribal governments to invest in projects directly enabling work, education, and health monitoring, including remote options, in response to COVID–19. Treasury is currently working to establish rules around eligible uses for these funds so that they can be used for purposes like broadband infrastructure.

Local Assistance and Tribal Consistency Fund (LATCF)

LATCF provides $2 billion to eligible revenue-sharing counties and Tribal governments for a wide variety of governmental expenditures, excluding lobbying activities. Treasury is currently in the process of evaluating options to equitably allocate and distribute these funds, taking into account the economic conditions of each eligible revenue sharing county, using measurements of poverty rates, household income, land values, and unemployment rates as well as other economic indicators, and taking into account economic conditions of each eligible Tribe.

Going forward, Treasury plans to consult with Congress, counties, Tribal governments, and other stakeholders in order to develop a full picture of economic needs at the county level, to implement an allocation that is fair and equitable in light of counties' varying economic circumstances, and to effectuate Congress's statutory purpose in enacting this provision.

State Small Business Credit Initiative (SSBCI)

The ARP's SSBCI program builds on the foundation laid by the original SSBCI, implemented in 2010, to use federal funds to support small businesses and catalyze small business investment at the state level. The new SSBCI provides up to $10 billion for states, territories, and Tribal governments to fund small business capital access and investment programs, including loan loss reserves, collateral guarantees, venture capital, and other investment structures that pair public funding with private capital. Collectively, these funds may catalyze up to $100 billion in total investment in small businesses across the country.

In addition to preparing the application process and technical assistance needed to ensure states can operate robust, successful SSBCI programs, Treasury will work to implement the ARP's requirements that $1.5 billion of SSBCI funds go to businesses owned by socially and economically disadvantaged individuals, that $1 billion be set aside for an incentive program focused on businesses owned by socially and economically disadvantaged individuals, that $500 million be set aside for Tribal governments, and that at least $500 million go to businesses with fewer than 10 employees. These set-asides are critical to the equity of this program and will remain a priority for Treasury.

Pensions

The ARP authorizes the creation of a new fund to be held at the Treasury to provide special financial assistance to underfunded multiemployer pensions and ensure these pensions' obligations are paid. In particular, the ARP's pension provisions authorize the Pension Benefit Guaranty Corporation (PBGC) to provide assistance to eligible multiemployer pensions sufficient to reinstate suspended benefits and to ensure obligations are paid through 2051. Certain of these provisions will be implemented in consultation with Treasury. The PBGC will set rules or guidance regarding eligibility and review applications to determine eligibility. Treasury will consult with PBGC and the Department of Labor, as directed by the ARP, on proposed reinstatements of benefits, the changing of funding assumptions proposed in a plan's application, and the granting of temporary priority consideration for certain plans.

Homeowners Assistance Fund

The ARP provided $9.96 billion for a new Homeowner Assistance Fund to assist homeowners who experienced hardship after January 21, 2020. The Department will allocate and distribute funds to participating states, territories, and Tribes to prevent homeowner mortgage defaults, foreclosures, and displacements. These funds may be used to address monthly mortgage payments, delinquencies, principal reductions, assistance for utilities, tax, and insurance payments, and to reimburse state and local governments for relief provided during the pandemic to prevent housing losses. Grantees that elect to participate must set aside at least 60 percent of their allocation to assist homeowners with incomes equal to or less than 100 percent of the local or national median income, whichever is greater. Grantees are also required to prioritize payments to socially and economically disadvantaged individuals.

Treasury will work to establish this program and release guidance regarding precise use of funds to reflect the intended impact prescribed by Congress. The Department recognizes that keeping Americans in their homes is not just about ensuring financial stability, but also preventing potential health impacts brought by the COVID–19 pandemic.

PREPARED STATEMENT OF JEROME H. POWELL

CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

MARCH 24, 2021

Chairman Brown, Ranking Member Toomey, and other Members of the Committee, thank you for the opportunity to discuss the measures we have taken to address the hardship wrought by the pandemic.

I would like to start by noting the upcoming one-year anniversary of the CARES Act (Coronavirus Aid, Relief, and Economic Security Act). With unanimous approval, Congress provided by far the fastest and largest response to any postwar economic downturn, offering fiscal support for households, businesses, health-care providers, and state and local governments. This historically important legislation provided critical support in our nation's hour of need. As the virus arrived in force, our immediate challenge was to limit the severity and duration of the fallout to avoid longer-run damage. At the Fed, we also acted with unprecedented speed and force, using the full range of policy tools at our disposal.

Today the situation is much improved. While the economic fallout has been real and widespread, the worst was avoided by swift and vigorous action-from Congress and the Federal Reserve, from across government and cities and towns, and from individuals, communities, and the private sector. More people held on to their jobs, more businesses kept their doors open, and more incomes were saved. But the recovery is far from complete, so, at the Fed, we will continue to provide the economy the support that it needs for as long as it takes.

As we have emphasized throughout the pandemic, the path of the economy continues to depend on the course of the virus. Since January, the number of new cases, hospitalizations, and deaths has fallen, and ongoing vaccinations offer hope for a return to more normal conditions later this year. In the meantime, continued social distancing and mask wearing will help us reach that goal.

Indicators of economic activity and employment have turned up recently. Household spending on goods has risen notably so far this year, although spending on services remains low, especially in sectors that typically require in-person gatherings. The housing sector has more than fully recovered from the downturn, while business investment and manufacturing production have also picked up.

As with overall economic activity, conditions in the labor market have recently improved. Employment rose by 379,000 in February, as the leisure and hospitality sector recouped about two-thirds of the jobs it lost in December and January.

The recovery has progressed more quickly than generally expected and looks to be strengthening. This is due in significant part to the unprecedented fiscal and monetary policy actions I mentioned, which provided essential support to households, businesses, and communities.

However, the sectors of the economy most adversely affected by the resurgence of the virus, and by greater social distancing, remain weak, and the unemployment rate-still elevated at 6.2 percent-underestimates the shortfall, particularly as labor market participation remains notably below pre-pandemic levels.

We welcome this progress, but will not lose sight of the millions of Americans who are still hurting, including lower-wage workers in the services sector, African Americans, Hispanics, and other minority groups that have been especially hard hit.

The Federal Reserve's response has been guided by our mandate to promote maximum employment and stable prices for the American people, along with our responsibilities to promote the stability of the financial system.

When financial markets came under intense pressure last year, we took broad and forceful actions, deploying both our conventional and emergency lending tools to more directly support the flow of credit. Our actions, taken together, helped unlock more than $2 trillion in funding to support businesses large and small, nonprofits, and state and local governments between April and December. This support, in turn, has helped keep organizations from shuttering and put employers in both a better position to keep workers on and to hire them back as the recovery continues.

Our programs served as a backstop to key credit markets and helped restore the flow of credit from private lenders through normal channels. We deployed these lending powers to an unprecedented extent last year. Our emergency lending powers require the approval of the Treasury and are available only in very unusual circumstances.

Many of these programs were supported by funding from the CARES Act. Those facilities provided essential support through a very difficult year. They are now closed, and the Federal Reserve has returned the large majority of the Treasury's CARES Act equity, as required by law. Our other emergency lending facilities are following suit imminently, although we recently extended the PPPLF (Paycheck Protection Program Lending Facility) for another quarter to continue to support the PPP (Paycheck Protection Program).

Everything the Fed does 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 on behalf of communities, families, and businesses across the country.

Thank you. I look forward to your questions.

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

Facility	Announced	Closed	Maximum capacity[1]	Current amount of assets[2]	Peak amount of assets[2]	Treasury equity remaining[3]
Corporate Credit Facilities	Mar. 23, 2020	Dec. 31, 2020	750	13.8	14.1	13.9
Main Street Lending Program	Apr. 9, 2020	Jan. 8, 2021	600	14.1	16.6	16.5
Municipal Liquidity Facility	Apr. 9, 2020	Dec. 31, 2020	500	6.2	6.4	6.3
TALF	Mar. 23, 2020	Dec. 31, 2020	100	2.2	4.1	3.5

Note: The data are current as of March 17, 2021.

1. The maximum authorized amount of facility asset purchases.
2. Current and peak outstanding amounts of facility asset purchases:
   a. For the Corporate Credit Facilities, includes exchange-traded funds at fair value and corporate bonds at book value.
   b. For the Main Street Lending Program, includes loan participations, net of an allowance for loan losses updated as of December 31, 2020, at face value.
   c. For the Municipal Liquidity Facility, includes municipal notes at book value.
   d. For the TALF (Term Asset-Backed Securities Loan Facility), includes loans to holders of eligible asset-backed securities at book value.
3. The amount of the Treasury contribution to the credit facilities.

Source: Staff calculations.

RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN BROWN FROM JANET L. YELLEN

Q.1. The American Rescue Plan's $1,400 direct stimulus payments have already been deposited directly in the bank accounts of many Americans. But millions in this country who don't have a bank account have to wait much longer to get their checks, and some will be forced to turn to predatory check-cashers that charge exorbitant fees. How can a digital dollar or central bank digital currency help Americans who right now have to pay to use their own money?

A.1. Treasury has made great efforts to reach the unbanked during the COVID crisis. For example, the Direct Express prepaid debit card program for the unbanked federal beneficiaries was used to distribute millions of Economic Impact Payments directly onto existing prepaid cards. Treasury is supportive of financial innovations that would facilitate faster, safer, more efficient payments and broader financial inclusion. A U.S. digital dollar that could support these objectives merits further study. The Federal Reserve Bank of Boston is currently exploring numerous questions associated with the design of a digital dollar, including the extent to which such a currency could be oriented directly towards individual users. Chairman Powell has stated that the Federal Reserve would not proceed with a digital dollar without support from Congress, and I look forward to working across the Administration and with Congress on this topic.

Q.2. How does the changing climate affect financial stability and the economy? What risks does climate change pose to financial institutions individually and the financial sector as a whole? How can FSOC's ongoing assessment of climate risks better protect the financial system from climate-related shocks?

A.2. Climate change presents economic opportunities to invest in new technologies and industries, and to create good jobs that promote sustainability, while putting the economy on a path to net zero carbon emissions. Climate change also creates significant economic risks-for example, physical risks associated with the impact of more frequent and severe extreme weather events on households, businesses, and communities, or transition risks to sectors of the economy impacted by technological innovations and climate policy choices. These economic risks will impact the financial sector. FSOC will evaluate these risks, coordinate across U.S. regulatory agencies, and act, as appropriate, to mitigate potential risks to financial stability. FSOC will facilitate the sharing of climate-related financial risk data and information among regulators, and also work with FSOC member agencies to see how they can improve financial disclosures and other sources of data, so regulators and market participants can better understand potential climate-related exposures.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR TOOMEY FROM JANET L. YELLEN

Q.1. As you know, the United States has the right to unilaterally veto any allocation of International Monetary Fund (IMF) Special

Drawing Rights (SDRs). Thus, any allocation will be done under the specific consent of the Biden administration.

How does the administration justify supporting a proposal that would benefit IMF member countries that have perpetrated human rights abuses, anti-democratic coups, and genocide, especially when-as you have noted-there are more efficient ways to support individual countries in need?

A.1. An allocation of IMF Special Drawing Rights (SDRs) would help build reserve buffers, smooth economic adjustments, and mitigate the risks of economic stagnation in global growth. Importantly, it could also enhance liquidity for low-income and developing countries to facilitate their much-needed health recovery efforts. All IMF members receive an SDR allocation proportionate to their quota share. As part of our support for an SDR allocation, Treasury is working with the IMF and other member countries to maximize the benefits and limit the possible downsides of an allocation by enhancing transparency, accountability, and equitable participation by SDR holders. The SDR allocation is part of broader international efforts to support the global recovery. This package also includes robust support from the IMF and multilateral development banks, and debt relief in some cases-all alongside countries taking necessary reform steps, as well as financial support to the COVID–19 Vaccines Global Access (COVAX) Facility to help prevent long-term scarring from the pandemic and worsening global wealth divergence.

Q.2. Any SDR allocation will directly benefit the Burmese military junta by giving the Burmese government access to over $700 million in hard currency, enabling them to blunt the effects of U.S. sanctions. Doesn't an SDR allocation make it less likely for democracy and the rule of law to be restored in Burma?

A.2. Since the military coup, the IMF has paused relations with Burma, leaving the military regime without any access to IMF resources, including Burma's SDRs. The IMF will lift the pause and deal with the military regime only if IMF members representing a majority of the IMF's voting shares affirmatively acknowledge that they recognize or deal with the military regime. This has not yet occurred, and we are encouraging our partners not to do so. Moreover, even if the military regime were to gain access to Burma's SDRs, the United States will not provide hard currency to Burma in exchange for SDRs, either now or subsequent to any SDR allocation, and U.S. sanctions on Burma will remain in place.

Q.3. Is it not the case that the Chinese government, which Secretary of State Blinken has asserted is engaging in genocide in Xinjiang, will benefit from an SDR allocation? What steps will the Treasury Department take to ensure that they do not benefit from this allocation?

A.3. We do not expect China to convert its SDRs to hard currency for its own use, as it already has plentiful foreign exchange reserves. The SDRs China would receive under the proposed allocation would represent around 1 percent of its current level of international reserves. China has received $10 billion worth of SDRs from the IMF through past SDR allocations. China currently holds $11.4 billion worth of SDRs, which is greater than its allocation.

This means that China has purchased SDRs on net from other IMF members over the years. Furthermore, it is in the United States' interest for China to continue its cooperation in SDR exchanges. We are encouraging major economies, including China, to purchase SDRs from low-income countries to help support these countries in their recovery from the COVID–19 crisis.

Q.4. Is it not the case that the Russian government, a hostile regime that the United States believes has poisoned dissidents with banned chemical nerve agents, meddled in foreign elections including our own, and conducted sweeping cyber espionage campaigns against Western countries including our own, will benefit from an SDR allocation?

A.4. The SDRs Russia would receive under the proposed allocation would represent 3 percent of its current level of international reserves. Moreover, the United States will not provide Russia with hard currency as part of the allocation, and U.S. sanctions on Russia will remain in place.

Q.5. Why doesn't an allocation of SDRs amount to assistance to terrorist states, such as Iran, as prohibited by federal law under 22 U.S.C. §262p-4q?

A.5. SDRs are not assistance, but an international reserve asset (and liability) that can be allocated to increase liquidity at the IMF and thereby address the global shortfall in reserves.

Q.6. During the March 24, 2021, hearing, you expressed your belief that there is little or no cost to taxpayers associated with providing dollars in exchange for SDRs, calling it a "wash" because of interest earned on excess SDRs. Why do you believe that to be the case? Please provide concrete economic analysis in your explanation.

A.6. mThe United States earns interest on SDRs that we purchase, largely offsetting any increase in Treasury's borrowing costs. The differential between the SDR interest rate and the interest rate on Treasuries varies over time, so at times there is a small cost and at other times a small benefit to Treasury. For details, please see the Report to Congress on the Financial Implications of U.S. Participation in the International Monetary Fund here.

Q.7. The housing finance system is in urgent need of reform. More than 12 years after the financial crisis, Congress has still not addressed the fundamental flaws in the system that led to the crisis. The system is still dominated by the government-sponsored enterprise (GSE) duopoly of Fannie Mae and Freddie Mac, and the GSEs remain still gravely undercapitalized. Just as before the financial crisis, these flaws in the system continue to encourage excessive risk-taking, risk future taxpayer bailouts, and threaten financial stability. Treasury secretaries over the last several Republican and Democratic administrations have maintained a consistent and longstanding commitment to reform of the housing finance system.

Do you intend to have Treasury continue taking on a leadership role in advocating and developing comprehensive housing finance reform proposals?

A.7. The landmark American Rescue Plan I worked with members of Congress to pass created the Homeowner Assistance Fund and provided additional funding for emergency rental assistance, which

Treasury is actively working to administer. In addition to addressing these urgent priorities, Treasury has a key role in shaping, and a key interest in the outcome of, housing finance reform. The Administration is committed to housing finance policy that expands fair and equitable access to homeownership and affordable rental opportunities, protects taxpayers, and promotes financial stability. I look forward to working across the Administration and with Congress in support of these goals.

Q.8. If so, will you designate a senior Treasury official to work with Congress on legislation?

A.8. I agree that Treasury has a key role to play in this area, and would anticipate designating a senior Treasury official to work with Congress on it as our policy formulation efforts progress.

Q.9. I recently released the following principles calling on Congress to enact housing finance reform legislation to:

Transition the GSE duopoly toward a competitive secondary market;

End the conservatorships of Fannie Mae and Freddie Mac;

Establish a level playing field for other sources of private capital that bear mortgage credit risk;

Foster a liquid secondary mortgage market that promotes the continued availability of affordable 30-year and other long-term fixed-rate mortgage loans across the United States and throughout the economic cycle;

Protect taxpayers by ensuring that significant first-loss private capital stands in front of any government support and that taxpayers are appropriately compensated for that support;

Promote equitable access to the secondary mortgage market by mortgage lenders of all sizes, business models, charter types, and locations; and

Provide for a smooth transition to the reformed housing finance system by ensuring that reforms are incremental and realistic, leveraging the existing regulatory and market structure.

These principles build off the past bipartisan efforts of current members of the Senate Banking Committee. They also share considerable overlap with the reform principles of Banking Committee Chairman Brown and House Financial Services Committee Chairwoman Waters. Are these principles generally consistent with Treasury's policy on housing finance reform?

A.9. appreciate your longstanding attention to this important issue. The Administration is committed to housing finance policy that expands fair and equitable access to homeownership and affordable rental opportunities, protects taxpayers, and promotes financial stability, and stands ready to work with Congress in support of these goals. I look forward to working across the Administration and with you and other members of Congress in support of these goals.

Q.10. In January 2021, Treasury and the Federal Housing Finance Agency (FHFA) amended the Preferred Stock Purchase Agreement with each GSE, requiring, among other things, that Treasury deliver to Congress a housing finance reform proposal by the end of

September 2021. Can you confirm that Treasury will deliver that proposal by September, if not sooner?

A.10. Treasury continues to assess the GSEs' current status, including the recent amendments to the PSPAs, and will issue public statements regarding its views on housing finance reform at an appropriate time.

Q.11. I am concerned that a major threat to the value of energy-related assets is the effort by regulators to ban or limit financial institutions from lending to or investing in energy companies. I was encouraged to hear your testimony that the Biden administration has "no plan to regulate what lending or investments can be done" by financial institutions. However, I remain concerned by regulatory actions that may pressure financial institutions to cease providing banking and other financial services to energy companies. For example, the Financial Stability Oversight Council's (FSOC) first meeting under your tenure will focus on "climate change and its potential impacts on financial stability." If the objective of this effort is not to influence financial institutions' lending and investment activities, what do you expect to result from the FSOC's analysis?

A.11. FSOC is a forum where regulators share expertise and perspectives to identify and assess potential risks across the financial system. FSOC is working with its member agencies to evaluate potential risks that climate change may pose to U.S. financial stability. To measure and monitor climate-related financial risks, regulators need to have access to the best information and data available. This is a challenge all financial regulators face, and FSOC will facilitate the sharing of climate-related financial risk data and information among regulators. FSOC will also work with Council member agencies to see how they can improve financial disclosures and other sources of data, so regulators and market participants can better understand potential climate-related exposures. FSOC will act, as appropriate, to mitigate potential risks to financial stability in this and other areas.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNER FROM JANET L. YELLEN

Q.1. *Worker Training Tax Credit*—Secretary Yellen, in your testimony before the Committee you spoke about economic scarring, the impact joblessness has on working Americans, and how it can permanently lower their earning potential. As you know, we have about 18 million unemployed workers and more than 4 million of them are long-term unemployed. Based on our experience in the Great Recession, I'm not convinced that all of those jobs are going to come back. I recently released a white paper where I discuss a number of potential policy options I've been working on, including creating a worker training tax credit for investments in worker training that mirrors the R&D tax credit.

Understanding you're not able to comment on a specific policy, would you agree that for a full recovery, companies need to start thinking of workers as an investment? For our economy to remain competitive in the 21st century, do we need to use the levers available to make sure companies get back to investing in human beings?

A.1. For the United States to remain a competitive economy, its workers must have access to job training that allow them to enter and retain high-quality jobs. Developing policies that ensure workers have the appropriate access to training and supportive services to thrive in a growing economy is a top tier issue for the Administration. That is why President Biden has proposed investing $100 billion over 10 years in workforce development policies that lead to high-quality jobs as part of the American Jobs Plan (AJP). The AJP will pair job creation efforts with next generation training and employment programs, including a new sector-based training program; target workforce development opportunities in underserved communities; and build the capacity of the existing workforce development system, which will include major investments in proven strategies such as Registered Apprenticeships.

Q.2. *Community Development Financial Institutions*—Secretary Yellen, I know the Administration and you are committed to a quick and effective implementation of the Emergency Capital Investment Program (ECIP). I've heard some concerns that the lack of clear guidelines for ECIP is creating hesitancy and might lead to a low take-up of the program.

Is there a specific timeline update on when CDFIs and MDIs who have applied for the ECIP can expect the investments to be made?

A.2. Based on feedback from organizations representing nearly every potentially eligible applicant, Treasury extended the ECIP application deadline by 60 days to early July. After the application deadline, we anticipate moving as expeditiously as possible to enter into investment agreements with approved participants.

Q.3. How is Treasury working with stakeholders to ensure the ECIP program is structured in a way that will lead to broad take-up of the program?

A.3. Treasury has conducted extensive outreach with potential eligible applicants and received feedback that informed Treasury's development of the terms and conditions for the ECIP program. Treasury will publish additional guidance and is coordinating with banking regulators to promote beneficial regulatory capital treatment for ECIP investments.

Q.4. More broadly, Congress just passed $10 billion for another round of funding for the State Small Business Credit Initiative (SSBCI) and the FDIC is just in the opening stages of getting its Mission-Driven Fund off the ground to direct private sector and philanthropic investments in MDIs and CDFIs.

How can the Federal Government better coordinate all of these community development finance programs to get the most out of these institutions?

A.4. Treasury is focused on implementing the programs that Congress established under recent legislation, including the American Rescue Plan Act of 2021. It is important to use multiple channels to accomplish the federal government's community development goals, in light of the differing jurisdictions across agencies and the varying needs of communities and sectors for support. Treasury regularly consults with other agencies regarding these programs, in order to maximize the effectiveness and efficiency of our programs.

Q.5. With respect to SSBCI, how can Treasury work to ensure CDFIs and MDIs are leveraged as part of the program design?

A.5. Congress provided for set-asides in the SSBCI to serve businesses owned and controlled by socially and economically disadvantaged individuals. Treasury is currently developing guidance regarding this program.

Q.6. *Broadband*—Secretary Yellen, the last 12 months of the pandemic have revealed how essential broadband access is for telework, online education, and tele-health efforts. Unfortunately, the harms of our nation's lingering broadband gap have only become more visible as our nation's vaccine roll-out - highly dependent on online public awareness efforts and online registration - has been undermined by millions of Americans continuing to lack affordable access. As you know, I worked to secure funding for the Critical Capital Projects fund in the American Rescue Plan to enable funding for states and localities for capital projects like broadband that directly enable tele-work, online education and tele-health activities.

As Treasury works to implement this program, would you agree that immediate efforts to close the lingering broadband gap constitute not only long-term investments in America's recovery, but also essential near-term investments to respond to the ongoing public health crisis?

A.6. The COVID health emergency has made clear that online access is critical for all households in the United States. It is necessary for Americans to do their jobs, to participate equally in school learning, health care, and to stay connected. Under the American Rescue Plan Act of 2021, the Capital Projects Fund provides funds "to carry out critical capital projects directly enabling work, education, and health monitoring, including remote options," in response to the pandemic. The Critical Capital Projects Fund will allow for investment in high-quality broadband as well as other connectivity infrastructure, devices, and equipment. Treasury is currently developing program terms regarding eligible uses of proceeds. Treasury will begin to accept applications for review in the summer of 2021 and will issue guidance before that date.

Q.7. Under the Obama Administration, a January 2017 study from the FCC's economist Paul De Sa estimated that closing the broadband gap estimated that it would take around $80B in funding. While that's a significant amount of money, the long-term impacts on education, productivity, and economic inclusivity from this continuing gap are likely several factors larger each year.

Do you agree that closing the gap should be a component of any infrastructure package that Congress pursues?

A.7. Yes, providing affordable, reliable, high-speed internet to every American is critical to any infrastructure package. Just like generations ago in the 1936 Rural Electrification Act the federal government made a historic investment in bringing electricity to nearly every home and farm in America, we must ensure all families have affordable, reliable access to high-speed internet.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM JANET L. YELLEN

Q.1. How do you recommend Congress consider how we deliver financial assistance to families during a future crisis?

Should we establish a basic savings account for every adult for efficient delivery of unemployment insurance or direct relief?

A.1. Rapid and efficient delivery of unemployment insurance benefits and direct relief, such as the benefits provided by the American Rescue Plan, is a critical aspect of a successful relief package. Treasury worked around the clock to ensure that American families received their benefits in a timely fashion, and will continue to develop new strategies and approaches to improve upon its efforts-including proposals to expand access to financial services. Additionally, in his FY 2022 Budget, President Biden laid out high-level principles for comprehensive UI reform to help ensure that unemployed workers have swift and equitable access to benefits that are sufficient enough to sustain them during periods of unemployment. I look forward to working with Congress to ensure that all Americans have access to critical benefits.

Q.2. What policies would increase efficiency delivering assistance and avoid fraud?

A.2. Treasury and the Internal Revenue Service (IRS) delivered several different benefits under the American Rescue Plan. One example is the Economic Impact Payments (EIPs) of up to $1,400 per adult and dependent child (phased down for higher-income households). The IRS was able to harness existing data and tools to deliver these payments expeditiously and efficiently. The starting point was available taxpayer data from the IRS, using recently filed income tax returns. This was supplemented by beneficiary data from the Social Security Administration, the Veterans Administration, and the Railroad Retirement Board. Reliance on existing data for income tax filers enabled payments to begin within a few days and to flow directly into people's bank accounts. Reliance on income tax return data also limited potential fraud, because these data were compiled for people's income tax return filing obligations, which they submit under penalty of perjury. In addition, reliance on existing security protocols and ongoing fraud protection activities minimized the ability of persons to request inappropriate payments or to divert legitimate payments away from eligible households. These existing protections were in place to ensure that taxpayer data could not be inappropriately accessed, but these protections proved invaluable in the context of issuing EIPs. Building on existing data sets, from the IRS and other Federal agencies, and existing practices for reducing inappropriate claims are two ways to increase efficiency of delivering benefits while minimizing the potential for fraud. Additionally, Congress allocated $2 billion in the American Rescue Plan Act (ARPA) to prevent and detect fraud, and ensure timely and equitable delivery in UI. These resources will help ensure that states and the federal government are prepared to combat the sophisticated fraud schemes we encountered in UI during the pandemic.

Q.3. The American Rescue Plan includes substantial funds to keep renters housed, including more than $20 billion for rental assistance, which will be distributed through Treasury.

Has the Department of Treasury had conversations with the Department of Housing and Urban Development to connect people who are going to receive short-term assistance to also receive longer-term vouchers if they qualify?

A.3. Treasury coordinates regularly with the Department of Housing and Urban Development and other interagency partners on the implementation of the American Rescue Plan (ARP), including with regard to different ARP programs that may serve the same or similar populations and how thoughtful implementation can amplify the benefits of the individual programs.

Q.4. The American Rescue Plan also includes $10 billion in assistance for homeowners.

How are lessons from the HAMP/HARP and HHF programs providing insight into this new Housing Assistance Fund?

A.4. In the development of program guidance for the HAF, Treasury has taken into account input from stakeholders about their experience with the implementation of the Hardest Hit Fund. From the Hardest Hit Fund, we learned that it is important to have consistency across programs where possible, both for the understanding of the policy and for streamlining the operational process with servicers. We are engaging with stakeholders, including advocates, state housing agencies, and mortgage servicers, many of whom are drawing on their experience with HHF in providing feedback.

Q.5. Will the Treasury Department permit a jurisdiction to establish their housing assistance to homeowners program as a loan or shared equity investment?

For example, could a jurisdiction decide to provide the assistance to homeowners as a silent second loan with interest that must be repaid at sale, refinance or earlier if the borrower chose to repay?

Could the jurisdiction establish a shared equity/appreciation program that must be repaid at sale, refinance or earlier at the borrower's choosing?

A.5. Treasury has issued initial guidance regarding the Homeowner Assistance Fund, which addresses the scope of permissible expenses. Treasury continues to develop additional guidance that may address these issues.

Q.6. Would the Department permit a jurisdiction to recycle the assistance for future homeowners as was permitted by the Hardest Hit Fund? This would permit the jurisdictions choosing this approach to have funds available to help future homeowners avoid foreclosure or provide downpayment assistance.

A.6. Treasury has issued initial guidance regarding the Homeowner Assistance Fund, which addresses the scope of permissible expenses. Treasury continues to develop additional guidance that may address these issues.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SMITH FROM JANET L. YELLEN

Q.1. The $8 billion in relief for Tribal governments from the CARES Act was distributed using population data from the Indian Housing Block Grant program. Only a few Tribes around the country do not receive funds from the Indian Housing Block Grant, and one of them is Prairie Island Indian Community in Minnesota. As a result, Prairie Island Indian Community's population was undercounted, and Prairie Island Tribal leaders do not believe that the CARES Act relief funding allocation they received accurately represents their population. Additionally, they were not given an opportunity to review or challenge the population numbers ascribed to them. As the Treasury Department develops a formula to distribute relief to Tribal governments as authorized by the American Rescue Plan, I am concerned that Tribes like Prairie Island Indian Community will once again be overlooked.

As you develop a formula to distribute relief from the American Rescue Plan to Tribal governments, will you commit to consulting directly with Tribes that do not participate in the Indian Housing Block Grant Program?

A.1. In accordance with Treasury's Tribal consultation policy, Treasury hosted five Coronavirus State and Local Fiscal Recovery Funds Tribal consultations in late March and early April of 2021 to garner input from Tribal leaders on allocation methodologies, use of funds, and administrative functions such as reporting and compliance. Over 1,200 participants attended the consultations and 85 Tribal leaders provided input. Treasury received over 150 written comments. Feedback was received from Tribes that participate in the Indian Housing Block Grant Program and those that do not. Tribal feedback was critical in developing the Tribal Government Allocation Methodology that was published on May 10, 2021.

The American Rescue Plan directed that $19 billion shall be allocated by the Secretary to the Tribal governments in a manner determined by the Secretary. The Secretary determined self-certified enrollment and self-certified Tribal employment data are the two factors to be used in the allocation methodology. In particular, 65 percent of the $19 billion ($12.35 billion) will be allocated based on enrollment data and 35 percent of the $19 billion ($6.65 billion) will be allocated based on employment data.

In April 2021, the Bureau of Indian Affairs collected enrollment numbers from Tribal governments and communicated to Tribes that this information may be shared with other federal agencies. The Bureau of Indian Affairs has shared this data with Treasury. For the small subset of Tribes that did not provide self-certified enrollment data, Treasury used enrollment data submitted last year under the CRF.

Treasury has engaged in robust and meaningful tribal consultation on the ARP State and Local Fiscal Recovery Fund. Treasury hosted over 15 hours of consultation in four sessions over March 31 and April 1.

Q.2. In lieu of using data from the Indian Housing Block Grant program, will you allow Tribal governments to self-report population data?

A.2. For Tribal enrollment data, Treasury used self-certified enrollment numbers provided by Tribes. In April 2021, the Bureau of Indian Affairs collected enrollment numbers from Tribal governments and communicated to Tribes that this information may be shared with other federal agencies. The Bureau of Indian Affairs has shared this data with Treasury. For the small subset of Tribes that did not provide self-certified enrollment data, Treasury used enrollment data submitted last year under the CRF. Five eligible Tribal governments did not submit enrollment data last year or this year. For these Tribal governments, Treasury used enrollment data from HUD's IHBG program.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM JANET L. YELLEN

Q.1. I and many others believe that Section 602(c)(2)(A) of Subtitle M of the American Recovery Act imposes restrictions on any state or territory against using any Coronavirus State Fiscal Recovery Fund resources to "either directly or indirectly offset a reduction in the net tax revenue of such State or territory resulting from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase." I believe Section 602(c)(2)(A) is unnecessary and harmful to states and territories, and have introduced S. 743, the State Fiscal Flexibility Act, to eliminate the problematic and legally questionable provision. I also submitted numerous questions about this and other provisions of Subtitle M accompanying a letter I sent to you on March 16, with a requested response date of March 22. I have not received a response, and request that you send a response. I also have the following questions regarding Section 602(c)(2)(A).

Given the deferral of the federal tax filing deadline for tax year 2020, and the response of many states to follow suit by delaying their tax filing deadlines, how will Treasury determine the accompanying reduction in the net tax revenue or each such state because of the "delays [in] the imposition of any tax" in order to follow the law by not allowing the state to use Coronavirus State Fiscal Recovery Fund resources to replace that reduction (direct or indirect) in net tax revenue?

A.1. The offset provision applies only to changes in law made during the statute's covered period, which began on March 3, 2021. Changes made prior to March 3 are not considered covered changes. Further, changes made after March 3 to implement existing substantive law-such as implementing regulations for prior substantive legislation-are not considered covered changes. Changes in law to reduce a tax made after March 3 may be considered covered changes. In order to ensure fair treatment and minimize discretionary judgments, Treasury's rules do not consider whether planning for a change made during the covered period began before or after the beginning of the covered period.

Q.2. Will Treasury financially punish a state that intended, prior to enactment of the American Recovery Act, to provide tax relief to its residents, and follows through on that intention by enacting tax relief? For example, if a state had previously planned an income tax reduction prior to passage of the Act, will the state be limited in any way from covering allowable expenses, (e.g., broadband infrastructure, public safety payroll costs, etc.) with resources from the Coronavirus State Fiscal Recovery Fund because Treasury disallows usage in the amount associated with the net tax revenue (direct or indirect) decline somehow measured by Treasury as being caused by the tax relief?

A.2. The offset provision applies only to changes in law made during the statute's covered period, which began on March 3, 2021.

Q.3. Please identify "stakeholder" groups with whom you have had discussions of implementation of, perhaps among other provisions of the American Recovery Act, Section 602(c)(2)(A), including offices of Members of Congress.

A.3. Treasury has discussed the state and local provisions of the American Rescue Plan Act with numerous stakeholder groups representing state and local governments, including but not limited to the National Governors' Association, National Association of Counties, National League of Cities, U.S. Conference of Mayors, the National Association of State Budget Officers, and other similar groups. Treasury has also discussed these provisions with many Tribal governments. Finally, Treasury has met with the offices of Members of Congress on a bipartisan basis to discuss implementation.

Q.4. Section 602(c)(2)(B) of Subtitle M of the American Recovery Act says that no Coronavirus State Fiscal Recovery Fund resources may be used "for deposit into any pension fund." A March 29 editorial in the Wall Street Journal identified that the State of Vermont will deposit "$150 million of this year's state budget surplus into worker pension funds." I have the following questions regarding Section 602(c)(2)(B).

Given that state budgetary resources are fungible, how can Treasury determine whether funds flowing from the Coronavirus State Fiscal Recovery Fund into general budgetary resources of a state government, as may be the case with Vermont, does not flow into pension funds in order to be consistent with Section 602(c)(2)(B) of the law?

A.4. The Interim Final Rule prohibits the use of funds for extraordinary contributions to pension funds for the purpose of reducing an accrued, unfunded liability ineligible. Currently, Treasury is developing a reporting regime to monitor for eligible and ineligible funding uses.

Q.5. It had recently been mentioned by a Senator on the floor of the Senate that the restriction in Section 602(c)(2)(B) means that, in addition to pensions, a state or territory may not use Coronavirus State Fiscal Recovery Fund resources to fund other postemployment benefits (OPEBs) for government workers, yet OPEBs are not explicitly mentioned in Section 602(c)(2)(B). Will Treasury, in implementing Section 602(c)(2)(B) restrict fund uses to disallow any funding of OPEBs, consistent with what evidently was congressional intent? If so, and given that state budgetary resources are fungible, how will Treasury enforce that congressionally intended restriction?

A.5. Because Other Postemployment Benefits (OPEB) are considered benefits "other than pensions," Section 602(c)(2)(B), which refers only to pensions, does not apply to OPEB. [However, just because a particular use is not prohibited does not necessarily mean that it is permitted.] Recipients may only use funds for eligible uses, and a recipient seeking to use ARP funds for OPEB contributions would need to justify those contributions under one of the eligible use categories.

Q.6. I am concerned that Treasury and the IRS are about to make an already difficult and confusing tax filing season even worse for many low and middle income parents, when it comes to the implementation of the new, temporary, advance Child Tax Credit payment program.

While the legislation directs the IRS to begin issuing periodic advance payments by this July, it also requires Treasury to create an online portal to allow parents to provide critical updates to their status and eligibility, like births or deaths, changes in marital or tax filing status or changes in income.

Also, importantly, the portal is required to allow parents the ability to opt out of receiving any advance payments at all. As we saw after the 2017 tax reform, with its impacts on the standard deduction and withholding, many taxpayers were upset to find that they were no longer getting that big refund during filing season, because they were having less taxes withheld from their paychecks, giving them more money in their pockets throughout the year.

Even though there are certainly economic arguments that those families are better off having that money in their pockets sooner, rather than giving the government essentially an interest-free loan, having that big tax refund during filing season is clearly the preference for many taxpayers. As such, it is essential that all taxpayers have that option to opt out of receiving any advance payments, prior to any advance payments being issued.

According to IRS staff, the National Taxpayer Advocate, and independent experts, a reasonable estimate for the time it would take for IRS to create this new portal, and have it fully secure and operational is about 12 to 18 months.

Clearly, such a timeline would challenge the ability to issue any advance payments at all during the current one year that such advance payments are authorized.

If this was really just about addressing the current Covid-created needs to provide additional support to low and middle income children, all policymakers had to do was adjust this latest round of recovery payments and provide an additional bump up to those child dependents in those income categories.

The systems and infrastructure were already in place, and those children and their parents would have had that additional support in their pockets weeks ago.

But, if the real intent of this new program is to establish an infrastructure to provide more longer-lasting support to low and middle income children, then do you not agree, for the sake of efficiency and accuracy, and to protect the rights of all taxpayers, that no advance payments should be issued until the online portal is fully operational and all eligible parents have the ability to update their status and to opt out of receiving any advance payments?

A.6. The Internal Revenue Service is hard at work to meet the main goal of the legislation which is to provide a regular series of advance payments of the Child Tax Credit to eligible taxpayers and will meet the statutory requirement to stand up a portal to allow taxpayers to opt out of receiving advanced payments.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR ROUNDS FROM JANET L. YELLEN

Q.1. Secretary Yellen, your predecessor worked with Director Calabria at the FHFA to amend the Preferred Stock Purchase Agreement that governs the federal backstop behind Fannie Mae and Freddie Mac. Those changes allowed the GSEs to retain more capital to protect taxpayers and to help move the GSEs closer to release from conservatorship—both important goals.

However, I am concerned about other provisions added to the PSPAs that cap certain types of business the GSEs conduct and could cause market disruptions, undermine the GSEs' affordable housing mission, and disrupt the level playing field for smaller and midsized lenders. Could you please share your views on changes made to the PSPAs?

A.1. The Administration is committed to housing finance policy that expands fair and equitable access to homeownership and affordable rental opportunities, protects taxpayers, and promotes financial stability. I look forward to working across the Administration and with Congress in support of these goals. We continue to assess the GSEs' status, including the recent amendments to the PSPAs.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR DAINES FROM JANET L. YELLEN

Q.1. The CARES Act, ARPA and other relief bills have contained billions in broadband infrastructure eligible funding, including over $7 billion for E-Rate, $10 billion for Coronavirus Capital Projects Fund, and hundreds of billions in state and local funds and various other newly appropriated dollars.

Do you agree that these funds should be used to connect unserved areas before upgrading existing broadband connections?

A.1. Under the American Rescue Plan Act of 2021, the Capital Projects Fund provides funds "to carry out critical capital projects directly enabling work, education, and health monitoring, including remote options," in response to the pandemic. The COVID health emergency has made clear that remote access, among other things, is critical for all households in the United States. Treasury is currently developing program terms regarding eligible uses of proceeds. Treasury will begin to accept applications for review in the summer of 2021 and will issue guidance before that date.

Q.2. What restrictions are in place to ensure the money is not being used to overbuild or duplicate existing projects?

A.2. Treasury is currently developing program terms regarding eligible uses of proceeds for the Capital Projects Fund. Treasury will begin to accept applications for review in the summer of 2021 and will issue guidance before that date.

Q.3. Will the Treasury Department put out guidance or prioritize unserved rural areas for new broadband projects funded under the Coronavirus Capital Projects Fund or other broadband related coronavirus funding?

A.3. Under the Capital Projects Fund, Treasury will allocate a portion of the funds to the states based on the proportion that the number of individuals living in rural areas in each state bears to the number of individuals living in rural areas in all states. The fund will help states, territories, and Tribal governments carry out critical capital projects, including in rural areas.

Q.4. Can you give an update on the Treasury Department's efforts to raise awareness of the Employee Retention Credit?

A.4. Treasury worked with IRS to issue a press release highlighting the changes to the Employee Retention Credit for the first and second quarters of 2021 within days of the start of this Administration. Treasury has also developed short, plain English flyers describing the different iterations of the Employee Retention Credit, which are on the Treasury website *https://home.treasury.gov/policy-issues/coronavirus/assistance-for-small-businesses/small-business-tax-credit-programs* and are being distributed in webinars and at Small Business Administration (SBA) regional offices among others. In addition, Treasury is working with SBA on a "train the trainers exercise" to educate their staff on the credit and with the IRS to identify additional avenues to raise awareness of the credit.

Q.5. During the hearing, Senator Tillis asked you whether, "in your opinion, the increase of the corporate tax rate up to 28 percent will not cause any significant competitive disadvantage for the United States for corporate expansion?" You replied, "Well, I think it would be important to make sure that it is done in the context of a global agreement."

Would you agree that the U.S. should not implement any increase in the corporate tax rate unless and until a global deal is reached and implemented?

A.5. A global deal is highly desirable. However, there are many good reasons for the United States to act, regardless of the timing of any global deal. First, the corporate tax increase will raise much needed revenue for urgent fiscal needs. Second, increased corporate taxes will help improve the overall fairness of our tax system. Third, the corporate tax falls disproportionately on excess profits, or above-normal returns to profit, so it will be an efficient way to raise revenue. Fourth, the international reforms envisioned in the Administration's package will put a stop to the profit shifting of all companies (both US and foreign headquartered), whereby multinational companies shift the US tax base to very low-tax foreign jurisdictions. Fifth, these international reforms will also eliminate the offshoring incentives that are present in two features of US law, GILTI and FDII; at present, these two provisions encourage foreign investment in tangible assets over US investment.

Q.6. Even if a deal is reached at the OECD, it is widely expected that any minimum tax would be far lower than President Biden's proposed 21 percent minimum tax. Can you explain how tax increases of this magnitude on U.S. companies would not reignite inversions?

A.6. Inversions are extremely difficult to undertake under current US law, and they nearly came to a halt due to the Obama administration's second term regulations (in 2014 and 2016, although portions of these regulations have unfortunately been repealed by the Trump Administration). Nonetheless, we have proposed two further provisions that will discourage inversions. First, the SHIELD proposal improves on the BEAT regime by stopping any foreign-headquartered multinational company from shifting profits out of the US tax base, and deters such companies from operating in low-tax jurisdictions, if they are headquartered in a jurisdiction that has not adopted a robust minimum tax. Second, as a backstop, we also propose additional anti-inversion measures that should be highly effective.

Q.7. How many inversions have there been from 2018 to the present?

A.7. From 2017 onwards, I am not aware of any significant corporate inversions. The second Obama inversion regulation came into place in 2016; many observers viewed that regulation as very effective.

Q.8. Have we recovered from the pandemic such that companies can withstand an increased tax burden of the magnitude that President Biden is proposing?

A.8. The proposals advanced by the President represent a combination of tax cuts and revenue raisers. The tax cuts are often directed at those with low- and middle-incomes, while the president has pledged to only increase taxes on individuals earning more than $400,000 and corporations. With corporations, the tax changes can be broadly categorized into two groups: an increase in the corporate tax rate to 28 percent (which is far below the pre-2017 historical level) and changes in the taxation of multinational companies to end the worldwide race-to-the-bottom on corporate taxes and incent companies to keep their profits and workers in the U.S. It's important to remember that the corporate tax only hits profits. Increasing the corporate tax is an efficient and effective way to ensure that profitable corporations pay their fair share. The combination of these reforms and the productivity enhancing investments, like increased investment in infrastructure, they are designed to fund will grow the economy and ensure that American businesses stay competitive globally.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR BROWN FROM JEROME H. POWELL

Q.1. How does the changing climate affect financial stability and the economy? What risks does climate change pose to financial institutions individually and the financial sector as a whole? How can the Federal Reserve's ongoing assessment of climate risks better protect the financial system from climate-related shocks?

A.1. Congress has assigned the Federal Reserve narrow but important mandates around monetary policy, financial stability, and supervision of financial firms, and we view climate-related risks through the lens of our existing mandates and authorities, particularly the regulation and supervision of financial institutions and the stability of the broader financial system.

We are in the relatively early stages of a broad work plan of analysis and public engagement regarding climate-related risks. We do not yet have a clear view about what additional actions might be appropriate from the Federal Reserve to address the financial and economic risks of climate change. Our engagement and analysis will assist in building our understanding and developing such a view. Any potential actions we would take would be supported in a robust and analytically sound way by the best available research and conducted through a transparent process.

Our November 2020 Financial Stability Report and Supervision and Regulation Report both discuss at a high level how climate change may create or change risks to the financial system or to individual supervised institutions. [1]

We are taking a careful, thoughtful, and transparent approach to our climate work, and we will engage with Congress and the public as we proceed.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR TOOMEY FROM JEROME H. POWELL

Q.1. In March 2021, the Federal Reserve forecasted real GDP growth of 6.5 percent in 2021, a median unemployment rate of 3.5 percent, and core inflation at 2.1 percent by the end of 2023. Yet, this same forecast projects the Federal Reserve will maintain the current near-zero short term interest rates at least through 2024.

What is the justification for continuing near-zero interest rates and $1.4 trillion a year in quantitative easing (QE) well past the point of economic recovery?

A.1. In pursuit of our mandated objectives of maximum employment and price stability, the Federal Open Market Committee (FOMC) has judged that it will be appropriate to keep the target range for the federal funds rate at its current level until labor market conditions have reached levels consistent with the FOMC's assessment of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. The FOMC has also agreed to increase its holdings of Treasury securities by at least $80 billion per month and agency mortgage-backed securities by at least $40 billion per month until substantial further progress had been made toward the FOMC's maximum employment and price stability goals. With payroll employment currently about 8.2 million jobs short of its pre-pandemic level and inflation not yet on track to moderately exceed 2 percent for some time, these goals have not yet been met. The FOMC is committed to using its full range of tools to pursue its objectives of maximum employment and price stability.

[1] See *https://www.federalreserve.gov/publications/2020-november-financial-stability-report-purpose.htm* and *https://www.federalreserve.gov/publications/2020-november-supervision-and-regulation-report.htm.*

While FOMC participants provide individual projections of the most likely outcomes for the economy, based on their individual assessments of appropriate monetary policy, these projections do not represent a FOMC forecast or a plan for the future course of monetary policy.

Q.2. Does this mean we should expect to see Federal Reserve asset purchases and near-zero rates whenever growth is above trend and unemployment is near record lows?

A.2. The Federal Reserve sets monetary policy to achieve its dual mandate of maximum employment and price stability. Consistent with that mandate, the FOMC does not make policy decisions focusing on the status of employment without considering inflation. With respect to the maximum employment half of the mandate, when the FOMC adopted its revised Statement on Longer-Run Goals and Monetary Policy Strategy, policymakers stressed the importance of the FOMC's assessments of "shortfalls of employment from its maximum level" as a key determinant of monetary policy decisions. Economic growth above trend can be associated with either the presence or the absence of shortfalls of employment, depending on circumstances. For these reasons, among others, the FOMC considers a wide range of information when formulating its assessments of the appropriate conduct of monetary policy.

Asset purchases are a key monetary policy tool when the Federal Reserve's primary tool, the federal funds rate, cannot be used to provide sufficient accommodation for achieving the FOMC's objectives because of the effective lower bound on nominal interest rates. That is the case at present and so the FOMC has agreed that it will be appropriate to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month, until substantial further progress has been made toward achieving the FOMC's maximum employment and price stability goals.

Q.3. The Federal Reserve has recently announced two new committees focusing on climate-related risks: (1) the "Supervision Climate Committee," which will focus on safety and soundness at individual financial institutions, and (2) the "Financial Stability Climate Committee," which will analyze any such risks across the financial system. Although you have repeatedly emphasized that the Federal Reserve is in the "very early days" of identifying and assessing climate-related risks, I am concerned that the Federal Reserve has not provided sufficient detail regarding these committees.

Can you describe the objectives and intended outputs of both the Supervision Climate Committee and the Financial Stability Climate Committee, as well as the expected timeframes for any outputs from these committees?

Do you commit to undertake public notice and comment on any contemplated changes to bank supervision or regulation that could result from the work of these committees?

A.3. As you note, Congress has assigned the Federal Reserve narrow but important mandates around monetary policy, financial stability, and supervision of financial firms. We view climate-related risks through the lens of our existing mandates and authorities, particularly the regulation and supervision of financial institutions and the stability of the broader financial system.

The Supervision Climate Committee (SCC) and the Financial Stability Climate Committee (FSCC) bring together senior staff from the Federal Reserve Board and the Reserve Banks to facilitate work directed at better understanding potential climate-related risks to our supervised institutions and the stability of the financial system. Our goal is to incorporate climate-related financial risks into our supervision of individual firms through the work of the SCC and into our financial stability framework through the FSCC. I note that it has long been the policy of the Federal Reserve not to dictate to banks what lawful industries they can and cannot serve.

We do not yet have any fixed expected time frame for completing these goals, but we are actively working in this area. We are engaging with large financial institutions to strengthen our understanding of how they are currently assessing climate risks and incorporating them in their risk management frameworks. As with all supervisory undertakings, we will tailor our approach and resources to focus on firms that face the most risk.

We are taking a careful, thoughtful, and transparent approach to our climate-related work. Any potential actions we would take would be supported in a robust and analytically sound way by the best available research and conducted through a transparent process, including public notice and comment where appropriate. In addition, we will engage with Congress and the public as we proceed.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM JEROME H. POWELL

Q.1. Some of the CARES funds had very limited utility. For example, the Municipal Liquidity Program and the Main Street Lending Program were underused. What do you recommend Congress and the Federal Reserve consider next time we deliver intervention to help businesses and communities during an economic crisis?

A.1. Congress and the Administration acted swiftly to support the U.S. economy in response to the COVID–19 pandemic. These actions were critical in avoiding worse economic outcomes, including greater job losses. Likewise, using funds appropriated in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to absorb any losses, the Federal Reserve's emergency lending facilities were able to provide critical support to a very wide range of employers, including large and small businesses, nonprofits, and state and local governments.

Although the lending volumes of the facilities were low in comparison to their maximum capacity, the facilities had powerful announcement and backstop effects, catalyzing the private sector to provide the credit needed to keep our financial system and economy functioning. In part due to the backstops created by Federal Reserve facilities, more than $2 trillion of new corporate and municipal bonds were issued following the acute phase of the crisis in 2020, substantially more than the comparable period for the previous year. State and local governments were able to issue bonds across the ratings spectrum and at all maturities at highly attractive interest rates. Small businesses benefited from the Paycheck Protection Program (PPP) loans, which are designed to be forgiven, unlike Main Street loans that must be repaid. In 2020, the Small Business Administration approved more than 5.5 million loans totaling more than $550 billion, suggesting that the PPP satisfied a substantial amount of small business credit demand. If financial markets had remained closed and credit conditions had tightened further, job losses would have been far worse.

While our primary focus remains supporting the economy as it recovers from the effects of the pandemic, Federal Reserve staff are in the process of capturing lessons learned about financial stability, financial regulation, and crisis management to better help businesses and communities during a future economic crisis.

Q.2. The American Rescue Plan includes $10 billion in assistance for homeowners. Has the Federal Reserve researched assistance to help homeowners avoid foreclosure? For example, has the Federal Reserve compared grant programs with loan or shared equity programs? If so, can you share that analysis?

A.2. Researchers in the Federal Reserve System and elsewhere have conducted studies of other forms of homeowner assistance, particularly the effects of loan modification and refinance programs during the Great Recession. [1] The research conducted by Federal Reserve staff described in this answer was done independently, and does not necessarily reflect the views of the Board of Governors (Board) or anyone else in the Federal Reserve System. Such studies have generally shown that payment relief was quite effective in reducing foreclosures. A recent independent paper by economists at the Federal Reserve Bank of Chicago provides an overview of this research, and connects the lessons learned from the Great Recession to the current crisis. [2]

Widespread forbearance has been an important tool for stabilizing the housing market, as shown in recent work by economists at the Board. [3] Board economists have also shown how valuable assistance to families under the CARES Act was in terms of allowing them to cover their recurring non-discretionary expenses, such as housing payments. [4] And recent research by economists at the Federal Reserve Bank of Philadelphia shows how forbearance has benefited lower-income and minority borrowers, and assesses longer-term solutions aimed at helping struggling homeowners exit forbearance. [5] The American Rescue Plan's assistance to homeowners may prove valuable in this effort, as homeowners may need to

[1] Department of Housing and Urban Development. 2012. "Shared Equity Models Offer Sustainable Homeownership," at *https://www.huduser.gov/portal/periodicals/em/fall12/highlight3.html*; Urban Institute "Shared Equity Research" *https://www.urban.org/projects/shared-equity-research*.

[2] Amromin, Gene and Dokko, Jane and Dynan, Karen. 2020. "Helping Homeowners During the COVID–19 Pandemic: Lessons from the Great Recession," Chicago Fed Letter, No. 443, at *https://www.chicagofed.org/publications/chicago-fed-letter/2020/443*.

[3] Anenberg, Elliot, and Tess Scharlemann. 2021. "The Effect of Mortgage Forbearance on House Prices During COVID–19," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, March 19, 2021, at *https://doi.org/10.17016/2380-7172.2872*.

[4] Bhutta, Neil and Blair, Jacqueline and Dettling, Lisa J. and Moore, Kevin B. 2020. "COVID–19, the CARES Act, and Families' Financial Security," at *http://dx.doi.org/10.2139/ssrn.3631903*.

[5] An, Xudong and Cordell, Larry and Geng, Liang and Lee, Keyoung. 2021. "Inequality in the Time of COVID–19: Evidence from Mortgage Delinquency and Forbearance," at *http://dx.doi.org/10.2139/ssrn.3789349*.

make up some portion of missed payments in order to get back on track and stay in their home.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM JEROME H. POWELL

Q.1. The Federal Reserve has been actively studying and perhaps building a general-purpose central bank digital currency (CBDC). There are a number of important issues surrounding CBDC, including questions of objectives, legal and regulatory frameworks, stability and possible digital runs, monetary sovereignty, further blurring of a distinction between fiscal and monetary policy, and privacy. The Federal Reserve, other central banks, and groups of central banks have issued exploratory discussions of CBDC containing discussions of the issues. For example, a report on CBDC by a group of central banks in 2020 identified the possibility of using CBDC and its underlying technology to implement fiscal transfers. Recent work by former Federal Reserve economists Julia Coronado and Simon Potter argues for a "system of digital currency accounts for consumers managed by digital payment providers and fully backed by reserves at the Fed" which could "facilitate new automatic stabilizers while allowing the Fed to provide quantitative easing directly to consumers" and a tool that "could be used in a timely manner with broad reach to all Americans." That is, fiscal policy, including the possibility of universal basic income and even, allowing for smart-contracting possibilities along a chain, central bank control of what transfers can and cannot be used for. While the papers typically pay lip service to a need for congressional approval of the setup of the CBDC or other distributed ledger schemes involving the central bank, many envision the possibility of a vast transfer of authority over fiscal policy, something traditionally and predominantly reserved for the legislative branch in our representative democracy. Privacy concerns are important as well, as CBDC has a potential to eliminate anonymous transactions and replace them with dynamic ledgers containing microscopic detail of individual transactions and history. Some provide assurances, such as Agustin Carstens, general manager of the Bank for International Settlements, who recently identified that "a CBDC does not have to entail an Orwellian Big Brother, where the central bank sees each and every transaction." However, the fact that such remarks are part of the CBDC discussions among central bankers suggests that concern is warranted. Lately, the Federal Reserve has become more public in its discussion of CBDC and a possible near-term roll out of at least conceptual designs.

Please provide a summary of Federal Reserve activities over the past two years to develop a CBDC or conceptual designs of a CBDC, including collaborative efforts between the Federal Reserve Bank of Boston and the Massachusetts Institute of Technology, and perhaps other technology partners, researchers, or advocates for fiscal transfers.

A.1. At the Federal Reserve, our main focus is on how a U.S. central bank digital currency (CBDC) could improve an already safe and efficient domestic payment system. We have not made any decisions about whether or not to issue a CBDC, and are still in the research, analysis, and experimentation stage. We are looking at general purpose CBDC as a potential complement to, not a replacement of, physical currency and private payment options such as commercial bank money. We also plan to continue our work assessing a wholesale U.S. CBDC.

The Federal Reserve is taking a multidisciplinary approach to studying CBDC, bringing together technologists, policy analysts, engineers, data scientists, economists, lawyers, and others to help us gain a well-rounded view of emerging technologies and to thoroughly consider the policy issues raised by CBDC. Our CBDC work, which is still in the very early stages, falls into four categories: thought leadership, international collaboration, market intelligence, and research and experimentation.

Thought Leadership: Federal Reserve staff have published several papers on key topics related to CBDC, including:

- Jess Cheng, Angela N Lawson, and Paul Wong, Preconditions for a general-purpose central bank digital currency (February 2021)
- Alexander Lee, Brendan Malone, and Paul Wong, "Tokens and accounts in the context of digital currencies" (December 2020)
- Francesca Carapella and Jean Flemming, "Central Bank Digital Currency: A Literature Review" (November 2020)
- Paul Wong and Jesse Leigh Maniff, "Comparing Means of Payment: What Role for a Central Bank Digital Currency?" (August 2020)
- Jillian Buttecali, Zachary Proom, Paul Wong, "Observations from the FooWire Project: Experimenting with DLT for Payments Use" (August 2020)

International Collaboration: The Federal Reserve works with other central banks and international organizations to understand key issues related to CBDC. The Federal Reserve collaborated with six other central banks and the Bank for International Settlements (BIS) to produce a report [1] in October 2020 on foundational principles for CBDC and continues this work this year. The Federal Reserve is also an active participant in the multiple workstreams executing on the G20 roadmap for improving cross border payments, one of which is focused on CBDC.

Market Intelligence: Federal Reserve staff follow developments related to CBDC in the private sector, academia, and globally. Staff meet with a variety of stakeholders to understand different perspectives related to CBDC. These meetings help staff understand market developments and allow private and academic stakeholders to better understand the types of questions the Federal Reserve is considering related to CBDC.

Research and Experimentation: The Federal Reserve Board (Board) and the Reserve Banks are engaged in a number of hypothetical experiments related to CBDC and other payments modernization lines of inquiry. These experiments provide hands on experience with technology, helping to identify opportunities and limitations, which is crucial to policy dialogue on CBDC. All of this

[1] See *https://www.bis.org/press/p201009.htm.*

work is being conducted for exploratory research, not real-world use. Projects include:

- The Board's TechLab is focused broadly on digital currencies and is looking at various dimensions of interoperability among differing technologies.
- The Federal Reserve Bank of Boston is collaborating with the Massachusetts Institute of Technology to explore issues of scale and security for a theoretical general purpose CBDC.
- The Federal Reserve Bank of New York is collaborating with the BIS to stand up its New York Innovation Center, which will work on a variety of topics within the broader landscape of financial innovation.

Q.2. Please also include a list of "stakeholders" with whom members of the Federal Reserve Board have met over the past two years in consideration of developing a CBDC or similar distributed ledger system involving the Federal Reserve.

A.2. Federal Reserve staff meets with a large and diverse set of stakeholders to discuss payments modernization, including banks, payments providers, technology companies, research institutions, and other central banks. As part of their regular conversations with banking and payments groups and providers, Board Governors have discussed these issues and have also met more specifically on CBDC issues with Members of Congress and international counterparts.

Q.3. Please provide a timeline of planned Federal Reserve activities for the remainder of the year in your work toward developing a CBDC or similar distributed ledger system involving the Federal Reserve.

A.3. This year we intend to continue to assess the policy rationales, costs, benefits, and risks of CBDC. Federal Reserve Bank of Boston staff expect to publish a report on the results of their hypothetical experimentation to-date. Federal Reserve economists and other staff will also continue to publish research. We hope to develop additional academic collaborations on CBDC and other broader payments modernization efforts. Preventing payments fraud and improving inclusion are two areas where we may collaborate. We will also continue to collaborate with our international counterparts, including through the BIS-organized group of central banks, and will publish additional research on CBDC. We expect to expand our public dialogue this year to ensure we are engaging with a diverse set of viewpoints and understanding the implications of a CBDC for a variety of stakeholders.

Q.4. Statements about markets, risks, and climate change coming out of the Fed have been striking. For example, late last year Governor Brainard issued a statement the "financial markets face challenges in analyzing and pricing climate risks." She goes on to say that it is important to recognize climate-change risks to financial stability "to the stage where the quantitative issues are appropriately assessed and addressed." That suggests that the Federal Reserve thinks that market participants are challenged in analyzing and pricing risks, and that somehow the Fed knows that markets are not "appropriately" assessing and addressing risks.

What market prices do the Fed view as being wrong?

How do analysts at the Fed somehow know that market prices are wrong and risks are not being "appropriately assessed and addressed?"

Since individuals at the Fed seem to be able to see unpriced risk, why aren't there ordinary people who also see that and, without regulatory coercion, trade in ways that correct the mispricing and correct what the Fed seems to think are inappropriate risk premiums in asset prices?

A.4. Congress has assigned the Federal Reserve narrow but important mandates around monetary policy, financial stability, and supervision of financial firms, and we view climate-related risks through the lens of our existing mandates and authorities, particularly the regulation and supervision of financial institutions and the stability of the broader financial system. We are in the relatively early stages of a broad work plan of analysis and public engagement regarding climate-related risks.

To address appropriately the impacts of climate change on our economy and financial system, we must first understand the risks. The Federal Reserve has made and continues to make strides in better understanding climate-related economic and financial risks. Researchers throughout the Federal Reserve System are examining the implications of climate change for the economy, financial institutions, and financial stability. As noted in our November 2020 Financial Stability Report, the "opacity of exposures and heterogeneous beliefs of market participants about exposures to climate risks could lead to mispricing of assets and the risk of downward price shocks. Similarly, uncertainty about the timing and intensity of climate change, severe weather events, and disasters, as well as the poorly understood relationships between these events and economic outcomes, could lead to abrupt repricing of assets."[1] The Federal Reserve is investing in data and empirical work to analyze the transmission of climate-related risks to the economy and developing methodologies to measure these risks, as are other central banks. Our staff is engaging with colleagues from other regulatory agencies, central banks, and standard-setting bodies, as well as with market participants and other external parties to understand how those parties are measuring climate-related risks.

We understand the importance of engaging with Congress and the public and we will be taking a careful, thoughtful, and transparent approach to our climate-related work. Any potential actions we would take would be supported in a robust and analytically sound way by the best available research and conducted through a transparent process, including public notice and comment where appropriate.

Q.5. The Federal Reserve has been issuing statements indicating that markets for some reason are not appropriately assessing and addressing what it views to be potentially catastrophic and system risks from climate change. California has long faced potentially catastrophic and systemic risks from an epic, large-scale earthquake.

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[2] See *https://www.federalreserve.gov/publications/2020-november-financial-stability-report-purpose.htm.* and *https://www.federalreserve.gov/publications/2020-november-supervision-and-regulation-report.htm.*

Does the Fed believe that insurers and property owners have not appropriately assessed and addressed those catastrophic risks, and that things like insurance, land values, and asset prices in California are mispriced?

A.5. As noted in response to Question 4, we are in the early stages of a broad work plan of analysis and public engagement to better understand climate-related risks. For example, we are investing in data and empirical work and engaging with regulatory agencies, central banks, and standard-setting bodies. We also are engaging with market participants and other external parties to understand how those parties are measuring climate-related risks.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR ROUNDS FROM JEROME H. POWELL

Q.1. Chair Powell, during your last appearance before the committee we had a conversation about the March 31 expiration of the SLR exclusion for Treasuries and Fed deposits. The Fed released a statement on March 19th saying that the exclusion would expire as planned on the 31st but the statement was vague about the timing or the details for next steps. Is there anything more you can share about next steps for the SLR at this point?

A.1. Consistent with the Board of Governors of the Federal Reserve statement in the press release dated March 19, 2021, we plan to seek public comment on potential measures to adjust the supplementary leverage ratio. The timing and the details of the potential measures for public comment are yet to be finalized.