MONETARY POLICY AND THE STATE OF THE ECONOMY

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MONETARY POLICY AND THE STATE OF THE ECONOMY

Wednesday, June 17, 2020

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

The committee met, pursuant to notice, at 12:02 p.m., via Webex, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Maloney, Velazquez, Sherman, Cleaver, Perlmutter, Himes, Foster, Heck, Vargas, Gottheimer, Lawson, San Nicolas, Tlaib, Axne, Casten, McAdams, Wexton, Lynch, Adams, Phillips; McHenry, Wagner, Lucas, Posey, Luetkemeyer, Huizenga, Stivers, Tipton, Williams, Hill, Emmer, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Gonzalez of Ohio, Rose, Steil, Timmons, and Taylor.

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

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

Members are reminded to keep their video function on at all times, even when they are not being recognized by the Chair. Members are also reminded that they are responsible for muting and unmuting themselves, and to mute themselves after they are finished speaking. Consistent with the regulations accompanying H. Res. 965, staff will only mute Members and our witness, as appropriate, when not being recognized, to avoid inadvertent background noise.

Members are reminded that all House rules relating to order and decorum apply to this remote hearing.

Today's hearing is entitled, "Monetary Policy and the State of the Economy."

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

Chair Powell, the law that requires the Federal Reserve Chair to testify before Congress twice each year was established back in 1978. However, no Fed Chair has ever testified before this committee with the economy in the condition that it is in today.

More than 116,000 Americans are dead from the coronavirus. And just last week, 21 States recorded an increase in their average daily new cases compared to the prior week.

The April jobs report was the worst in American history, showing 20.5 million jobs lost, and wiping out nearly a decade's worth of job gains in a single month. Today, the top-line unemployment rate remains higher than it has been at any time since the Great Depression, and 3 full percentage points above its highest level during the Great Recession.

As you recently noted, Chair Powell, the expected decline in GDP is likely to be the most severe on record.

Communities of color, who are suffering disproportionately from the virus, are also in major economic distress. Even before the crisis, a 2019 McKinsey study found that the overall racial wealth gap between Black and white families widened from $100,000 in 1992, to $150,000 in 2016. Unfortunately, over 2 million Black Americans lost their jobs as a result of COVID-19, and nearly 18 percent of Black workers have lost their jobs since February.

Your warning that, "if not contained and reversed, the downturn could further widen gaps in economic well-being," is a reminder that the Fed and Congress must use all tools available to address these unjust disparities.

States and cities are making painful cuts, at a moment when they desperately need more resources. As States grapple to pay skyrocketing unemployment claims and meet public health expenses, 1.6 million public-sector employees have lost their jobs. State governments face an estimated $790 billion revenue shortfall next year, and without action, 5.3 million more public-sector employees could lose their jobs.

We are also facing an impending eviction crisis, with 30 percent of renters being unable to pay their rent for June.

Against this backdrop, Donald Trump has urged a premature return to business as usual, while heralding a jobs report that showed Black unemployment was rising. He said, "It's a great day."

Last month, the House passed the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act to extend assistance to States, cities, and the unemployed, as well as renters and homeowners. But the Senate Republican leader has said that Congress should, "wait and see," before considering more relief.

While the Trump Administration has declared victory and spread dangerous misinformation, you have been a real voice of reason, cautioning that unemployment is still, "historically high," recognizing its disproportionate impact on communities of color, and acknowledging that economic recovery will depend on public health outcomes. You have also stressed that, "additional fiscal support is needed to avoid long-term damage."

The economy recovered unevenly from the last crisis, leaving the Fed with limited ammunition. Nevertheless, the Fed has stepped in to rescue an economy in freefall. We have seen the stock market respond, but communities of color and small businesses are reeling. And you are at the end of what you can reasonably do in terms of monetary policy to help the economy.

Now is the time for strong fiscal policy from Congress in the form of the HEROES Act. Without it, I am extremely concerned about the future of our nation's economy.

With that, I yield back.

The Chair now recognizes the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 4 minutes for an opening statement.

Mr. MCHENRY. Thank you, Madam Chairwoman.

And, Chairman Powell, welcome back to the committee. Thank you for being here virtually, and for taking our questions virtually.

The circumstances are obviously much different than where we were in February, when we last met. I would like to commend you and the Federal Reserve for your activities and engagements in this unprecedented time. I believe it was the Fed's rapid and decisive action that prevented the worst effects of this economic catastrophe brought about by the coronavirus, and helped stabilize the market.

The Fed, as firefighter, was able to stave off the flames, to contain the flames. But we know that is not a permanent circumstance, for the Federal Reserve to be in that firefighting phase.

Using Section 13(3) emergency lending authority, the Fed signaled to American households and to businesses that it will do everything in its power to respond to the economic crisis that resulted from this global health crisis. The Fed announced nine lending programs to help support the proper functioning of our financial markets and our economy—smartly done.

Many of these facilities are in operation today. However, some of those facilities aren't even yet operational, but markets were calmed just by the announcement from the Fed.

I want to commend you for that decisive action in this early phase of what we know are challenging times for the American people. I believe that we must keep these facilities focused on broad-based support of our economy, and ensure that they are responsive to economic conditions, not the political ones.

I also want to reference a point you made last week, that I believe is worth repeating. As the Fed embarks on protecting the economy through careful and targeted use of its powers, Congress must be realistic about what the Fed can and cannot do. The Fed is a lender. The Fed is a lender of last resort. It is not responsible for fiscal policy. That is Congress' job.

And it is not a piggy bank to be used to fund the whims of Congress. We must ensure the Fed remains laser-focused on monetary policy and does not become a testing ground for ideological experiments or unproven theories. Unconventional monetary proposals should be considered with the utmost care, particularly ones that have had mixed records in other major economies.

We should be focused on the tens of millions of Americans who remain out of work through no fault of their own. According to the Fed's economic projections, we will still be facing unprecedented unemployment for the rest of this year—nearly twice the unemployment rate that we experienced just as recently as February. Creating an economic recovery that grows jobs must be priority number one.

But the Fed cannot do this alone. The Fed cannot train workers to match them more effectively with job openings. Congress has to legislate that. Congress is responsible for enacting pro-growth policies, not the Fed. And the Fed cannot modernize our education system or change tax policy. That is Congress' role. Only Congress can legislate these policies, which is why we need bipartisan solutions to ensure that our economy remains strong and/or comes back stronger than ever. We should be identifying the metrics that will be used to determine the ongoing need for emergency lending as well.

Chairman Powell, I urge you to continue to be as forward-looking as you have been. Before the public actually knew what the coronavirus was, you were taking action. And so, I anticipate that the challenges we will face in the next 6 months or a year will be enormous, but I commend you for looking ahead.

And while I hope we are through the worst of it, it is clear that more must be done. However, we should all keep an eye toward the aftermath and how we plan to right-size policies once again to ensure the long-term stability of our financial system.

And, with that, I would like to thank you again for being here. I look forward to your testimony and to the questions.

And I yield back.

Chairwoman WATERS. The Chair now recognizes the gentleman from Missouri, Mr. Cleaver, who is also the Chair of our National Security, International Development and Monetary Policy Subcommittee, for 1 minute.

Mr. CLEAVER. Thank you, Madam Chairwoman.

And thank you, Chairman Powell, for being here.

On Sunday, Dallas Federal Reserve President Kaplan stated, "Systemic racism is a yoke that drags on the American economy, and a more inclusive economy will lead to a better growth." And I tend to agree with what he said.

Before the pandemic, nearly 60 percent of Black adults were employed. COVID-19 has ravaged our nation and the low-paid and front-line service sectors. Now, just less than half of Black people are employed.

Economic justice is a part of social justice, and I want to examine some of these concepts with you. Economic justice would include increasing the minimum wage, expanding the earned income tax credit, investing in education, and creating a progressive Tax Code.

So thank you for being here, and I will explore those later.

Thank you, Madam Chairwoman.

Chairwoman WATERS. You are welcome.

The Chair now recognizes the ranking member of the subcommittee, Mr. Hill, for 1 minute.

Mr. HILL. Thank you, Madam Chairwoman.

Chairman Powell, thank you for being with us virtually today. We appreciate you being responsive to all of our questions in this challenging environment.

Your monetary policy report dated June 12th was an excellent, detailed recap of the extraordinary events of the past 4 months. I commend the Federal Reserve for their quick response and necessary actions taken to mitigate the harm from COVID-19. Your quick action preserved companies' access to markets and fresh capital to weather this storm.

Today, Members will discuss the Federal Reserve's facilities, and the virus and its impact on the economy and our citizens, many of whom are not yet back to work. I look forward, as well, to a discussion about monetary policy. The balance sheet has grown by nearly $3 trillion since the beginning of March.

I look forward to discussing these things, and again welcome you to the committee.

I yield back.

Chairwoman WATERS. I want to welcome to the committee our distinguished witness, Jerome Powell, Chair of the Board of Governors of the Federal Reserve System. Chair Powell has served on the Board of Governors since 2012, and as its Chair since 2017.

Chair Powell has previously testified before the committee, and I believe he does not need any further introduction.

Chair Powell, without objection, your written statement will be made a part of the record.

I want to remind Members that Chair Powell has a hard stop, and will be with us for 3 hours, until 3 p.m. eastern time.

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

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

Mr. POWELL. Thank you.

Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity to present the Federal Reserve's Semiannual Monetary Policy Report.

Our country continues to face a difficult and challenging time as the pandemic is causing tremendous hardship here in the United States and around the world.

The corona outbreak is, first and foremost, a public health crisis. The most important response has come from our healthcare workers. On behalf of the Federal Reserve, I want to express our sincere gratitude to these dedicated individuals who put themselves at risk day after day in service to others and to our nation.

Beginning in mid-March, economic activity fell at an unprecedented speed in response to the outbreak of the virus and the measures taken to control its spread. Even after the unexpectedly positive May employment report, nearly 20 million jobs have been lost on net since February, and the reported unemployment rate has risen about 10 percentage points to 13.3 percent. The decline in real gross domestic product this quarter is likely to be the most severe on record.

The burden of the downturn has not fallen equally on all Americans. Instead, those least able to withstand the downturn have been affected most. As discussed in the report, low-income households have experienced by far the sharpest drop in employment, while job losses of African Americans, Hispanics, and women have been greater than those of other groups. If not contained and reversed, the downturn could further widen gaps in economic wellbeing that the long expansion had made some progress in closing.

Recently, some indicators have pointed to stabilization and, in some areas, a modest rebound in economic activity. With an easing of restrictions on mobility in commerce and the extension of Federal loans and grants, some businesses are opening up, while stimulus checks and unemployment benefits are supporting household incomes and spending. As a result, employment moved higher in May.

That said, the levels of output and employment remain far below their pre-pandemic levels, and significant uncertainty remains about the timing and strength of the recovery. Much of that economic uncertainty comes from uncertainty about the path of the disease and the effectiveness of measures to contain it. Until the public is confident that the disease is contained, a full recovery is unlikely.

Moreover, the longer the downturn lasts, the greater the potential for longer-term damage from permanent job loss and business closures. Long periods of unemployment can erode workers' skills and hurt their future job prospects. Persistent unemployment can also negate the gains made by many disadvantaged Americans during the long expansion, as described to us at our Fed Listens events.

The pandemic is presenting acute risks to small businesses, as discussed in the report. If a small or medium-sized business becomes insolvent because the economy recovers too slowly, we lose more than just that business. These businesses are the heart of our economy and often embody the work of generations.

With weak demand and large price declines for some goods and services, such as apparel, gasoline, air travel, and hotels, consumer price inflation has dropped noticeably in recent months, but indicators of longer-term inflation expectations have remained fairly steady. As output stabilizes and the recovery moves ahead, inflation should stabilize and then gradually move up, over time, closer to our symmetric 2-percent objective. Inflation is nonetheless likely to remain below our objective for some time.

The Fed's response to this extraordinary period is guided by our mandate to promote maximum employment and stable prices for the American people, along with our responsibility to promote the stability of the financial system. We are committed to using our full range of tools to support the economy in this challenging time.

In March, we quickly lowered our policy interest rate to near zero, reflecting the effects of COVID-19 on economic activity, employment, and inflation and the heightened risks to the outlook. We expect to maintain interest rates at this level until we are confident that the economy has weathered recent events and is on track to achieve our maximum employment and price stability goals.

We have also been taking broad and forceful actions to support the flow of credit in the economy. Since March, we have been purchasing sizable quantities of Treasury securities and agency mortgage-backed securities (MBS) in order to support the smooth functioning of these markets, which are vital to the flow of credit in the economy.

As described in the report, these purchases have helped restore orderly market conditions and have fostered more accommodative financial conditions. As market functioning has improved since the strains experienced in March, we have gradually reduced the pace of these purchases.

To sustain smooth market functioning and thereby foster the effective transmission of monetary policy to the broader financial conditions, we will increase our holdings of Treasury securities and agency MBS over coming months at least at the current pace. We will closely monitor developments, and we are prepared to adjust our plans as appropriate to support our goals.

To provide stability to the financial system and support the flow of credit to households, businesses, and State and local governments, the Fed, with the approval of the Secretary of the Treasury, established 11 credit and liquidity facilities under Section 13(3) of the Federal Reserve Act.

The June report provides details on these facilities, which fall broadly into two categories: stabilizing short-term funding markets; and providing more direct support for credit across the economy.

To help stabilize short-term funding markets, the Fed set up the Commercial Paper Funding Facility and the Money Market Liquidity Facility to stem rapid outflows from prime money market funds. The Fed also established the Primary Dealer Credit Facility, which provides loans against good collateral to primary dealers that are critical intermediaries in short-term funding markets.

To more directly support the flow of credit to households, businesses, and State and local governments, the Fed established a number of facilities. To support the small-business sector, we established the Paycheck Protection Program (PPP) Liquidity Facility to bolster the effectiveness of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Our Main Street Lending Program, which is just now launching, supports lending to both small and medium-sized businesses. The Term Asset-Backed Securities Loan Facility supports lending to both businesses and consumers. To support the employment and spending of investment-grade businesses, we established two corporate credit facilities. And to help U.S. State and local governments manage cash-flow pressures and serve their communities, we set up the Municipal Liquidity Facility.

The tools that we are using under Section 13(3) authority are appropriately reserved for times of emergency. When this crisis is behind us, we will put them away.

The June report reviews the implications of these tools for the Federal Reserve's balance sheet. Many of these facilities have been supported by funding from the CARES Act. We will be disclosing on a monthly basis names and details of participants in each facility, amounts borrowed and interest rates charged, and overall costs, revenues, and fees for each facility.

We embrace our responsibility to the American people to be as transparent as possible, and we appreciate that the need for transparency is heightened when we are called upon to use our emergency powers.

We recognize that our actions are only part of a broader public-sector response. Congress' passage of the CARES Act was critical in enabling the Fed and the Treasury to establish many of the lending programs. The CARES Act and other legislation provides direct help to people, businesses, and communities. This direct support can make a critical difference, not just in helping families and businesses in a time of need, but also in limiting long-lasting damage to our economy.

I would like to end by acknowledging the tragic events that have again put a spotlight on the pain of racial justice in this country. The Federal Reserve serves the entire nation. We operate in, and we are part of, many of the communities across the country where

Americans are grappling with and expressing themselves on issues of racial equality.

I speak for my colleagues throughout the Federal Reserve System when I say there is no place at the Federal Reserve for racism, and there should be no place for it in our society. Everyone deserves the opportunity to participate fully in our society and in our economy.

We understand that the work of the Fed touches communities, families, and businesses across the country. Everything we do is in service to our public mission. We are committed to using our full range of tools to support the economy and to help ensure that the recovery from this difficult period will be as robust as possible.

Thank you, and I look forward to our discussion.

[The prepared statement of Chairman Powell can be found on page 56 of the appendix.]

Chairwoman WATERS. Thank you, Chairman Powell.

I now recognize myself for 5 minutes for questions.

Chair Powell, before you joined the Fed, you were a Fellow at the Bipartisan Policy Center and an advocate of deficit reduction. So, I took it seriously when you said on April 29th that, "This is the time to use the great fiscal power of the United States to do what we can to support the economy."

On May 13th, 2 days before the House passed the HEROES Act, you reiterated this message, saying, "additional fiscal support could be costly but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery."

On Sunday, Dallas Fed President Robert Kaplan seemed to echo that same quote: "Fiscal policy is going to be critical from here."

And yesterday, former Fed Chairs Bernanke and Yellen, and more than 130 economists, wrote a letter calling for a bold congressional response, including, "continued support for the unemployed, new assistance to States and localities, and investments in programs that preserve the employer-employee relationship."

The May jobs report showed slightly better jobs numbers than the April jobs report, which was the worst in recorded history, but there are still major reasons for alarm, including that unemployment rose to 16.8 percent, and 600,000 public-sector jobs were lost.

Yet, this Administration and Senate Republicans are not moving with any urgency. Republicans seem to be more focused on a more limited response, while granting a broad liability shield for major corporations.

Question: Do you agree with your predecessors, Chair Powell? Should Congress, "take bold action as soon as possible?"

Mr. POWELL. Thank you, Madam Chairwoman.

I would agree that Congress has already provided significant fiscal support, and that support is now having a positive effect on the economy. We see it in consumer spending, in income data; we see it in the payrolls. All of that is helping.

And I would just note that there is something like 25 million people who have been dislodged from their job, either in full or in part, due to the pandemic. And I would think that it would be a concern if Congress were to pull back from the support that it is providing too quickly.

I wouldn't presume to prescribe exactly what you should or should not do, but I would say that it would be wise to look at ways to continue to support both people who are out of work and also smaller businesses that may not have vast resources for a continued period of time—not forever, but for a period of time so that we can get through this critical phase.

The economy is just now beginning to recover. It is a critical phase, and I think that support would be well-placed at this time.

Chairwoman WATERS. Thank you very much.

On May 15th, more than a month ago now, the House passed the HEROES Act, which would, among other things, provide: $175 billion in rental and homeowner assistance; nearly $1 trillion to support State, Territory, and local governments; and another round of direct stimulus payments for individuals and families.

I would note that many States are reporting an uptick in confirmed cases, of new highs in hospitalizations, with some officials slowing their efforts to reopen.

Who will suffer if the Senate does not properly adopt these measures to support State and local governments, renters, homeowners, and the broader economy?

Mr. POWELL. As I mentioned, Madam Chairwoman, I do think it would be appropriate to think about continuing support for people who are newly out of work and for smaller businesses who are struggling to get through what will be a temporary period as the economy moves back up toward higher levels of activity.

Chairwoman WATERS. Thank you very much.

Before moving on for the next question, I would like to call on Ranking Member McHenry to share with us some information that is very important to this committee.

Mr. MCHENRY. Madam Chairwoman, please, continue with your questions. I will take that out of my time, but—well, actually, while we are here, since the technology is tough, a point of personal privilege.

I would seek to inform committee members about the tragic passing of our colleague and friend, Andy Barr's, wife Carol, last evening. When Andy arrived home, he found that his wife had passed.

They have two young children. She was 39-years-old. This is quite a surprise and a shock for all of us, but I wanted to ensure that committee members know this information. And please keep Andy and his two girls, his two young girls, in your prayers.

Thank you so much.

And thank you, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you so very much.

And now, Mr. McHenry, I will recognize you for 5 minutes for questions.

Mr. MCHENRY. Thank you, Madam Chairwoman.

And, look, Chairman Powell, Chairwoman Waters, her questions about fiscal policy are certainly, I think, appropriate. We always want the Fed Chair to endorse our pieces of legislation. That is commensurate with every previous Fed Chair and certainly with you as well.

However, monetary and fiscal policy are two very different things. And so, I would urge you and the leadership of the Fed to stick to monetary policy.

Now, your words of encouragement, that we have our responsibilities on the fiscal side of the house, I think are well-noted. And what you are telling us about the employment marketplace on a going-forward basis, I think is informative for our policymaking. And so thank you for your statements there, that additional congressional action is required.

Now, along those lines, we have the Main Street Lending Facility that is to be stood up soon. Walk me through what the intention here is, because this is not something that, over the last 100 years, the Fed has engaged in—the intention here. What is the missing piece that perhaps Congress should think about filling in?

Mr. POWELL. Mr. McHenry, are you asking specifically about the Main Street or—

Mr. MCHENRY. Yes. So if you would say the intention of the Main Street Lending Facility.

Mr. POWELL. Okay, great.

For small companies, there was the Paycheck Protection Program (PPP). And for companies that have access to the bond market and are investment-grade rated, we have corporate credit facilities. And then there is a large group of very important companies, very diverse, different sectors, different needs, just very different, and for them we have the Main Street facility.

And our intention is that, to the extent that there are creditworthy companies in that space who are not able to get credit from the banking system because of the pandemic, we want to be there to provide that credit. So, that is what we have been working on.

It is significantly different from any other undertaking we have been working on here, particularly because that space is—by definition, it is a space where commercial banks really are the key form of liquidity and of lending. And the bank credit agreements are always negotiated, so there isn't a really high level of standardization. Each one is a little bit different.

We have to find a way to get to those borrowers, get through their credit agreements, and get them funding. And we are working through the banking system to do that.

We have now registered lenders who are—so the facility is effectively open now. The lenders are registering, and they can now begin to make loans. We are encouraging them to do so. And those loans will soon be transferred—95 percent interest in them will be transferred to the facility.

So, we are there. And, as I think we have shown, as we go with all of these facilities, we are learning. No one has ever done this, exactly. And so, we have been constantly taking feedback from lenders and borrowers, and we will keep doing that—and that is true for all of our facilities—until we feel we have the facility that can do the best job.

Mr. MCHENRY. Okay. That is an unconventional set of monetary policy that you are utilizing, given the unconventional nature of this health, and therefore economic, crisis that we are facing.

We also see other banks—Japan, Europe—trying to control inflation targets using unconventional means, such as yield curve control and negative rates. Do we have empirical evidence to support deploying these tools in the United States, as you see it?

Mr. POWELL. There is a split. I would say the evidence is mixed on negative rates. There are those who believe negative rates are quite effective, and there are those who see the results as somewhat ambiguous.

I think here in the United States, we have looked at it carefully. We looked at it during the long expansion that ended in February, and chose not to deploy them in the United States.

Lately, the Federal Open Market Committee (FOMC) has looked carefully at negative rates and continues to see, pretty broadly across the Committee, that negative rates are not something that we think are appropriate for the U.S. economy, at least at this time, and it is not something that we see ourselves resorting to. Instead, we look at ourselves using asset purchases and forward guidance.

In terms of yield curve control, as you pointed out, it is currently being used by a couple of central banks around the world. And that is just, rather than buying assets, what you are doing is you are saying, we won't let the Treasury curve at a certain level move above something, and if it starts to move above that level, the rate moves above it, then we will buy Treasuries to drive the rate level back down.

The United States actually did that—

Chairwoman WATERS. Time—

Mr. POWELL. —in the late 1940s and early 1950s. I will just finish; sorry. But we are really just educating ourselves on it at this point. It is not something we have at all decided to do.

Mr. MCHENRY. Thank you for your testimony.

And, Chair Powell, I also appreciate the fact that you said, when the crisis passes, we will put them away, these new tools. I think that is a very sober assessment. We need to have a return to normalcy once this crisis passes.

Thank you for your leadership.

And I yield back. Thank you, Chairwoman Waters.

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

Mr. CLEAVER. Thank you, Madam Chairwoman.

And, Chairman Powell, again, thank you for being here.

I started out, in my opening comments, talking about the situation that we find ourselves in, in this country. And I believe that this is a moment unlike any other that I have seen, in terms of the country's willingness to finally address these long-lasting issues of race and putting them aside.

I spoke to a group of 5,000 demonstrators, and I was almost brought to tears when I stood up to speak, because the crowd was probably 65 percent white, the rest maybe Brown and African-American people.

I think this is a different situation. And I believe that the Federal Reserve has a place in this particular moment. I think that you could play a role.

And one of the things I am thinking about is what the Justice Department used to do, and probably still should do, what they consider patterns and practices, where if there is a problem in a particular city, some police department or a fire department or maybe just that city, and they go in and they do a study and enter into a consent decree to try to enable change. And that happened in Ferguson, Missouri, and Ferguson has changed dramatically.

But what I am wondering is, how you would feel about patterns and practices with some of our financial agencies, where there is an obvious lack of inclusion and maybe even a history of problems? Do you think that would work in the financial services world?

Mr. POWELL. As you know, we do supervise some banks for fair lending practices, and where we see that kind of pattern and practice, we engage in strong enforcement measures. So, there is some of that going on already.

Mr. CLEAVER. Are there other steps, though, that the Federal Reserve can take to confront this moment? Do you believe that the Board can take on some of the issues of economic injustice? And I may be using terminology that is not universal, but increasing the minimum wage and expanding the earned income tax credit, things I mentioned earlier, to try to begin to iron out, if you will, some of the wrinkles that have been around way too long, if not even—I don't even feel great about even discussing this issue in 2020.

I see a role, but I am just wondering if you think the Fed can play a role?

Mr. POWELL. I do think we have a role, and I believe we will do our best to play that role. I wouldn't say it is the lead role. But I would say that we are definitely recommitting ourselves to enforcement of fair lending laws, as I mentioned.

I would also say, just as an institution, we are going to want to be—we have tried to make it a very high priority of diversity and inclusion. We want to set an example for that, both internally—to some extent, my colleagues and I have spoken out publicly on these issues, which I think is appropriate in this unusual moment.

And then the last thing and probably the most important thing we can do is try to get back as quickly as possible to the labor market we had for the last couple of years. There is nothing like a tight labor market for the lives in low- and moderate-income communities. We saw things we hadn't seen in 50 years, and we want to get back there.

Everything we are doing with our monetary policy tools is ultimately designed to get us back to a tight labor market as quickly as we can and then stay there. That is really the overarching goal of what we are doing.

Mr. CLEAVER. Yes. I appreciate your comments, and my questions were not meant to be accusatory. In fact, I think that the Federal Reserve—I mentioned earlier the comments of Mr. Kaplan. But later on this week, I will be sitting down with Esther George to discuss some of these same issues.

Thank you, Chairman Powell.

And thank you, Chairwoman Waters.

Chairwoman WATERS. Thank you very much.

Mrs. Wagner, you are recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman.

And I thank you, Chairman Powell, for coming before this committee today. And I wanted to commend you—as so many of my colleagues have—and the Federal Reserve for moving so very swiftly and decisively these past few months on keeping America's economy stable during this pandemic.

Just this week, the Federal Reserve announced it would begin buying up to $250 billion in individual corporate bonds through the Secondary Market Corporate Credit Facility, with the ability to also, I believe, tap into $25 billion in funding from the Treasury Department that was provided by the CARES Act.

I understand the need for the Federal Reserve to have this facility at the ready, but I would like to know why you decided to launch the facility now? What was the reasoning for launching this week?

Mr. POWELL. Actually, this was something we have been saying we would do since we first announced the facility. It did happen to be the fact that we ultimately got around to doing it on Monday.

And the overall goal of all of that is to support market functioning. This is the Corporate Credit Facility, and this is the secondary market part of it. So, we want to support market functioning, because when markets are working, companies can borrow, people can borrow, companies aren't feeling tons of financial stress and they are less likely to take cost-cutting measures, and things like that.

I would say a couple of things. First, buying cash bonds is going to form the primary mode of support over time by which we support market function. Over time, we will gradually move away from ETFs, not suddenly at all, and we will move more to buying bonds. It is a better tool, ultimately, for supporting liquidity and market function.

At the current moment, markets are functioning pretty well, so our purchases will be at the bottom end of the range that we have written down. And as those markets continue to normalize, our purchases would decline.

Mrs. WAGNER. Chair Powell, are you planning to hold all of these bonds to maturity?

Mr. POWELL. Ultimately, we are generally a hold-to-maturity entity.

Mrs. WAGNER. Okay.

Mr. POWELL. It may be that we sell some back into the secondary market down the road, but ultimately, we are a buy-and-hold buyer.

Mrs. WAGNER. Chairman Powell, as you know, on April 22nd, in response to a letter from Senator Crapo, Federal Reserve Vice Chair for Supervision Randal Quarles requested that Congress consider modifying Section 171 of the Dodd-Frank Act, otherwise known to all of us as the Collins Amendment.

Do you agree with Vice Chair Quarles that Congress should revisit the Collins Amendment to ensure that banks are able to adequately respond to increased credit demands?

Mr. POWELL. Yes. What we are looking for in a lot of these things we are doing is temporary relief during the pandemic so that the banks can use their balance sheet to support their household and business customers. It is no more complicated than that.

As they have taken in more deposits and as they have engaged in forbearance on things like credit card balances and things like that, their balance sheets grow. So, they have been supporting their customers and borrowers, and this is simply a matter of allowing them to do that. It would be a temporary measure—

Mrs. WAGNER. So you are in favor of at least a temporary measure to modify Section 171, the Collins Amendment, to allow them to handle those increased credit demands?

Mr. POWELL. Yes. And we will be happy to work with you on the details of that.

Mrs. WAGNER. That would be terrific. I thank you so much.

The Federal Reserve has noted that non-bank financial institutions are currently not considered eligible lenders for any Main Street loan facility. And in the FAQ guidance, it states that you may consider expanding the list of eligible lenders in the future.

Chairman Powell, what is the reasoning for the Federal Reserve excluding non-bank and non-insured depository institutions from being eligible lenders under the Main Street Lending Program?

Is it not possible to create a lender agreement similar to the one that was issued by the Department of the Treasury for non-bank and non-insured depository institutions, like we did for the Paycheck Protection Program?

Mr. POWELL. It is possible. We have been engaged in a sprint here to get these programs set up, and so that is what we have been doing. I would liken it a little bit to Dunkirk: get in the boats and go; bring the people back. That is really what we have been doing.

So, now that we have done that, we can go back and we can look at various provisions, including the one you are talking about.

Mrs. WAGNER. Well, thank you. My time has expired, but I hope you do take a careful look at that and that we are also able to modify the Collins Amendment.

I thank you, Madam Chairwoman, and I yield back.

Chairwoman WATERS. Thank you.

Mr. Perlmutter, you are recognized for 5 minutes.

Mr. PERLMUTTER. Thank you, Madam Chairwoman.

And, Chairman Powell, thank you for the hard work that you and your staff at the Fed have put in, under very difficult circumstances.

Taking a look at your monetary report, if you look at the first four graphs of the report, the last few years you have been here, or Chair Yellen, they have been sort of consistent, steady growth since the Obama Administration, into the Trump Administration, and now I know the definition of, “falling off a cliff.” Those graphs are very telling in the loss of jobs that we have seen.

My first question to you, sir, is, in the HEROES Act, there is a substantial appropriation for State, local, and school districts, who have seen their tax revenues fall tremendously. In Colorado, just the State Government alone is looking at a $3 billion drop in revenue from last year.

I know you are not particularly interested in talking about fiscal measures, but if, in fact, we weren’t to assist State, local, and school districts over the course of the next year or two, and thousands and thousands of jobs are lost, how is that going to affect the recovery that you hope for?

Mr. POWELL. I will agree that I wouldn't offer specific advice on fiscal policy. I will say, though, from an economic standpoint, State and local governments employ something like 13 million people. States have to balance their budgets, and when revenues go down and expenses go up, what do they do? They cut costs. And we have seen State and local governments already lay off 1.5 million people.

State and local governments provide essential services, as we all know. They are a very large employer, and I would say it is certainly worth considering all of that. It will hold back the economic recovery if they continue to lay people off and if they continue to cut essential services. And, in fact, that is kind of what happened after the global financial crisis.

Mr. PERLMUTTER. I thank you for that. I guess I am going to summarize your answer: Laying off a lot of people will not help the recovery.

And I saw today even a substantial company like AT&T announced it is laying off thousands of people as part of a restructuring or something. I didn't read the entire article.

But in your report, on the second page, it says, "The strains on household and business balance sheets from the economic and financial shocks since March will likely create persistent fragilities."

What did you mean, or whomever wrote the report mean by, "persistent fragilities?"

Mr. POWELL. This is what we mean by that: Something like 25 million people have been displaced in the workforce, overall, either fully or partially. And those people are—right now, they are getting enhanced unemployment insurance perhaps; many of them may have gotten support checks as part of the CARES Act. But, over time, they don't have a secure income flow. And to the extent they lose those benefits that they are getting, they are going to come under financial pressure right away. Most low- and moderate-income households don't have substantial financial assets to fall back on.

And it is the same thing with smaller businesses. They don't tend to have a substantial financial cushion to fall back on. And that is what our surveys show both for households and businesses.

So, they will be under strain. And, of course, the prospect of facing that kind of strain is already strenuous and causes people to pull in their spending. And those are the kinds of things that become self-reinforcing for the economy.

Mr. PERLMUTTER. You have put together 11 different facilities, from corporate bond purchases and municipal and all of those kinds of things. Is there anything that you would like to do, from a monetary policy position of the Fed, that the Treasury or the Administration has prevented you from doing?

Mr. POWELL. The answer is no. We have very specific powers, which are lending powers. In addition to our regular monetary policy powers, we have lending powers that we have used to a completely unprecedented extent here. And I think we have been able to broadly do the things that we felt were most in need of doing.

And, of course, the powers that are going to matter so much going forward and have already mattered are really the tax and spending powers.

Mr. PERLMUTTER. I thank you for your testimony and for your work, sir.

And I yield back to the Chair.

Chairwoman WATERS. Thank you.

Mr. Rose, you are recognized for 5 minutes.

Mr. ROSE. Thank you, Chairwoman Waters, and Ranking Member McHenry.

And thank you, Chairman Powell, for being with us today.

As we move through the pandemic recovery process, I am really encouraged by the early economic results. Obviously, we still have much further to go, but again, I am encouraged. And I credit the Administration, led by President Trump, and the institutions like the Fed and your leadership for helping us to so quickly work to revive the economy.

However, I received news yesterday that makes me a little less encouraged and more concerned. I received a call from a bank here in Tennessee's Sixth Congressional District yesterday, alerting me to the fact that they have been notified at the beginning of this week by the Fed that they would only be receiving a small portion of their weekly order of coinage.

According to this banker, his institution will likely run out of coins by Friday of this week, or this weekend. And after some preliminary research, I found that many other banks across my district are having the same operational challenge.

My fear is that customers who use these banks will react very poorly. And I know that we all don't want to wake up to headlines in the near future such as, "Banks Out of Money."

Chairman Powell, I wonder, are you aware of this issue, and what is being done to mitigate it?

Mr. POWELL. Thank you. Yes, I am aware of it. I am very much aware of it.

And let me say, what has happened is that, with the partial closure of the economy, the flow of coins through the economy has gotten all—it has kind of stopped. The places where you go to give your coins and get credit or cash, folding money, those have not been working. Stores have been closed. So, the whole system of flow has kind of come to a stop.

We are well aware of this. We are working with the Mint and we are working with the Reserve Banks. And as the economy reopens, we are seeing coins begin to move around again.

So, if your bank hasn't already done so, they should certainly be in touch with their Reserve Bank to report this situation. And we have been working on this problem, and we still very much appreciate your bringing it to our attention. We feel like we are making progress, but it has been something that we have been working on.

Mr. ROSE. Chairwoman Waters, I would like to submit for the record this release from the Fed, "Strategic Allocation of Coin Inventories."

Chairwoman WATERS. Without objection, it is so ordered.

Mr. ROSE. Chairman Powell, I wonder—and, to some degree, you have already spoken to this, but is this indicative of a larger issue? And is it temporary? Or does this point to a larger structural issue on this particular matter?

Mr. POWELL. No, we believe it is just temporary. It is due to the fact of the economy being, in significant part, closed, as I mentioned. And the flow of coins through the economy, something that we don't—the Reserve Banks and the banks think about it all the time, but now we are beginning to see those shortages.

We have been aware of it. We are working with the Mint to increase supply, and we are working with the Reserve Banks to get that supply where it needs to be. So, we think it is a temporary situation.

Mr. ROSE. For the banks that I am talking with, like the one that I mentioned in my district, what would you suggest that they do to deal with this issue?

And I am thinking, particularly, not only about the banks but their customers, businesses, and the consumer, who is going to be faced—all of these institutions and individuals are going to be faced with the prospect of having to round up or round down. And in a time when pennies are the difference between profitability and loss, it seems like it might be a bigger concern than the announcement from the Fed would indicate that it is.

Mr. POWELL. I would encourage your banks to get in touch with their Reserve Bank. I don't know whether you are Atlanta or St. Louis, but whichever—I think maybe both in your district. I don't know. But in any case, they are responsible for this. And we are working hard on it.

Mr. ROSE. Thank you, Mr. Chairman. I would just encourage you, maybe, to put out some more robust guidance for banks so that they don't feel—the banks that I have been speaking with all have the opinion that they don't know what to tell their customers. So, I would just encourage you to maybe put out some more robust guidance to them.

Mr. POWELL. I want to thank you for bringing that up. I will certainly do that.

Mr. ROSE. I am a cosponsor, along with several other members of our committee, of H.R. 2650, the Payment Choice Act of 2019, a bipartisan-supported bill which would require merchants to accept cash. This legislation, I believe, is critical, because parts of the country, in both rural and urban areas, are more dependent on the cash economy.

I see that I have run out of time, but I would encourage my colleagues to take a look at, and support this bill.

Thank you, Chairman Powell.

Thank you, Chairwoman Waters, and I yield back.

Chairwoman WATERS. Thank you.

Mr. Himes, you are recognized for 5 minutes.

Mr. HIMES. Thank you, Madam Chairwoman.

And thank you, Chairman Powell, for being with us today. And thank you for your extraordinary efforts and the efforts of the Federal Reserve to contribute to the emergency rescue that we have all witnessed.

I have at least two concerns, though, that I want to explore with you. And the first pertains to, who was the beneficiary of the billions of dollars, trillions of dollars, that have been mobilized in the rescue?

Chairman Powell, as you know, a company can do three things with its money: first, it can buy stuff, cost of goods sold, rent, insurance, space, raw materials; second, it can pay wages, keep people employed; and third, it can service its capital structure, it can pay interest on bonds or to banks, it can issue dividends.

Chairman Powell, as you know, in the Paycheck Protection Program, we set up an explicit incentive that that money be used for wages.

My first question, Chairman Powell, is, let's start with the Primary Market Corporate Credit Facility, where you are actually lending directly, through the issuance of securities, to corporations. Is there any incentive or requirement that recipients of that aid preference the payment of wages over the payment of interest or the purchase of stuff?

Mr. POWELL. I will put it this way: There is nothing in the CARES Act—the CARES Act specifically exempts the transactions that take place in the Primary Market Corporate Credit Facility from those requirements. They do apply to direct loans—actually, no, different requirements apply to direct loans. You are really just talking about the requirements of the Paycheck Protection Act.

Mr. HIMES. No, I mentioned that the Paycheck Protection Program, obviously, explicitly created an incentive for the use of that money to pay wages and, therefore, keep up employment. It doesn't sound like the Fed lending, the Primary Market Corporate Credit Facility, has those protections.

Let me ask you to reflect—and I can't run through all 11 programs, but the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, the Money Market Mutual Fund Credit Facility—all of these credit facilities, are there any terms in the availability of that liquidity that preferences the payment of wages over the servicing of debt by corporations?

Mr. POWELL. No, there aren't. And we are implementing the law that you passed. The CARES Act specifically does not apply those things, and we don't think it is up to us to rewrite the law to achieve goals we might have.

Mr. HIMES. No, I—

Mr. POWELL. This was negotiated carefully as part of the—

Mr. HIMES. I do understand that. But having lived through the political fallout of the Troubled Asset Relief Program (TARP), when America saw the banks and the auto companies bailed out and the preservation of an awful lot of the shareholders and the bondholders associated, I am very sensitive to programs that ultimately use public money to allow corporations to avoid bankruptcy and service their debt and ultimately pay dividends.

I just commend that to my colleagues as something of real concern. Because when the story is told here, I think a lot of private—and I am not just talking about corporations; I am talking about the car-wash guy down the street who qualified for a loan, and a lot of that money will have been used to keep banks solvent, to preserve loans, and to service bonds.

Chair Powell, I want to explore another deep concern I have about these. As much as I support your efforts and the Federal Reserve's efforts to bail us out here, in my one decade, plus or minus, of doing this, this is now the second time in which it has been necessary for the Government, the Federal Reserve, and fiscal policy to step in, in a truly massive way, to bail out the economy. Ten years ago, it was the banks, it was the auto industry, and now we are seeing the airlines, and the list goes on and on and on.

And the worry I have, which relates to my first worry, is that actors in the private sector—and I was once in the private sector—are going to decide that they can take on a lot more risk, repurchase shares, dividend capital, because, when the going gets tough and catastrophe hits, we will be there to bail them out.

I want to use my last, I guess, 40 seconds or so to ask you to reflect on whether you think that the activities of the last 6 months and of the last 10 years have created a significant moral hazard in our market system?

Mr. POWELL. Let me first say that, of course, the intended beneficiaries of all of our programs are workers, who are able to keep their jobs because companies can finance themselves. So, that is really the point of it.

But, you raise a good question. And I would just—certainly, it is a concern, and that is why, generally, we don't look for ways to insert ourselves into markets when they are functioning. This is a world historical event unlike any other. The situation that happened is one where we really felt like we had to come in with all of our tools as aggressively as possible.

I don't regret those decisions. That is why I always say that we will put the tools away, and I take it very seriously. Ultimately, in a free market, in an economy like ours, you should get the benefits of your success and the costs of your failures too. And that is the way it should work.

Chairwoman WATERS. The gentleman's—

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

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

[No response.]

Chairwoman WATERS. Is Mr. Steil present?

[No response.]

Chairwoman WATERS. If not, Mr. Taylor, you are recognized for 5 minutes.

[No response.]

Chairwoman WATERS. If not, Mr. Lucas, you are recognized for 5 minutes.

Mr. LUCAS. Thank you. Chairman Powell, for 5 years, I have worked very diligently in an effort to unlock at least $45 billion in capital to be available to the economy. And without me saying any more, you understand where I am headed: the inter-affiliate margin rule.

I hear rumors that we might be getting closer to such a rule being announced. Are there any insights you could provide on that?

Mr. POWELL. I am happy to be able to confirm those rumors. We are, indeed, getting close.

And I can't give you—I am under strict orders, which I will obey, not to give you an actual date. Nonetheless, it is very clear that it has been a long road, I will agree with you, but we will get there very soon, I am told.

Mr. LUCAS. I have spent enough time on farm bills, I have enough patience. I will wait you out. But knowing we are making progress is really important.

That said, Chairman Powell, there have been a lot of comments made about the nature of the programs that have been put together and the way the Fed has addressed this unprecedented set of challenges that we have had in the first part of this year.

That said, in your experience as the Fed Chairman, in your academic training, could you ever have imagined a pandemic of this magnitude, with this kind of economic impact not just on the United States but around the world?

Mr. POWELL. No, I certainly didn't. Like everybody else, I was aware that there were things called, "pandemics," and that they could have consequences. But essentially, all over the world, you had governments and people, sort of, deliberately stopping a lot of economic activity. And we will see declines in economic activity that just are beyond any in living memory because of the disease. It is akin to a natural disaster.

So, I really do think this is a once-in-a-lifetime—I certainly hope it is a once-in-a-lifetime event, and I hope market participants don't grow to think of it as something where we will react to any old thing.

Mr. LUCAS. Absolutely.

And you and I have discussed many times before, coming from my part of Oklahoma, the Great Depression in the 1930s, the Dust Bowl, the dramatic effect of Fed policy in 1929 and 1930, and Congress' policies, the Administration-at-that-time's policies that made things so dramatically worse. Three-quarters of the population in my home county went away and has never come back.

Is it fair to say that doing what we in Congress, and what the Fed has done, what Treasury has done, unprecedented as it may be, still is dramatically cheaper than a lack of action?

Fair assessment, Mr. Chairman? Putting the economic train back on the tracks costs a lot more than keeping it on the tracks.

Mr. POWELL. I feel very strongly that way. I really do. And we are going to come out of this. And the more we do now, the stronger our economy will be, the better we are able to keep people working, get tax revenue back up, and have a strong economy to pull us forward and service the debt.

We are going to come out of this with more debt, so our banks are going to have taken losses, households will have run down their capital—everybody will. Nonetheless, the economy will be stronger, and that will help everyone.

Mr. LUCAS. And, ultimately, Fed policy will reflect that new reality, as will fiscal policy in the United States Congress have to reflect that new reality. The piper will have to be paid, ultimately. But having that bill to pay is how we get to the point of being able to pay.

Mr. POWELL. That is right. And that is why I think this is not a time to worry too much about the longer-run fiscal situation. We will have to return to that, but I would say this isn't the time to prioritize that.

Mr. LUCAS. One last thought, representing a substantial part of the rural area of Oklahoma, making sure that Fed programs work as well in the countryside as they do in the money centers, in the big urban areas, is critically important, from my perspective.

Making sure those facilities are available to everybody helps ensure a robust recovery. We don't want to leave any particular regions or parts of society behind as we come out of this. And I believe you are working aggressively in that area.

Mr. POWELL. We have tried to. And, in fact, I would point to the things we have done with the municipal facility, where we made sure that States that have more rural populations and don't have a lot of big cities nonetheless have the benefits of that facility. And we will continue to adjust all of our facilities to try to serve that goal.

Mr. LUCAS. With that, Madam Chairwoman, I yield back the balance of my time.

Chairwoman WATERS. Thank you.

Mr. Heck, you are recognized for 5 minutes.

Mr. HECK. Thank you, Madam Chairwoman.

I would like to start by thanking you for setting up the phone call the other day with Chair Powell regarding the issue of commercial real estate and the future of that market and its importance. I don't have time to get into that today, and I wish I did, because we still have a problem, and I am ringing the alarm bell again.

Since I was privileged to join this committee nearly 8 years ago, I have asked at every single Humphrey-Hawkins hearing, when does America get a raise?

The truth of the matter is that, for far too long—indeed, I would suggest 40 years—we have been content, and some people have supported, frankly, running the economy short of its potential.

I remember when I got here that there were people both on and off the FOMC who thought if we ever dipped below 6 percent unemployment, it would trigger inflation. And then it was, no, not 6, but 5½, 5, 4½, or 4 percent. And what we know is that we ran this economy between 3½ and 4 percent unemployment for 2½ years, and we maintained—in fact, we were short of the price stability target.

The fact of the matter is that, during your tenure, Mr. Chair—and I tip my hat to you, sir—you have opened people's eyes about the importance of a tight labor market. You did this yesterday in the Senate, you have done it again here today, and you have done it in public utterances. And we cannot thank you enough. Well done, sir.

You have pointed out, rightfully, that tight labor markets help with wage growth, but especially with employment levels and wage growth for people at the lower end of the income spectrum. Again, I want to thank you.

But the fact remains, Mr. Chairman, that the mission of the Fed is no different today than it was over 2 generations, when it never allowed the economy to operate at a tight labor status. The law hasn't been changed, and the rules and regulations haven't been changed. We are going to get past this at some point, and the sooner, the better.

But my question for you is, short of you having a lifetime appointment—which, by the way, I would support, sir—how can we be assured that what you have so appropriately pursued will continue?

And I want to preempt you a little bit, if I may, Mr. Chairman, by saying that every Federal entity in the history of civilization has resisted opening up the underlying authorizing Act for that entity, and the Fed has been no different in my conversations with them. And, to some degree, I get that. It is as though you are channeling Will Rogers, who said once, "This country has come to feel the same when Congress is in session as when the baby gets hold of a hammer." You are worried about what might happen if we opened up that Act.

But there is no assurance that what you have rightfully pointed out, what you have rightfully pursued, will continue to be pursued. How do we assure ourselves that what you have figured out and what you have led the Fed to do will continue into the future if we don't change the law, sir?

Mr. POWELL. I actually think the law, as written, does accommodate what we have really learned, what a lot of us have learned, and that is that—so, for many years, when we were growing up, inflation really was a problem. People weren't imagining it. They really had to watch carefully or inflation would move up. And it would hurt people on fixed incomes more than anybody else.

And what we have learned is that these disinflationary forces we have been seeing around the world for a quarter-century are here to stay for awhile, and that we live in an era of continued downward pressure on inflation, and that gives us the ability to have very low levels of unemployment. I don't think anybody is going to unlearn that.

I also don't think, if you change the law, that the situation will change. The economy is ever-evolving. So, I don't know that changing the law is what we need to do. I do think we get that, and I think economists broadly do get that now.

And that is why we are so eager to get back to where we were and below. We weren't seeing inflationary pressures at 3½ percent. What we saw was the gains in wages going to people at the lower end of the wage spectrum for the first time in a very long time.

I can't tell you how much we want to get back there and how fast we want to get there. So, we will be using our tools that way, and that is really how I look at it.

Mr. HECK. Thank you again, sir, for your leadership.

Mr. POWELL. Thank you.

Chairwoman WATERS. Thank you very much.

Mr. Steil, you are recognized for 5 minutes.

[No response.]

Chairwoman WATERS. Is Mr. Steil available? If not—

Mr. MCHENRY. We can't hear you, Bryan.

Chairwoman WATERS. Mr. Steil? You are recognized for 5 minutes.

Mr. POWELL. He is talking, but we can't hear him.

Mrs. WAGNER. Yes. Can staff look into whatever technical difficulty there is? Because he is unmuted, it appears.

Chairwoman WATERS. We have a little technical difficulty here. We are checking with our staff.

Well, Mr. Steil, we cannot hear you, so we are going to move on, while they are trying to correct that, to Mr. Taylor.

Is Mr. Taylor ready? You have 5 minutes.

[No response.]

Chairwoman WATERS. If not, we will move on to Mr. Luetkemeyer.

You are recognized for 5 minutes.

And we will get back to you both, Mr. Steil and Mr. Taylor. Thank you.

Mr. LUETKEMEYER. Thank you, Madam Chairwoman.

And thank you, Chairman Powell, for being here today.

Thank you for your quick action over the last several months to set up these different facilities to be able to underpin our markets and to minimize the damage to our economy. It is amazing to see what you have done, the impact it has had, and we certainly appreciate all of your efforts. Thank you very much.

With regards to my questions, in your most recent monetary policy report, you have stated how, "lending standards for both households and businesses have become less accommodative, and borrowing conditions are tight for low-rated households and businesses."

What I think you are seeing is that financial institutions are beginning to look 3 or 4 months down the road and preparing for regulators and their exams to come into their institution after this period of forbearance and begin classifying loans and force banks to reserve against those assets.

I can tell you, from talking to bankers across the country, that if the regulators do not give forbearance to these financial institutions, and they start classifying whole lines of business, there is going to be a real problem with a credit shortage in rural areas and low- to moderate-income (LMI) communities.

Do you believe the regulators should be providing this forbearance, and what do you think it should look like?

Mr. POWELL. We are encouraging our supervisors to encourage banks to work with their borrowers and not to jump to criticize loans and to take onboard the situation that we are in. We are communicating with them a lot in that respect. And I hope that is getting through to the banks and that it is, in fact, then getting through to the borrowers.

We don't want to force anything to automatically happen. I guess it is natural that, in a situation like this, where businesses are partially closed or people aren't spending, you will see concerns about credit. But this is clearly a temporary period, and we are just going to continue to urge banks to work with their customers—household and business customers.

Mr. LUETKEMEYER. I appreciate that comment, sir, but in your earlier comments, you talked about some businesses struggling and the need for forbearance. And I appreciate that, but I can tell you, having gone through this PPP program, that the banks, with their accountants and attorneys close at hand, are very reluctant to do anything unless there is some physical guidance there, some words on paper that they can point to.

And so, I have a bill to try and put something in place that they can point to, to give them the kind of forbearance and protection they need to be able to then give forbearance to their customers.

My greatest fear is that we wind up with a situation like 2008 and 2009, where the regulators go in and get rid of entire lines of business, close down entire industries, and hurt local communities and wind up losing banks in the process. We can't do that in this situation. It is too broad-based. If we do this, we are going to never get out of this economic downturn.

And I am very hopeful that you will work with us to try and come up with a solution to make sure there is something that the banks can point to, to provide the kind of forbearance they need, the certainty they need, to be able to manage their customer base.

Mr. POWELL. We are trying to give them that. And we are also doing additional training of supervisors. And I would just point out, too, that banks came into this quite well-capitalized, and so that helps as well.

There is going to be some more guidance, though, interagency guidance, on post-pandemic exams and how we conduct those.

So, we are working away at it. And we really want to hear from banks and from supervisors and anybody who—to the extent it looks like this is not getting through. Because this is effectively a natural disaster, and we want to treat it like that.

Mr. LUETKEMEYER. Right.

Just a quick comment here. I know that Treasury Secretary Mnuchin made a comment the other day that he is seeing an increase in deposits. I know, anecdotally, locally here, the local banks in the area here, it looks like there is a 10-, 20-percent increase in deposits. Savings have increased.

Have you seen that same thing happening? What do you ascertain from that as to why and what kind of effect down the road it will have on the citizens of our country, having that sort of money at hand, ready to be spent?

Mr. POWELL. The answer is, yes, we are seeing a lot of that. And you saw it in the income data, where people are holding just very, very high levels of savings right now. And part of that is that they are getting the PPP loans, and some of those turn up in personal bank accounts. It is also the enhanced unemployment insurance, and it is the checks. And they have been holding back.

But I think, getting to your point, there is evidence that there is a lot of spending power. And we are starting to see that in the spending data that was released yesterday. So, I think it bodes well for the next few months.

Mr. LUETKEMEYER. Thank you.

And I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you.

Mr. Vargas, you are recognized for 5 minutes.

[No response.]

Chairwoman WATERS. I am going to go back to Mr. Steil. Has the problem been corrected with Mr. Steil?

Mr. STEIL. I hope so, Chairwoman Waters. Are you able to hear me?

Chairwoman WATERS. Yes, I can hear you now.

Mr. STEIL. Thank you very much, Chairwoman Waters.

And thank you very much for being with us here today, Chairman Powell. I look forward to being able to do these meetings in person, as we work through some of the technical glitches here.

During and immediately following the financial crisis of 2009, the Federal Reserve's balance sheet grew by north of $2 trillion, reaching about $4.5 trillion.

In your comments following up to Congresswoman Ann Wagner's question, you noted that the Federal Reserve has been mostly holding to maturity.

I am wondering if you could comment on what economic indicators that you are looking at, at the Federal Reserve, between 2009 into 2019, as the Federal Reserve dropped the balance sheet by roughly half-a-trillion dollars, and whether or not those same economic indicators will be guiding you as you make determinations in the Fed as to whether or not you will be needing to hold those reserves all the way through their maturity or if there will be opportunities to reduce the Fed's balance sheet in advance of that maturity?

Mr. POWELL. We waited until the economy was well down the path of recovery before we even thought about starting to shrink the size of the balance sheet.

And the other thing that we did was, we froze the balance sheet—at the end of 2014, we froze the size of the balance sheet for a period of 3 years so that the economy was growing and, therefore, the ratio of the size of the balance sheet to the economy was declining. And I think we declined from maybe 25 percent of GDP to maybe 17, 18 percent. So, that is a passive way to allow the bank balance sheet to shrink relative to the economy.

I think, in this situation, we are thinking that we may do something like that, but it is so far down the road. I think we are at the beginning of the second phase of this process, the one where the economy begins to recover from the shutdown period, and that period will take some time. And then there will probably be a lengthy period as we get back to full employment. So, it will be a while before we start really thinking about how to shrink the balance sheet.

And I would say that, at current levels, or at current planned levels, I think we know now that the balance sheet doesn't present issues in terms of either inflation or financial stability. Those were big concerns as we grew the balance sheet during the last crisis.

Mr. STEIL. Obviously, we don't have the inflationary pressures today. I do have some concerns that we may see inflationary pressures in the future, as the Fed's balance sheet has now increased beyond $7 trillion. And, obviously, you and your colleagues at the Federal Reserve will continue to watch that.

Let me shift gears slightly. We have seen articles recently related to collateralized loan obligations (CLOs), the risk that that may impose in the banking sector. I think what is important here to note is that banking institutions came into this crisis with a much healthier balance sheet than they did in 2009.

There was recently an article that was put forward identifying potential risks in the collateralized loan obligation space and indicating that banks may have broader systemic risk.

Could you comment as to whether or not you hold that view, or whether or not you believe banks came in with a strong balance sheet and are, therefore, well-capitalized to weather these challenges?

Mr. POWELL. Sure. The CLOs are quite different from the things that were problems back in the crisis. We have a lot of transparency into what is inside the CLOs. We regularly include them in our annual stress tests. We stress them really hard to see what kind of losses they produce. And they are also not that large. I think it is less than one-half of 1 percent of the assets of the banks are in these CLOs.

It is something we have—if they contain leveraged loans, we have been all over that problem for several years and looking at it carefully. So, I think the comparison to the global financial crisis is not the right one. Nonetheless, it is an issue we will continue to monitor.

Mr. STEIL. Well, I appreciate that. And I appreciate you monitoring that as well as the increases in the Fed's balance sheet and the risk that that may pose to inflation down the road.

I appreciate you being here today, and I yield back. Thank you.

Chairwoman WATERS. Thank you.

Mr. Vargas, you are recognized for 5 minutes.

[No response.]

Chairwoman WATERS. If Mr. Vargas is not present, we will move on to Ms. Axne.

Mrs. AXNE. Good day, Chairwoman Waters.

And hello, Chairman Powell. Thank you so much for being with us again today. And thank you for all the good work that you do. We are very appreciative.

Obviously, we know these are difficult times that we are in. For the second time in a dozen years, we are in a severe recession. I believe that in May, we saw that 20 million less Americans had jobs than they did 3 months prior, so unemployment is at its highest rate since World War II. And the Fed's projections have that remaining at almost 10 percent through the end of the year.

We have also discussed, to make matters worse, that situation appears far worse for lower-income workers than it does for others who are making more.

Chairman Powell, you have somewhat alluded to it today and, I believe, yesterday. I think you said you have been concerned about the overall deficit for the long term, but that the time to address that is when the economy is strong, not when we are in an economic crisis. Is that correct?

Mr. POWELL. Yes, I do think that. Ultimately, the debt can't grow faster than the economy forever. That is sort of the definition of an unsustainable path. We have been on that for a while now, and we need to address it. We have no choice; ultimately, we have to address it. The time to do that is when unemployment is low and the economy is growing.

Mrs. AXNE. Thank you. I couldn't agree with you more.

Obviously, each recession is different, but I want to take a look back at the last one to see what lessons we learned, to see what we can look at to help deal with this one.

I had an opportunity, back in the 2009 stimulus bill timeframe, that I know we devoted about 20 percent of that total aid to fiscal support for State budgets. And that is when I was working for the State of Iowa and in charge of supervising some of that funding.

One thing that I saw was that, when that assistance started to end in 2010 because of balanced-budget requirements that—for instance, in the State of Iowa, we had to cut budgets, meaning that teachers, firefighters, public servants, et cetera, lost their jobs.

And then, I have also seen some research from the International Monetary Fund and others showing that these cuts were a drag on the economy for several years afterwards, and some of those estimates showed that the jobs lost due to these cuts actually offset the job growth in the public sector entirely.

Does that impact seem like it might be part of the reason why the recovery from the 2008 recession was so slow?

Mr. POWELL. Yes, that is a finding that economic research has come up with, I think, pretty clearly.

Mrs. AXNE. Well, I appreciate that.

It seems like we are in agreement that supporting State and local budgets is a key step to supporting the recovery process. I know we are absolutely trying to work on getting that piece through the House, and it is something that I have worked on.

Do you think that is something Congress needs to be doing more on to make sure that we recover our economy?

Mr. POWELL. As you point out, State and local governments are large employers, and they provide critical services to people. And there is a balanced-budget provision, effectively, in every State or almost every State. And so, when there are budget problems, what happens is you see layoffs and cutbacks in essential services. Both of those create not just human misery but they also weigh on the economy.

So, I do think it is an area where it is appropriate for Congress to look.

Mrs. AXNE. Thank you. Obviously, we are trying to push that through. I actually have a bill that I wrote previously that directly supports State and local governments for lost revenue to ensure that these job cuts don't happen again.

I appreciate all that you are doing to help us shore up our economy at this point, and to give us the guidance and the oversight that we need. And I am grateful for your being here today. I hope that we can move a State and local government bill forward.

Thank you so much, and I yield back.

Chairwoman WATERS. Thank you.

Mr. Huizenga, you are recognized for 5 minutes.

Mr. HUIZENGA. Thank you, Madam Chairwoman. I appreciate it.

And I, like the ranking member, just think of our mutual friend, Andy Barr, right now, and his daughters.

And I know, Chairman Powell, he would love to be here to grill you about a number of issues, as he and I had both previously chaired the Monetary Policy and Trade Subcommittee.

But I need to touch base on the Paycheck Protection—sorry, two things: Main Street Business that is not eligible for the Paycheck Protection Program.

And, as you well know, a huge part of our manufacturing economy is in automobiles, especially automobile parts. Those account for about 900,000 jobs, and 125,000 of those jobs are here in Michigan. And what we are seeing and hearing from the large automobile manufacturers is their concern for their suppliers

And those suppliers are telling me—which I have a tremendous number of here in the Second District of Michigan—that they are having some liquidity issues. Not that they haven't been properly funded previously, but it is about liquidity right now.

Last month, I joined with my Michigan colleagues in asking the Administration to create a fund that provides short-term lending assistance to medium-sized companies in the motor vehicle parts sector, using necessary capital from the Main Street Lending Program.

Now, you had said, and I had written it down—I think you had said, "We are there," in standing up the Main Street program. I am not as convinced, I guess, of that. And I would like to make sure that you can come in and maybe clarify what that means. We need to have it up now.

And what I really want to know is, will you commit to working with Treasury Secretary Mnuchin to add a dedicated program for the auto parts sector focused on medium-sized companies, to keep production for key links in the motor vehicle part manufacturing viable? Because if we lose them, that is going to be a huge part of our economy to be hit. And I am wondering if you will commit to working on that?

Mr. POWELL. The facility is open now for the lenders to register, so those companies will have banks that they work with that are their regular partners in business, and those banks should be in the process of registering with the Boston Fed to become an approved lender in the Main Street facility.

At that point, they can make Main Street loans right away. And very shortly, they will be able to put 95 percent interest in those loans.

So, we are there, effectively, if their banks are—

Mr. HUIZENGA. How about a separate facility within that program?

Mr. POWELL. We don't do facilities for individual industries. What we do is we set—the requirements that we have set up should be a very good fit for the companies you are talking about.

Essentially, we are looking at 2019 financials, and you can borrow at a multiple of your 2019 earnings before interest, taxes, depreciation and amortization (EBITDA). And that could either be four or six, depending on the kind of a loan you want and the kind of company it is. So, they would be a perfectly good fit for this facility.

And we don't do facilities that are designed for individual industries. We do facilities of broad applicability. And anybody who meets those requirements can borrow.

Mr. HUIZENGA. So, I hear "no," on no specific program dedicated to the automotive industry, correct?

Mr. POWELL. That is right.

Mr. HUIZENGA. Okay. I think that is a mistake.

However, I need to move along to another unintended consequence, I believe, as part of the Paycheck Protection Program, and a company that is not able to take part in that but is waiting for this Main Street Lending Program.

I have a company here in Michigan, in my district, and probably many of my colleagues have had their product, La Colombe. It is coffee. And they are a 26-year-old, very fast-growing company that has manufacturing facilities here; a couple of hundred constituents, but they are all based in Philadelphia.

For the last 6 years, they have been focused on growth, and that also means they have had to borrow funds, which has led to accumulation of quite a bit of debt.

The rules are currently written so that La Colombe would not qualify to participate in the Main Street Lending Program.

I believe that the way the leverage ratio requirements in the program are currently drafted, it unfairly punishes companies such as La Colombe that would otherwise be viewed as true American success stories when using different metrics.

As the rules are currently written, it is designed to prevent funds from going to the companies that need them most. And I understand that you are not wanting to deal with overleveraged companies being bailed out, but we are talking about fast-growing companies that have had to accumulate debt.

I am working with some colleagues on a bipartisan letter that would help that. We would appreciate if there would be a different ratio, one-to-one, independently appraised within the last 12 to 18 months, and the ability to access that. So, I look forward to hearing from you offline on that.

Mr. POWELL. For either of those kinds of companies, if we are missing something, then we want to understand that. And we have been willing to adapt these programs consistently. So, we will look forward to talking about it.

Mr. HUIZENGA. Wonderful. Thank you. I appreciate that.

Chairwoman WATERS. Thank you.

Mr. McAdams, you are recognized for 5 minutes.

Mr. MCADAMS. Thank you, Madam Chairwoman.

And thank you, Chair Powell, for being with us and for your leadership during this difficult economic situation due to the coronavirus.

Chair Powell, since the last time you were before this committee, the Office of the Comptroller of the Currency (OCC) moved ahead with its rewrite of the Community Reinvestment Act (CRA). In light of the renewed focus by Congress to address racism and systemic issues throughout our economy and throughout our nation, I think it is particularly important we get the CRA correct, since its purpose, its historical purpose, was to address discrimination against Black and minority individuals and communities and to have financial institutions meet the credit needs of these communities.

I think many of my colleagues share my concerns that the OCC's rule misses the mark and probably does more harm than good. And I am glad that the Fed did not sign on to the rulemaking.

In January, Fed Governor Lael Brainard gave a speech on how to strengthen the CRA. And in that speech, she said, "By sharing our work publicly, we hope to solicit public input on a broader set of options for reform and find a way toward interagency agreement on the best approach."

So, now that the OCC has finalized its rule, is there any update that you can provide for this committee on how or when the Fed may move forward on any of the public input it received on its CRA framework?

Mr. POWELL. Sure. First of all, CRA is, for us, an extremely important law, and we agree that it is a good time to update it. We would want to update it in a way that has broad support among the community of intended beneficiaries. That has always been our one, non-negotiable condition for it.

So, we are still working on it, and I do think we will move forward with it. I don't have much for you on the timing of it. But there has been a lot of great work done, and I like where we are on it, in terms of the ways we have been thinking about modernizing it.

We will ultimately move forward, and I can't say exactly when, but we are not going to let that work go to waste.

Mr. MCADAMS. Thank you. We look forward to hearing more about that.

Next question. My perception is that Congress and the Fed have done a decent job of keeping the economy on life support. We clearly aren't doing great yet, and the response has been uneven. But you have double-digit unemployment numbers and higher unemployment rates for African Americans, for instance, and some sectors are hit harder than others.

I think Congress has the option—we had the option, when this pandemic broke out, of acting quickly or acting perfectly, and I think we chose to act quickly. And I think that was the right call.

But, by my calculation, the Fed has allocated a little over $200 billion of the $454 billion that Congress allocated to the Treasury and the Fed in the CARES Act. Some of that funding was set aside for the Main Street facility that you have already discussed and other facilities. My question is, how do you intend to use the remaining funds?

I understand that it takes time to set up various facilities, but I also worry that if we don't move fast enough, then business and individuals and communities may suffer as a result.

Mr. POWELL. First, let me agree that I think the fiscal actions that you took were incredibly timely and I think will be very well-judged over time, even though, of course, nothing is perfect. It is an emergency; you do the best you can. And I think the PPP program, the UI program, the checks—I think all of it is going to wear well over time. It is certainly helping the economy now through what could have been so much worse of a situation.

In terms of the rest of the CARES Act money, it is there when and as we need it. We have a lot more ability to use our lending powers, should that be necessary, should it be appropriate, and we are certainly willing to do that.

I think we have kind of gotten to maybe the end of the beginning here, and now we are getting into the phase of the reopening of the economy. But that money is there if it is needed.

Of course, the Secretary of the Treasury actually has the legal authority to deploy that money as he sees fit. But it would be—one of the things he can do is put it in our programs. And we stand ready to do more, if more needs to be done.

Mr. MCADAMS. Do you see that essentially as being more of the same as necessary, or is there anything else you are looking at, any other gaps that keep you up at night?

Mr. POWELL. I think we have covered, now, the—we have nonprofits, now, in Main Street. That will take us some time. We have small, medium, and large companies. We have State and local governments. I think we have covered a lot of the waterfront. We are always open to additional ideas.

Mainly, it is a lot of execution now and just continuing to improve what we have done, make it do its job better.

Mr. MCADAMS. Thank you.

I yield back.

Chairwoman WATERS. Thank you.

Mr. Vargas, you are recognized for 5 minutes.

Mr. VARGAS. Thank you, Madam Chairwoman. And can you hear me?

Chairwoman WATERS. Yes, I can hear you, Mr. Vargas.

Mr. VARGAS. Okay. I just want you to know that I never abandoned you. I was here the whole time. My microphone wasn't working.

It was sad, though, to hear the news of Andy's wife and family. Andy is a friend to all of us, as you know. On our side, too, we love him. And that is really tragic. And I know that we will all keep his wife and his family, especially now, in our prayers.

And, again, thank you, Mr. McHenry, for letting us know.

Mr. Powell, I don't agree with Mr. Heck; I am not in favor of a lifetime appointment for you. I wouldn't do that to you. I wouldn't shorten your life like that. I think you are too much of a good guy. That wouldn't be fair at all.

But I do have to commend you. I think that you are one of those, what I would call, those Republicans of old—stable, dignified, intelligent, fair, charitable. And I think everyone has been looking to you for guidance, and I think that you have been just the right person at the right time. And, again, I do want to commend you.

And I also want to commend you for highlighting the disproportionate impact that this pandemic has had on communities of color—Latinos, African Americans—and especially the poor.

My district is composed of all of Imperial County, which is a border county here to Mexico, and part of San Diego County. Over 70 percent of my district is Latino. The unemployment rate in Imperial County was a striking 28 percent in April. That is basically the same rate that we had during the Great Recession there, 25 to 30 percent. And the Bureau of Labor Statistics currently states that, as of April, the unemployment rate in San Diego County also increased about 15 percent.

Taking a closer look specifically in the areas I represent, such as San Ysidro, which is right on the border; National City, the next little City up; Chula Vista, the next City up; and then the City of San Diego, the unemployment here in April was about 20 percent.

The disproportionate impact of this pandemic on our economy is clear in my district.

What policies has the Fed pursued specifically on reducing the high rates of unemployment for African Americans and Latinos during this pandemic? And what policies has the Fed put in place to help ensure that Latinos and African Americans are not suffering from this disproportionately high unemployment rate as we emerge from this recession?

Mr. POWELL. I am tempted to say that all of our policies are focused on that problem.

The way this pandemic worked is it hit companies and parts of the economy that were service-economy companies which involved getting people together in tight quarters and either feeding them or giving them drinks or flying them around or entertaining them. And those are service jobs, which happen to be overly represented—the workforce happens to consist, to a large measure, of low- and moderate-income communities and minorities.

An extraordinarily large portion of people who are laid off are from those parts of the economy. And, of course, it has, as the numbers show, fallen heavily on the Latin population as well as African Americans and women.

The tools we have are the tools we have. So, we are supporting the flow of credit in the economy to companies so that they don't feel financial stress. We are trying to create an environment in which people have the very best chance to go back to their old job or to get a new job. That is really what all of our efforts are about—nothing more, nothing less.

Mr. VARGAS. But, Mr. Chairman, I think that you know that—and I agree with you—the type of job that you just described also relies a lot on tourism and restaurants in that service economy. And they seem to be the last ones that are going to come out of this recession. People don't feel comfortable going back.

So, without unemployment insurance and the enhancement, how are these people going to make it?

Mr. POWELL. I think we are going to see lots and lots of people go back to work here in the next few months. We believe that. But the people who are in those parts of the service industry—tourism, of course, is a big one—they are going to struggle. Many of them will struggle until the pandemic is really in the history books. So, that is going to be a problem.

I think those people are going to need support. It may be difficult to find jobs in that industry at all. And I think we are going to need to support them and help them, as Congress did in the global financial crisis.

I think, as the years wore on, Congress re-upped employment insurance a number of times, just to keep people in their apartment, keep them there, not being evicted, not having to move into a shelter or move into a crowded place. And, by the way, that is going to be a place where the disease can spread more quickly too. So, I do think it is important that we provide that kind of help.

Mr. VARGAS. I appreciate those words. And I hope you use your influence as you can to make sure that happens.

I do have to ask this, though: One of the things that you said was, this pandemic was—ah, my time has expired.

Again, thank you very much for being here. And continue to be the person you are. We have a lot of faith in you.

Thank you.

Mr. POWELL. Thank you, sir.

Chairwoman WATERS. Thank you.

Mr. Taylor, you are recognized for 5 minutes.

Mr. TAYLOR. Thank you.

Chairman Powell, I appreciate you being here. We are all concerned about the economy, as it goes to recover, and jobs. Something that is of deep concern to me are the properties that have long-term mortgages where the lender has very little flexibility in their ability to forebear.

We, as a Congress, saw the need to forebear, for lenders to forebear. The OCC provided guidance on March 13th encouraging banks, which are the biggest lenders in our economy, to forebear. We have given guidance to Fannie Mae and Freddie Mac to forebear. We have worked on legislation and financing, trying to help encourage forbearance.

There are pockets of the economy where there is not the ability for the lenders to forebear at a level that is going to help them get to the other side. I am specifically concerned about three subsectors in real estate—hospitality, student housing, and indoor retail—where, because of the pandemic, they have no cash flow or very little cash flow. They cannot service their mortgages. They can't pay for the utilities. They can't pay for insurance. They can't pay their property taxes.

I have been working with a lot of Members on this committee and in Congress, Republican and Democrat, from all over the country, who share this concern. I perceive that, absent action by this body, by Congress, it will—or, actually, I am sorry, by the Federal Government, we are going to see a wave of foreclosures beginning in the fall and going through next spring.

That impact on jobs, I think, will be very material, as people who are working for hotels, working in indoor retail, people who are—student housing, where you have a university town that needs to have the housing to run the university, where those foreclosures are going to be very serious, particularly when they are foreclosed and the property itself is closed and the forecloser does not have the expertise or the capital to reopen that business.

So, assuming that you were to see things the way I see it, where there is a coming cataclysm here, do you have the statutory authority, you and the Treasury, to open up the Main Street Lending Program or any of your other programs to provide lending authority to someone, to then, in turn, help these properties that are in trouble and can't make their mortgage?

Mr. POWELL. There are limits, as I think you are referring to, in what we can do. Of course, there are lending powers, and they are very explicit in the law. We have to have evidence that we are adequately secured, and we cannot lend to insolvent borrowers. So, there are lines that we can't cross.

Within that, we can take a lot of risk. And the question is, for companies like that—you really hit the most affected sectors—we would have to be lending on some sort of an asset-based basis.

Mr. TAYLOR. Sure.

Mr. POWELL. That is something that we are looking at.

Mr. TAYLOR. I know you are looking at that. And my question—again, it is a yes-or-no question—can you do this without an act of Congress, or do we, Congress, need to act to give you the authority?

Do you have the authority today, if you decided, hey, this is important, we have to do it, we can make these loans to the lower-leveraged, healthier properties to try to get them to the other side—they have a liquidity crunch, right? If we can get them to the other side, they will be able to re-employ people, and communities will survive.

There are whole communities that are going to die or be very badly impaired if they lose their hospitality space or lose shopping centers that are extremely important to that community.

Do you have the authority, or does Congress need to act to give you the authority?

Mr. POWELL. My guess is, without seeing the numbers, if you are talking about low-leverage situations where it really is just a liquidity problem, we have that authority. We do have that authority. Some of the cases, though, it is—

Mr. TAYLOR. So, if you look at a collateralized mortgage-backed security loan in the hospitality space, the average leverage level is 63 percent. That puts it—real estate is normally levered, 15 to 17 times EBITDA, just to kind of put it in Main Street terms. That is well outside the range of what you have stated, by rule, that you can do.

Again, my question is, do I have to pass a law so that you can then go lend in this space, or do you have the authority right now to say, you know what, there is a problem, we are going to take action?

Mr. POWELL. Yes, I think some of the problems in that space would be better served by fiscal policy. I think we can probably reach some of them on our own as well. So, the answer might be both of them.

Mr. TAYLOR. Okay. Thank you.

Thank you, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you.

Ms. Wexton, you are recognized for 5 minutes.

Ms. WEXTON. Thank you, Madam Chairwoman.

And thank you, Chairman Powell, for joining us again today and for all that you are doing in these difficult times.

One of the most stabilizing things that Congress did in the CARES Act was to expand unemployment benefits by increasing the benefits by an extra $600 per week, on top of those benefits that the State provides.

In Virginia, our maximum weekly benefit was $378, so the extra money has been a huge relief to the over 822,000 Virginians who have filed for unemployment benefits since March 15th.

But these unemployment benefits, these enhanced benefits are set to expire at the end of July. Do you anticipate the unemployment rate falling significantly by that time?

Mr. POWELL. I would say, reasonably—many forecasters would say, and I would agree, that we should see strong job creation between now and the end of July. Yes. And that may mean that the unemployment rate comes down.

Ms. WEXTON. One of the arguments against continuing this benefit is that it is too generous. Some of my colleagues are suggesting that employers are having a hard time getting employees to come back to work because unemployment is more lucrative than what they make in their regular jobs.

Is that something that you have encountered, as far as your regional surveys of business activity or in the data? Have you gotten any information that employers are trying to hire people back and that they are having trouble doing so because the employees say, I would rather just kick back and collect my unemployment?

Mr. POWELL. Here is what we have been hearing. It is sort of a little bit different from that. Many employees are reluctant to go back quickly, and it may partly be that the $600 is generous compared to what they make. We know that many of them weren't making that much, combined with the other unemployment insurance.

But it is also, if it is a service-economy job and you are very close to someone—it is a barber shop, it is a beauty parlor, it is a nail salon, any of those things—there is also still reluctance on the part of workers to go back to work at all, and if they can delay that.

More broadly, I would say, that is—of course, that program ends at the end of July. I would just say, it probably is going to be important that it be continued in some form. I wouldn't say what form, but you wouldn't want to go all the way to zero on that, it seems to me.

Ms. WEXTON. I am glad to hear that, Mr. Chairman. And what you have said, talking about people not feeling comfortable going back to work, is pretty consistent with what I am hearing anecdotally, that people are really concerned about the safety, and if they have a loved one at home who is elderly or has a compromised immune system.

And also, a lot of people in my district—and I would imagine it is the same nationwide—are having trouble accessing childcare at this time, because many of those centers have closed. So, that is a real issue for a lot of people.

Now, former Fed Chairs Yellen and Bernanke have endorsed a proposal, which is the Worker Relief and Security Act, that would tie Federal unemployment benefits to the state of the economy—for example, changes in the unemployment rate.

Do you agree that we should tie assistance to the conditions in the economy? Or what are your thoughts on these processes that would have set triggers in the legislation for the benefits to continue?

Mr. POWELL. I think you have almost 2 months, a month-and-a-half really, until the end of the UI program, and I think you are seeing a lot of interesting ideas come up. There are a number of proposals that have come out from bipartisan groups.

No doubt, you are thinking, what should the next bit of support look like? And I think some of those ideas are very interesting ones. I don't want to endorse a particular idea or program that somebody has proposed, but I do think those things are worth careful consideration.

Ms. WEXTON. Thank you, Mr. Chairman.

And I want to thank you for all of your transparency in the programs that the Fed is administering and also for your having these listening sessions and for your willingness to make changes to those businesses that might be eligible for the program, in terms of the money amounts and things like that, by opening it up to more people. And I really appreciate your responsiveness to us in the community.

Thank you.

And, Madam Chairwoman, with that, I will yield back.

Chairwoman WATERS. Thank you.

Mr. Stivers, you are recognized for 5 minutes.

Mr. STIVERS. Thank you, Madam Chairwoman.

Thank you, Chairman Powell, for your testimony and for your willingness to be so accessible. I want to thank you for everything you are doing during this crisis. I think your actions have prevented this from getting much worse.

I take your answers pretty seriously about what we need to do for people who are still impacted by this crisis, especially folks who are still seeing a lot of unemployment and aren't benefiting from this coming recovery, and we need to try to help them.

And you just answered a question a little bit ago, that you don't want to endorse any one proposal. But are there elements that you think are important, without endorsing one single proposal?

Mr. POWELL. Just, I think, a couple of things.

With the unemployment insurance, I think it is important to just keep in mind that some of the jobs are not coming back soon. They ultimately are likely to come back, but those jobs that are in tourism and all of those areas where—travel, accommodation, restaurants, bars, things like that—those people are going to have a hard time finding a job, so I think it's better to keep them in their apartments, it is better to keep them paying their bills.

And this is a natural disaster; this isn't their fault. And I think we should find ways as a country to support those people and help them through this difficult part of their lives. I think many people will go back to work, though.

I think the other one I would mention—and we have talked about it—is just State and local governments do provide those critical services, and we know what happens when they can't run deficits, and so they cut heads. And they are already doing that, and I think that is another one which is worth looking at.

And the last thing I will say is, absolutely, small businesses. We don't want to lose any more small businesses than we absolutely have to here. They are the beating heart of the economy.

And so, I just think those are three areas I would point to.

Can I also just take a second and say—

Mr. STIVERS. Yes, sir.

Mr. POWELL. —I was very, very sorry to hear the news about Andy Barr's wife this morning. He has been a—

Mr. STIVERS. Me, too.

Mr. POWELL. —great guy to work with. He is a happy warrior. He is a wonderful man. And I know we all feel terrible about it, and he is in our prayers.

Mr. STIVERS. Thanks for bringing that up, Mr. Chairman. They are great friends, and we are definitely keeping the family in our prayers. And I know Andy said this morning his number-one job is being a dad to his two daughters who have now lost their mom. So, we are keeping them in our prayers, and I really appreciate you bringing it up.

And I do want to follow up on something you just talked about. In one of the first COVID response bills, we did include $150 billion for local governments and State governments, but we tied that money—we said it had to be used only for COVID response.

And I hope that we will, in what you just said, at the very least, untie the strings on that money to start and then see if local governments and State governments need any more money. I am not going to ask you to comment on that, but I hope we will do that.

And in the spirit of the second part of your answer, obviously, we want to focus on folks who are going to continue to be unemployed, and small businesses too. Those are three great pillars, and I really appreciate it.

So, with interest rates at a near-record low, another thing we could do for our State and local governments, our municipal governments, is allow advance refunding, so they could take advantage of these historically low interest rates in the capital markets.

I don't know how the capital markets would respond to that, but that is another thing that I hope we will do. And I thought I would bring that up, since you just mentioned the importance of State and local governments. Again, I won't ask you to comment on that because, frankly, it is not in your purview.

The Federal Reserve did note in its May 2020 Financial Stability Report that the life insurance industry has been adversely affected by a number of factors caused by the COVID-19 economic situation, including that near-zero-interest-rate environment I just brought up. Do you think the near-zero-interest-rate environment has a big impact on our insurance folks?

And what help do you think that we should give to make sure that—and I don't know that it is any kind of aid, but, obviously, we want to help people who are nearing retirement, and help people who are savers. What can we do to impact that, knowing that the interest rate probably will not go up any time soon?

Mr. POWELL. The life insurance industry is challenged by low interest rates, and they have had a lot of practice here in the last decade or so. They do come into this highly-capitalized. And I would just say, a strong recovery is really what that industry needs, and that is what we are going to work on.

Mr. STIVERS. Thanks for your time, Mr. Chairman.

I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you.

Mr. Lynch, you are recognized for 5 minutes.

Mr. LYNCH. Thank you, Madam Chairwoman.

Mr. Chairman, I want to say that I appreciate you. I appreciate that you are in there swinging. You have been helping us on the unemployment. You have been helping us on trying to get some of this money out to Main Street.

I am very happy to see your revisions recently on the Main Street Lending Program. And I want to thank Chairwoman Waters for her relentless advocacy to get that minimum loan size down. It started at, what was it, a billion? And now it is at $250,000, so—

no. It was a million. It was a million first. Now, it is down to $250,000. I think that is much more in the reasonable range for some of our small businesses.

I do appreciate that the payback period has been expanded out to 5 years, and that, for participating banks, you also—you had a 15-percent skin-in-the-game factor for some of these participating banks that I thought probably made the program unattractive to a lot of our local banks, but you got that down to 5 percent. We will have to wait and see if that is sufficient, but I wanted to thank you for that.

The question I had is, we had a FinTech Task Force hearing the other day on the subject of Chairwoman Waters' FedAccounts. This is the idea about establishing FedAccounts, basically having the Fed do for the unbanked what they do right now for banks, to give them access, to give them accounts, and to tie them into the economy.

I think if Facebook can reach out and provide access to 2 billion daily users a day, I think maybe the Fed could accomplish 5 percent of that, even though it would be requiring the Fed to do some things it hasn't normally done.

And I just wanted to know what your thoughts are on the FedAccount idea; and if there is any other way that we might address the gap that still exists between some of our folks who are unbanked or underbanked in their areas? Is there something that the Fed can do to close that gap?

Thank you.

Mr. POWELL. Thank you.

As you have pointed out, we can only offer bank accounts at our Reserve Banks to depository institutions, not people. I think that would be a very dramatic change in the landscape of banking, and I would worry about what would happen to the rest of our private banking system, because an awful lot of people would opt to keep their personal money at the Fed, and then who would do the lending? It could kind of hurt our intermediation process.

In terms of the underbanked, though, a big part of what we do is work in local communities under CRA to encourage financial inclusion. We enforce the fair credit laws, to some extent. We don't have all of that authority, but we have a part of it. Those are things that we do now to address the needs of the unbanked and the underbanked.

Also, we work closely with Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) as well. They play a big role in doing that. And we have a great deal of outreach interaction with those institutions which are active in the communities that really need the help.

Mr. LYNCH. I do think that, with the changing technology, drifting away from brick-and-mortar and moving to mobile banking, I think it presents some opportunities that we have not had in the past. So, I would just ask you to treat it with the level of attention that we would if the banks were in trouble.

I appreciate that I am asking, or we are asking, you to do something that you weren't designed to do, but I think the circumstances and the technology now give us an opportunity to do something. It may not be changing the Fed's traditional role, but certainly, I think we can try to make life easier for these people who are unbanked.

And I yield back. Thank you.

Chairwoman WATERS. Thank you.

Mr. Tipton, you are recognized for 5 minutes.

Mr. TIPTON. Thank you, Madam Chairwoman.

Chairman Powell, it's good to be with you this morning.

And I did appreciate your comments on Andy Barr. On the other side of the aisle, he has always preceded me in questioning. And our thoughts and prayers certainly go out to him and his two daughters today.

And I do appreciate you, again, taking the time to be here.

Chair Powell, we have heard a lot about impacts that we are having on the economy, and I appreciate the efforts, certainly, that you have made to be able to address some of the concerns.

I was appreciative to see that the Main Street Lending Program (MSLP) was up and running this week. And we are having some concerns that are being expressed, that under the terms and conditions, that they may actually deter some potential borrowers, entire segments of the market, from participating in the program.

And the hotel industry—we have talked about tourism this morning—for example, has been one of the hardest-hit sectors during the pandemic, but they may not have great access to the MSLP.

Again, I know you have heard a lot of concerns out of Congress from the tourism industry's standpoint, but I do believe it is worth repeating. Certainly, it has had a great impact in a district like mine in Colorado.

Could you outline whether the Fed has considered that some of the loan terms will limit borrower participation, and whether this could be addressed through updated guidance as you monitor participation in the program?

Mr. POWELL. Some of those companies should be able to—our facility is opened at any kind of company as long as it is an eligible company, and that would include the ones you mentioned, and some of them should qualify, I would think, under our existing standards.

Those that don't, we want to understand that. And if there are ways we can adapt, then we will absolutely look at that. One thing we are looking at, as I mentioned, is some kind of an asset-based lending thing.

I think we are hearing this a lot about those sectors, and it is something we are looking at.

Mr. TIPTON. I do appreciate your comments on that.

One thing we have seen out of you, and out of the Administration, out of Treasury, has been flexibility. As you have noted throughout this conversation, we are in uncharted waters. It is something that none of us had fully anticipated or ever experienced before, and hope not to again. Trying to be able to make sure that we are keeping jobs created and the viability of businesses to be able to continue is critically important.

I did want to point out, I have also heard from some industry participants that the financial reporting covenant required under the MSLP may prevent participation. In particular, one thing that has been pointed out has been some of the credit facilities, in terms of the requirements were costly for smaller applicants, who don't currently have the infrastructure in place to be able to create complex quarterly filings.

Could you explain why the Fed chose to put these enhanced reporting requirements in place? And do you anticipate potential adjustments as you monitor the borrower participation rate in the program?

Mr. POWELL. We cut back the financial reporting requirements in the last few weeks before we were going live here, just for that purpose. And we thought we had cut them back to, sort of, close to the bare minimum of what we would need to be able to monitor the performance of a loan at all. If we misjudged that, then we would want to know. And we will be getting that feedback. That is feedback that we want to get.

We are trying to make that process as user-friendly and easy and automated as possible. And I had thought we—we certainly tried to address that specific problem. If we didn't quite get that done, then that is very useful feedback.

Mr. TIPTON. Okay. Thanks.

And one thing that—as we entered this crisis, if we step back 3 months, I think in conversations that we have had, you had noted that our banks were well-capitalized. Is it still your sense that our banks are well-capitalized?

I think we have seen them on the front lines trying to be able to deliver PPP, to be able to get that assistance out.

And I did appreciate the comment that you had made in terms of the examinations, by the way, to be understanding that our banks have been put in a challenging situation.

But in terms of the capitalization, do you still see the banks as well-capitalized?

Mr. POWELL. Yes, I do. Banks have been generally a source of strength here. They have taken on deposits. They have offered a lot of forbearance to their individual and business customers. And they are making loans.

We are in a whole lot better shape to face this situation than we were to face the last situation in 2008 and 2009, where the banks were really part of the—they were at the source of the problem. Here, that is not at all the case.

Mr. TIPTON. Thank you, Chairman Powell, for being here.

And I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you.

Mr. Phillips, you are recognized for 5 minutes.

Mr. PHILLIPS. Thank you, Madam Chairwoman.

And, Chairman Powell, thank you for being with us.

I, too, want to add my condolences and heartfelt sympathy to Andy Barr and his children. I grieve with them, as we all do.

Chairman Powell, I know you are not here to be a prognosticator, but could you please share with the American public, as simply as possible, what households should expect, from an economic perspective, in the months ahead?

Mr. POWELL. The way I look at it is this: You can think of this as taking place in three stages. The first stage was the shutdown, and we know what that looks like. It is a lot of people who can work from home, working from home, and many, many people being laid off. And we have been through that. That is sort of the second quarter.

And I think we are now probably in the early stages of the second phase, which is—call it the bounceback, the beginning of the recovery. And I do think, assuming that the virus remains significantly under control, if you make that assumption, what we should see is companies opening up again, workers going back to work. We should see positive data coming out and the economy starting to reopen. And that is what you should see during this phase.

I think most forecasters, just about all forecasters, then see there is a third phase where there will be some parts of the economy that struggle to recover, and those are the ones where people get close together, to be fed or entertained, in all those areas we have been talking about.

And that area is going to take a while to recover. It is going to take the public a while to gain confidence that it is safe to engage in those activities. And there are a lot of workers who work there. And so, that group is going to struggle. They are going to need support. They are going to need help.

And I think that is the way I see it. But I think the incoming data suggests that we are at the beginning of that second phase: recovery; reopening; and expansion. And if that is the road, we need to get on that road and stay on that road. And before you know it, things will feel a whole lot better.

Mr. PHILLIPS. Mr. Chairman, I am sure it is fair to say that consumer psychology will change. Consumer psychology is going to change in perpetuity. I am sure you have given that some thought. What should we be thinking about as we move forward, as lawmakers, relative to a changed economy because of the pandemic and the economic disruption?

Mr. POWELL. In the meantime, I think the focus should be on getting through this critical phase. As policymakers, what help does the economy need to transit this critical phase and really get going again, that is what we are thinking about.

I think, longer term, these are interesting questions. It does seem very likely that people have learned that, for certain jobs, you can do them anywhere. I guess we kind of knew that, but now we really know it. And so what is going to happen with people in a whole lot of industries who can really do their jobs from home if they want to, or from a particular place of work, or from another State?

The technology has really moved to a place where you can do amazing things that we didn't have to do before. This conference call is not something we had regularly done, and it is becoming very routine. The technology is getting better; we are all getting used to it. There are still glitches. There are plenty of glitches here and at the Fed on these things.

I think we are going to learn that this is—in a lot of ways, it is accelerating preexisting trends too. There were existing trends that just got sped up a lot in the economy—more online shopping and things like that. So, that is something we are thinking about.

The main thing we are thinking about is, what do we have to do to make this recovery get off to a really good start, get a lot of people back to work, support the economy? And we are not thinking about putting down our tools for a long time.

Mr. PHILLIPS. And, Mr. Chairman, with that in mind, you advised us to go big, and we have. Our national debt is approaching $27 trillion; our debt service, on an annualized basis, over $400 billion a year.

Do you have concerns about our ability to manage that, to pay that bill, if you will, moving forward? And any counsel and guidance you might share with us lawmakers as we contemplate some degree of fiscal responsibility moving forward?

Mr. POWELL. First of all, I think Congress did go big and has gone big. And I think it has been appropriate, and I think it will be well-judged over time.

In terms of the national debt, I think the time will come when it is time to return to the concerns of fiscal sustainability. A sustainable fiscal plan is one that you stay on for many years. It is not something where you flip a switch and then really go into difficult times to get—ideally, what you do is you get in a situation where the economy is growing faster than the debt, and you stay on that path for a long time.

That is how successful countries have done that. We will need to get to that. And we will. I think we don't need to get to it until we get well and truly through this extraordinarily challenging time.

Mr. PHILLIPS. Thank you, Chairman Powell.

I yield back.

Chairwoman WATERS. Thank you.

Mr. Williams, you are recognized for 5 minutes.

Mr. WILLIAMS. Thank you, Madam Chairwoman.

And I also want to say that my prayers go out to Andy Barr and his family, with the passing of his beautiful wife, Carol.

Mr. Chairman, thank you for joining us in this virtual setting during these strange times that we are in.

Previously, when you have come before our committee, we were talking about how we can continue to build on the historic economic growth that we all were experiencing. Now that we are talking under very difficult circumstances, I would like to focus on getting back to where we were pre-coronavirus.

And as we have talked about before, small businesses are the main economic engine. As you know, I am a small-business owner, and we are the job creators in our country. And I am one of those who believes we could have growth in the fourth quarter. I feel pretty good about that.

What do you think needs to be done to support these Main Street businesses as they attempt to remain viable as the lockdown across our country ends?

Mr. POWELL. As the lockdown ends, and the economy reopens, the first thing is we need to do it in a sustainable way, and nobody wants to do this, but it is really good if we do, and that is: I think, to the extent we can continue to observe those, "keep a distance," "wash your hands," "wear a mask" kind of things, that is really going to help. That goes with a fast reopening of the economy. That goes with a successful reopening. So, those things are really important.

I also think we at the Fed need to keep our foot on the gas until we are really sure that we are through this. And that is certainly our intention. And I think you may find that there is more for you to do as well.

Mr. WILLIAMS. Well, a traditional snapshot of the banking industry during this unique time will likely not paint a rosy picture, based upon the recent shutdowns and phased-in recoveries. However, bank capital levels and reserves remain historically strong, as we have talked about, and there are many borrowers who could return to profitability once the economy rebounds.

So, Mr. Chairman, what steps are being taken to ensure that the regulators are taking a reasoned approach to oversight? And how is that being communicated to the various Federal Reserve district banks and the examiners in the field?

Mr. POWELL. On a number of occasions, we have issued public statements, public communications to our supervisory group, and the other banking agencies have done that as well.

And, essentially, it boils down to guidance that we want the banks to work with their borrowers. We don't want to be on a hair trigger to classify loans or call them troubled loans or anything like that. We want to look at this as an unusual situation and be flexible and thoughtful about the way we do our jobs.

Of course, we haven't been really supervising. We are only starting to supervise again. And, at the Fed, we are going to do it remotely. We are not going to be visiting yet, but that time will come, I think, fairly soon. But we are doing training for supervisors and things like that.

We have also, by the way, encouraged banks to use their buffers. They have built up these buffers during good times, and that is a great thing now, because they can use those capital buffers to make loans and to work with borrowers.

Mr. WILLIAMS. Yes. Thank you for that, because it is different than 2008, as we have all talked about.

The Atlantic magazine published an article entitled, "The Looming Bank Collapse: The U.S. financial system could be on the cusp of calamity. This time, we might not be able to save it." The point of the article was to compare the threat that collateral loan obligations, or CLOs, pose to the financial system in a similar way that mortgage-backed securities did during the 2008 financial crisis.

Do you think that the threat of CLOs is properly accounted for? And can you discuss how the Fed has been monitoring this risk?

Mr. POWELL. I don't think that is an appropriate comparison. I really don't. This is not the same as the mortgage-backed securities.

In that situation, back 10, 12 years ago, there was almost total lack of transparency into what the banks held and how sensitive was it to risks and things like that.

That is not the case with the CLOs. With the CLOs, we have really good information. We include them—to the extent they are on bank balance sheets, we include them in our stress tests. We stress them under very stressful situations, like the current situation, and we know what the losses would be, coming out of that. It is a very, very different situation.

That is not to say there won't be losses. There will be losses. This is a severe downturn. But it is one that we have been monitoring carefully and that the banks are well-capitalized to deal with, we believe.

Mr. WILLIAMS. Thank you.

And I want to thank you for being here today. I have a lot of respect for what you are doing.

As a business owner, I feel that we are in the comeback mode. As I said earlier, I look forward to having growth in the fourth quarter and a better year next year.

Thank you for your hard work, and I appreciate your efforts in working with us.

I yield back.

Chairwoman WATERS. Mrs. Maloney, you are recognized for 5 minutes.

Mrs. MALONEY. Thank you, Madam Chairwoman.

First, I want to join my colleagues in offering my condolences to Andy Barr and his family, and our hearts are with them.

But now, I would like to welcome back to the committee, Chairman Powell.

And I just want to start by saying that I think the U.S. economy is going to need all the help it can get for the foreseeable future, and I hope you don't take your foot off the gas, and you continue to be aggressive.

In your press conference last week, you announced that the Fed does not expect to raise interest rates until at least 2022—a position that almost all FOMC members supported. And that is a position that I strongly support as well.

And, as you noted, the Fed is being cautious due to the enormous uncertainty about the coronavirus and about the damage to the economy going forward.

I want to ask you, would you continue to hold interest rates at zero until 2022 even if economic conditions unexpectedly improve? In other words, what would cause you to change your position that interest rates should stay at zero until 2022?

Mr. POWELL. Thank you.

What you are referring to there, the end of 2022, that is actually not a Committee forecast. It happens to be the median of forecasts of individual Committee members. We don't say that as a collective group. What that really was, was evidence that that is what our participants feel. That is their prediction of appropriate monetary policy. It isn't actually a promise to do that.

What we have said we would do is we would keep rates where they are until we are confident that the economy has weathered the current situation and is well on the road to recovery.

What would it take? We are not thinking about raising rates. We are thinking that this economy is going to need support from monetary policy for an extended period of time, and not just through interest rates, but also through our asset purchases, and through the lenders.

This is the largest economic shock to hit our economy in living memory, and it is also without any kind of precedent. It looks like it will be the deepest recession. It may not turn out to be a very long one. But the road back, we believe—and many other forecasters do too—will take some time, and we will be there to support this economy until we fully recover.

As I mentioned, we want to get back to where we were in February, as Mr. Williams was saying. We want to get back to 3.5-percent unemployment and wages going up the most for people at the low end of the wage spectrum—where we were, where low- and moderate-income community people were telling us, this is the best we have had it in a really long time. We want to get back to that as soon as we possibly can, and we will be using our tools to do that.

Mrs. MALONEY. Also, we have a good sense of what economic indicators the Fed looks at in normal times. You look at the employment numbers, the inflation data, consumer confidence, and all of the usual economic metrics. But I don't, and I don't believe anyone has a good sense of what metrics you will be looking at now, in the middle of a recession caused by a public health crisis, where the economy won't bounce back until the virus is under control.

My question is, what are the key metrics that you are looking at now? Are you looking at rates of infection? Hospitalization rates? Mortality? What are the public health metrics you are paying the most attention to?

Mr. POWELL. Of course, we are looking at all kinds of economic data, which I will mention, but we are also now looking, of course, at all of the data we can get and hearing from experts about the pandemic and where are cases going down, where are they going up, and all that kind of thing. That is a new area for us, of course—for everybody, really, unless you were an epidemiologist before this.

So, that is a big thing. And it is almost as though, if you could give me a—if you knew for sure what the path of the pandemic was, then you would have a lot more confidence in what your economic forecast was. But, of course, we don't have that.

We are also looking, though—I think for a month or so, now, we have been looking at the data that suggest an economic reopening. So you can track, are people moving around a lot? There is a lot of this high-frequency data that you get from the technology companies, and it gets published. Are people moving around a lot? Are they starting businesses? So, lots of early indicators.

And we have been seeing a great deal of that. You are now clearly seeing that spending is ticking up, employment is ticking up. So, these are the early real indicators that we have been hoping to see, and we are beginning to see them now.

Mrs. MALONEY. Thank you, and I yield back.

Thanks for coming.

Chairwoman WATERS. Thank you.

Mr. Hill, you are recognized for 5 minutes.

Mr. HILL. Thank you, Madam Chairwoman. Thanks for conducting this hearing.

And of course, our thanks to Lisa, Clement, and Petrina for keeping us on track on the technology. We appreciate our staff.

Martha and I were just so brokenhearted last night at about 8:30 when we learned about the loss of Carol Barr. I can't imagine the pain that Andy feels. All of us on the committee share that bond of affection for Andy, and we wish him comfort during this tough time.

Mr. Chairman, I'm glad to have you back before the committee. And you have done an excellent job today talking about the facilities, the challenges with the facilities, talking about your concerns about how to maintain some fiscal support in the unemployment area particularly, and your concern about small businesses. So, thanks for being so thorough in your answers.

As the ranking member on the Monetary Policy Subcommittee, I wanted to turn and talk about the balance sheet of the Fed and monetary policy and just put some parameters on it, as we are in COVID-19 now.

And, again, thank you, publicly, for the outstanding job that the Board of Governors did in early March to bring liquidity back to the system and preserve people's access to capital by keeping our capital markets functioning.

But I do want to talk about how we measure monetary policy going forward now, as we, as you say, enter that midpoint of the return to economic recovery.

The balance sheet was about $4 trillion before the pandemic hit. And there was a lot of concern over it at that level, in terms of a percentage of GDP and the like. And very quickly dwarfing anything in the QE days, you have added $3 trillion to the balance sheet, and we are close to $7 trillion.

Do you see that range, pre-COVID, of 16 to 17 percent of GDP still a post-pandemic target based on reserves that you see the balance sheet returning to?

Mr. POWELL. I hadn't thought of an actual target, but I would suggest, in the long run, the size of our balance sheet will be dictated by the public's demand for our liabilities, the two biggest of which are currency and reserves.

And so, we felt that we were getting really close to that demand at the level you suggest. And that would tend to be roughly constant over time, I guess, as a percentage of GDP. So, it is a place to get back to.

Mr. HILL. And at the peak, in 2014, you owned about 21 percent of all new-issue Treasuries and about 40 percent of new-issue agency MBS. And in this most recent phase this spring, as you expanded the balance sheet, I think you are at about 19 percent of the new-issue Treasury market and about 30 percent of the MBS market.

Some commentators have said, well, how is it getting as big an issue this time as it was certainly in 2008, from a dislocation of point of view? But you have had liquidity and spread issues in the MBS market. Do you want to take a minute and talk about why you did engage in the GSE agency purchases?

Mr. POWELL. Sure. Those markets are critical for financing the housing industry, and, also, they are closely connected to the Treasury market, as you know. So, it benefits all of the financial markets and the general public when the Treasury market is working.

In terms of MBS, there wasn't the capacity to hold those securities. And what was happening is, the very low rates that we were putting in place weren't getting through to borrowers. Rates weren't going down, and that is because there wasn't the demand to hold the MBS secure.

We had to get in there and get the market functioning again. And I am happy so say that it is now functioning essentially normally, not perfectly. But that was really what was our thinking then.

Mr. HILL. Well, I think, obviously, you had people trying to get out of long-dated maturities in the Treasury market, and you had prepayment speeds pick up, so I understand why you did it.

But you do support moving, in the long run, to an all-Treasury portfolio, from a philosophical point of view. Isn't that correct?

Mr. POWELL. Yes. Absolutely. In fact, I had no intention of ever buying a mortgage-backed security when I became the Chair, but—

Mr. HILL. Right. Would you say that the repo market and the short-term liquidity markets are now functioning, after your extraordinary efforts in March, and you are no longer needed in the daily repo market to the same extent?

Mr. POWELL. Yes, I would say that. I also hasten to add that we are still on alert. We feel like we don't take the gains for granted at all.

Mr. HILL. Right.

Mr. POWELL. Right.

Mr. HILL. Well, we are grateful for your leadership.

Madam Chairwoman, thank you for the opportunity.

And Chairman Powell, thanks for being here before the committee.

I yield back.

Chairwoman WATERS. Thank you.

Mr. Sherman, you are recognized for 5 minutes.

Mr. SHERMAN. Thank you. Mr. Powell, thank you for joining us.

Credit-rating agencies—as you know, Congressman Andy Barr has written you a letter about this. There are nine credit-rating agencies accepted for various purposes by the SEC, which has the expertise in the area, yet the Fed seems to put a premium on only three credit-rating agencies.

Is it your intention to look at instruments rated by all of the SEC-accepted credit-rating agencies?

Mr. POWELL. We have actually expanded the group of credit-rating agencies to six from three, and we are continuing to look at others.

Mr. SHERMAN. But is there still a situation where you will accept one of those second three only if the same instrument is rated by one of the big three? Or are you accepting all six on the same level?

Mr. POWELL. The former, not the latter.

Mr. SHERMAN. Not the—

Mr. POWELL. No.

Mr. SHERMAN. So, you haven't given real equality to the six that you have decided to recognize.

The second issue is, when we passed CARES, if a company got a loan from the Federal Government, it came with strings, like no stock buybacks.

If you are just going to go out on the market and buy debt instruments, those strings wouldn't apply, of course. The company may have issued that bond a long time ago and has not consented to any restrictions on its stock buyback.

Are you planning to have a transaction which in substance is a government loan—that is to say—but is accomplished in form by having the company issue a bond as to which you are basically the sole purchaser, you and the Treasury are the sole purchaser?

Mr. POWELL. The CARES Act is very specific on this, and I wasn't part of this, but my understanding is it was all carefully negotiated. Those requirements do not apply to capital markets transactions or syndicated loans. They do apply to direct loans.

The Main Street Facility is a direct loan program. The Corporate Credit Facility are either syndicated loans or capital markets transactions.

Mr. SHERMAN. A capital markets transaction is usually one when there are many buyers of the debt instrument issuance. Are you going to have any that are in substance a government loan, but you choose to package them and say that they are capital markets transactions?

Mr. POWELL. When we purchase a bond, which is a registered security, and it comes in a normal form, that is a capital markets transaction.

Mr. SHERMAN. Even if you are the sole purchaser and it has all of the economic indicia of being a government loan, the fact that you can call it a bond issuance liberates you and the company from congressional intention. Is that what you are saying? It was never our intention to have you take what is in substance a loan and package it as a capital markets transaction.

We know a bond issuance is one where there are many purchasers of the same instrument, and a loan is one where the Federal Government makes a loan or is the sole lender in the transaction or substantially the sole lender.

And it sounds like you have found a loophole in what we have written and that you plan to exploit it. It was certainly never the intention—what sense would it make for Congress to say, "Well, if you do a government loan this way, there are strings that come with it, but here is this loophole where you can avoid all of these strings?"

Clearly, a capital markets transaction is one where the Fed has the additional assurance that comes from other market participants buying that same issuance on the same day on the same terms. And you are depriving us of that if you are the sole purchaser of the issuance.

And, at the same time, you deprive us of the restrictions on stock buybacks. You create a circumstance where money goes directly from the Treasury into the pockets of shareholders who are taking their money out of the company.

And that is certainly not what Congress intended. But if there is a loophole, it is up to Congress to plug that loophole.

I believe my time has expired.

Chairwoman WATERS. Thank you.

Mr. Emmer, you are recognized for 5 minutes.

[No response.]

Chairwoman WATERS. Mr. Emmer?

[No response.]

Chairwoman WATERS. If Mr. Emmer is not present, we will go to Mr. Loudermilk.

You have 5 minutes.

Mr. LOUDERMILK. Thank you, Madam Chairwoman.

And thank you, Chairman Powell, for being here. And I would also like to thank you for all of the work that you have been doing. A lot of times, we don't look at how bad things could be. And I think they could be a lot worse right now if we hadn't had the intervention that we have had through the Administration—

[Audio interruption.]

Mr. LOUDERMILK. I apologize. I guess I am getting some feedback. I don't know if anyone else is.

But I want to thank you for the actions that you have done. I know we have taken some bold actions. And especially the way that you have made changes on the fly with the way that you oversee and regulate the banks. I know that my local banks, community banks, regional banks were all very skeptical going into this, but I can tell you that they are not happy with the way things are, but they are pleased in the way that things are going, because they realize that things could be a lot worse.

Just a couple of quick questions, because I know we are running low on time. But you have done a lot with mortgage-backed securities that are with Fannie Mae and Freddie Mac and Ginnie Mae. Those are included in the Term Asset-Backed Securities Loan Facility (TALF), but in 2008, mortgages that weren't backed—the non-agency mortgages were included in TALF.

And my question is—and I have written you a letter about this—are you considering including those non-agency-backed mortgages and consumer installment loans in TALF?

Mr. POWELL. The answer is, on MBS, that is something we have under consideration. And you are right, as a general matter, we have been willing to, and eager, in fact, to expand things, where it is appropriate.

Consumer installment loans is a little different. We don't have the history—they don't have the history in the asset-backed securities market, so we struggle a little bit with that one. But we are looking at it as well.

Mr. LOUDERMILK. Okay. I appreciate that.

One last question. Intercontinental Exchange and other clearinghouses for futures trades have had a huge spike in the amount of funds they hold overnight because of the market volatility. And commercial banks can only accept limited amounts of those deposits because of the capital requirements.

They would like to be able to temporarily deposit those funds with the Fed. Is that something that you are considering?

Mr. POWELL. The only entities, like Intercontinental Exchange, that can deposit funds at the Fed are those that have been designated as systemically important financial market utilities under the law. And so, we don't have the legal authority to do that right now.

But it would be a question really not for one company but for all of the companies that are in that category, should they get the legal authority to do that. But as of right now, we do not have the authority to give bank accounts unless they are a designated financial market utility.

Mr. LOUDERMILK. Okay. Maybe that is something that we can work on, going forward. But I thank you.

And I know we are short on time, so I will yield back.

Chairwoman WATERS. Thank you.

Mr. Lawson, you are recognized for 5 minutes.

Mr. LAWSON. Thank you, Madam Chairwoman.

And welcome, Mr. Powell, to the committee. I really appreciate the opportunity to talk to you today.

Madam Chairwoman said about 2 hours ago that there was about $120 billion in PPP funds that were still available to be allocated. And the application number has slowed dramatically.

Do you believe that asking impaired businesses to take on an additional debt obligation has limited the effectiveness of the program and that, in order to create business certainty and confidence in reopening and hiring, a grant program would be better? What do you propose for businesses that cannot take on additional debt?

Mr. POWELL. The Small Business Administration (SBA) administers the Paycheck Protection Program (PPP). We have a little bit of a role, in that once a bank makes one of those loans, we will take that loan off their balance sheet so they can have the room to make another loan. So, I follow it, but it is not one that we administer.

I would say, the benefit of that program is that a loan turns into a grant, as long as you obey the rules. And I know that the rules have been adjusted both by the last law that you passed and also in regulatory flexibility. So I would say, for many small businesses, that is what they need, and that they are not well-served by taking on a loan to make payroll and things like that.

That is the tool we have. That is all we can really do. We can't do grants; we can only do loans. And that is why we are doing that for larger companies and the ones that are eligible for the PPP.

Mr. LAWSON. Okay. And I think when Madam Chairwoman closes out, she might have something to say.

My other question is that the April jobs report was the worst in American history, and the May jobs report shows that less than half of Black adults have jobs.

Chairman Powell, what steps can the Fed take to ensure that emergency relief and targeting are at the underbanked and the minority-owned businesses in this state of the economy?

Mr. POWELL. Well, an all-too-large portion of those who lost their jobs in the pandemic were from low- and moderate-income communities, and many of them were minorities, and the same is true of businesses. Minority-owned businesses are under tremendous pressure.

We have tools that apply broadly across the economy. That is what we can do. And we can also work with MDIs and CDFIs as well. We do that, to try to support the work of those institutions in their communities.

And that is what we can do. I know there are also things that Congress can do, as well, and has done.

Mr. LAWSON. Okay. Thank you.

And I yield back, Madam Chairwoman.

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

Mr. EMMER. Thank you, Madam Chairwoman.

And it goes without saying, but I am going to say it anyway. Like everyone else on this committee, our hearts go out, and our prayers, to Andy Barr and his family. This is a very tough day.

Chair Powell, I appreciate you being with us here today, albeit virtually. And even more so after my recent experience trying to get my mute button fixed, I think the House should be back here in Washington doing our jobs.

The opportunity to connect with you digitally has brought to mind several topics related to fintech that I have been working on, including as ranking member on the FinTech Task Force of this committee—technological innovations.

As late as last year, you told my colleague, Representative French Hill from Arkansas, that you were following central bank digital currencies closely but that the Fed was not currently developing a central bank digital currency. You said, "Characteristics that make the development of a central bank digital currency more immediately compelling for some countries differ from those in the U.S.".

It is true that other countries utilize digital cash at a higher rate than the United States. However, our technological edge has kept us the predominant world leader we are today for at least several decades. And I think the recent pandemic has actually shown that this is an important step that we need to make, regardless.

What substantive recent actions has the Fed taken to understand and experiment with this technology? And, I guess, can you disclose any current considerations or questions you or the Fed have on the concept of a central bank digital currency?

Mr. POWELL. I would be glad to.

I think central banks everywhere, all around the world, are looking at this, and we owe it to the public that we serve to be up to speed and to—if this is something that is going to be good for the United States' economy and for the world's reserve currency, which is the dollar, then we need to be there, and we need to understand it first and best.

We are working hard on it. There is a group of major central banks that have gotten together to share understanding of the technology and the cybersecurity implications, the economic implications, the financial inclusion implications.

It is a big, complex problem, and it is one that we take very seriously. And, again, I think it is our obligation to understand it well and not wake up one day and realize that the dollar is no longer the world reserve currency because we just missed a technological change. So, we are not going to let that happen.

At the same time, there are some very serious questions that have to be answered before we would want to implement a central bank digital currency.

Mr. EMMER. That is great. It is good to hear that you are leaning in.

In the recent report issued by the Digital Dollar Project, and reflected in some of the congressional proposals that are out there, there seems to be a recognized need, an agreement that the private sector should be involved in the creation of a central bank digital currency (CBDC), either in its development or dispersal.

And, I guess, through the Fed's work and analysis on the topic that you are currently in, what role do you think the private sector would play?

Mr. POWELL. I really do think this is something that the central banks have to design, principally. And the private sector is not involved in creating the money supply. That is something that the central bank does.

And I know there are ideas that this should really be the work of a private board. I don't really think the public would welcome the idea that private employees who are not accountable solely to the public good would be responsible for something this important.

Once we assess it and decide what to do, it will be all about the private sector. It has to work through the banking system and through businesses and the economy for individuals and all that. But I think, in the first instance, it has to be the work of central banks.

Mr. EMMER. Which leads me to probably my last question. If the Fed were to adopt a digital currency, should the Fed have the technical capability to deny access to law-abiding citizens for any purpose? And should it oversee or track transactions between private individuals?

Mr. POWELL. Those are big questions. In one case, if you create a central bank digital currency, you can know every payment by everybody. And that is not good. If you don't, if you don't know any payments by anybody, then—

Chairwoman WATERS. The gentleman's time has expired.

Mr. POWELL. —where is your money going? So, it is a very difficult problem.

Mr. EMMER. Thank you, Chair Powell.

And thank you, Madam Chairwoman.

Chairwoman WATERS. Mr. San Nicholas, you are recognized for 5 minutes.

Mr. SAN NICOLAS. Thank you, Madam Chairwoman.

Good day to you, Chairman Powell.

And, Andy, your friends are mourning with you, and are deeply sorry for your loss.

Madam Chairwoman, I want to first begin by thanking you and the committee for drafting this letter on behalf of the committee that we sent to Secretary Mnuchin, and to you, Chairman Powell, dated May 13, 2020, particularly addressing the lack of territorial inclusion in the Municipal Liquidity Facility that is being administered by the Fed.

More specifically, we wrote, "Through the Coronavirus Aid, Relief, and Economic Securities Act, signed into law on March 27th, Congress instructed the Treasury Secretary to seek the establishment of a facility that would support the market for borrowing by State, municipal, and territorial governments. Despite the clear and unambiguous inclusion of territorial governments in these instructions, the Federal Reserve's Municipal Liquidity Facility, initially announced on April 9th, did not list territories among eligible issuers of debt. Furthermore, despite earlier requests to correct the original announcement, the Fed's subsequent announcement, on

April 27th, significantly expanded the number of eligible issuers that the Municipal Liquidity Facility would support but continued to exclude territorial governments."

Mr. Chairman, earlier, in your dialogue with my colleague, Mr. Himes, I quoted you here as saying that, "we are implementing the law that you passed." But the law that we passed in the CARES Act fully includes territories in the Municipal Liquidity Facility, and yet the Fed is excluding territories from being able to access that facility.

In response to our letter that we sent to you on May 13th, we got a response 2 days ago, on June 15th, from you. And the area that you address with respect to that concern, you state, "As you know, we are required by law in our emergency lending to be well-secured and to protect taxpayers from loss, and we are prohibited from lending to insolvent borrowers. The financial circumstances of the territories are generally inconsistent with these statutory constraints."

Now, Mr. Chairman, notwithstanding Puerto Rico's circumstances, Guam is not insolvent, the Commonwealth of the Northern Mariana Islands is not insolvent, American Samoa is not insolvent, and the U.S. Virgin Islands are not insolvent. And so my question is, why are we excluding these territories from being able to access the Municipal Liquidity Facility?

Mr. POWELL. As you pointed out, what we put in our letter is really the way the law—we are required to conclude that we are adequately secured, and we have not been able to come to the view that any of the territories would be able to borrow from us.

And there are other government—I don't doubt the need for borrowing, but there are other programs which are better suited to serving the territories' needs.

Mr. SAN NICOLAS. But the CARES Act specifically authorizes territories to be able to access the Municipal Liquidity Facility. It is very clear in the law.

And the rationale for excluding them is not consistent with all of the territories. And I seriously doubt there is some kind of test being administered to every other jurisdiction in the country that is accessing the Municipal Liquidity Facility.

I want to ask if there is going to be any reconsideration from the Fed, given all of these facts?

Mr. POWELL. All of the other—to be eligible for the municipal facility, borrowers are required to have an investment-grade rating. And all of those who are eligible do have an investment-grade rating. That is a requirement we set for the Municipal Liquidity Facility.

Mr. SAN NICOLAS. The liquidity facility, though, Mr. Chairman, when we authorized it under the law, we did not set those kinds of bars. And one of the reasons why the liquidity facility being accessible by the Fed is because, when you have jurisdictions that are having more difficulty accessing capital markets, the reason why we provided those fundings is for the Fed to be able to provide that through the government.

Mr. POWELL. Well, I am sorry that we disagree on this. I would just say that we are a provider of liquidity, and those are the judgments that we have made. We will be happy to go back to the drawing board and look again, but that is the judgment that we have come to, in terms of what Section 13(3) under the Federal Reserve Act requires of us.

Mr. SAN NICOLAS. Just to close, Madam Chairwoman, because in the conversations today we talked about giving minorities more access and taking care of those communities, our territories have upwards of 90 percent populations comprised of minorities.

We talked about the need for supporting tourism industries, and the tourism industries in our Territories are critically strained.

We need to be able to access these resources that we are providing.

Thank you, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you very much.

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

I ask you to please respond as promptly as you are able.

Let me just say that I join with all of you today, all of my colleagues, in sending my prayers and condolences to Andy Barr and his children. Let us keep them in our prayers.

This hearing is now adjourned.

[Whereupon, at 3:03 p.m., the hearing was adjourned.]

A P P E N D I X

June 17, 2020

For release at
8:30 a.m. EDT
June 17, 2020

Statement by

Jerome H. Powell

Chair

Board of Governors of the Federal Reserve System

before the

Committee on Financial Services

U.S. House of Representatives

June 17, 2020

Chairwoman Waters, Ranking Member McHenry, and other members of the Committee, thank you for the opportunity to present the Federal Reserve's semiannual *Monetary Policy Report.*

Our country continues to face a difficult and challenging time, as the pandemic is causing tremendous hardship here in the United States and around the world. The coronavirus outbreak is, first and foremost, a public health crisis. The most important response has come from our health-care workers. On behalf of the Federal Reserve, I want to express our sincere gratitude to these dedicated individuals who put themselves at risk, day after day, in service to others and to our nation.

Current Economic Situation and Outlook

Beginning in mid-March, economic activity fell at an unprecedented speed in response to the outbreak of the virus and the measures taken to control its spread. Even after the unexpectedly positive May employment report, nearly 20 million jobs have been lost on net since February, and the reported unemployment rate has risen about 10 percentage points, to 13.3 percent. The decline in real gross domestic product (GDP) this quarter is likely to be the most severe on record. The burden of the downturn has not fallen equally on all Americans. Instead, those least able to withstand the downturn have been affected most. As discussed in the June *Monetary Policy Report,* low-income households have experienced, by far, the sharpest drop in employment, while job losses of African Americans, Hispanics, and women have been greater than that of other groups. If not contained and reversed, the downturn could further widen gaps in economic well-being that the long expansion had made some progress in closing.

Recently, some indicators have pointed to a stabilization, and in some areas a modest rebound, in economic activity. With an easing of restrictions on mobility and commerce and the extension of federal loans and grants, some businesses are opening up, while stimulus checks and unemployment benefits are supporting household incomes and spending. As a result, employment moved higher in May. That said, the levels of output and employment remain far below their pre-pandemic levels, and significant uncertainty remains about the timing and strength of the recovery. Much of that economic uncertainty comes from uncertainty about the path of the disease and the effects of measures to contain it. Until the public is confident that the disease is contained, a full recovery is unlikely.

Moreover, the longer the downturn lasts, the greater the potential for longer-term damage from permanent job loss and business closures. Long periods of unemployment can erode workers' skills and hurt their future job prospects. Persistent unemployment can also negate the gains made by many disadvantaged Americans during the long expansion and described to us at our *Fed Listens* events. The pandemic is presenting acute risks to small businesses, as discussed in the *Monetary Policy Report*. If a small or medium-sized business becomes insolvent because the economy recovers too slowly, we lose more than just that business. These businesses are the heart of our economy and often embody the work of generations.

With weak demand and large price declines for some goods and services—such as apparel, gasoline, air travel, and hotels—consumer price inflation has dropped noticeably in recent months. But indicators of longer-term inflation expectations have been fairly steady. As output stabilizes and the recovery moves ahead, inflation should stabilize and then gradually move back up over time closer to our symmetric 2 percent objective. Inflation is nonetheless likely to remain below our objective for some time.

Monetary Policy and Federal Reserve Actions to Support the Flow of Credit

The Federal Reserve's response to this extraordinary period is 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. We are committed to using our full range of tools to support the economy in this challenging time.

In March, we quickly lowered our policy interest rate to near zero, reflecting the effects of COVID-19 on economic activity, employment, and inflation, and the heightened risks to the outlook. We expect to maintain interest rates at this level until we are confident that the economy has weathered recent events and is on track to achieve our maximum-employment and price-stability goals.

We have also been taking broad and forceful actions to support the flow of credit in the economy. Since March, we have been purchasing sizable quantities of Treasury securities and agency mortgage-backed securities in order to support the smooth functioning of these markets, which are vital to the flow of credit in the economy. As described in the June *Monetary Policy Report,* these purchases have helped restore orderly market conditions and have fostered more accommodative financial conditions. As market functioning has improved since the strains experienced in March, we have gradually reduced the pace of these purchases. To sustain smooth market functioning and thereby foster the effective transmission of monetary policy to broader financial conditions, we will increase our holdings of Treasury securities and agency mortgage-backed securities over coming months at least at the current pace. We will closely monitor developments and are prepared to adjust our plans as appropriate to support our goals.

To provide stability to the financial system and support the flow of credit to households, businesses, and state and local governments, the Federal Reserve, with the approval of the

Secretary of the Treasury, established 11 credit and liquidity facilities under section 13(3) of the Federal Reserve Act. The June *Monetary Policy Report* provides details on these facilities, which fall into two categories: stabilizing short-term funding markets and providing more-direct support for credit across the economy.

To help stabilize short-term funding markets, the Federal Reserve set up the Commercial Paper Funding Facility and the Money Market Liquidity Facility to stem rapid outflows from prime money market funds. The Fed also established the Primary Dealer Credit Facility, which provides loans against good collateral to primary dealers that are critical intermediaries in short-term funding markets.

To more directly support the flow of credit to households, businesses, and state and local governments, the Federal Reserve established a number of facilities. To support the small business sector, we established the Paycheck Protection Program Liquidity Facility to bolster the effectiveness of the Coronavirus Aid, Relief, and Economic Security Act's (CARES Act) Paycheck Protection Program. Our Main Street Lending Program, which we are in the process of launching, supports lending to both small and midsized businesses. The Term Asset-Backed Securities Loan Facility supports lending to both businesses and consumers. To support the employment and spending of investment-grade businesses, we established two corporate credit facilities. And to help U.S. state and local governments manage cash flow pressures and serve their communities, we set up the Municipal Liquidity Facility.

The tools that the Federal Reserve is using under its 13(3) authority are appropriately reserved for times of emergency. When this crisis is behind us, we will put them away. The June *Monetary Policy Report* reviews the implications of these tools for the Federal Reserve's balance sheet.

Many of these facilities have been supported by funding from the CARES Act. We will be disclosing, on a monthly basis, names and details of participants in each such facility; amounts borrowed and interest rate charged; and overall costs, revenues, and fees for each facility. We embrace our responsibility to the American people to be as transparent as possible, and we appreciate that the need for transparency is heightened when we are called upon to use our emergency powers.

We recognize that our actions are only part of a broader public-sector response. Congress's passage of the CARES Act was critical in enabling the Federal Reserve and the Treasury Department to establish many of the lending programs. The CARES Act and other legislation provide direct help to people, businesses, and communities. This direct support can make a critical difference not just in helping families and businesses in a time of need, but also in limiting long-lasting damage to our economy.

I want to end by acknowledging the tragic events that have again put a spotlight on the pain of racial injustice in this country. The Federal Reserve serves the entire nation. We operate in, and are part of, many of the communities across the country where Americans are grappling with and expressing themselves on issues of racial equality. I speak for my colleagues throughout the Federal Reserve System when I say, there is no place at the Federal Reserve for racism and there should be no place for it in our society. Everyone deserves the opportunity to participate fully in our society and in our economy.

We understand that the work of the Federal Reserve touches communities, families, and businesses across the country. Everything we do is in service to our public mission. We are committed to using our full range of tools to support the economy and to help assure that the recovery from this difficult period will be as robust as possible.

Thank you. I am happy to take your questions.

AL GREEN
9TH DISTRICT, TEXAS
COMMITTEE ON
FINANCIAL SERVICES
CHAIRMAN
SUBCOMMITTEE ON
OVERSIGHT & INVESTIGATIONS

COMMITTEE ON
HOMELAND SECURITY

Congress of the United States
House of Representatives
Washington, DC 20515-4309

WASHINGTON OFFICE:
2347 RAYBURN HOUSE OFFICE
BUILDING
WASHINGTON, DC 20515
(202) 225-7508
FAX: (202) 225-2947

HOUSTON DISTRICT OFFICE:
3003 SOUTH LOOP WEST, SUITE 460
HOUSTON, TX 77054
(713) 383-9234
FAX: (713) 383-9202
http://algreen.house.gov

July 1, 2020

The Honorable Maxine Waters
Chairwoman
U.S. House of Representatives
Committee on Financial Services
Washington, DC 20515

Re: Letter for the Record – Financial Services Committee Hearing on June 17, 2020

Dear Chairwoman Waters:

Regrettably I was unable to participate as planned in the hearing of the House Committee on Financial Services at which Federal Reserve Chairman Jerome Powell testified on June 17th. As you know, it was my desire and full expectation that I would be able to attend and actively participate in this important hearing. Unfortunately, however, I was faced with an unavoidable conflict at the same time, namely an in-person meeting with the family of my constituent Joshua Johnson, who was fatally shot by an undercover Sheriff's deputy, as well as with the Harris County Sheriff.

The evening before our scheduled committee hearing, the Sheriff reached out to schedule this meeting for the following afternoon. This is why I was unable to attend the hearing in real time. Having a career of serving those in dire need and in the wake of police-involved injustices across our nation, I feel it my duty to aid this family, my constituents in seeking justice for their slain son. The facts and circumstances of this killing and its aftermath demand action and I am committed to securing justice for Joshua and his family.

The meeting lasted nearly two hours and was a fruitful one in our search for the truth. After more than 7 weeks of withholding the identity of the deputy who shot Joshua, in this meeting the Sheriff at last provided the family and me with his name. Many questions still remain, however, and my commitment to seeing that justice is achieved for this grieving family has not wavered.

Thank you for the opportunity to make this letter part of the hearing record so that the unique and exigent circumstances of my unavoidable absence are a matter of record.

Sincerely,

Al Green

AL GREEN
Member of Congress

THE FEDERAL RESERVE FRBservices.org (/index.html)

Strategic Allocation of Coin Inventories

June 11, 2020

Temporary coin order allocation in all Reserve Bank offices and Federal Reserve coin distribution locations effective June 15, 2020

The COVID-19 pandemic has significantly disrupted the supply chain and normal circulation patterns for U.S. coin. In the past few months, coin deposits from depository institutions to the Federal Reserve have declined significantly and the U.S. Mint's production of coin also decreased due to measures put in place to protect its employees. Federal Reserve coin orders from depository institutions have begun to increase as regions reopen, resulting in the Federal Reserve's coin inventory being reduced to below normal levels. While the U.S. Mint is the issuing authority for coin, the Federal Reserve manages coin inventory and its distribution to depository institutions (including commercial banks, community banks, credit unions and thrifts) through Reserve Bank cash operations and offsite locations across the country operated by Federal Reserve vendors.

The Federal Reserve is working on several fronts to mitigate the effects of low coin inventories. This includes managing the allocation of existing Fed inventories, working with the Mint, as issuing authority, to minimize coin supply constraints and maximize coin production capacity, and encouraging depository institutions to order only the coin they need to meet near-term customer demand. Depository institutions also can help replenish inventories by removing barriers to consumer deposits of loose and rolled coins. Although the Federal Reserve is confident that the coin inventory issues will resolve once the economy opens more broadly and the coin supply chain returns to normal circulation patterns, we recognize that these measures alone will not be enough to resolve near-term issues.

Consequently, effective Monday, June 15, Reserve Banks and Federal Reserve coin distribution locations began allocating coin inventories. To ensure a fair and equitable distribution of existing coin inventory to all depository institutions, effective June 15, the Federal Reserve Banks and their coin distribution locations began to allocate available supplies of pennies, nickels, dimes, and quarters to depository institutions as a temporary measure. The temporary coin allocation methodology is based on historical order volume by coin denomination and depository institution endpoint, and current U.S. Mint production levels. Order limits are unique by coin denomination and are the same across all Federal Reserve coin distribution locations. Limits will be reviewed and potentially revised based on national receipt levels, inventories, and Mint production.

To learn more about the Federal Reserve's role in coin distribution, visit the Federal Reserve Board of Governors (Off-site) (https://www.federalreserve.gov/paymentsystems/coin_about.htm) website. To learn more about coin ordering and depositing at the Federal Reserve, click here (/resources/financial-services/cash/depositing-ordering/coin.html).

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

JEROME H. POWELL
CHAIR

January 28, 2021

The Honorable Ted Budd
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to all of the questions that you submitted following the June 17, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

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

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

- **Last month Vice Chair Quarles testified before Congress that the Fed was in the process of reviewing the 2020 stress tests and conducting additional analysis to account for incremental stresses in the context of COVID-19. The Fed has since announced that the CCAR results will be released on June 25, how exactly is the Fed planning to utilize the results of its incremental COVID-19 sensitivity analysis? Will it be used in setting each firm's Stress Capital Buffer requirement?**
- **I have heard that templates or expectations for disclosures have not yet been issued. Can you provide any clarity on what type of information the Fed is planning on disclosing, including whether and how it will publicly disclose results?**
- **Once the Fed releases the reevaluated CCAR results, what comes next? Is the Fed planning on requiring banks to re-submit their capital plans? Or is the Fed planning to conduct additional stress testing?**

In 2020, the Federal Reserve conducted two rounds of stress tests and a sensitivity analysis.

In addition to its normal full stress test in June 2020, the "Dodd-Frank Act Stress Test 2020 Supervisory Stress Test Results,"[2] the Federal Reserve simultaneously conducted a sensitivity analysis to assess the resiliency of large banks under three hypothetical downside scenarios that, at the time, could have resulted from COVID-19.[3] The scenarios included a V-shaped recession and recovery; a slower, U-shaped recession and recovery; and a W-shaped, double-dip recession. The sensitivity analysis was not a full stress test, unlike the June stress test.

In light of the sensitivity analysis results, the Federal Reserve took several actions to ensure large banks remain resilient despite the economic uncertainty from COVID-19. Specifically, for the third quarter of 2020, the Federal Reserve required large banks to preserve capital by suspending share repurchases, capping the growth of dividends, and imposing a limit on dividends according to a formula based on recent income. The Federal Reserve also required banks to re-evaluate and resubmit their capital plans.

The Federal Reserve also used the results of the June stress test to set the new stress capital buffer requirement for subject firms, which became effective October 1, 2020. Firms' final stress capital buffer requirements were published on August 10.

In September, citing continued uncertainty stemming from COVID-19, the Federal Reserve extended the restrictions on capital distributions into the fourth quarter of 2020. Also in September, the Federal Reserve released additional scenarios to be used in firms in their resubmitted capital plans and by the Federal Reserve in a supervisory stress test.

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[2] See https://www.federalreserve.gov/publications/files/2020-dfast-results-20200625.pdf.
[3] See https://www.federalreserve.gov/publications/files/2020-sensitivity-analysis-20200625.pdf.

On December 18, 2020, the Federal Reserve released its "December 2020 Stress Test Results."[4] The second round of stress tests found that while firms experienced higher losses than in the first stress test of 2020, they are still well positioned to continue lending to households and businesses. The Federal Reserve Board (Board) also extended limitations on distributions into the first quarter of 2021, and announced that firms' capital requirements would not be reset at this time.

- **As you know, the Fed recently issued two interim final rules related to temporary Supplementary Leverage Ratio relief. There is a Fed-only rule that provides *unconditional* relief for holding companies, and an interagency rule that provides *conditional* relief for insured depository institutions in exchange for supervisory authority over the bank dividend. Considering the existing body of law that governs when a bank may pay a dividend to its parent holding company, does the Fed believe this additional dividend condition is necessary?**

On May 15, 2020, the Board, Federal Deposit Insurance Corporation (FDIC), and Comptroller of the Currency (OCC) issued an interim final rule that provides a temporary exclusion from the supplementary leverage ratio for U.S. Department of the Treasury securities and deposits at Federal Reserve Banks. The interim final rule applies to depository institutions, and was designed to support financial intermediation, the flow of credit to the economy, and the elevated deposit levels as a result of COVID-19.

To support the safety and soundness of depository institutions, firms that elect the exclusion must request approval from their primary federal banking regulator prior to making certain capital distributions while the exclusion is in effect. The restrictions set forth in this interim final rule are in addition to, and therefore do not supersede, other existing statutory and regulatory limitations on making capital distributions. The Board continues to actively monitor the effects of COVID-19 on the U.S. financial system and will continue to take appropriate measures as circumstances change.

The prior-approval requirement supports the objective of the interim final rule to strengthen the ability of electing depository institutions to continue taking deposits, lending, and conducting other financial intermediation activities during this period of stress.

- **The global COVID-19 pandemic is creating existential challenges for the financial services industry. These last few months have put significant pressure on the system not seen since 2008. The Fed has taken swift action to mitigate some of this stress with the many facilities they have stood up. Has the Fed also been exploring the role that innovative technologies like blockchain can play in helping to facilitate access to credit and ease liquidity concerns? What initiatives is the Fed working on to help foster and promote further innovation?**

The Federal Reserve remains committed to using its tools to provide economic relief and stability, to ensure that the recovery will be as strong as possible, and to limit damage to the economy. The Federal Reserve's response to this crisis has been guided by its mandate to

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[4] See https://www.federalreserve.gov/publications/files/2020-dec-stress-test-results-20201218.pdf.

promote maximum employment and stable prices for the American people, along with its responsibilities to promote the stability of the financial system.

Concurrently, the Federal Reserve supports responsible innovation in the financial system that addresses associated risks and preserves the safety and soundness of the payments system, the financial system, and U.S. financial stability. We recognize that the rapid evolution of technology presents a pivotal opportunity for the Federal Reserve and the financial industry to modernize the nation's financial system that ensures its safety and efficiency.

The Federal Reserve is building a new 24x7x365 interbank settlement service—the FedNow℠ Service—to support the growing need and demand for instant digital payments in the U.S. The FedNow Service will be broadly available to more than 10,000 diverse financial institutions across the country, and is intended to be a catalyst for innovation by providing a neutral platform on which the private sector can build to offer safe, efficient instant payment services to users across the country. The FedNow Service will provide a modern payment infrastructure for the future, while maintaining existing consumer protections and other legal and regulatory safeguards associated with payment services based on bank accounts. On January 25, the Reserve Banks announced participants in a pilot program that will begin with an advisory phase focused on service features, readiness, and adoption strategy.

The Federal Reserve continues to conduct research and experimentation to assess a variety of technology developments and better understand their opportunities and challenges as they apply to financial services. We regularly meet with financial institutions and technology companies to discuss their use of blockchain and other innovative technologies through our Innovation Office Hours events. We similarly meet regularly and coordinate closely with the other federal regulatory agencies on these topics. Additionally, the Federal Reserve is part of a group of central banks that are actively collaborating to understand the economic, security, and financial inclusion implications of central bank digital currencies.

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

JEROME H. POWELL
CHAIR

November 13, 2020

The Honorable Emanuel Cleaver
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to questions under each of the four issue areas that you submitted following the June 17, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. My responses to your remaining questions will be forthcoming.

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

Sincerely,

Jerome H. Powell

Enclosure

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

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

Systemic Risk Concern
I have been working on with Congressman Scott of Georgia to address possible systemic risk posed by market utilities regulated by the CFTC. My staff has provided the Board with a discussion draft of a bill Congressman Scott and I are working on. We would welcome Board reaction to the draft for technical purposes.

Clearing houses are requesting Federal Reserve deposit access and the CFTC seems to think they should receive some level of access for the purpose of systemic safety.

- **Would the Federal Reserve be willing to join the CFTC, the prudential regulator of these market utilities, in supporting a legislative change to allowing the Federal Reserve the authority to grant non-designated market utilities Federal Reserve account access on the condition that they submit to an oversight regime of the Federal Reserve's choosing?**
    - **If no, please explain any concerns or any additional controls the Board would recommend.**
- **The Financial Stability Oversight Council (FSOC) has historically not designated systemically important market utilities outside the borders of the United States, however Dodd-Frank is silent on this point. I understand that FSOC appropriately weighed the efficacy of this issues. Would expanded Fed account access authority granted to the fed result in appropriate consultation and review of the efficacy of this point?**

As you know, Federal Reserve Board (Board) staff have engaged with your staff and Commodity Futures Trading Commission (CFTC) staff to discuss clearing houses' interest in depositing funds at the Federal Reserve. The Federal Reserve does not currently have the legal authority to offer an account to a clearing house unless it has been designated as systemically important by the Financial Stability Oversight Council (FSOC) or unless it is organized as a bank or other entity for which the Reserve Banks can provide accounts. Board staff continue to actively consider how to address the financial stability concerns raised by clearing houses and discuss the issues raised in the language of the draft bill provided.

A number of considerations would have to be taken into account in determining whether account access should be expanded to non-designated clearing houses. These considerations include understanding the risks that clearing houses pose to the financial system, assessing any solutions that these entities can use to effectively and safely custody U.S. dollar collateral, the circumstances driving the need for a central bank deposit account, the impact that account access would have on financial stability, and the risks that account access could pose to the Federal Reserve.

Municipal Liquidity Facility
I have some very serious concerns about the design of the emergency Municipal Liquidity Facility the Fed rolled out and the fact that 97% of municipalities looked to be locked out of effectively accessing it. I have submitted a letter articulating my concerns. I would welcome a timely response to these concerns.

Since Submitting my letter, municipalities have been forced to lay off and furlough public sector employees including teachers, frontline workers, and others due to the financial burdens caused by this crisis.

- **As you have noted that the Federal Reserve is seeking to fulfill its maximum employment mandates, exactly what additional interventions is the Federal Reserve prepared to make to address this distinct crisis?**
- **Does the Federal Reserve consider the municipal liquidity facility an appropriate tool to help address this bourgeoning pubic sector employment crisis?**
  - **Why or why not?**
  - **Exactly what additional tools beyond the Municipal Liquidity Facility, could the Federal Reserve possibly deploy to address a possible public sector employment crisis and what would warrant Board intervention?**

Following considerable strains in the municipal securities market in mid-March, the Federal Reserve established the Municipal Liquidity Facility (MLF). The immediate goal of the MLF was to enhance the liquidity of the primary short-term municipal securities market through the purchase at issuance of Tax Anticipation Notes (TANs), Tax and Revenue Anticipation Notes (TRANs), Bond Anticipation Notes (BANs), Revenue Anticipation Notes (RANs), and similar short-term notes from eligible issuers. By directly providing credit in municipal markets, the Federal Reserve is helping municipalities manage their liquidity. More importantly, by supporting the smooth functioning of the municipal securities market in a time of strain, the Federal Reserve is promoting the provision of credit by the private sector, which supports families, businesses, and jobs in communities, large and small, across the nation.

Following the announcement and implementation of the MLF, conditions in the municipal bond market improved, with spreads on general obligation bonds decreasing and primary issuance activity picking up in recent months. The Federal Reserve on August 11, 2020, announced revised pricing for the MLF, which reduced the interest rate spread for each credit rating category by 50 basis points and further reduced the amount by which the interest rate for taxable notes is adjusted relative to tax-exempt notes. These changes are helping to ensure the MLF continues to provide an effective backstop to assist U.S. states and local governments as they weather the pandemic.

Together with the U.S. Department of the Treasury, we are continuing to monitor the implementation, use, and effectiveness of the MLF, and if appropriate, we will further adapt or expand these programs. We will continue to use our full range of tools to support the economy, maintain the flow of credit to state and local governments, and promote our maximum employment and price stability goals.

<u>Economic Justice</u>
Senator Brown asked about a letter written by the only black Federal Reserve president, President Bostic of Atlanta, who called for the fed to end social inequities and bring about a more inclusive economy. In a review of Recent Federal Reserve Board OMBI reports it looks like in your most senior ranks there is very little movement in the area of racial and gender diversity. Looking at the numbers in your 2019 report, you had 247 senior level executive officers; 193 were white, 22 were black and 8 were Hispanic. In your 2020 report, you had 256 senior level executive officers and 198 were white, 23 were black and 9 were Hispanic. Upon looking at the same OMWI report, is appears black employees are overrepresented in the service and support fields.

- **When the Fed seeks to fill its most senior roles within the Board do you adopt a Rooney Rule model?**
- **Will you be making a more concerted effort to fill the most senior ranks within your own executive team?**

Additionally, President Bostic of the Atlanta Fed is the only black Federal Reserve bank president ever.

What steps are the Fed is taking to broaden the racial, ethnic, and gender composition of the institution in every rung of its workforce?

- **How has this been prioritized by the Board's most senior leaders?**
- **How has the Board used year over year data derived from OMWI reports and internal metrics to achieve a more diverse workforce and senior leadership team? (Specific data and analysis would be most helpful**

The Federal Reserve is focused on increasing the racial, ethnic, and gender diversity of our staff. By drawing from a richer pool of experience and points of view, we will make better decisions and be more successful in achieving our mission. We are emphasizing the expansion of a diverse talent base within the Federal Reserve System to develop our future leaders, and are also increasing engagement with community leaders.

We continue to offer events to enhance diversity. Last fall, the Board hosted a group of Reserve Bank officers and provided an opportunity to better understand the Board's structure, role, responsibilities, and current agenda while engaging with a broad cross-section of its leadership. I and other members of the Board along with a large portion of senior leadership of the Board participated in the event. We plan to host similar events periodically to further ready a diverse pool of leaders for roles within the Federal Reserve. Additionally, Reserve Bank leadership supports local Employee Resource Groups as a way to provide support for employees and further instill an inclusive environment for all employees.

We also continue to find ways to add diversity to our Reserve Bank Boards of Directors, given the importance they play in the organizational structure and involvement in the selection of senior leadership roles in the Reserve Banks. In 2020, approximately 75 percent of Class C directors and 70 percent of Class B directors—those directors who play a role in the selection of Reserve Bank presidents—are diverse in terms of gender and/or race. This represents significant progress in increasing gender and racial diversity over the past several years. For example, approximately 50 percent of Class C directors are minorities, and 50 percent of Class C directors are women, which represents a 31 percentage point and a 19 percentage point increase, respectively, over the past five years. Reserve Bank board leadership is also highly diverse. Among the 24 Reserve Bank Chairs and Deputy Chairs, 11 are minorities and 11 are women, five of whom are minority women.

We have also significantly changed the ways we have recruited for senior positions. In selecting Reserve Bank Presidents, we engage with diversity-focused search firms and involve the Director of the Office of Minority and Women Inclusion in the search process. Recruiters are leveraging industry best practices on sourcing candidates and building relationships to support diverse hiring. Diverse interview panels are used to ensure that different points of view and opinions are part of the hiring decision.

Reserve Bank leadership supports local Employee Resource Groups as a way to provide support for employees and further instill an inclusive environment for all employees.

<u>Nonprofit Concern</u>
I wanted to inquire about potential efforts to assist nonprofit organizations during this time. A new survey of 110 mid-size nonprofits shows that they have been hit particularly hard by the economic impacts of COVID-19. Of nonprofits with between 500 and 5,000 employees, over 50 percent have laid of employees and 67 percent have furloughed employees. Over 80 percent have had a reduction in contributions/revenue as of April 2020, compared to reports from April 2019. As you may know, many nonprofits serve a vital function to those in need and have had to maintain operations while the virus has spread.

How have you consulted with front-line nonprofits that are providing assistance to people during the pandemic?

- **What resources have you referred to in order to better understand the issues being faced by nonprofits during this time?**
- **Who have you consulted with regarding the financial security of the nonprofit sector?**

How is the Federal Reserve considering nonprofits differently than financial institutions in the design of these facilities?

As you know, on June 15, the Federal Reserve announced that it was seeking public feedback on a proposal to expand its Main Street Lending Program (Main Street) to provide access to credit for nonprofit organizations. Recognizing that the circumstances, structure, and needs of nonprofit organizations vary considerably, the Federal Reserve sought feedback from a wide range of potential nonprofit borrowers, lenders, and the public on the proposed terms of the nonprofit facilities to help make the program as efficient and effective as possible. In response to our request for feedback, we received around 400 comments related to the proposed nonprofit facility term sheets.

Additionally, we conducted outreach calls to lenders and nonprofit borrowers to better understand the challenges that nonprofit organizations face in this environment. This included outreach to nonprofit organizations on the front-line, such as those providing medical services and social services to communities in need. Based on this feedback, on July 17, the Federal Reserve modified Main Street to provide greater access to credit for nonprofit organizations that were in sound financial condition prior to the pandemic. In particular, the proposed eligibility criteria for the Nonprofit Organization Expanded Loan Facility (NOELF) and the Nonprofit Organization New Loan Facility (NONLF) were amended to permit more nonprofit organizations to qualify, including an amendment that raises the amount of funding from donations that eligible nonprofit borrowers may receive. Moreover, the financial eligibility criteria were adjusted to accommodate a wider range of nonprofit operating models, specifically by reducing the minimum operating margin, liquidity, and the debt service capacity requirements. More recently, to better target support to smaller businesses that employ millions of workers and are facing continued revenue shortfalls due to the pandemic, the Federal Reserve Board adjusted the terms of Main Street on October 30. In particular, the minimum loan size for three Main Street facilities available to for-profit and non-profit borrowers has been reduced from $250,000 to $100,000. For more information on the NOELF and NONLF, please see the facility term sheets.[1] In addition, the Federal Reserve has published frequently asked questions (FAQs) to provide additional information about the two facilities.[2]

In addition to receiving and reviewing feedback via public comments, we have also conducted webinars and events for borrowers and lenders to raise awareness of Main Street. Two of these sessions were specifically directed toward nonprofit facility borrowers and lenders.

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

[2] See Main Street for Nonprofit Organizations, Frequently Asked Questions, available at www.bostonfed.org/-/media/Documents/special-lending-facilities/mslp/legal/frequently-asked-questions-faqs-nonprofit.pdf.

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

JEROME H. POWELL
CHAIR

December 23, 2020

The Honorable Jesús "Chuy" García
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the June 17, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

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

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

1. Local government layoffs are expected to have a disproportionate impact on Black workers and Black communities, including this recent analysis which found that " the workers who lose their jobs as a result of layoffs in the public sector are 20 percent more likely to be Black than workers who lose their jobs in the private sector". Given this fact, how will the Federal Reserve ensure that its efforts to stabilize and strengthen the economy in the crisis are especially effective addressing this problem?

2. The Municipal Liquidity Facility (MLF) is the Federal Reserve's program that is most targeted to address layoffs of the local government employees that are most likely to be Black, but the lending capacity of the MLF only represents 1/3rd of the total lending capacity authorized in the CARES Act. Are there any other Federal Reserve Programs that will specifically target this problem?

3. A recent analysis has found that, of the 255 states, cities and counties that have been named by the Federal Reserve as size-eligible for the Municipal Liquidity Facility (MLF), 97% are functionally excluded because their credit rating would be likely to make the cost of the MLF exceed the cost of the municipal bond market. My state of Illinois is an outlier because its poor credit rating does allow it to benefit from the MLF. But, the 5 counties in Illinois that are named by the Federal Reserve as being size-eligible do not stand to benefit from the MLF because of their quality credit rating, even though the fiscal situation facing these local governments is severe and their needs not being fully met by the private bond market.

> **a. Did the Federal Reserve design the pricing of the MLF to intentionally restrict participation to a small number of issuers?**
>
> **b. If few issuers participate in the MLF because the program is not competitive with market prices, does the Federal Reserve expect to spend all of the $500 billion authorized by Congress for the program? If not, how will it use the funds?**
>
> **c. Referring back to question 1, why is the Federal Reserve intentionally restricting the one lending facility that could most help Black workers and communities?**

4. Please explain the Federal Reserve's rational for establishing terms for the Municipal Liquidity Facility that are designed to make the MLF a lender of last resort, while other Federal Reserve lending programs, such as the recently revised terms for the Main Street lending Program and the Secondary Corporate Credit Facility, are designed to proactively encourage borrowing from those sectors.

5. The Federal Reserve has been very responsive to concerns about its corporate credit facilities and made major changes to its term sheets after the programs were announced, including for the Main Street Lending Program and the Secondary Corporate Credit

Facility. Will the Federal Reserve consider changing the terms of the MLF if bond issuers express concerns?

I would like to provide a comprehensive response to Questions 1 through 5 since they are all related to the design and implementation of the Municipal Liquidity Facility (MLF). The purpose of the MLF is to enhance the liquidity of the municipal securities market by increasing the availability of funding to eligible issuers through purchases of their short-term notes. Stabilizing the municipal bond market should facilitate the issuance of debt by state and local governments, allowing them to continue to provide essential services and retain employees. Early evidence suggests that the announcement and implementation of the MLF has led to improvement in municipal bond markets. For example, spreads on general obligation bonds, which rose significantly in mid-March, have steadily decreased across a range of maturities, reflecting greater investor demand for these securities. Moreover, after depressed primary issuance activity in March and April, issuance activity has been robust in recent months. Conditions in the secondary market also have improved, with transaction costs and bid wanted amounts returning to more normal levels.

The Federal Reserve Board (Board) followed the legal requirements under section 13(3) of the Federal Reserve Act and the Board's Regulation A when designing and implementing the MLF. The MLF's pricing methodology adjusts the interest rate based on credit rating, maturity, and tax status because these factors affect the pricing of similar municipal debt in markets during normal times. The fixed spread over overnight indexed swap (OIS) rate that applies for each credit rating category under the MLF was chosen because it meets the legal requirements under section 13(3) of the Federal Reserve Act and the Board's Regulation A. In particular, Regulation A requires that an interest rate on eligible notes must be at a premium to the market rate in normal circumstances, afford liquidity in unusual and exigent circumstances, and encourage repayment of the eligible notes and discourage use of the facility as the unusual and exigent circumstances that motivated the program recede and economic conditions normalize. The Federal Reserve on August 11, 2020, announced revised pricing for the MLF, which reduces the interest rate spread for each credit rating category by 50 basis points and further reduces the amount by which the interest rate for taxable notes is adjusted relative to tax-exempt notes. These changes will ensure the MLF continues to provide an effective backstop to assist U.S. states and local governments as they weather COVID-19 until it expires on December 31 of this year, as directed by the Secretary of the Treasury.

In accordance with section 13(3), the Federal Reserve also must obtain evidence that participants in the MLF are unable to secure adequate credit accommodations from other banking institutions. These legal requirements apply to all of the section 13(3) facilities, including the Main Street Lending Program and the Corporate Credit Facilities. Consequently, the facilities have all been designed to serve as backstops for private markets in order to meet these legal requirements.

The Federal Reserve, in conjunction with the U.S. Department of the Treasury, has used funds appropriated under the Coronavirus Aid, Relief, and Economic Security Act to operationalize the Corporate Credit Facilities, the MLF, the Main Street Lending Program, and the Term Asset-Backed Securities Loan Facility. Together, these facilities support the most important portions in the American economy, namely households, businesses, and state and local governments. We are monitoring the implementation, use, and effectiveness of our facilities.

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

We will continue to use our full range of tools to support the economy, maintain the flow of credit to households and businesses, and promote our maximum employment and price stability goals.

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

JEROME H. POWELL
CHAIR

January 15, 2021

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

Dear Congressman:

Enclosed are my responses to questions 1 through 5 that you submitted following the June 17, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

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

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

1. The Fed does not provide information on beneficiaries of the repo facility for foreign central banks, and even the identity of eligible central banks is not entirely clear. We also do not have the Fed's criteria for approving use of the facility, or know of any coordination between the Fed and other lenders. What details on this facility is the Fed willing to provide to the Committee in the absence of legislation requiring reports from the Fed?

The Federal Reserve established the temporary repurchase agreement facility for foreign and international monetary authorities (FIMA Repo Facility) in March 2020 to help support the smooth functioning of financial markets, including the U.S. Department of the Treasury (Treasury) market, and thus maintain the supply of credit to U.S. households and businesses. The Federal Reserve Bank of New York (FRBNY) provides U.S. dollar-denominated banking services to foreign central banks and international monetary authorities (FIMA Accounts) in support of Federal Reserve objectives and in recognition of the dollar's predominant role as an international currency. Most FIMA Account holders are eligible to apply to use the FIMA Repo Facility. Applications must then be approved by the Foreign Currency Subcommittee of the Federal Open Market Committee.[2] Of course, the FIMA Repo Facility is not available to central banks subject to U.S. government sanctions. For more information, please see the FIMA Repo Facility Frequently Asked Questions (FAQs) on the Federal Reserve Board's (Board) public website.[3]

The Federal Reserve publicly discloses the aggregate amount of transactions for the FIMA Repo Facility in the Board's weekly H.4.1 report.[4] The Federal Reserve does not disclose information regarding accounts and specific services provided to individual account holders, which is in line with international central banking norms and is consistent with the terms on accounts that foreign central banks establish for the Federal Reserve.

2. In March, Australia announced that it would, like Japan, engage in yield curve control, but it will target different maturities than the Japanese. What clear evidence do we have that yield curve control would be successful in helping to meet the Fed's mandate at an acceptable cost?

Yield curve caps or targets (YCT) can be thought of as a form of balance sheet policy in which the balance sheet of a county's central bank is adjusted as necessary to keep that country's sovereign yields within a range or to impose a ceiling or cap. While the YCT programs in Japan and Australia can provide some insight into how such a program could operate in the United States, drawing firm conclusions based on the experience in those countries is difficult. Of the two, the Australian experience appears to be more relevant, as the Reserve Bank of Australia is using the program to reinforce forward guidance for its policy rate in order to achieve its macroeconomic objectives. However, it is too early to judge the performance of the Reserve

[2] https://www.federalreserve.gov/monetarypolicy/files/FOMC_FIMADeskResolution.pdf.
[3] https://www.federalreserve.gov/newsevents/pressreleases/fima-repo-facility-faqs.htm.
[4] https://www.federalreserve.gov/releases/h41/current/ (under "Repurchase Agreements – Foreign Official").

Bank of Australia's YCT program, and any evidence on the potential benefits of operating such a program in the United States drawn from this experience would need to be carefully interpreted in light of substantial structural differences between the U.S. and Australian economies.

Most of the available evidence, based on the recent history in the U.S., suggests that the Federal Reserve's large-scale asset purchases were effective in easing financial conditions and providing additional accommodation when the federal funds rate was constrained at the effective lower bound. Since YCT operates through similar channels, it could, like these programs, help maintain accommodative financial conditions. However, the evidence stemming from the Federal Reserve's asset purchases during the previous crisis is, at best, suggestive of the potential effectiveness of YCT for the United States.

A key difference between YCT and the balance sheet policies used during the previous crisis is that under YCT the central bank targets or caps yields and lets the balance sheet adjust accordingly, while under an asset purchase program a central bank targets a purchase amount and lets yields move accordingly. YCT therefore could potentially reduce interest rate uncertainty by constraining yields to be at certain levels, helping to ensure that Treasury rates remained well aligned with the path of the policy rate that the Federal Open Market Committee (FOMC or Committee) anticipated, based on economic conditions.

However, as noted in the minutes of the July FOMC meeting, many policymakers judged that YCT would likely provide only modest benefits in reinforcing forward guidance in the current environment. The Committee's forward guidance regarding the path of the federal funds rate already appeared highly credible and longer-term interest rates are already low. Further, actual purchases under such a program would be unpredictable at the outset, and such a program introduces the possibility of an excessively rapid expansion of the balance sheet. Policymakers also pointed to other potential costs associated with YCT, including difficulties in the design and communication of the conditions under which such a policy would be terminated, especially in conjunction with forward guidance regarding the policy rate. In light of these concerns, many policymakers judged that a YCT program was not warranted in the current environment but should remain an option that the Committee could reassess in the future if circumstances changed markedly.

3. Do you believe that the COVID-19 pandemic raises any urgency to transition away from cash and coins? If so, how is that affecting your efforts with regard to development of a digital currency?

The Federal Reserve, consistent with its history and statutory mandate, remains committed to supporting those payment systems, both old and new, that meet the needs of businesses and households and thereby support the U.S. economy.

Recent strong demand for coin and currency, notably as Economic Impact Payments (EIPs) were made to many U.S. households as part of the federal COVID-19 response, confirms the continuing importance to many households of these payment mechanisms. Research studies, such as the Diary of Consumer Payment Choice, also reveal an affirmative preference for physical currency on the part of some groups, and high reliance on this payment option in some communities, including many that are under-banked. Issuing currency and otherwise supporting the use of cash as a means of payment thus remains a key function of the Federal Reserve.

Even as we expect coin and currency to remain important payment mechanisms in the U.S., we recognize the strong interest in central bank digital currencies (CBDC) on the part of certain banks, consumers, and technology firms. The Federal Reserve is currently exploring the potential use cases and technological foundations for general purpose CBDCs. We see this work as foundational to any subsequent discussion of the myriad policy issues surrounding issuance of a CBDC, including impacts on the banking sector and monetary policy implementation. Our ongoing explorative work focuses on the potential of CBDC to complement rather than replace cash. We are committed to carefully and thoughtfully evaluating the potential costs and benefits of a central bank digital currency for the U.S. economy and payment system as well as for its international implications.

4. An important part of the Committee's oversight of agencies' effectiveness is looking at the quality of day-to-day management. One source of data we have historically relied on is government employee surveys. While we have obtained such information from other agencies under the Committee's jurisdiction, the Fed has not provided this information, though it acknowledges that it is available. Would you commit to sharing this data in support of the Committee's oversight activities going forward?

As the central bank of the United States, the Federal Reserve's mission is to provide the nation with a safer, more flexible, and more stable monetary and financial system. The Federal Reserve's mission touches the lives of all Americans, and we serve the public more effectively when our workforce reflects the characteristics and experiences of our diverse nation.

With regard to its workforce, the Board values the diversity of its employees, input from a variety of sources, and the independent professional judgment fostered by the System's regional structure. We rely on strong teamwork and consensus building to mold independent viewpoints into coherent, effective policies.

Additionally, the Board is committed to optimizing operations and capabilities through efficient, effective, and sustainable management of resources. Through innovative use of technology and workspace, the Board ensures a secure and adaptive work environment that maximizes productivity, continuity, and resiliency.

Further, the Board is committed to ensuring that the current and future workforce has the abilities, knowledge, and skills necessary to carry out the Board's mission by attracting, developing, and retaining diverse talent with varied experience and perspectives to ensure the Board is able to meet workforce needs in a rapidly changing environment.

Recognizing the important work of the Committee, we will work closely with the Committee regarding its oversight of agency management more broadly.

5. You have testified that balance sheet policy is driven largely by demand for reserves. Do you believe COVID-19 will have any longer-term effects on the level of reserve demand, even after the recovery?

Several factors affect reserve demand, including intraday payment flows and deposit outflows and the relative yield of reserves and other liquid assets. Internal liquidity management practices can also play a role. Many banks already had been maintaining substantial holdings of reserves as a buffer to meet unexpected liquidity needs before COVID-19, and that is likely to continue.

In the wake of COVID-19 and increased uncertainty about the economic outlook, banks may become more cautious in managing liquidity risk relative to pre-COVID-19, potentially leading to higher demand for liquid assets. However, banks' liquidity demand can be met in several ways. Reserves, along with the U.S. Department of the Treasury (Treasury) securities and other very liquid instruments, are key assets that banks choose to hold as part of their overall approach to liquidity risk management. Although, from a regulatory perspective, banks should be indifferent to holding reserves versus Treasuries, heightened uncertainty due to COVID-19 may affect their preference for holding reserves versus Treasuries. On one hand, the Treasury market functioning issues seen in March may increase banks' demand for reserves, if Treasuries are not perceived to be as safe or liquid as they were before COVID-19. On the other hand, the substantial increase in Treasury issuance since March has put some upward pressure on Treasury yields, with further upward pressure likely, which may make banks willing to hold more Treasuries, given their higher yield relative to interest on reserves. Since March, Treasury market liquidity conditions have generally returned to normal and there has been little evidence of any change in banks' willingness to hold Treasuries. Overall, it is unclear how much, if at all, these factors will affect aggregate long-run reserve demand.

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

JEROME H. POWELL
CHAIR

November 13, 2020

The Honorable Jim Himes
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to questions 1 through 3 that you submitted following the June 17, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

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

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

1. In enacting the CARES Act, Congress made clear that Tribal Governments are to have access to the Economic Stabilization Fund in the same way that States and municipalities have been given such access. While the Federal Reserve has clarified that "Tribal businesses concerns" are eligible for the Main Street Lending Program, it is less clear that the facilities established by the Fed provide access for Tribes as governments. Whether it is through the Main Street Lending Program, the Municipal Liquidity Facility, or another vehicle specific to Tribal Governments, what is the Fed doing to make sure that Tribal Governments are not left behind?

As you know, tribal governments are not eligible to participate in the Municipal Liquidity Facility (MLF). The Federal Reserve is aware that tribal governments are facing unique and difficult fiscal and economic challenges in combating the crisis. However, unlike state and local governments, tribal governments have limited taxing powers and generally do not issue notes into the municipal securities market for debt financing. Instead, tribal governments derive their revenues largely from federal aid and dividends paid by tribally owned businesses. These tribal businesses may be eligible to participate in other emergency lending facilities, such as the Main Street Lending Program (Main Street). Additionally, the MLF relies primarily on credit ratings from nationally recognized statistical rating organizations (NRSROs) to ensure that credit risk to the Federal Reserve and taxpayers is appropriately limited—to be eligible to participate in the facility, issuers generally must have had an investment grade credit rating (or, in the case of revenue bond issuers and multi-state entities, minimum ratings of A-/A3) from at least two NRSROs as of the date when the facility was authorized. Based on our research, we believe that the vast majority of tribal governments in the United States would not meet these credit rating requirements.

The Federal Reserve will continue to monitor economic conditions and assess whether any adjustments to its emergency lending facilities are appropriate. Fiscal support from Congress may be a more appropriate response in helping tribal governments weather COVID-19.

2. Please confirm that a payment from a Tribal business concern to a Tribal government or government instrumentality, for example, for the reimbursement of public health and safety services provided by a Tribal government or for any of the other five permitted uses of net gaming revenues from Tribal gaming under 25 U.S.C. § 2710(b)(2)(B) or other mandatory pre-existing obligations to make distributions from a Tribal business concern to the Tribe which owns it, would not be considered "compensation, stock repurchase and capital distribution" payments or "dividends . . . or capital distributions with respect to the common stock of the eligible business" which are restricted by Section 4003(c)(3)(A)(ii) of the CARES Act and the Term Sheets.

On July 14, 2020, the Secretary of the Treasury notified Congress that he exercised his authority under section 4003(c)(3)(A)(iii) of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to grant a waiver from the dividend prohibition in section 4003(c)(3)(A)(ii)(II) of the CARES Act to permit a tribal business, the ownership interests of which are wholly or majority owned by one or more tribal governments, to pay dividends or make equivalent capital distributions to its tribal government owners. The waiver was issued in recognition of the fact that dividends and other capital distributions paid by tribal businesses provide a vital source of revenue for tribal governments and thereby support the self-sufficiency of the tribe and the provision of social services.

Under this waiver,[1] a tribal business, the ownership interests of which are held by individuals or investors other than the tribal government, may pay dividends or make equivalent capital distributions to its tribal government owner(s), but remains subject to the prohibition on payment of dividends and other capital distributions with respect to ownership interests held by individuals or investors other than a tribal government. However, a tribal business that is organized as an S corporation or other tax pass-through entity is permitted to pay dividends or make other capital distributions to non-tribal government owners, to the extent reasonably required to cover the owners' tax obligations in respect of the company's earnings.[2]

On July 31, 2020, the Federal Reserve used its discretion to clarify that tribal economic enterprises that do not have a separate legal personality from the related tribal government may be eligible to borrow under Main Street, provided that certain criteria are met.[3] For the avoidance of doubt, transfers from tribal economic enterprises that do not have a distinct legal personality to the related tribal government are not considered dividends and are permitted, subject to the terms of the loan agreement.

3. The newly announced Nonprofit Organization New and Expanded Loan Facilities will bring much needed assistance to nonprofit organizations across the country. However, many of these nonprofit entities (including those owned or operated by Tribes) are not organized under 501(c)(3) of the Internal Revenue Code, making them ineligible for the program. What is the Fed doing to ensure that these other types of nonprofit organizations are provided access to this facility?

Under the current terms of the nonprofit organization facilities, eligible borrowers include all nonprofit organizations that are described in sections 501(c)(3) or 501(c)(19) of the Internal Revenue Code. This approach follows the Small Business Administration's (SBA) nonprofit eligibility criteria for the Paycheck Protection Program (PPP) and includes a broad range of nonprofit organizations. Similar to the PPP eligibility criteria, we anticipate that these standards will permit other tax-exempt organizations, such as public hospitals and universities that are not tax-exempt pursuant to section 501(c)(3), to qualify under the program in certain circumstances. The Federal Reserve has released public frequently asked questions[4] describing how public hospitals and public universities in particular may establish that they qualify as organizations "described" in sections 501(c)(3).

In considering other types of nonprofit organizations to include in the nonprofit organization

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[1] See FAQ H.15 at www.bostonfed.org/mslp-faqs.
[2] See FAQ H.2 at www.bostonfed.org/mslp-faqs.
[3] See FAQ E.2 at www.bostonfed.org/mslp-faqs.
[4] See FAQs at www.bostonfed.org/mslp-faqs.

facilities, we would expect that any changes to the scope of eligible borrowers would apply to a broad class of organizations, rather than individual nonprofit organizations. Any changes to the eligibility requirements under the nonprofit organization facilities will be announced on the Main Street website.[5]

[5] www.federalreserve.gov/monetarypolicy/mainstreetlending.htm.

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

JEROME H. POWELL
CHAIR

November 13, 2020

The Honorable Bill Huizenga
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to questions 1 through 5 that were submitted following the June 17, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

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

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

To the Honorable Jerome H. Powell:

The CARES Act was enacted, in significant part, to assist U.S. businesses of all sizes so that they could keep as many Americans employed as possible. Essentially, the support provided under the Act was divided into three segments – Paycheck Protection Program (PPP) for small businesses, Main Street Lending for small to medium sized businesses, and Title IV for larger businesses like airlines. The objective of segmenting the assistance in this way was to ensure that all U.S. businesses needing support during this challenging time would be able to qualify for some level of assistance. The segmentation of support was in recognition that different-sized businesses might have different commercial experiences and needs. It seems, however, in its current form, the proposed Main Street Lending Program (MSLP) will still exclude important, midsized U.S. businesses that are significant job creators.

1. GAPS:

Does the Federal Reserve have a plan to help businesses that are too large to qualify for the PPP but do not fit the requirements of the MSLP?

The employee-size and revenue-eligibility metrics under the Main Street Lending Program (Main Street) were adopted to enable the program to support small and medium-sized businesses that are unable to receive sufficient assistance through other programs, such as the Small Business Administration's (SBA) Paycheck Protection Program (PPP), or that may not have reached the scale needed to issue the kinds of capital market instruments that would be purchased under the Federal Reserve's Primary Market Corporate Credit Facility. Main Street is designed to be broad-based in order to serve a wide range of industries, geographies, and business profiles. However, we understand that not all businesses will be eligible for Main Street due to eligibility and underwriting criteria. Please note that to better target support to smaller businesses that employ millions of workers and are facing continued revenue shortfalls due to the pandemic, the Federal Reserve Board adjusted the terms of Main Street on October 30. In particular, the minimum loan size for three Main Street facilities available to for-profit and non-profit borrowers has been reduced from $250,000 to $100,000. We will continue to monitor lending conditions broadly and consider adjustments to Main Street terms and conditions, as appropriate.

2. WHY NOT SUPPORT COMPANIES THAT INVESTED IN GROWTH IN 2019:

Consider a U.S. business that has historically been quite profitable and employed hundreds of US workers, which made large investments in growth in 2019 (such as the acquisition of a distressed business or a startup with losses associated with the new investment). These may have saved or created and continue to create jobs, but depressed the business's 2019 EBITDA.

a. What support will the Federal Reserve provide to such a company that does not qualify for the MSLP simply due to how the Federal Reserve has defined the denominator in the debt-to-EBITDA ratio?

b. Will the Federal Reserve allow such a business to deconsolidate a newly acquired, distressed company or a recent startup subsidiary, for the purposes of its Debt-to-EBITDA ratio? Alternatively, could such a company qualify for the MSLP based on 2018 EBITDA?

c. If none/not, then:

i. Why would the Federal Reserve disqualify important U.S. businesses that have assisted distressed companies and potentially saved U.S. jobs, simply because of inopportune timing (i.e., immediately before COVID-19) of their investments?

ii. What type of message does that send to other businesses who would otherwise be willing to save distressed companies and/or invest in new ventures? Will this disincentivize businesses from doing so for fear that later in time they may not be eligible for assistance that they otherwise would have been eligible but for making an investment that would be expected to lose money before turning a profit?

iii. What will be mid- and long-run impact on the U.S. economy of disadvantaging entrepreneurs?

Main Street is designed to augment the supply of loans made to businesses with established cash flows prior to the pandemic that need assistance to maintain operations and payroll through these current unusual and exigent circumstances. By focusing on bridge financing to businesses with interrupted operations and cash flows, Main Street both directly addresses the near-term needs of borrowers and supports the provision of credit by lenders who may find it especially challenging to assess near-term cash flows owing to the uncertain outlook for the pandemic and the economy. This is a large portion of the business community and business lending. Within this type of lending, adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) is a key underwriting metric used by lenders in evaluating the credit risk of small and medium-sized businesses. As a result, adjusted 2019 EBITDA is the key factor that determines the maximum loan size under Main Street.

Following the release of the initial term sheets on April 9, the Federal Reserve received extensive feedback from the public on the EBITDA requirements, and in response, amended the term sheets to allow for adjusted EBITDA to more closely align with industry practice. Lenders can make certain adjustments to EBITDA based on adjustments made in the past for the borrower or for similarly situated borrowers.

3. WHY NOT SUPPORT COMPANIES THAT HAVE ASSET-BASED LOANS TO FINANCE LARGE (AND PARTICULARLY SEASONALLY LARGE)

INVESTMENTS IN WORKING CAPITAL:

Consider a U.S. business that has historically been quite profitable and employed hundreds of US workers, and by virtue of being a wholesaler or retailer, has heavy working capital requirements (i.e., it must carry a lot of inventory and/or receivables on its books.) — particularly one that may experience seasonal fluctuations in demand. Such a business may need and have an ABL bank facility that supports peak borrowing needs (due to peak net working capital requirements) of greater than six times the company's EBITDA, even if such a company only has a leverage of one as of December 31, 2019 (or when considering the average debt outstanding across the year). The MSLP eligibility requirements, as currently drafted, may disqualify many of these companies.

> **a. Do you see how this can result in withholding credit to such midsized businesses that rely on building up inventory and making sales during the holiday season? And that missing their peak season would render many such businesses, which were otherwise capable of being rehabilitated, insolvent, which would exacerbate liquidations of brick and mortar retailers and their associated wholesalers?**
>
> **b. What support will the Federal Reserve provide to such a company that does not qualify for the MSLP simply due to how the Federal Reserve has defined the numerator in the debt-to-EBITDA ratio?**
>
> **c. What is the Federal Reserve willing to do to ensure that such businesses have enough financing to "restock the shelves" with inventory and generate sales/accounts receivable well in advance of the prime winter holiday season? And to replenish working capital next year (which ability may have been eliminated singularly due to losses incurred due to COVID-19)?**
>
> **d. On various webinars, the Boston Fed has made reference to considering relief for companies with asset-based credit facilities.**
>
>> **i. In asset-based credit facilities (where, unlike with leverage loans, debt-to-EBITDA ratios are generally not considered relevant), can such borrowers count on timely and effective support?**
>>
>> **ii. Where in the process is the Federal Reserve in crafting such assistance?**
>>
>> **iii. If assistance is not forthcoming,**
>>
>>> **1. Why should the Federal Reserve disqualify these ABL-funded seasonal businesses (i.e., through leverage-based restrictions) under the MSLP?**
>>>
>>> **2. Does the Federal Reserve believe that as a matter of policy, retailers that rely on large seasonal working-capital swings (such as Christmas)**

ought to be disproportionately disadvantaged over non-seasonal businesses?

iv. For such borrowers, would you consider measures specifically for ABL borrowers, such as:

1. Revising the current loan limitations, particularly those based on drawn-and-undrawn-debt to EBITDA, so that the program accounts for varying commercial experiences? For instance, consider using average monthly debt outstanding in 2019 vs. Debt Capacity as currently defined?

2. Providing entirely different eligibility formula that does not involve a debt-to-EBITDA ratio? Such as "if 2019 EBITDA was greater than zero, then the borrower would be eligible for a MSLP loan equal to another [40%] of its average 2019 (or trailing-twelve-month) borrowing base?

The Federal Reserve recognizes that, for some borrowers, including certain businesses with large seasonal inventory stocks, collateral values or other factors are more indicative of the ability to obtain credit than cash flows, which underpin the existing Main Street borrower requirements. Our outreach and monitoring indicate that some asset-based borrowers are seeing a decline in their access to credit. However, these borrowers appear to be largely in sectors with declining collateral values or deteriorating longer-run prospects; a lending program may not be able to address such problems. Federal Reserve and Treasury staff continue to monitor lending conditions broadly to assess the efficacy of existing facilities. We remain alert to the possibility that conditions may warrant changes to the terms and conditions of the Federal Reserve's emergency lending programs.

4. COLLATERAL SHARING ISSUES:

Additionally, it is my understanding that many banks do not wish to participate in the MSLP if they have to share any of their ABL collateral with the MSLP tranche.

a. How can you incentivize ABL lenders who do not want to share their lien with the Federal Reserve to participate in the MSLP?

b. Where a bank is not willing to share collateral, but the owners of the business agree to put in additional equity equal to [5%] of the MSLP loan amount to support "skin in the game", couldn't that protect the Federal Reserve's position, incentivize banks to lend, and ensure companies that need the support actually get it?

Main Street includes three lending facilities to for-profit businesses. Two Main Street facilities have terms that might require the Main Street loan to be secured: the Main Street Expanded Loan Facility (MSELF) and the Main Street Priority Loan Facility (MSPLF). Under these facilities, the Main Street loan must be senior or pari passu in priority and security with the borrower's existing outstanding debt. Therefore, with certain exceptions, if the borrower has other secured loans, the Main Street loan must also be secured. In the case of the MSELF, the Main Street loan must share collateral pari passu with one of the Main Street lender's other loans to the borrower.

However, the third facility—the Main Street New Loan Facility (MSNLF)—does not have requirements about the loan's priority or security, other than a prohibition on the Main Street loan being contractually subordinated to other debt. Therefore, lenders can make Main Street loans without sharing existing liens that they may have on a borrower's collateral by using the MSNLF.

Main Street loans are made by lenders using their customary underwriting processes. Main Street lenders may decide what type of collateral is acceptable within the rules of Main Street.

5. HARDSHIP:

Will the Federal Reserve consider hardship cases on a case-by-case basis?

As discussed in response to Question 1, Main Street is designed to be broad-based in order to serve a wide-range of industries, geographies, and business profiles through standard eligibility criteria. While we understand that not all businesses will be eligible for Main Street due to eligibility and underwriting criteria, those criteria are standard and case-by-case waivers are not available. We will continue to monitor lending conditions broadly and consider adjustments to Main Street terms and conditions, as appropriate.

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

JEROME H. POWELL
CHAIR

November 13, 2020

The Honorable Steve Stivers
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the June 17, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

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

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

Retroactive Insurance Payments

Chairman Powell,

Treasury and the International Association of Insurance Supervisors have stated publicly that proposals to retroactively amend business interruption insurance policies to cover COVID-19 claims would endanger financial stability. Specifically, IAIS stated "we caution against initiatives seeking to require insurers to retroactively cover Covid-19 related losses, such as business interruption, that are specifically excluded in existing insurance contracts. Such initiatives could ultimately threaten policyholder protection and financial stability, further aggravating the financial and economic impacts of Covid-19."

Do you share their concerns that requiring pay-outs for uncovered policies could result in insurer insolvencies that destabilize our financial system?

Insurance relies on two key elements: diversification of risks and only a small portion of policyholders being impacted by a given event. But, by their very nature, pandemics can affect a large percentage of policyholders, which would preclude diversification of risks in this area. Therefore, as a general matter, most insurers consider pandemics to be uninsurable and thus exclude coverage for related losses.

Because insurance is regulated state by state, not at the federal level, these matters will need to be resolved by state insurance commissioners to determine what, if any, insurance may apply.

Non-QM Access to Federal Reserve Facilities

Lastly, some creditworthy homebuyers do not fit neatly into the government's definition of 'Qualified Mortgage' (QM) – especially individuals who are self-employed or own a small business.

Is the Fed contemplating expanding its Term Asset Liquidity Facility (TALF) beyond agency mortgage backed securities to include other creditworthy mortgages?

The Federal Reserve continues to monitor economic conditions as well as the efficacy of our facilities. In determining whether a certain type of asset-backed security (ABS) should be eligible collateral for Term Asset-Backed Securities Loan Facility (TALF) loans, the Federal Reserve Board's (Board) main metrics are whether accepting an asset class will provide material support to the economy and whether inclusion of the asset class is appropriate under the restrictions of section 13(3) of the Federal Reserve Act. In particular, under section 13(3), the Board and Reserve Banks must take steps to ensure the protection of the taxpayer, including by assigning a "lendable value to all collateral." To satisfy this restriction, we prioritize categories of ABS where a large share of issuance is routinely rated triple-A by the rating agencies and where comprehensive information is available about credit performance in different economic environments, including stressed conditions.

One of the largest ABS categories not currently eligible as TALF collateral is residential mortgage-backed securities (RMBS). While a large share of RMBS issuance is typically rated triple-A by the rating agencies, weighing against this consideration is the historical track record of RMBS. The types of ABS currently accepted as TALF collateral generally have a long history of performing well in stressed economic conditions, and the Board relies on that history of strong performance to ensure that TALF loans are made in a manner consistent with section 13(3). In contrast, some RMBS have performed poorly in times of stress, and RMBS collateralized by mortgages with low or non-standard documentation have a particular history of underperformance.

The Board recognizes that the current exclusion of RMBS from TALF affects credit availability in some sectors of the mortgage market and continues to consider whether adding certain types of RMBS to the list of TALF-eligible collateral is consistent with the section 13(3) requirements and the policy aims of the TALF.

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

JEROME H. POWELL
CHAIR

December 23, 2020

The Honorable Ann Wagner
House of Representatives
Washington, D.C. 20515

Dear Congresswoman:

Enclosed are my responses to the questions you submitted following the June 17, 2020,[1] hearing of the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

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

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

Chairman Powell, as we understand firms will be subject to an off cycle supervisory stress test, please explain the following:

1. When will details be announced, including the number of scenarios to be tested and the "as of date" to be used as the starting point?

The Federal Reserve released its hypothetical scenarios for a second round of bank stress tests on September 17, 2020.[1] Large banks will be tested against two scenarios featuring severe recessions to assess their resiliency under a range of outcomes. The two hypothetical recessions in the scenarios feature severe global downturns with substantial stress in financial markets. The first scenario—the "severely adverse"—features the unemployment rate peaking at 12.5 percent at the end of 2021 and then declining to about 7.5 percent by the end of the scenario. This scenario follows the Federal Reserve Board's (Board) Policy Statement on the Scenario Design Framework for Stress Testing. The second scenario—the "alternative severe"—features an unemployment rate that peaks at 11 percent by the end of 2020, but stays elevated and only declines to 9 percent by the end of the scenario. This scenario is consistent with a number of adverse events, including a series of additional waves of COVID-19 that are not synchronized across the U.S.

Firms will resubmit their capital plans using an as-of date of June 30, 2020.

2. How will the this off cycle stress test impact DFAST 2021? As they appear to flow together in terms of timing, will the off cycle complete and DFAST 2021 begin?

The Federal Reserve plans to follow its normal stress testing cycle for the 2021 Dodd-Frank Act Stress Test.

3. What guidance will the FRB use to determine the appropriate "scenarios" as this will drive the level of procyclicality of the test?

The Federal Reserve adheres to the guidelines outlined in the Board's Policy Statement on the Scenario Design Framework for Stress Testing when developing the severely adverse scenario. The Federal Reserve's approach to specifying the severely adverse scenario is designed to limit the procyclicality in the stress test. The Federal Reserve's approach to scenario design also includes the ability to incorporate salient risks, as might be required by unusual economic circumstances. The alternative severe scenario is consistent with a number of adverse events, including a series of additional waves of COVID-19 that are not synchronized across different regions of the United States. Accordingly, the alternative severe scenario is characterized by a less-severe initial increase in the U.S. unemployment rate than called for by the Scenario Design Framework for Stress Testing, but this increase is also more persistent.

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

4. How will the outcome of the stress test be used? For example, will SCB's be resized?

The analysis we are conducting helps us understand the implications of severe hypothetical recessions on bank capital, and we will take appropriate actions to ensure banks are sufficiently capitalized. The Board has not made a decision to recalculate stress capital buffer requirements. The Board would follow the procedures under 12 CFR 225.8(f)(3) to determine if a firm's stress capital buffer requirement should be recalculated once the firm resubmits its capital plan later this year. The capital framework emphasizes the value of not increasing capital requirements under stress and thus exacerbating a downturn. In particular, the capital framework is based on the principle that during normal periods, firms build capital buffers that they can draw on during times of stress.

5. When will the Federal Reserve remove the special restrictions on capital distributions that were imposed in Q3?

On September 30, 2020, the Federal Reserve announced it will extend for an additional quarter several measures to ensure that large banks maintain a high level of capital resilience.[2] For the fourth quarter of this year, large banks are prohibited from making share repurchases, and dividend payments are capped and tied to a formula based on recent income. The Federal Reserve may extend those limitations as we learn more about the evolution of the COVID event.

6. Would the Board consider granting firms more than 45 days (e.g., 60 days) after the Board provides updates scenarios to resubmit their capital plans, as permitted by the SCB final rule?

We are in regular communication with firms about the constraints they face, and we considered those and other factors as we worked through the parameters of the capital plan resubmission. On September 17, 2020, the Federal Reserve sent firms a "first day letter" that sets forth the elements in scope for the resubmission, the materials firms should submit, and the timeline for doing so. Firms have until November 2, 2020 to resubmit their capital plans.

[2] See https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200930b.htm.