

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

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

Tuesday, March 23, 2021

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

The committee met, pursuant to notice, at 11:59 a.m., via Webex, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Maloney, Sherman, Meeks, Scott, Green, Cleaver, Perlmutter, Himes, Foster, Vargas, Gottheimer, Lawson, Axne, Casten, Lynch, Adams, Dean, Garcia of Illinois, Garcia of Texas; McHenry, Lucas, Posey, Luetkemeyer, Huizenga, Stivers, Wagner, Barr, Williams of Texas, Hill, Emmer, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Hollingsworth, Rose, Steil, Timmons, and Taylor.

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

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

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

Members are also reminded that they may only participate in one remote proceeding at a time. If you are participating here today, please keep your camera on, and if you choose to attend a different remote proceeding, please turn your camera off.

Before we begin today's hearing, I would like to inform all Members that our witnesses today have a hard stop at 2:15 p.m., Eastern Standard Time.

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

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

I would like to welcome Secretary Yellen and Chair Powell. I am very pleased that with Democrats' passage of President Biden's American Rescue Plan, help is now arriving for millions of struggling individuals, families, and small businesses all across this country. The Biden plan delivers much-needed relief in the form of additional direct payments, expanded child tax credits, emergency rental, homeowner, and employment assistance, support for small

and minority-owned businesses, as well as funding for other key programs. The American Rescue Plan (ARP) is exactly what the nation needs in the midst of this ongoing crisis, and it will help to put us on the path to a faster and more equitable recovery. I am also very relieved that we have President Biden's capable leadership in the White House, and that he is putting in place a team to ensure that the pandemic response and the implementation of relief programs is efficient, effective, and a top priority so that we can beat this deadly virus.

I would like to take a moment, as we prepare to receive testimony from Secretary Yellen for the first time in her role as Treasury Secretary, to acknowledge the historic nature of her appointment. Starting with Alexander Hamilton in September of 1789, the Department of the Treasury has exclusively been led by men until now. Over 231 years later, Secretary Yellen became the first woman to serve as Treasury Secretary. She is also the first person to serve as Treasury Secretary after serving as head of both the Federal Reserve and the White House Council of Economic Advisers.

Secretary Yellen, we applaud you, and our committee looks forward to continuing to work closely with you. Secretary Yellen, I would also like to thank you for your work on negotiating an increase in the special drawing rights of \$650 billion at the G-7, as I have previously called for. This increase will help vulnerable countries to fight the pandemic and will boost the United States' and global economies.

Chair Powell, I would like to thank you for following my recommendation on bank capital requirements and ending the temporary exemptions to the Supplemental Leverage Ratio (SLR) for big banks. We need to ensure the stability of our financial system during this continuing crisis, and strong capital requirements are the cornerstone of appropriate prudential bank regulation. While we are on the right path with the passage of the American Rescue Plan and the Biden Administration's strong leadership, we still have a long road ahead of us. Millions of people are still out of work, and threats to the economy remain. We must ensure that there is indeed a sustained and equitable recovery from this historic crisis, so I look forward to your testimony.

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

Mr. MCHENRY. Thank you, Madam Chairwoman, and I want to thank Secretary Yellen and Chair Powell for being here today.

It is clear we are in a very different place today than we were last March. Our economy is ready to safely reopen, and economic projections are increasingly positive. Despite those facts, Democrats still chose to muscle through their partisan spending package, only 9 percent of which goes toward defeating the virus. This package was not targeted to help those most in need, and does not get Americans safely back to work or kids back in the classroom. The data tells us that targeted support is the key to really reaching those groups who need it most, and with the addition of \$1.9 trillion, there has been a great deal of debate about what will happen with this amount of liquidity in our financial markets.

Here is what we do know. Increased taxes, will impede growth, and, as we saw in 2008 and 2009, it is harder to address long-term unemployment. We see our Central Bank's balance sheet growing to levels unseen in human history. Pre-COVID, we experienced a roaring economy spurred by appropriate regulation, lower taxes, and innovative solutions. Instead of building on these gains, my Democrat colleagues are approaching this crisis like they did in 2009, doing it all over again, rehashing old, failed policies that will not build lasting growth and lasting prosperity.

Things are much different. It is a much different country now and a much different economy now, and we should remain forward-thinking and seek bipartisan solutions to really address the needs of our economy.

I am grateful for the opportunity to be with you here today under the guise of a Coronavirus Aid, Relief, and Economic Security (CARES) Act oversight hearing, although it is interesting that the CARES funding was rescinded in December.

I think it would be more productive to discuss this larger COVID package that was just passed, and I believe there is a lot to discuss there. To put that mammoth \$1.9 trillion bill into perspective, let's put it this way: The Biden Administration is going to spend \$3.7 billion on average, per day, for every day remaining in 2021. That equals \$43,000 per second. A lot of that money will flow directly from the Treasury to States and cities, which introduces a whole new set of challenges with respect to preventing waste and fraud. And unlike the bipartisan CARES Act, this bill does not contain any new layers of oversight to address these challenges.

Secretary Yellen, at our first CARES quarterly hearing in June of 2020, we had a chance to run through our expectations with respect to transparency with your predecessor.

At that hearing, Secretary Mnuchin committed to providing key programmatic data to congressional committees to assist oversight responsibilities, and he followed through on that commitment. Secretary Mnuchin also committed to working with the various oversight bodies with jurisdiction under the CARES Act, including the Pandemic Response Accountability Committee, the Congressional Oversight Commission, three Department's Inspectors General, and the Government Accountability Office (GAO). Now that we have an additional \$1.9 trillion to track, I would ask for your commitment along those same lines as Secretary Mnuchin committed. That would be encouraging, if you continue the practice of your predecessor to cooperate with our committee, both Democrats and Republicans, to ensure appropriate oversight.

I want to thank you both for your testimony today, and I look forward to the discussion. I yield back.

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

Mr. GREEN. Thank you, Madam Chairwoman. I thank you so much for your leadership during these turbulent times. Madam Chairwoman, as the CARES Act funding continues to flow, I am greatly concerned about the mechanics of how these funds will reach their intended beneficiaries. There are two recently-author-

ized pandemic response programs the Treasury Department is now rolling out, in which I have a special interest.

The first is the December COVID package that included \$9 billion in emergency capital investment as a program. It is called the Emergency Capital Investment Program (ECIP), and will provide capital investments and grants to strengthen Community Development Financial Institutions (CDFIs), and Minority Depository Institutions (MDIs). I am looking forward to hearing about the plans for engaging eligible MDIs and CDFIs regarding this new resource.

The second assistance to small businesses, authorized in the American Rescue Plan, is through the State Small Business Credit Initiative, also known as the SSBCI. This \$10 billion program provides funding, \$2.5 billion of which will go to minority-owned businesses, and that can make a real impact in the hardest-hit businesses. I look forward to hearing from the witnesses in terms of how these programs will benefit the end users. I yield back.

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

Mr. BARR. Thank you, Madam Chairwoman. Secretary Yellen, congratulations on your confirmation. I look forward to working with you. And Chairman Powell, thank you for being here.

Last year, in response to the pandemic, Republicans and Democrats worked together on multiple bills that were temporary, targeted, and tied to COVID. In partnership with the Federal Reserve and Treasury, we were able to direct aid where it was needed. Unfortunately, despite last year's bipartisan cooperation, the Majority rammed through a partisan \$2 trillion deficit spending bill that is a Keynesian wish list for their pre-COVID priorities.

While stimulative policies may look good in the short term, I worry about the unintended consequences for mid- and long-term growth. I fear the toxic cocktail of massive deficit spending, when we had \$1 trillion of funding still unspent from last year, increasing risk of inflation, higher long-term interest rates, and unprecedented accommodative monetary policy that I fear is addicting our economy on easy money, the promise of growth-destroying tax increases, and an avalanche of regulation, which includes unrelated climate and ESG earnings, will stifle long-term prosperity.

I hope we can work together to mitigate future damage by enacting pro-growth, market-oriented solutions to position our economy for the long term. Thank you, and I yield back.

Mr. MCHENRY. Madam Chairwoman?

Chairwoman WATERS. Yes, Mr. McHenry?

Mr. MCHENRY. Madam Chairwoman, I ask a point of personal privilege to recognize my staff director, the Republican staff director on the Financial Services Committee, Stephen Cote.

Chairwoman WATERS. The gentleman is recognized.

Mr. MCHENRY. Thank you, Madam Chairwoman. Chairwoman Waters and I know from our service here on the Hill that without competent, good staff, this institution couldn't work. And I think on a bipartisan basis, we know that our staff carries out a lot of the things that we try to achieve legislatively and in terms of oversight and working with the Administration to help the American people.

So, Steven Cote has served our institution quite well. He will be leaving us in mid-April to go with an establishment downtown to

go into the private sector, and I want to wish him well. I want to thank him for his service to the American people, and to our government. He has served in Congress, most notably as the staff director of the House Rules Committee before coming to this fine committee, the House Financial Services Committee, to lead committee Republican staff. He has served in the Majority and the Minority in the House of Representatives. He also served in the Administration in the Office of Management and Budget and various other functions. He is a patriot who served his country and served his country well.

I want to thank him for his work, his tenacious spirit, his love for the staff and the people that he gets to work with, a love for the institution and our government, and a love for his country. And I want to thank Stephen for his great work for me over the last 2½ years, for the good work that we have been able to get done. So with that, I want to say thank you to Mr. Cote for his service, and, Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you very much, Mr. Ranking Member. I would like to associate myself with you, and I join with you in recognizing Stephen's contributions to the committee and to the Congress. Stephen, also called, "Cote" by friends and enemies alike, has had a long and distinguished career in the United States Congress and in the Executive Branch. During his 20-year career, he has served in a variety of positions and institutions. To say he is a tough negotiator is an understatement. He is tenacious, he is fierce, and he is stubborn. He also has a talent for frustrating several members of my staff with his demands. He is a fierce advocate for his ranking member and his party, and I do respect that. So, Stephen, neither I nor my staff are sorry to see you go.

[laughter]

Chairwoman WATERS. But in all seriousness, on behalf of the Democratic Majority, I thank Stephen for his service to the American people and wish him the best of luck in his future endeavors. Thank you very much.

Mr. MCHENRY. Madam Chairwoman?

Chairwoman WATERS. Yes?

Mr. MCHENRY. Thank you for that kindness. Thank you for that kindness and the spirit with which you offer it. We both have talented staff, and sometimes they go toe-to-toe on our behalf, but it is always for love of our country, but sometimes for the love of the game, too. So anyway, thank you, Madam Chairwoman.

[laughter]

Chairwoman WATERS. Thank you very much, Mr. Ranking Member. That is so true.

I now want to welcome today's distinguished witnesses to the committee.

First, I want to welcome the Honorable Janet Yellen, Secretary of the United States Department of the Treasury, for her first appearance before the committee in her new role. Secretary Yellen has testified a number of times before the committee in her prior capacity as the Chair of the Federal Reserve, where she served from 2010 to 2014 as Vice Chair, and from 2014 through 2018 as Chair, so I do not believe she needs any further introduction.

I also want to welcome our other distinguished witness, the Honorable Jerome Powell, Chairman of the Board of Governors of the Federal Reserve System. He has served on the Board of Governors since 2012, and as its Chair since 2018. Chair Powell has previously testified before the committee, and I believe he also does not need any further introduction.

Each of you will have 5 minutes to summarize your testimony. You should be able to see a timer on your screen that will indicate how much time you have left, and a chime will go off at the end of your time. I would ask you to be mindful of the timer, and quickly wrap up your testimony if you hear the chime. And without objection, your prepared statements will be made a part of the record.

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

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

Secretary YELLEN. Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for having me. We are meeting at a hopeful moment for the economy, but still a daunting one. While we are seeing signs of recovery, we should be clear-eyed about the hole we are digging out of. The country is still down nearly 10 million jobs from its pre-pandemic peak.

When Congress passed the CARES and Consolidated Appropriations Acts last year, it gave the government some powerful tools to address the crisis, but upon taking office, I worried that they weren't powerful enough. After all, there were and still are some very deep pockets of pain in the data: 1 in 10 homeowners with a mortgage are behind on their payments; and almost 1 in 5 renters are behind on their rent. There are 22 million people who say they don't have enough food to eat: 1 in 10 adults are hungry in America. I looked at data like these and I worried that the COVID economy was going to keep hurting millions of people now and haunt them long after the health emergency was over.

We know that when the foundations of someone's life falls apart, when they lose the roof over their head or don't have the ability to eat dinner every night, the pain can weigh on them for years. Their earnings potential is permanently lowered, and am I worried about this happening on a mass scale. That is why I advocated very hard for the American Rescue Plan, and why it is my first and my most enthusiastic message today. Thank you.

With the passage of the Rescue Plan, I am confident that people will reach the other side of this pandemic with the foundations of their lives intact, and I believe they will be met there by a growing economy. In fact, I think we may see a return to full employment next year. Of course, the speed and strength of our recovery depends, in part, on how we implement the legislation. Treasury is tasked with much of that work, and there is nothing that I or my team take more seriously. We appreciate your oversight on this matter, and I want to briefly tell you about how we have been working.

Since taking office 2 months ago, we have been expediting relief to the areas of greatest need, for example, small businesses, and especially the smallest small businesses, which are disproportion-

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

We are also building capacity to support these communities over the longer term. Because of the December legislation, Treasury now has \$12 billion to inject into Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs). In turn, these CDFIs and MDIs can lend that capital out, helping people buy homes and start businesses in places that the financial services sector traditionally hasn't served well.

Then, there are the families I spoke about, the ones struggling to keep a roof over their head and food on the table. The American Rescue Plan provides more than \$30 billion to help renters and homeowners at risk of losing their homes, and we are making sure that assistance flows as efficiently as possible. For instance, the previous Administration put in place rules that required tenants and landlords to provide quite a bit of documentation to get rental assistance, including detailed statements about their income, but some people don't have access to those documents. We are cutting through the red tape for them while still taking responsible steps to prevent fraud and abuse. And, of course, we have been sending direct payments to Americans, a lot of Americans. As of last week, we had issued over 90 million payments.

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

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

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

[The prepared statement of Secretary Yellen can be found on page 45 of the appendix.]

Chairwoman WATERS. Thank you very much, Secretary Yellen.

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

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

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

I would like to start by noting the upcoming 1-year anniversary of the CARES Act. With unanimous approval, Congress provided by far the fastest and largest response to any post-war economic downturn, offering fiscal support for households, businesses, healthcare providers, and State and local governments. This historically-important legislation provided critical support in our nation's hour of need. As the virus arrived in force, our immediate challenge was to limit the severity and duration of the fallout to avoid longer-run damage. At the Fed, we also acted with unprecedented speed and force, using the full range of policy tools at our disposal.

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

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

Indicators of economic activity and employment have turned up recently. Household spending on goods has risen notably so far this year, although spending on services remains low, especially in sectors that typically require in-person gatherings. The housing sector has more than fully recovered from the downturn, while business investment and manufacturing production have also picked up. As with overall economic activity, conditions in the labor market have recently improved. Employment rose by 379,000 in February as the leisure and hospitality sector recouped about two-thirds of the jobs it lost in December and January.

Recovery has progressed more quickly than generally expected and looks to be strengthening. This is due in significant part to the unprecedented fiscal and monetary policy actions I mentioned, which provided essential support to households, businesses, and communities. However, the sectors of the economy most adversely affected by the resurgence of the virus and by greater social distancing remain weak, and the unemployment rate, still elevated at 6.2 percent, underestimates the shortfall, particularly as labor market participation remains notably below pre-pandemic levels. We welcome this progress, but will not lose sight of the millions of Americans who are still hurting, including lower-wage workers in the services sector, African Americans, Hispanics, and other minority groups that have been especially hard hit.

The Fed's response has been guided by our mandate to promote maximum employment and stable prices for the American people, along with our responsibility to promote stability of the financial system. When financial markets came under intense pressure last

year, we took broad and forceful actions, deploying both our conventional and emergency lending tools to more directly support the flow of credit. Our actions, taken together, helped unlock more than \$2 trillion in funding to support businesses—large and small—nonprofits, and State and local governments between April and December. This support, in turn, has helped organizations to not have to shutter their businesses and put employers in a better position to both keep workers on and to hire them back as the recovery continues.

Our programs serve as a backstop to key credit markets and help restore the flow of credit from private lenders through normal channels. We deployed these lending powers to an unprecedented extent last year. Our emergency lending powers require the approval of the Treasury and are available only in very unusual circumstances. Many of these programs were supported by funding from the CARES Act.

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

Everything the Fed does is in service to our public mission. We are committed to using our full range of tools to support the economy and to help ensure that the recovery from this difficult period will be as robust as possible on behalf of communities, families, and businesses across the country. Thank you. I look forward to your questions.

[The prepared statement of Chairman Powell can be found on page 40 of the appendix.]

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

On March 11th, President Biden signed the American Rescue Plan Act into law, providing an additional \$1.9 trillion package that is already helping individuals, families, and small businesses. The American Rescue Plan also includes \$77 billion in our committee's jurisdiction, including \$21.5 billion to pay back rent and future rent payments, which will not only help renters remain stably housed, but support small landlords who have also been struggling. Congress has now provided the Treasury Department with more than \$46 billion in emergency rental assistance to distribute to States, local communities, Tribes, and Territories to help struggling families pay their rent and utilities. My State of California is expected to receive somewhere in the amount of \$4.67 billion.

However, I am growing increasingly concerned with how the program is being implemented by grantees. In particular, California just launched a program that greatly limits the amount of assistance renters can receive, even if they owe more.

Secretary Yellen, what has been the progress so far in implementing the program? What guidance is Treasury providing to ensure that grantees are setting up programs that actually stabilize renters and make landlords whole?

Secretary YELLEN. Thank you for that question, Chairwoman Waters. We have distributed the money to State, local, and Tribal grantees. The Consolidated Appropriations Act that started this program does specify that grantees can only provide assistance to households where one or more individuals are experiencing unemployment or hardship, that they demonstrate a risk of experiencing homelessness or housing stability, and that the household has income at 80 percent of the area median or below, and that the assistance can be for up to 15 months. We are trying to provide grantees with the flexibility to establish their programs and operate them within those parameters, but with a great deal of flexibility to address local needs as they see fit.

The role of the Treasury here is to provide policy guidance so that grantees can establish and follow their own program policies to meet local needs, and we are developing outreach and technical assistance so that our grantees can understand best practices. Of course, we have a role in monitoring to make sure that the payments are reaching the intended populations.

Chairwoman WATERS. Secretary Yellen, I hate to interrupt you—my time is going to be up shortly—but I am very concerned about the flexibility that the States have. I don't really know what all of that means, but I do know that there is a lot of confusion because some States had moratorium programs, some cities had moratorium programs, the Federal Government has a moratorium program, and so I think that is confusing to our renters. In addition to that, for the State of California to say that they are going to pay 80 percent of the rental assistance rather than 100 percent bothers me somewhat, and I don't know what other States are doing. I know that the government does provide guidance, so I would like to know if you can think about any role that we can play to help straighten out the confusion and to help stabilize this rental assistance?

Secretary YELLEN. Congresswoman, we did distribute frequently asked questions, revised from the previous Administration, to try to provide additional guidance, but if you have concerns, my staff will be glad to work with you and your office to see if it is possible to address them.

Chairwoman WATERS. Thank you very much. I appreciate that, because there is confusion out there, and I am worried about what is happening with this confusion, and whether or not our landlords are going to abandon us and not go for another moratorium, and so it is a lot of questions. I will get back to you, and thank you so very much.

With that, I now recognize the ranking member, Mr. McHenry for 5 minutes.

Mr. MCHENRY. Thank you, Madam Chairwoman. And, look, Chairman Powell and Secretary Yellen, I previously asked questions about the independence of the Fed, trying to get the Secretary of the Treasury to opine about that. Dr. Yellen, I would suggest that maybe I need to skip that question with you. I think you have very practical understanding and knowledge here at play, and you will treat your successor as you wish to have been treated since he is now sitting in your chair.

[laughter]

Mr. MCHENRY. Well, it is nice to have two folks who understand this in these respective seats, but Chairman Powell, I want to begin with you and talk about inflation. There continues to be a great deal of speculation that we should be worried about inflationary pressures, particularly after the passage of the most recent \$1.9 trillion spending bill, the so-called stimulus or COVID stimulus bill, and then we see recent press reports of an additional \$3 trillion of spending contemplated by this Administration. Does the Fed share that there are inflationary pressures and concerns with this rate of spending? What is the view now?

Mr. POWELL. Thanks. Let me start by saying that we are strongly committed to our price stability mandate, which, along with our maximum employment mandate—those are the two mandates that you have given us. We consider that inflation that is 2 percent over time, in fact, inflation that averages 2 percent over time. We do expect that inflation will move up over the course of this year, first, because of what we call base effects. The very low readings of March and April of last year dropped out of the 12-month calculation, and, mechanically, it rises, but that goes away quite quickly. Possibly after that, we will see a situation in which, as the economy reopens and vaccinations continues, there could be a surge in spending and there could be some bottlenecks in the economy. We see some of that now. We might see some upward pressure on prices.

Our best view is that the effect on inflation will be neither particularly large nor persistent, and part of that just is that we have been living in a world of strong disinflationary pressures around the world really for a quarter of a century, and we don't think that a one-time surge in spending leading to temporary price increases would disrupt that. However, we have the tools to deal with that. We remain strongly committed to inflation expectations anchored at 2 percent, and we will use our tools as appropriate to achieve that.

As far as further fiscal policy is concerned, it is not up to us to comment. As we have discussed on some occasions, we don't comment on fiscal policy. We try not to, particularly on specific bills and things like that, so I will leave that to others.

Mr. MCHENRY. Secretary Yellen, about fiscal policy, we have, as Chairwoman Waters highlighted, rental assistance, the \$25 billion of rental assistance to individuals and families who were in arrears because of the lockdown, and we have tried to support them with some rental assistance. What guardrails has the Department of the Treasury put in place to ensure that the funds are actually prioritized for individuals and families who are in rental arrears?

Secretary YELLEN. It is Treasury's job to establish guardrails, and we have done that by issuing a set of frequently-answered questions that are essentially guidance about how the money needs to be used. It clarifies that grantees have flexibility, but also that there are the requirements of the statute, and that we will follow up to make sure that the payments are going to eligible households and that the guidelines of the program are being followed.

Mr. MCHENRY. Thank you, Secretary Yellen. The final question I have is about oversight. Secretary Yellen, your predecessor agreed to very onerous, and rigid, and strong oversight

for the CARES Act, this current \$1.9 trillion has rescinded all of those things, sadly, except this quarterly hearing. And so, what I would like to hear is your voluntary commitment to work with Congress, the GAO, the special inspectors general, and the Congressional Oversight Commission, as well as this committee.

Secretary YELLEN. I think oversight is very important, and I pledge to work with this committee and the oversight groups.

Chairwoman WATERS. Thank you very much.

Mr. MCHENRY. Thank you, Secretary Yellen, and congratulations on your new role. Thank you.

Secretary YELLEN. Thank you.

Chairwoman WATERS. I now recognize Mrs. Maloney for 5 minutes.

Mrs. MALONEY. Thank you. Thank you so much, Chairwoman Waters, for having this hearing, and welcome, Chairman Powell and Secretary Yellen. And as the first female Secretary of the Treasury in history, and the first to head the Fed, we are so proud of you—

Secretary YELLEN. Thank you.

Mrs. MALONEY. —and of your many accomplishments, Secretary Yellen. And as this is Women's History Month, you are certainly inspiring many young women with more confidence and aspirations with your leadership, so thank you.

As you know, at the end of last year, we were able to reach a bipartisan compromise on my Corporate Transparency Act, which will crack down on anonymous shell companies, the vehicle of choice for criminal activity, money laundering, and terrorism financing. I want to thank Ranking Member McHenry for his willingness to compromise and Chairwoman Waters for her steadfast support of this bill over many, many years.

The bill requires companies to disclose their true beneficial owners to FinCEN, which is an arm of Treasury, and FinCEN will collect this information in a database which is intended to be state-of-the-art with privacy and security protection. Law enforcement calls it the most important tool that has been given to them to track illegal money activity in 30 years, and implementation of this is going to be a massive undertaking and will require an enormous amount of resources and manpower at Treasury. I worked on this bill as a top priority for 12 years, and implementing it and getting it up and running is a top priority of mine. It is incredibly important, I believe, to our national security. We have to get it right.

And so my question to you is, will you commit to making beneficial ownership one of your top priorities as Treasury Secretary? We have 2 years to implement it, and I think it will make all of us safer. I think it is extremely important.

Secretary YELLEN. I completely agree with you. It is a very important piece of legislation, and it is one of our highest priorities to implement this promptly and to get it right. We have a hiring plan. We recognize that significant resources will be required, and we are trying to obtain them. We have plans for how to collect the required database, and we are actively working to implement this very important piece of legislation.

Mrs. MALONEY. Thank you. I want to build on Chairwoman Waters' question. I am not going to repeat all of the things that

were in the important Recovery Act. But my question to you, Secretary Yellen and Chairman Powell, is what steps can we take to ensure we don't lose a generation of workers who never return to the workforce, or that they face these depressed wages moving forward? We know that over 11½ women lost their jobs, compared to 9 million men. Black and Latino women suffered the highest rate of all, and that the women's labor force participation is down 2 percent, and the families are suffering. We have many aspects of it. A lot she mentioned, from rent to food, to help in so many ways, but I am concerned about this labor force that has been hurt. What can we do to help them get back into the labor force? And my question is to you, Secretary Yellen, first, then to Chairman Powell.

Secretary YELLEN. First of all, in the short term, the American Rescue Plan contains substantial support for minorities, and particularly for women who have been forced to drop out of the labor market. There is an important increase in the child tax credit that is going to result in, along with other provisions, a 50-percent reduction in the child poverty rate. There is money to open and support school openings promptly. There is an enhanced child and dependent care credit with a successful vaccination program to get women back into the labor force. And longer term, when we have gotten to the other side of this pandemic, we hope to address in the jobs package over the longer term some of the factors that have resulted in low wages and low labor force participation for women.

Mrs. MALONEY. Thank you. My time has expired.

Chairwoman WATERS. Mrs. Wagner, the gentlelady from Missouri, is recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman, and thank you, Chairman Powell and Secretary Yellen, for joining us today. Secretary Yellen, and I would ask you please, respectfully, if you would keep your answers brief, as the country begins to safely reopen and our economy recovers, is examining changes to tax policy the correct direction?

Secretary YELLEN. We expect to examine changes to tax policy along with programs that will address some of the longstanding problems that have held down our productivity and labor supply in the United States. We will address infrastructure, risks from climate change, education, and training.

Mrs. WAGNER. Let me ask you, Madam Secretary, what impact would this action have on jobs and workers' wages?

Secretary YELLEN. I think a package that consists of investments in people, investments in infrastructure, will help to create good jobs in the American economy, and changes to this tax structure will help to pay for those programs.

Mrs. WAGNER. Secretary Yellen, what tends to be the impact, I guess I would ask, on American consumers, my constituents, when corporate taxes are raised? Do the costs usually tend to be passed down to them?

Secretary YELLEN. The impact of changes in corporate taxes has been studied by economists for a long time, and the impact of them on prices and on consumers is very unclear from existing studies. We do need to raise revenues in a fair way to support the spending that this economy needs to be competitive and productive, and—

Mrs. WAGNER. Secretary Yellen, if I could, I think we know that raising the corporate tax rate results in higher costs for small businesses, schools, and American households. Then why, as this country begins to reopen and recover economically, would the Biden Administration be proposing tax policies which would, in the end, hurt American families and millions of struggling small businesses?

Secretary YELLEN. The Biden Administration is not going to propose policies that hurt small businesses or Americans. The Biden Administration is going to propose investments this economy has long needed to be competitive and productive and supports our—

Mrs. WAGNER. With all due respect, ma'am, I would say this. Certainly, raising taxes on business and industry is going to affect consumers and households and American families in a very adverse way. Is this being proposed, these tax increases, to offset the costs of the recently-enacted partisan stimulus package, ma'am?

Secretary YELLEN. No, the stimulus package, the American Rescue Plan, was not funded with any increases in taxes, but a longer-term plan that addresses critical relief—

Mrs. WAGNER. I really have—

Secretary YELLEN. —for this economy probably would be accompanied by some revenue raises.

Mrs. WAGNER. Yes, I would say so, and I would say that the plan as it exists right now hasn't been paid for. For example, let me just say this. Last month's lumber prices hit an all-time high, doubling in price from just 3 months ago. Gasoline prices jumped 6.4 percent over the previous month, while electricity and natural gas prices rose 3.9 percent, not to mention housing prices and other manufacturing supply chain goods. Are these steady increases a sign that once the economy fully reopens, we are likely to see parts of the economy where demand is intense, at least for a period of time, leading to some additional price pressures?

Let me ask you this, Chairman Powell, in my limited time. Could you describe in detail the wide range of policy tools the Fed has at its disposal to address what is obvious inflationary pressures that we are seeing already?

Mr. POWELL. Our most basic tools here are to try to achieve price stability, and those principally are interest rates and moving interest rates up and down. As I mentioned a few minutes ago, though, our best expectation is that there will be modest upward pressure on prices this year, but that they won't be particularly large or persistent into the future. But we do have those tools, and we will use them.

Mrs. WAGNER. Thank you. My time has expired. I yield back.

Chairwoman WATERS. Thank you. The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. Thank you. Addressing the comments of Mrs. Wagner, most of the studies I have seen, and obviously the Secretary of the Treasury has seen far more, indicate that increases in corporate income taxes are not passed through to consumers, but that the incidence of that tax is borne by those who invest capital, and which is disproportionately the top 1 percent. In contrast, sales taxes are passed through to consumers.

I want to use most of my 5 minutes just to bring to the attention of our two august witnesses some matters that I hope will merit their personal attention in the days to come. Madam Secretary, your predecessor committed to me, from a foreign policy standpoint, that the Treasury Department would put a reasonable amount of lawyer hours into doing a tax treaty with Armenia, and I hope that policy will continue now that the Iran government is ready to proceed, having had some discord in the past.

Madam Secretary, you have delayed till May 17th, the April 15th deadline for Form 1040. It is very important that you do the same for the Form 1040ES, the estimated tax payments, a voucher that is usually prepared at the same time and is so important to gig workers.

Madam Secretary, 2 days ago, the IRS issued a report indicating that one-fifth of the earnings of the top 1 percent are going untaxed. I hope very much that you will work with Congress to replace and restore the 15,000 enforcement officers that the IRS has lost in the past decade. I used to head the second-largest tax agency in our country, and it is clear that putting more effort into tax collection, particularly from the top 1 percent, will collect many more times the cost in additional revenue, and will, I think, add to our social cohesion because wage earners are paying their taxes.

Madam Secretary, I hope you will focus on a letter from the State of California of May 19th desperately needing guidance on the Recovery Act, especially showing a decision by California to conform to Federal law. So, Federal law recently is very generous to the PPP small businesses. If California conforms to that law, that isn't regarded as a tax decrease violative of the provisions of the Recovery Act that says that States should not be using those funds to cut taxes.

Chairman Powell, we have talked a lot about wire fraud. Your staff has told me they don't plan to solve the problem. I hope you get personally involved in making sure our new wire transfer system does solve the problem. And, Chairman Powell, I want to commend you for your statement yesterday that the Fed will not proceed with creating a new Central Bank Digital Currency (CBDC) without the support of Congress. And I don't think you will have that support, unless the Know Your Customer (KYC) provisions are applicable to this new system and it doesn't become useful to tax evaders, terrorists, drug dealers, et cetera.

Madam Secretary, believe it or not, I do have a question. Chairman Powell, when he was before us last month, testified before this committee that Federal legislation is necessary to fix the legacy London Interbank Offered Rate (LIBOR) contracts so that they can continue to function after the LIBOR Index is no longer published by our friends in London. Secretary Yellen, would you agree with Chairman Powell that Congress will need to act to provide for a smooth transition for this \$2 trillion in contracts?

Secretary YELLEN. Yes, I would agree. There are certain legacy contracts where the transition could be difficult without legislation. These are contracts that don't provide for a workable fair back rate, and so I think Congress does need to provide legislation for the LIBOR transition.

Mr. SHERMAN. Thank you, and in my remaining time, can you address the issue of States that are conforming their income tax laws to Federal income law? Is that going to be regarded as a violation of the Recovery Act?

Secretary YELLEN. We are working to provide guidelines on what will and won't count, and it is premature for me, until we have completed that, to offer you an answer on the specifics.

Mr. SHERMAN. Please, it is critical for the people of California.

Secretary YELLEN. We will do it quickly.

Chairwoman WATERS. The gentleman's time has expired. Mr. Lucas, you are recognized for 5 minutes.

Mr. LUCAS. Thank you, Madam Chairwoman, for holding this hearing, and thank you, Chairman Powell and Secretary Yellen, for appearing before the committee. And, of course, Secretary Yellen, congratulations. I join my colleagues in congratulating you on your confirmation as the first woman to serve as Secretary of the Treasury. I look forward to the day, hopefully not very far off, when all positions of responsibility, all opportunities in society will have advanced to the point where we won't have to use the phrase, "first woman." Again, that day will come, hopefully soon.

This past Friday, the Fed announced that the temporary exclusion of Treasuries and reserves in the supplemental leverage ratio will expire at the end of the month. The announcement also stated that the Fed will seek public comment on potential SLR modifications.

Chairman Powell, could you comment on if the exclusion of Treasuries and reserves over the past year helped improve U.S. Treasury market conditions and banks' ability to provide credit?

Mr. POWELL. As you know, the Treasury market was experiencing significant dysfunction during the height of the crisis, and we did a number of things, and, particularly, we bought a lot of U.S. Treasuries to restore function. We also did this exclusion and so did many other large countries like us did something like that. If you look back, we threw the kitchen sink at it, and it is hard to say exactly what effect it had. We did the exclusion relatively late, and by then, there had been quite a lot of market function recovered. So it is hard, it is difficult. I would love to give you a straight answer, but it is difficult to say just how helpful it was.

In any case, that danger has long passed.

Mr. LUCAS. Secondly, could you elaborate on the timeline of potential SLR modifications that may come in the near future, Mr. Chairman?

Mr. POWELL. Yes. We expect to put something out for comment, and I can't tell you exactly when that will be, but relatively soon. And we are going to run a very transparent public process, invite comment, and consider it.

Really, the point is that because of the substantial increase in reserves and Treasuries, the leverage ratio is rapidly becoming the binding constraint from a capital standpoint, and that wasn't our intention at the Fed from the beginning. We like risk-based capital to be binding because it forces banks to manage their risks more carefully.

Mr. LUCAS. As everyone on this hearing knows, I have always made it a very strong point that the Third Congressional District

of Oklahoma is a commodity-driven economy. It is agriculture, and it is energy. There is concern in my district that financial regulators may be moving towards regulation and supervision with environmental policy objectives, potentially discouraging banks from doing business with entire sectors of the economy.

Chairman POWELL, could you respond to that concern of my constituents?

Mr. POWELL. Sure. It has been a long-held policy of the Fed that we don't tell banks what legal businesses they can lend to or order them to lend to. That is not what we do.

With the climate change—you are getting at the climate change work that we are doing. We are at a very early stage of understanding the risks to regulated financial institutions from climate change. It is a risk that we think the public has every right to expect that we will ensure that the banks do manage over time.

And so, again, we're in the early stages of that. I would be happy to talk to you offline about that, too.

Mr. LUCAS. Absolutely. And Secretary Yellen, could you provide your thoughts on that concern?

Secretary YELLEN. You want me to weigh in on the issue of lending and climate change?

Mr. LUCAS. Yes, that there will potentially be efforts by the financial regulators to move towards regulation and supervision with environmental policy objectives. My folks are concerned that will lead to discouraging banks from doing business in certain areas and certain sectors and consequently potentially have a dramatic effect on their business model or their ability to function.

Secretary YELLEN. Climate change is a top priority for the Biden Administration, but we agree that financial regulators should be assessing the risks to financial institutions through stress testing and other techniques. And investors need disclosure of risk, but we have no plan to regulate what lending or investments can be done.

Mr. LUCAS. Thank you very much. And I can assure you that I and my colleagues will watch all that very closely.

With that, I yield back, Madam Chairwoman.

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

[no response]

Chairwoman WATERS. If Mr. Meeks is not available, we will move on to Mr. Scott for 5 minutes.

Mr. SCOTT. Thank you very much, Madam Chairwoman.

Chairman POWELL, Secretary Yellen, welcome.

Chairman POWELL, first to you, thanks to the Rescue Plan, we now have an opportunity to expand the child tax credit. The IRS has put forth a Get My Payment website, and I believe it could be used in conjunction with the efforts through the FDIC and the private sector to bring more Americans into our banking system using what is known as Bank On certified safe accounts, but only if it is able to be moved at the moment when we capture it.

Because currently, the IRS Get My Payment tool is only open for the status checks. But consumers are unable to add or change delivery information as they were able to do so with the delivery of the first stimulus checks.

So, Chairman Powell, explain that. Don't you agree that this is an opportunity to increase financial inclusion through the use of certified Bank On safe accounts, Get My Payment?

Mr. POWELL. I would agree with you that greater inclusiveness in the financial system is a goal of the highest priority for us and really for all financial regulators and for the country. I am not familiar with the particular practice you are referring to, but I will be happy to look into that and get back to you.

Mr. SCOTT. Okay, please do. And then there is another one with the Treasury Department called, Get My Payment. All of these things are good, but I appreciate your looking into them as quickly as you can so that if they are there, we need to use them now because so many of our people cannot get the money quickly because they don't have the kind of high standing within our financial system. When you put these things in like Bank On and Get My Payment, we need to use them right now. So, I appreciate your looking into that.

Secretary Yellen, let me move to you. The American Rescue Plan also included \$350 billion in assistance to State and local governments to make up for the lost revenue and to ease the economic impact of the COVID-19 pandemic. Could you tell me when local governments can expect Treasury to release guidance on the American Rescue Plan?

Secretary YELLEN. I think we have to issue guidance quite quickly, I think within 60 days, and to distribute the funds. And we are working very hard to sort through the issues that we need to in order to provide clarity about the purpose of the funds and how they can be used.

Mr. SCOTT. Okay. Madam Chairwoman, I am concerned. We have the Treasury Secretary here, and we have the Chairman of the Federal Reserve here. And we passed this bill, and we put certain things in it to increase the delivery. And everybody cannot get this payment through electronic accounts. Most of the people that you and I have been very concerned about getting inclusion are not getting these funds as quickly.

I just want to encourage—and I know you agree—but I want to take a moment here. We passed it. It is there. Please, please, Treasury Secretary, please Federal Reserve Chair, all of us need to hurry up. We put these things in place so we could reach those who have been excluded very quickly. They need the money as quickly as everyone else.

Thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you very much, Mr. Scott. I now recognize the gentleman from Florida, Mr. Posey, for 5 minutes.

Mr. POSEY. Thank you, Chairwoman Waters, for calling this hearing today.

We continue to live in a period of uncertainty, but there is some good news on the horizon for our economy as it appears poised to recover rapidly as the vaccine is given to more and more people. Chair Powell told us in his semi-annual appearance a few weeks ago that the economy could grow by as much as 6 percent during this year alone.

At the same time, other factors could cloud the horizon, such as our unprecedented level of deficit spending, increases in nominal

Treasury and corporate bond yields, the mysterious enthusiasm for raising taxes, and the headlong pursuit of climate change mitigation measures that threaten affordable energy and our recently-acquired energy independence.

Secretary Yellen, you recently said that the Treasury Department could facilitate bank stress tests for climate change, but you wouldn't expect results would be used for capital requirements or other regulation. If these climate stress tests have no regulatory purpose, what would the purpose of such stress tests be?

Secretary YELLEN. The purpose of the, maybe we should call it "scenario analysis" rather than "stress test," is for financial institutions and for the regulators to better understand the risks that climate change poses to the health and resilience of core financial institutions, and it will help those institutions better manage and understand the risks.

Mr. POSEY. Are we doing any studies of the risk from solar interaction with our planet? A couple of years ago, we missed a solar eruption that would have knocked out a lot of satellites and kind of put us in the Dark Age. Are we checking on natural phenomena like that as well?

Mr. POWELL. Let me say—

Secretary YELLEN. Go ahead.

Mr. POWELL. Yes, I can say, since we directly supervise financial institutions, we do supervise for institutions that are in areas of the country that are susceptible to significant weather problems, such as hurricanes and things like that. So, we do that.

But just in response to your question, I would say that.

Mr. POSEY. How would this be used? Some people think it will be a Federal informercial, like the old Al Gore movie or something like that. How do you plan to utilize this information?

Mr. POWELL. Let me say that, first of all, many, many of the large financial institutions are already doing this, and the reason they are doing it is just what the Secretary said. It is to try to understand at an early stage of this science really, understand what are the risks that are involved in climate change.

And that one way to do that is to run simulations and ask, "What would happen if? What would happen that?" There are no regulatory consequences contemplated. It is an exploration in understanding better what the risks are to the core of our financial system, and we feel like that is our obligation is to understand that.

And again, the financial institutions are very much actively doing this on their own. It is not something we are forcing them to do at this point.

Mr. POSEY. Who is doing it? Give me some examples of who might be doing that right now?

Mr. POWELL. I am not going to name individual financial institutions. Many of the large banks are very active in trying to understand how climate change would affect their business over the long sweep of time. Many or even all financial—and by the way, that is also true of large industrial companies in the United States.

Mr. POSEY. And are they sharing that information with you?

Mr. POWELL. They are sharing with the public.

Mr. POSEY. Does it seem consistent?

Mr. POWELL. I think it is early days. Honestly, it is really very early days in trying to understand what all of this means. It clearly can have longer-term implications for our economy, for our financial system, and for the people that we all serve. And I think our obligation is to try to understand that. And again, I would say it is early days, but we feel like we have a responsibility to start the process of understanding.

Mr. POSEY. Do you think you will discover revelations that they have missed or—

Mr. POWELL. I think we have a job, which is to ensure that the institutions we regulate are resilient to the risks that they are running. The public will expect that, and they have every right to expect that over time. So, we don't have a new mandate. This is consistent with our existing mandate of supervision of financial institutions. It is just the same mandate and a different risk.

Chairwoman WATERS. The gentleman's time has expired. The gentleman from Texas, Mr. Green, is recognized for 5 minutes.

Mr. GREEN. Thank you very much, Madam Chairwoman.

Madam Chairwoman, I don't want the historic aspect of this hearing to escape us. I am a senior member of this committee. I have witnessed many persons appearing before this committee, many Secretaries of the Treasury and Chairs of the Fed, and I must tell, you a paradigm shift is taking place, and I don't want it to be overlooked under your leadership.

I have here the statement of the Chairperson of the Fed, and in his statement, he says—while addressing progress that is being made, he states, "We welcome this progress, but we will not lose sight of the millions of Americans who are still hurting, including lower-wage workers in the service sector—African Americans, Hispanics, and other minority groups that have been especially hard hit."

And then, the Secretary of the Treasury, in her statement, she indicates that, "Since taking office 2 months ago, we have been expediting relief to areas of greatest need, for example, small businesses and especially the smallest small businesses, which are disproportionately owned by women and people of color."

I understand that there is still great work to be done, but I just don't want to overlook the fact that people are talking more now about the needs of minorities and women.

Secretary Yellen, you indicated in a message that you presented not so very long ago, when comparing the 1.8 million fewer men in the labor force to the 2.5 million fewer women, you called this, "extremely unfair." This is the Secretary of the Treasury.

I am grateful to both of you for understanding that it is now time for us to move forward on the issues associated with the wealth gap as it relates to minorities in this country, and especially issues related to women, who happen to be more than 50 percent of the population of the country.

But it is historic to see this movement under your leadership, Chairwoman Waters. I commend you, and I am honored to serve under your leadership.

Now to Secretary Yellen, I have a concern, and I am concerned about the \$10 billion that will go to the State Small Business Credit Initiative (SSBCI). I am concerned because when this program

was instituted on a previous occasion—we have reauthorized it in the Rescue Plan, but when it was authorized initially, it went to the States through the Agriculture Department.

Then, the Agriculture Department had the duty and responsibility and obligation of making sure that it moved down to other units of the State. Well, in Texas, that probably is not the best way to do business. I have this consternation about it, and my hope is that we will be able to get this to the end users in a much more expeditious way, such as what you have indicated you have been trying to accomplish.

My question is this, Madam Secretary: Will you send us an outline of the timeline for implementation from money in the Treasury to capital in the coffers of the end users in the \$9 billion Emergency Capital Investment Program that has come into being under the Honorable Maxine Waters' leadership—I had the privilege of working on this program—and the \$10 billion State Small Business Credit Initiative similarly came into existence? And I would add also this last one had the help of the chairwoman of our Diversity and Inclusion Subcommittee, Mrs. Beatty, who helped us to hone this and refine it to the extent that we are helping the smallest of small businesses.

I am just hopeful that we can get such an outline because, I have people who question me daily about, when will the money be available for us as end users to benefit from it? And I believe your heart is in the right place. I believe you are working expeditiously. I just want to be able to answer those questions when they are posed to me.

So, again, I thank you. I am grateful for this historic moment. And my hope is that this is only an indication of the better things to come.

And Madam Chairwoman, I will yield back 12 seconds to you.

Chairwoman WATERS. Thank you. Thank you very much. I now recognize the gentleman from Missouri, Mr. Luetkemeyer, for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chairwoman.

And congratulations to you, Secretary Yellen, on your new position. It's good to see you again.

Secretary YELLEN. It's good to see you.

Mr. LUETKEMEYER. My opening comment is just for you. I also have another duty here in Congress, which is to be the ranking member on the House Small Business Committee. And during your opening statement, which I am sure was written by your staff, they made or you made some comments with regards to this Administration being responsible for all of the loans that are out there that are being taken by those entities, those small businesses under 20 or 10 employees.

I can quote you from my own press release as the ranking member of Small Business that the loans have been at roughly 75 to 80 percent, 10 employees or less already, and are generally about a little over 90 percent of 20 employees or less. And for the Administration to actually pause that ability of small businesses with over 20 employees to have access to the program is actually harmful from the standpoint that, if we don't pass the extension of the PPP bill that we passed in the House, which the Senate now has—

if we don't pass that, those small businesses are actually at a disadvantage because the over-20 were delayed. And if they don't get their loan in the pipeline soon, the pipeline is not going to get processed, and they won't even get their loan processed.

My comment would be, please tell your staff to quit politicizing your statement, and please stop taking liberties with the facts.

Chairman Powell, we are halfway through the 2-year cycle now on Current Expected Credit Losses (CECL) and a capital delay, which will end in 2022, and begin the phase-in of deferred impacts on the capital. We have now had nearly 4 quarters of CECL data available and have banking agencies reviewing the data.

Can you tell us what the Fed's review of that data is, and if you would consider a more permanent calibration or revision to the current approach?

Mr. POWELL. We are continuing to look at CECL, and I honestly don't have anything for you on that data. I will take a look at it quickly, and get back to you.

Mr. LUETKEMEYER. Okay. That would be great, because I think having deferred it is something that you agreed to up-front last year in the process. It was something that I think you probably agreed to again this time, and I think it is something we certainly need to review, for sure, if not get rid of altogether, if a delay is something that we all believe is in the best interest of everybody affected by it.

Also, Chairman Powell, at this point, Fed data from third quarter 2020 indicates that 51 percent of the commercial real estate debt is now held by banks, and the FDIC data indicates that community banks have a higher concentration of these loans as the lenders. At this point, again, Congress has provided relief from the financial institutions with these assets through the suspension of TDRs and the extension of the foreclosure moratorium.

I think it is important that we have discussions around this on what will happen when this relief ends. Can you give us a little heads-up as to what you think will happen, the impact on balance sheets, the economic recovery, if we take that extension, we take that foreclosure moratorium off?

Mr. POWELL. I will look into that for you.

Mr. LUETKEMEYER. I apologize for my voice. I have really bad allergies today.

Mr. POWELL. It is that time of year. No, you are right. We are monitoring commercial real estate (CRE) very carefully, and you are absolutely right that its concentrations arise principally in smaller banks, and we will have to monitor it carefully as we allow those moratoriums to elapse. And I don't have anything for you on that today, but we are well aware of the issue, and we will be sure to move very, very carefully when we do address that.

Mr. LUETKEMEYER. As you know, I am very concerned about this situation, because, as we saw in 2008 and 2009, when we went in and very punitively shut down entire industries, especially in the commercial real estate and real estate development areas, it had a really, really devastating effect on not only local economies, but the economy as a whole. So, I hope we are very, very cautious about this.

You and I have talked about this before with regards to forbearance and being able to allow these businesses to get back on their feet and see once what the real loss is before we go in and sort of, “scorched earth” get rid of all these folks.

But I appreciate your interest on that and your support on that. I know that you all are doing a good job of working with the banks at this point. I would ask that you continue to do that. I realize some loans are bad. You have to write them off, that is fine.

But I think if time is given with the nature of the economy the way it is, I believe we can get out of a lot of the mess that we are in without having to go through the process of foreclosure. I thank you for your thoughtfulness.

And I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. The gentleman from Missouri, Mr. Cleaver, is recognized for 5 minutes.

Mr. CLEAVER. Madam Chairwoman, let me again, hopefully for the last time, apologize to you and the members of the committee, and certainly our witnesses, for not being properly attired due to my current medical situation. But I thought it might be better for me to do this than to miss the hearing.

If I can, Madam Secretary, I was here, and probably everybody at least on the Democratic side who has spoken so far was here, and many of the—and I think probably, yes, all of the Republicans as well were on the committee when the tax cuts were approved. The Tax Cuts and Jobs Act, I think it was called. And it temporarily authorized what was called the Opportunity Zones, and I became somewhat excited about it. It didn’t matter whether it was designed by Republicans, Democrats, or the Tampa Bay Buccaneers, I thought it was—well, maybe that is going too far.

But Opportunity Zones, the incentives were designed to encourage private investment in the economically-distressed areas around the country. And I have become concerned, even though I had great enthusiasm for the program, that the larger promise of this organization has not been realized. I thought, I believed, I hoped that we would have affordable housing, community-oriented amenities like grocery stores, drug stores like CVS, that would improve the quality of life in these low-income areas. But my dream remains unrealized.

Now today, Chairman Green and I sent a letter. Let me say although, parenthetically, that Opportunity Zones are under the jurisdiction of the House Ways and Means Committee, and I accept that, there are some parts of this, especially as it relates to affordable housing, where Opportunity Zones could be extremely important.

So, here we are. We have seen some things that happened, that I think are extremely unfortunate, and they bode poorly for what we could do in the future. And one of those things, Madam Secretary, is that we have seen, for example, the Brookings Institution talked about in one of their reports that some of the States had picked the Opportunity Zones covering college campuses located in Census tracts where over 90 percent of the residents are students.

And I am all for students, but I don’t believe the program was designed, as I recall and read the initial proposal, for colleges. It was designed for distressed communities. At any rate, I am talking

too long, but I want to make sure that you understand the concerns we have. And in the remaining time, could you talk about what economics says about the benefits if we have this program maybe tweaked or redesigned in some way so that the incentives actually help people in what we thought were going to be zones?

Secretary YELLEN. I think it is critically important to increase opportunities to provide affordable housing, especially for low-income and historically-marginalized families, and Opportunity Zones, appropriately structured, could contribute to that. There are a number of other tools that we have that can contribute to affordable housing goals. The Low-Income Housing Tax Credit, I think is important in serving that purpose. The Capital Magnet Fund can also serve to facilitate investment in affordable housing construction.

This is a top priority for the Biden Administration. We are certainly open to exploring opportunities at Treasury and across the government to address the affordable housing shortage. We are operating at Treasury, the CDFI Fund and other programs that will invest in CDFIs and Minority Depository Institutions (MDIs), and I think they can make a contribution. But we have a variety of programs, and I would look forward to working with you to see how we can use them to address this problem.

Mr. CLEAVER. Thank you. And thank you, Madam Chairwoman.

Chairwoman WATERS. The gentleman's time has expired. Thank you. The gentleman from Michigan, Mr. Huizenga, is recognized for 5 minutes.

Mr. HUIZENGA. Thank you, Madam Chairwoman.

And I am going to be trying to move through a couple of quick things. But Secretary Yellen, one, congratulations on your new position, and I look forward to continuing to work with you.

But I have to read you part of an email I received from a CPA, a constituent of mine, and this echoes what Mr. Sherman had to say. My constituent says, "Extending the filing date of the 2020 tax returns was not an option. It was a necessity because of all of the stuff being thrown at us this year. Making changes to the 2020 income tax rules in March? Really?"

"It is going to take software developers 2 weeks at least to get this into the software correctly. Can you even imagine the amount of incorrect correspondence the IRS system is going to create as a result of this, and how much we are going to have to deal with straightening this out for them because they also can't get their systems changed correctly that quickly? It is going to be a mess this summer for sure.

"Extending the 2020 deadline by 30 days is minimal. It should have been until June 15th, as the American Institute of Certified Public Accountants (AICPA) and the Ways and Means Committee recommended, but we can deal with that. Having the first quarter 2021 estimated payment due on April 15th, after extending the tax filing date to May 15th, is the most ridiculous thing I have ever heard. How do you think we determine what those estimates should be? Through the completion of the prior year return.

"To have the first-quarter estimate due on April 15th without knowing where the prior return ended up is ridiculous. They should have just kept the filing date at April 15th."

So, one, I want to know if you are aware of this problem, and, two, whether you are committed to actually trying to straighten that out and move that date to make it workable?

Secretary YELLEN. I believe the logic of moving the one date, but not the date for estimated taxes, is based on the idea that it is mainly high-income taxpayers who file estimated taxes and that they are able to file by April 15th when—

Mr. HUIZENGA. Let me just stop you right there. As a former REALTOR and independent contractor, coming out of college, I was not a high-income earner, but I paid quarterly taxes. I paid quarterly estimates.

And there are all kinds of people like that who are small business owners. They are in the middle of trying to keep their restaurant open, much, I might add, like Marlena, who is a restaurant owner, an immigrant restaurant owner who is in jail right now because she violated the Michigan Health Department's order to shut her restaurant down because she was trying to save her business. But we have a lot of those folks who need to understand what their tax liability is before they are going out and sometimes having to borrow cash to make that first estimated payment, especially those who are in seasonal work such as construction, landscaping, those kinds of things.

I don't want to take any more time on that. I do want to have that conversation with you and your staff offline.

Mr. Powell, materiality, I want to touch on that and the Fed's involvement in the Network for Greening the Financial System (NGFS). You have a rather interesting quote saying, "Regardless of the nature of any future engagement with them, we will continue to set supervisory and regulatory expectations basically as normal."

So, one, that begs the question, why the involvement in that? And two, materiality, doesn't it need to be definable as well as quantitative? Very quickly.

Mr. POWELL. What the NGFS really is, is regulators, supervisors from countries around the world who are trying to understand together what are best practices—

Mr. HUIZENGA. I know what it is. What I need to know in this short amount of time is about the materiality. When nobody can define it or come to an agreement on it, how can it be measured and be quantitative?

Mr. POWELL. We are not trying to measure or quantify something right now. We are trying to understand at a high level what is the nature of the risks that will affect banks over time from climate change?

Mr. HUIZENGA. That might be your goal and objective. I know that is not the goal and objective of a number of my colleagues who have actually been talking about this needing to be into the review currently. And what I am afraid is that we are going to get dragged into that.

In my remaining last little bit, I do want to talk about, Secretary Yellen, you are a professor, a lifelong educator. Do you agree that we should safely send our kids back to school to ensure their educational development? I am very concerned about that impact on the future of our economy.

Secretary YELLEN. I have concerns about the impact of children not being in school, and it is an important objective to reopen the schools safely as soon as we can.

Mr. HUIZENGA. Okay. My time has expired. I appreciate the time, and I look forward to that other conversation about the IRS.

Chairwoman WATERS. Thank you. The gentleman from Connecticut, Mr. Himes, is recognized for 5 minutes.

Mr. HIMES. Thank you, Madam Chairwoman, and thank you to both of you for appearing.

A couple of quick things, then I do have one question for both of you. Chairman Powell, I saw with great interest your comments on cryptocurrency out of the Fed. You said we would not proceed without support from Congress and urged great transparency.

I appreciate that. I think my subcommittee would probably have jurisdiction over that in some combination with Mr. Sherman's subcommittee. I just wanted to tip my hat to that sentiment, and I think we should work together. There is quite a bit of education, I think, to be done with the United States Congress on that very important topic.

Secretary Yellen, thank you for all of the work that you and your people have done. I would be remiss if I didn't urge you to be particularly quick on the rollout of the rules for the Restaurant Revitalization Fund. That obviously is a sector that has been brutally hit in the last year or so. We are hoping that those funds become available quickly.

In my remaining 4 minutes, I have one question for both of you that I would like to offer. It is undeniable that everywhere we look today, we see the effects of the very substantial liquidity in the system. And by the way, it is gratifying to see monetary and fiscal policy working in tandem. This was not true when I was a freshman in 2009, when the fiscal policy was working against the monetary policy for recovery.

It is very gratifying to see that. But again, everywhere we look, we see the effects of a flood of liquidity in the system. That, of course, is in equity market prices, which have a remarkable run. The high-yield market, which is now yielding something like 4 percent. Everybody and their brother has a Special Purpose Acquisition Company (SPAC). Real estate prices are growing around the country.

So, my question is for both of you. We learned in 2008 that trees do not grow to the sky. I wonder if you each would just take 90 seconds to tell us what you see as the near- to medium-term risks associated with the inevitable contraction, although we may not know when it comes, of liquidity in the system?

Let me start with the Treasury Secretary for a response, and then go to the Chairman.

Secretary YELLEN. I would say that while asset valuations are elevated by historical metrics, there is also belief that with vaccinations proceeding at a rapid pace, the economy will be able to get back on track.

I think in an environment where asset prices are high, what is important is for regulators to make sure that the financial sector is resilient and to make sure that markets work well and that financial institutions are appropriately managing their risks.

Mr. HIMES. Chairman Powell, that is a pretty good segue over to you.

Mr. POWELL. Monetary policy is highly accommodative right now. That is appropriate, given how far we are from our employment goal and our inflation goal, for that matter. And I think the first thing I would point to is just our overall monitoring of financial stability.

We have looked carefully at financial stability on an ongoing basis. We have a framework with four pillars. If you look at those, the evidence is kind of mixed. You can say that some asset prices are a bit high, but the banking system is highly-capitalized, and funding risk is relatively modest.

The remaining category is really leverage among households and businesses, which is somewhat elevated, but nothing like it was before the financial crisis. So, it is a mixed picture on that. The main thing is to have a resilient financial sector that can withstand the sorts of disruptions that will come.

In terms of moving forward, we have said that we would start to taper our asset purchases when we have seen substantial further progress toward our goals. When that comes, we will communicate well in advance of the time of actually tapering.

That is what we do. We have learned over the course of some years now that we need to communicate carefully and move slowly. Well ahead of time, we will let people know what is coming, and that is the best we can do to make sure that the transition away from very highly accommodative monetary policy, as the economy reaches full employment and price stability goals that will transition to a different policy.

Mr. HIMES. Thank you. I yield back.

Chairwoman WATERS. The gentleman's time has expired. The gentleman from Kentucky, Mr. Barr, is recognized for 5 minutes.

Mr. BARR. Thank you, Madam Chairwoman.

Secretary Yellen, you have created a team within Treasury to focus on climate change. You are also the Chair of the Financial Stability Oversight Council (FSOC), which is charged with identifying systemic risk to the financial system.

I certainly understand that changes to weather patterns could pose risk to individual credits or insurance policy holders. But linking hypothetical climate scenarios to risk to the entire financial system seems to me highly speculative, and on the flip side, I worry that injecting ill-defined climate scenarios into financial regulation and supervision creates the immediate and very real risk of driving investment and credit allocation away from job-producing industries like fossil energy, an industry that still provides 80 percent of total energy consumed in the United States, and remains the most affordable and reliable source of energy to the American economy.

Are you incorporating this real risk into your assessments around climate, and how do you plan to account for the disruptions in the labor market, the very significant disruptions to the labor market from lost energy jobs? And what about increasing energy prices and decreasing reliability for consumers, is that something FSOC will look at in addition to—in the context of your time as czar?

Secretary YELLEN. I believe that FSOC can play a role in arranging discussions among financial regulators, all of whom have responsibilities for assessing risks from climate change to the financial institutions that they supervise and regulate, to coordinate a systemwide response using the best-available tools. I think FSOC can facilitate identification of data and information, including high-quality financial disclosures that are needed to understand climate risks and make sure that climate risks are addressed fully in light of these assessments.

I don't see FSOC playing a role in telling financial institutions what kind of lending they can do, but information is important.

Mr. BARR. Thank you. And reclaiming my time, I would just encourage Treasury to consider the role that shifting consumption away from fossil energy toward renewables, despite the market's continued demand for fossil, the impact that could have on the economy as well and systemic risk, as opposed to just looking at hypothetical climate scenarios.

Broadband, Madam Secretary. The pandemic has been especially hard for rural families who don't have a broadband connection in my home State of Kentucky. And I am glad that the American Rescue Plan allows for necessary investments in broadband, but one of the ongoing problems we have had is that funding our broadband infrastructure often goes to areas that already have broadband, and the dollars never get into underserved areas like in my district.

I was disappointed that this committee, in the markup of the American Rescue Plan (ARP), rejected my amendment to dedicate funds to rural areas for broadband. Will you commit Treasury to using its authority to see that in the American Rescue Plan, broadband funding is spent first and foremost in underserved rural areas?

Secretary YELLEN. We need to distribute the funds to States, localities, Territories, and the like based on the requirements that are in the ARP, and using the funds for broadband or water or sewer for the State and local funding is certainly a permitted use. But we are going to give flexibility to the recipients of these funds as to precisely how they deploy them, consistent with the requirements of the Act—

Mr. BARR. Thank you, and I look forward to working with you and Treasury on that. I appreciate that. I think we can work together on that.

Final question: With the multi-trillion dollar deficit spending bill just passed, the promise of an additional \$3 trillion in spending by this Administration on top of the \$4 trillion in borrowing because of COVID last year, does the Treasury or the Fed or both of you intend to lengthen the maturity of government debt before interest rates rise?

Secretary YELLEN. Treasury has been looking at this question and has no current plans to do that.

Chairwoman WATERS. The gentleman's time has expired. The gentleman from Illinois, Mr. Foster, is recognized for 5 minutes.

Mr. FOSTER. Thank you, Madam Chairwoman.

Secretary Yellen, Chair Powell, I would like to probe a little bit deeper on Central Bank Digital Currencies, and in particular the

need for a secure digital ID for participants. I believe that both of you are on the record as acknowledging that an anonymous, untraceable digital dollar is not a viable option for our country or the free world because of its ability to be abused for money laundering, terrorism financing, ransomware, and so on. Is that principally correct?

Mr. POWELL. I don't think I am on the record for that, but I will go on the record now for it.

Mr. FOSTER. Secretary Yellen?

Secretary YELLEN. Nor am I on the record, but I would agree that we need to be very careful about the use of the digital currency for illicit finance, and anonymous currency makes that much harder to control.

Mr. FOSTER. Yes. Well, I concur. I think it is sort of logically impossible.

On the other hand, I believe that the Chinese approach to digital currencies that gives the government immediate and unconditional access to all transaction information will be equally unacceptable to Americans and to most citizens of the free world. Therefore, a digital dollar will be crucially dependent on having an effective authentication component. That is a secure and legally traceable and maximally privacy-preserving way for participants to authenticate themselves as a unique legally traceable individual, a secure digital ID.

And it must be backed by a trusted court system and a clear legal regime to determine the conditions under which the participants might be unmasked. And as a digital dollar, if it is to be used internationally, we are then going to need a digital ID system that operates internationally, at least among the free countries of the world.

I would like to thank you both for beginning engagement with authorities in other countries on Central Bank Digital Currencies, and I was wondering where you see this discussion going as far as a secure digital ID and a means of authentication across boundaries, across countries?

Secretary YELLEN. I will let Chair Powell start with this, because he has been more involved than I have.

Mr. POWELL. Thank you. So, yes, where we are is we are engaged in a process of looking at all of the technical issues and design issues, which interact with each other. That is one of the most basic ones.

Reflecting your earlier question, I don't think a system that relies entirely on, for example, completely private governance or completely secret information about who actually owns the digital dollar would be viable. And the lack of privacy in the Chinese system is just not something we could do here.

At the same time, I would say there has to be a balance, and it does call for using a two-tiered system in some way so that there is a wallet outside of the central bank, and transfers can take place there and that there are appropriate protections. We are only beginning to think carefully about these things, and it is going to be a careful, detailed, and probably lengthy process of consideration, one that we are investing quite a bit in now, and that I expect will last some time.

Mr. FOSTER. Secretary Yellen, did you have any thoughts on this?

The issue of the secure digital ID is very much in your court, having to do with—one of the things that the coronavirus laid bare is the lack of simply a list of citizens in the U.S., and then our ability to rapidly distribute funds, particularly to the underbanked. A high-quality and universal digital ID in the U.S. would have made that immeasurably easier, as well as everything from vaccine certificates or you name it.

And so, it is an ongoing discussion on many fronts. And there are also specific proposals. I believe you had letters urging both of you to look into this in more detail. And I was just wondering, just simply as a means for citizens to receive payments, Fed accounts, each one of us already has an account with the Federal Government, the IRS at least, and I was wondering how you saw this part of the conversation going?

Secretary YELLEN. I think it is something that is worth exploring. I have not done so, but we would be glad to have further conversations with you about how something like this could work. It is certainly a problem, as you have mentioned.

Mr. FOSTER. Thank you.

Chairwoman WATERS. The gentleman's time has expired. The gentleman from Texas, Mr. Williams, is recognized for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you, Madam Chairwoman.

And thank you, Madam Secretary and Chairman Powell, for being with us.

The Biden Administration's tax plans are becoming clearer each day, and from what we have learned so far, the President was not really telling the truth when he told voters that anyone earning less than \$400,000 would not have a penny raised in taxes. Now, this number has been reduced to anyone making \$200,000 a year, and a significantly greater number of families can expect the government to take more of their hard-earned paychecks so that Democrats can fund their progressive priorities.

In addition to individual tax rates going up, the corporate tax rates are also expected to be raised, and we will no longer have one of the most competitive tax rates in the world. This will stifle business investments, prevent employers from hiring more people, and reduce capital-struggling businesses that will need to make the necessary changes to accommodate the new normal after COVID-19.

So, Chairman Powell, can you talk about the correlation between business investment and productivity gains, and how increasing productivity benefits workers and the overall economy?

Mr. POWELL. Sure. The way living standards rise over time is through increasing productivity, more output per hour. Without that, incomes can't sustainably rise, and that is significantly connected to investment, investment in human capital and also in advancing technology.

Mr. WILLIAMS OF TEXAS. Okay. Thank you, Mr. Chairman.

At the beginning of 2020, Congress updated the Bank Secrecy Act and made some of the largest changes to our anti-money laundering laws in decades. When this legislation was signed into law, there were some concerns coming from the business community

about the impact this will have on small businesses in the form of additional regulatory costs. As a small business person, I can tell you that is a burden that we do not look forward to.

And as you start putting out guidance and implementing the law, I hope you will be mindful of this and do all you can to ensure that businesses will not be stuck with significant new expense.

So, Secretary Yellen, can you give us a status update on Treasury and FinCEN's work in implementing the Anti-Money Laundering Act of 2020?

Secretary YELLEN. Yes. Timely and effective implementation of the Anti-Money Laundering Act of 2020 is the top priority at FinCEN. Our efforts are well underway, and several of the provisions of the Act that involve FinCEN looking at innovation, regulatory reform, and the like, we are actively engaged in. This is something that is a high priority, and we are making progress on it.

Mr. WILLIAMS OF TEXAS. Okay, thank you.

Chairman Powell, in the past, we have talked about the workforce participation rate and how we need to get people off the sidelines and contributing to our economy. In other words, just put them to work.

In your testimony, you note that this figure is still notably lower than it was before the pandemic, and yet the COVID-19 bill recently extended the enhanced unemployment benefits until September. Now, I have consistently expressed my concerns about how this policy will be detrimental to our economic recovery and make it more lucrative to, frankly, live off of these overly-generous government programs than to go out and find a job.

So, Chairman Powell, given the enhanced unemployment benefits are now law, how should we be incentivizing people to get off the sidelines and back in the workforce and make a good living for their families?

Mr. POWELL. I think the most important thing is for people to get vaccinated, so that we can get the economy fully reopened and those jobs can come back, and people can feel safe doing them.

Mr. WILLIAMS OF TEXAS. Do you have an answer to that, Secretary Yellen?

Secretary YELLEN. I agree with that. Many people who are not working are not doing so because of safety considerations or because they have children out of school. And the studies that have been done about whether or not the additional payments discourage work show pretty clearly that they don't serve to do that. In addition, they will be expiring in the fall.

Mr. WILLIAMS OF TEXAS. In my remaining time, I just want—we talked about increasing taxes earlier. I would just say, as a small business owner who employs hundreds of people in Texas, it is pretty simple. If you cut taxes, you increase jobs. If you raise taxes, you cost jobs any way you look at it. I hope that everybody will understand that raising taxes to any business is not good for our economy.

With that, I will yield back my time, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. I now call on Mr. Vargas from California for 5 minutes.

Mr. VARGAS. Thank you very much, Madam Chairwoman. I appreciate very much this hearing.

I also congratulate, in the strongest way, Secretary Yellen. It is quite an honor to have a woman now running Treasury. That is very, very exciting.

[Inaudible] about deficit spending when we Democrats are in power. They don't seem to remember that when they are, especially their \$1.9 trillion giveaway to the wealthiest Americans, tax giveaway. It is probably even more now because the wealthiest have made so much money during this pandemic.

But one of the things that I have found so interesting about this particular hearing is that we have two incredibly intelligent people presenting today, and one is a Democrat and one is a Republican. One was appointed by a Democrat, and one was appointed by a Republican. And yet, they seem to be principled and scientific, speaking about the facts and not crazy things. This is the way it used to be.

And so, I appreciate it very, very much and, again, I can't tell you how much I have enjoyed listening to this intelligent conversation. I am sure that the Secretary and the Chairman have differences of opinion, as they should. But it would be done on a factual basis, and it would be done, I think, intelligently and scientifically.

In that spirit, I do want to ask about climate change. It seems that both of you have the notion that climate change could be a big deal and is in your study. So, what are the long-term investments that we need to be looking at with respect to climate change in our economy? And either one of you can go first.

Secretary YELLEN. I would start off by saying that climate change poses very severe risks to the well-being of humanity, and it is a global problem that demands a global solution. While we need to address climate change at home, we also need to work globally to help other countries, particularly poorer countries, have the resources to address it as well.

It is a top priority of the Biden Administration. President Biden has released a detailed plan to combat climate change. We have rejoined the Paris agreement. We intend to put forward a proposal to invest in sustainable infrastructure and to create new green jobs in the process.

We have talked earlier in this hearing about evaluating the risks to businesses and to financial institutions from climate change, which the financial regulators are doing, and I hope to facilitate through FSOC the sharing of information on best practices. We need to focus on information and disclosure of information about the risks to companies that investors need to channel their capital in the right directions.

Mr. VARGAS. Mr. Chairman, what about the risks to businesses and financial institutions?

Mr. POWELL. We see this through a different lens, appropriately, from the Treasury Department, and that really is the lens of our existing mandate. We supervise banks and some other institutions to ensure that they understand and are managing the risks that they are running in their business. And we don't have a new mandate. That is what we do.

And climate change is an emerging risk. We are looking at it carefully. We actually are just in the very early stages of considering stress scenarios, and that is what others are doing, too. It is an emerging idea. It is not actually something that people are conducting now, but we are doing that and many other things to—again, to get a basic understanding of how the financial system can be resilient against what may be very significant emerging risks over time.

Mr. VARGAS. Thank you. Yesterday, in the Foreign Affairs Committee, we talked to David Beasley, from the World Food Program. Climate change was such a big deal there to famine and to other problems internationally. So, again, I am very thankful that you are working together and that you are scientific.

Thank you.

Chairwoman WATERS. Thank you very much. Mr. Hill, the gentleman from Arkansas, is recognized for 5 minutes.

Mr. HILL. Thank you, Madam Chairwoman.

And let me welcome my good friend, Jay Powell, back to the committee for this oversight hearing.

And what a pleasure it is to say, “Madam Secretary,” and to welcome Janet Yellen back to the committee in your new role as our Treasury Secretary. It is a pleasure to have you both here.

Secretary YELLEN. Thank you.

Mr. HILL. Secretary Yellen, China, Russia, Iran, Syria, Venezuela, and Myanmar are all subject to Treasury’s Office of Foreign Assets Control (OFAC) sanctions program. Secretary of State Blinken said last week that China is committing genocide, and President Biden recently called Vladimir Putin a killer. And with Chairwoman Waters’ strong support, Treasury is considering sending billions of dollars to these dictatorships through the International Monetary Fund’s (IMF’s) special drawing rights allocation.

Wouldn’t you agree that no-strings-attached liquidity for a genocidal regime like China runs counter to our national interests?

Secretary YELLEN. I believe our national interest involves augmenting the reserves of countries that need it, so that at this very difficult time, we don’t pressure countries to take contractionary, deflationary actions that would make recovery more difficult. And it is especially important to channel resources to the world’s poorest countries that are having a great deal of—

Mr. HILL. Madam Secretary, I agree completely. And of course, David Malpass has made available \$160 billion of concessional loans through the World Bank, and the IMF, billions of dollars to those neediest countries through its facilities for some 80 countries. So, I think we share that goal.

But could you at least certify for us today that China won’t receive billions of dollars in this no-strings-attached liquidity through the SDR allocation?

Secretary YELLEN. The funds are allocated in accordance with the quotas that each country has at the IMF in an unconditional way. So, China, if this allocation goes through, will receive resources.

China is expected to use some of these resources, I believe, to, along with other countries, recycle their Special Drawing Rights (SDRs) to some of the poorest countries through the Poverty Reduc-

tion and Growth Trust and to provide relief to countries that have outstanding borrowing from China. I think that China is likely to use SDR resources in ways that will be beneficial to countries around the world.

Mr. HILL. Madam Secretary, thank you for that. I hope that is the case. I will believe it perhaps when I see it. I hope that is an important part of this discussion of limiting their access.

Would you, in turn, also ensure that Third World countries that have been penalized by nontransparent predatory lending from the Belt and Road Initiative from China's largest creditor will not be paid with SDR allocations from those poor countries? Can you certify that for us today?

Secretary YELLEN. We do want to make sure that SDR allocations are used to relieve poverty and address real needs, and we will work with them and with China to ensure that they don't go to repaying loans from the Belt and Road Initiative.

Mr. HILL. And turning to Russia, of course, as I noted, President Biden acknowledged last week that Vladimir Putin is a killer. Killers don't deserve a blank check from the IMF, do they?

Secretary YELLEN. As I said, an SDR allocation goes to members in accordance with their quotas in the IMF.

Mr. HILL. Well, I have argued, and I hope you will work with us—you are skirting Congress by limiting the SDR allocation to \$650 billion that you discussed with your G-7 colleagues. But you are not making the efforts I think are important for America's national security to limit this hard currency access going to some of the worst regimes in the world.

Will you commit to work with Congress to limit this SDR allocation access to Iran, Syria, Venezuela, Russia, and China?

Secretary YELLEN. We are working with the IMF to craft rules that will promote transparency and make it difficult for countries. They need to find willing partners to exchange SDRs, and that requirement will limit uses for some of the countries that you mentioned.

Mr. HILL. Thank you, Madam Chairwoman, and I yield back.

Chairwoman WATERS. The gentleman's time has expired. Mr. Gottheimer, the gentleman from New Jersey, is recognized for 5 minutes.

Mr. GOTTHEIMER. Thank you, Madam Chairwoman.

And thank you, Chairman Powell and Secretary Yellen, for being here today.

Secretary Yellen, if I can start with you, the State and Local Tax (SALT) deduction cap jammed through Congress in the 2017 tax hike bill raised taxes for a majority of the families in my district. For all four counties and the scores of middle-class families I represent, on average, SALT puts them above the \$10,000 cap.

For example, in Bergen County, the average taxpayer claimed \$24,783 before the cap went into place, and the average property tax alone was \$12,398 last year. These are my communities' teachers and first responders and small business owners, young people trying to start a family, all groups who were struggling, obviously, during the pandemic.

It is high time we fought back against these moocher States that put this into place. My district has been taken advantage of by

these folks enough. Our taxes need to be cut, not raised, as we recover from COVID-19, and removing the SALT cap has broad bipartisan support.

Will the Administration support eliminating the SALT cap and fully reinstating the deduction, ending this misguided policy of double taxation on my constituents?

Secretary YELLEN. I do think that the SALT cap is a feature of the Tax Cuts and Jobs Act (TCJA) that resulted in very disparate treatment. There are a lot of options that have been presented, and I would work with you to try to ensure that the inequities that this caused are remedied in a fair and responsible way. As you mentioned, there is a bipartisan proposal to repeal the cap.

President Biden discussed a proposal that would cap itemized deductions at 28 percent. The caps could be increased. I think we need to study just what impact it has had, and I look forward to working with you to find a fair way to address it.

Mr. GOTTHEIMER. Thank you, Madam Secretary, and I really look forward to working with you, too, on that.

Just one other item. Given the number of rural locations throughout the country, including in my district, that still don't have true broadband connectivity, I believe that Treasury should make sure any American Rescue Plan (ARP) Act broadband infrastructure dollars are targeted to truly underserved areas, to avoid overbuilding.

For example, according to a recent survey by the Census, only 69 percent of residents in White Township, in my district, have broadband connectivity. Even in northern New Jersey, there are lots of places that don't have connectivity or have very limited connectivity. I was wondering, based on the legislation that was just signed into law, will you commit Treasury to using the authority Congress gave it to see that broadband funding is spent first and foremost on underserved areas and to avoid overbuilding?

Secretary YELLEN. I am not sure that we have the ability under the law to impose those kinds of restrictions, but I will look at it. And I would also mention that the ARP contains a Coronavirus Capital Projects Fund. It is \$10 billion that can also be used to fund broadband and infrastructure. So, there is quite a bit of money in the ARP for infrastructure, and I will look at what can be done.

Mr. GOTTHEIMER. I was thrilled about that, obviously. It was something I fought hard for, the \$10 billion fund for broadband. And I think the way it is written, the Treasury has latitude here, and I would love to talk to you about that further to make sure that it goes to places that don't have broadband connectivity now so we don't overbuild, which has been a mistake in the past, as you know, and try to avoid that.

Madam Secretary, The New York Times this week published an article stating that more than \$600 billion of income goes unreported yearly to the IRS. This gap in reporting will reduce Federal revenue by \$1.4 trillion over the next decade. It is a great opportunity to make sure we go after tax cheats or people who don't pay what they should, to avoid raising taxes otherwise.

Are you prioritizing that? Are you looking into the revenue raisers that don't require tax rates to increase, such as increasing the audit capabilities of the IRS, to help close the tax gap?

Secretary YELLEN. Absolutely. I think this is something that would be both fair and not involve any increase in tax rates or burdens. It would make sure that those who are supposed to pay, do.

It does require more resources for the IRS. I would like to work with Congress to see if we can provide that funding because I think this would be a very important initiative. I am fully supportive of it.

Mr. GOTTHEIMER. Excellent, and I think we get a 5- or 6-to-1 return on that.

Secretary YELLEN. Absolutely.

Mr. GOTTHEIMER. Thank you so much for your time.

And I yield back. Thank you.

Secretary YELLEN. Thanks.

Chairwoman WATERS. Thank you very much. The gentleman from Georgia, Mr. Loudermilk, is recognized for 5 minutes.

Mr. LOUDERMILK. Thank you, Madam Chairwoman, and I appreciate the panelists being with us today.

The Majority and the Administration recently enacted a massive \$2 trillion stimulus bill, which they said was necessary because we are in an economic crisis. But now, all of a sudden, the Administration thinks the economy is strong enough to withstand a major tax increase, the first in 30 years, in the middle of a pandemic.

The notion that the economy is in crisis, and the notion that the economy is strong, cannot both be true at the same time. So, Secretary Yellen, could you tell us, which is it? Is it strong, or is it in crisis?

Secretary YELLEN. Right now, it is in crisis due to the pandemic, and the Rescue Package should provide the funding that is needed to address the pandemic and to relieve the suffering that it has caused, getting people to the other side of it. It has been deficit funded. There haven't been tax increases to finance it.

But once the economy is strong again, and we are beyond the pandemic, President Biden is likely to propose that we engage in long-term plans to address longstanding investment shortfalls in our economy, in infrastructure and investments to address climate risk, investments in people, investments in R&D, in manufacturing, and these will make our economy more productive, raise wages, and create good jobs.

It is necessary to pay for them. This would be spending over a 10-year horizon and would require some additional funding. He has been clear about the tax proposals that he would consider. One of those would be an increase in the corporate income tax rate back to 28 percent, coupled with reform of the Global Intangible Low-Tax Income (GILTI) to reduce the incentives of American companies to move their activities abroad to offshore activities. And we are actively engaged in Organisation for Economic Co-operation and Development (OECD) negotiations that would make it possible to do that without negatively impacting the competitive positions of American businesses.

We have had a global race to the bottom in corporate taxation, and we hope to put an end to that and, in that context, to collect

more than the 1 percent of GDP corporate tax revenue that we now collect, which is very low, and among the lowest of developed countries.

Mr. LOUDERMILK. Madam Secretary, a lot of explanation there, but it sounds like all of that is premised on the idea that the economy has been in crisis. And I and several others beg to differ on that, even during the pandemic. But economists and even Chairman Powell were projecting up to 6 percent growth in 2021 before the bill was even signed into law.

The economists also believe the package is 6.5 times larger than it needs to be. And I agree with the former Democratic Treasury Secretary Larry Summers, who said the reconciliation package is the most irresponsible economic policy in 40 years. So, I don't think you can say it is in crisis, and that our economy is strong. It is kind of speaking out of both sides of our mouths here.

Secretary Yellen?

Secretary YELLEN. We have lost 9.5 million jobs. We have an unemployment rate that, if you add in people who have dropped out of the labor force because of the pandemic, is running at probably over 9 percent. So, we have a huge problem of joblessness in our economy.

Mr. LOUDERMILK. Well, I understand that, but reclaiming my time here, there are many States that are actually seeing more revenue, tax revenue this year than they did—

Chairwoman WATERS. Hello, Mr. Loudermilk, are you still on?

[no response]

Chairwoman WATERS. I don't know if there is a technical glitch, or if he is muted.

[pause]

Chairwoman WATERS. Mr. Loudermilk, can you hear me? I suppose not.

To our technician, can you get Mr. Loudermilk back on?

[pause]

Chairwoman WATERS. I see that his mouth is moving, but we can't hear him. Is he unmuted?

[pause]

Chairwoman WATERS. Unfortunately, there appears to be a problem with the Internet, and we have an agreement for a hard stop at this time. And so, Mr. Loudermilk will probably be one of our first Members recognized at the next meeting of our distinguished guests, when they come.

With that, I would like to thank our distinguished witnesses for their testimony today.

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

And with that, this hearing is adjourned.

[Whereupon, at 2:16 p.m., the hearing was adjourned.]

A P P E N D I X

March 23, 2021

For release at
4:30 p.m. EDT
March 22, 2021

Statement by
Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
before the
Committee on Financial Services
U.S. House of Representatives
March 23, 2021

Chairwoman Waters, Ranking Member McHenry, and other members of the Committee, thank you for the opportunity to discuss the measures we have taken to address the hardship wrought by the pandemic.

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

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

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

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

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

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

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

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

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

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

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

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

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

Thank you. I look forward to your questions.

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

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

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

1. The maximum authorized amount of facility asset purchases.

2. Current and peak outstanding amounts of facility asset purchases:

a. For the Corporate Credit Facilities, includes exchange-traded funds at fair value and corporate bonds at book value.

b. For the Main Street Lending Program, includes loan participations, net of an allowance for loan losses updated as of December 31, 2020, at face value.

c. For the Municipal Liquidity Facility, includes municipal notes at book value.

d. For the TALF (Term Asset-Backed Securities Loan Facility), includes loans to holders of eligible asset-backed securities at book value.

3. The amount of the Treasury contribution to the credit facilities.

Source: Staff calculations.

Testimony of

**Janet L. Yellen
Secretary
U.S. Department of the Treasury**

**Before the
Committee on Finance Services
U.S. House of Representative**

March 23, 2021

Chairwoman Waters, Ranking Member McHenry, members of the Committee, thank you for having me.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Testimony Addendum

Overview

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

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

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

CARES Act Programs

Coronavirus Relief Fund

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

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

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

Payroll Support Program (PSP)

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

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

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

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

Aviation Loan Program

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

In this program, Treasury entered into loan agreements for commitments totaling \$20.8 billion with seven of the ten largest passenger air carriers. The loans to those large passenger air

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

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

National Security Loan Program

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

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

Paycheck Protection Program (PPP)

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

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

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

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

Consolidated Appropriations Act, 2021 Programs

Emergency Capital Investment Program (ECIP)

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

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

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

CDFI Rapid Response Program (CDFI RRP)

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

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

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

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

Coronavirus Economic Relief for Transportation Services (CERTS)

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

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

American Rescue Plan

Economic Impact Payments (EIPs)

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

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

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

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

Emergency Rental Assistance Program (ERAP)

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

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

Treasury disbursed all payments to state and local grantees by the statutory deadline of January 26, 2021. Tribes were permitted to request payment through January 26, and the full \$25 billion was disbursed by February 26, 2021. Treasury has published information pertaining

to the grant award terms and the application process and answers to Frequently Asked Questions (FAQs) to assist grantees in launching their programs. Treasury continues to work with grantees to provide additional guidance, as appropriate, and to prepare deployment of the additional ARP funding.

Coronavirus State and Local Fiscal Recovery Funds

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

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

Coronavirus Capital Projects Fund (CCPF)

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

Local Assistance and Tribal Consistency Fund (LATCF)

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

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

State Small Business Credit Initiative (SSBCI)

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

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

Pensions

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

Homeowners Assistance Fund

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

median income, whichever is greater. Grantees are also required to prioritize payments to socially and economically disadvantaged individuals.

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



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

JEROME H. POWELL
CHAIR

June 24, 2021

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

Dear Madam Chairwoman:

Enclosed are my responses to the questions you submitted following the March 23, 2021,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive style with a large, stylized "J" and "P".

Enclosure

¹ Questions for the record related to this hearing were received on April 19, 2021.

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

1) What steps are being taken by the Fed to support the participation of MDIs and CDFIs in programs like the Paycheck Protection Program? Furthermore, what additional steps can the Fed take to fulfill your obligations under Section 308 of FIRREA to preserve and promote MDIs?

The economic downturn from the pandemic did not fall equally on all Americans. The Federal Reserve has worked to ensure that lenders with missions to serve lower-income and minority consumers and communities could participate in programs and benefit from actions undertaken to stem the weight of the financial impact that has been especially severe for lower-wage workers, for women, and for people of color. The Federal Reserve Board (Board) established the emergency lending facilities with the support and approval of the U.S. Department of the Treasury (Treasury) to accomplish two main goals: restoring market functioning and access to short-term funding markets, and supporting the flow of credit to households, businesses, states, localities, and communities. By doing so, these facilities sought to provide significant support for economic growth and employment.

The Federal Reserve is committed to an inclusive recovery from the pandemic. We have made intentional efforts to reach minority- and women-owned businesses as well as minority- and women-owned depository institutions through targeted outreach to inform them about the programs established under our emergency lending authority. In addition, the Paycheck Protection Program Liquidity Facility (PPPLF) has had a wide reach across various communities—with the greatest number of participants in PPPLF classified as community banks, including minority-owned depository institutions (MDIs). We also have conducted outreach and partnered with community development staff across the Federal Reserve System (System) on a series of webinars about the PPPLF to ensure that eligible institutions, including Community Development Financial Institutions (CDFIs) have the information to access the program. On March 8, 2021, the Board announced an extension of the PPPLF by three months to June 30. The extension will provide continued support for the flow of credit to small businesses through the Paycheck Protection Program (PPP). The Board will continue to monitor closely financial conditions and market functioning broadly and will evaluate whether additional measures are needed to support the flow of credit and liquidity to creditworthy borrowers.

Additionally, the Board's Office of Minority and Women Inclusion (OMWI) has engaged closely with colleagues across the System to ensure our programs were widely known among minority lenders and potential minority- and women-owned business borrowers. For example, beginning last June and throughout the summer, we presented webinars on the Main Street Lending Program (Main Street) that were targeted at reaching minority- and women-owned businesses, MDIs (including those supervised by the Federal Reserve), and tribal businesses to ensure there was broad awareness of Main Street and lending opportunities.

The Federal Reserve is committed to fulfilling its obligations under Section 308 of FIRREA to preserve and promote MDIs. We established our Partnership for Progress (PFP) program in 2008 in recognition of the importance of MDIs. The PFP works to preserve and promote these

institutions to support an inclusive financial system and understand the challenges inherent in providing access to credit and other financial services in traditionally underserved areas.¹ The main objectives of the PFP are to work to facilitate connections, support capacity building, and provide research and thought leadership to enhance our understanding of MDI business models to serve their communities.

On March 5, the Board published a supervisory letter to clarify existing MDI definitions, add a new women-owned depository institutions (WDI) definition, and highlight resources available to MDIs and WDIs through the PFP.² The Board also established a site to provide answers to questions received from bankers on the effect of the COVID event and issued various statements to provide guidance on how banks should navigate the issues posed by the COVID pandemic. PFP staff are involved in assisting our MDIs to understand and navigate the numerous credit facilities available to respond to the current crisis.

Following the passage of the December 2020 fiscal stimulus, the Federal Reserve has been consulting with the Treasury to design and implement the Emergency Capital Investment Program (ECIP), which will provide up to \$9 billion in capital to CDFI banks and MDIs. The Board, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation released an accompanying rule to help implement the program by providing regulatory capital relief for instruments issued under the program.³ In addition, staff at the federal banking agencies and Treasury are working together to develop a process for consultation and information sharing regarding potential applicants to the program.

Also, in March, in response to inquiries from MDIs, the Board published a frequently asked question to assist Board-regulated banking organizations in complying with the Board's capital requirements with respect to perpetual preferred and nonvoting stock.⁴

Lastly, as part of an Advanced Notice of Proposed Rulemaking issued on September 21, 2020, to strengthen the implementation of the Community Reinvestment Act, the Board proposed special provisions for minority depository institutions, women-owned financial institutions, and low-income credit unions.

- 2) **According to an economic analysis that was published in the March 2021 Bank for International Settlements Quarterly review, “the looming increase in corporate bankruptcies will generate credit losses that will need to be absorbed, either by the financial system or by taxpayers.”[1] And according to a review of last March’s market turmoil by the Financial Stability Board, “The financial system remains vulnerable to another liquidity strain, as the underlying structures and mechanisms that gave rise to the turmoil are still in place.”[2] What is the Fed doing to protect our financial system from being exposed to the slew of business defaults and bankruptcies that are expected in the coming months, including within the Fed Chair’s role on the Financial Stability Oversight Council?**

¹ <https://www.federalreserve.gov/supervisionreg/minority-depository-institutions.htm>.

² <https://www.federalreserve.gov/supervisionreg/srletters/SR2106.htm>.

³ <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210309a.htm>.

⁴ <https://www.fedpartnership.gov/-/media/files/faqs-perpetual-preferred-and-non-voting-stock.pdf?la=en>.

[1] Bank for International Settlements, *How much stress could Covid put on corporate credit*, (Mar. 1, 2021).

[2] Financial Stability Review, *Holistic Review of the March market turmoil*, (Nov. 2, 2020).

Concerns about widespread business defaults and bankruptcies as a result of the pandemic have abated somewhat. As noted in the May 2021 Financial Stability Report,⁵ vulnerabilities arising from business debt remain elevated, although they have fallen since the middle of last year. Many firms in industries particularly hard hit by the pandemic—airlines, hospitality and leisure, and restaurants—borrowed funds to build their cash buffers and thus may have seen a rise in their debt levels. However, as earnings began to recover and interest rates remained low, the ratio of earnings to interest expenses (the interest coverage ratio) moved up over the second half of last year, suggesting firms were better able to service debt.

We have seen similar trends among small businesses which may have closed or significantly scaled back their operations as a result of measures to contain the pandemic. Credit quality for the small businesses that have continued operating or reopened has stabilized in recent months. Loans extended under the PPP have provided financial support to many small businesses. Liquidity provided through the PPPLF continues to facilitate PPP lending, particularly among smaller lenders.

Reforms made under the Dodd-Frank Wall Street Reform and Consumer Protection Act have greatly strengthened the banking system, including stress testing. Further steps taken in 2020, such as limited capital distributions, helped the banking system to remain well capitalized and positioned to withstand a severe worsening of the pandemic. Stronger capital positions allow the banking system more room to absorb losses if loan credit were to deteriorate. While the Federal Reserve continues to monitor the sector for potential signs of stress as part of our financial stability framework, questions regarding the work of the Financial Stability Oversight Council (FSOC) are best directed to the Secretary of the Treasury as the head of FSOC.

- 3) **The Fed and other regulators provided several temporary exclusions to the Supplementary Leverage Ratio (SLR) at the onset of the pandemic, but recently announced you will let those exclusions expire. If the Fed had deployed the Countercyclical Capital Buffer (CCyB) in 2018 and 2019 after it already started raising interest rates with the economy recovering, and if the Fed had not allowed big banks to make significant capital distributions in recent years, would not the big banks have been better capitalized heading into this pandemic, negating the need to provide those exclusions to the SLR?**

As I indicated prior to the onset of the pandemic, I believe the levels of capital and of overall loss absorbency in the banking system were generally appropriate. Strengthened by a decade of improvements in capital, liquidity, and risk management, banks entered the pandemic with strong levels of capital and have continued to be a source of strength during the past year. The temporary exclusions to the supplementary leverage ratio (SLR), which expired on March 31,

⁵ See <https://www.federalreserve.gov/publications/may-2021-purpose.htm>.

were designed in part to ensure that banking organizations would continue to serve as financial intermediaries and to provide credit to households and businesses during the pandemic.

The Board is committed to continue evaluating the resiliency of large banks and monitor financial and economic conditions to determine whether further adjustments to the capital requirements are warranted. Consistent with the Board's statement in its March 19, 2021, press release,⁶ we plan to seek public comment on potential measures to adjust the SLR to ensure that it remains an effective prudential measure in an environment of higher reserves and supports the safety and soundness objective of the financial system. The Board will take appropriate actions to ensure that any changes to the SLR requirements do not erode the overall strength of bank capital requirements.

- 4) **Money market mutual funds experienced significant distress during the 2008 financial crisis, which led the SEC to enact a number of post-crisis reforms. Unfortunately, these reforms did not prevent serious problems from causing financial markets to seize up again in March of 2020, which prompted the Fed to not only set up a Money Market Mutual Liquidity Facility, but also to engage in unprecedented use of its emergency lending powers that exceeded anything that was even done in 2008. In a speech given on March 1, Governor Lael Brainard said that "The March 2020 turmoil highlights the need for reforms to reduce the risk of runs on prime money market funds that create stresses in short-term funding markets."**[3] Would you please elaborate on what systemic reforms Congress should be looking at?

[3] Federal Reserve Governor Lael Brainard, *Some Preliminary Financial Stability Lessons from the Covid-19 Shock*, (Mar. 1, 2021).

Governor Brainard's speech highlighted the need for reforms to reduce the run risk on prime money market funds. A number of initiatives are currently underway. The President's Working Group on Financial Markets (PWG) has outlined a set of potential money market fund (MMF) reforms to address the risks posed by run dynamics in short-term funding markets. Subsequently, the Securities and Exchange Commission issued a request for comments on the reform options proposed by the PWG and received over 50 comment letters.⁷ Additionally, international bodies, such as the Financial Stability Board, are working to develop and assess recommendations that will increase resilience in MMFs. If properly calibrated, some of these reforms—such as swing pricing, a minimum balance at risk, and capital buffers—could significantly reduce the run risk associated with MMFs.

- 5) **In November, the Federal Reserve published a financial stability report that for the first time cited climate change as a major financial stability risk.[4] Fossil fuel firms were the leading issuers of junk bonds for a decade preceding the COVID-19**

⁶ See <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210319a.htm>.

⁷ See U.S. Department of the Treasury (2020), *Report of the President's Working Group on Financial Markets: Overview of Recent Events and Potential Reform Options for Money Market Funds* (PDF) (Washington: U.S. Department of the Treasury); and U.S. Securities and Exchange Commission (2021), "SEC Requests Comment on Potential Money Market Fund Reform Options Highlighted in President's Working Group Report," press release, February 4, 2021.

pandemic,[5] there have hundreds of bankruptcies by oil and gas companies over the past year, and S&P announced in January that it was placing 13 major oil and gas companies on a negative credit watch due to “energy transition risks.”[6] Nevertheless, over \$1 billion was extended to fossil fuel companies through the Fed’s emergency lending programs, and the Special Inspector General for Pandemic Recovery is looking into whether political interference played a role in certain oil and gas firms being made eligible for Main Street Lending Program assistance.[7] Chair Powell, how should the Fed weigh the emergency lending needs of firms struggling during a crisis against the financial stability risks posed by many of these same firms?

[4] Federal Reserve, *Financial Stability Report*, (Nov. 2020).

[5] New York Times, *American Oil Drillers Were Hanging On By a Thread. Then Came the Pandemic*, (May 23, 2020).

[6] S&P Global, *Oil majors’ credit rating under threat from growing climate risks*, (Jan. 26, 2021).

[7] Quarterly Report to the United States Congress, *Office of the Special Inspector General for Pandemic Recovery*, (Dec. 31, 2020).

The Federal Reserve’s emergency lending facilities were established to support the flow of credit to households, businesses, states, localities, and communities. Pursuant to section 13(3) of the Federal Reserve Act, the Board is prohibited from lending to entities that are insolvent. To meet that requirement, we structured the facilities to provide access to businesses across the economy that were in sound financial condition prior to the pandemic. In addition, we set broad eligibility criteria for our facilities and did not tailor our facilities to benefit any particular industry.

The Federal Reserve is committed to understanding the risk that climate change poses to the economy and financial system. Researchers throughout the Federal Reserve System are examining the implications of climate change for the economy, financial institutions, and financial stability. The Federal Reserve is investing in data and empirical work to analyze the transmission of climate-related risks to the economy and developing methodologies to measure these risks, as are other central banks. Our staff is also engaging with colleagues from other regulatory agencies, central banks, and standard-setting bodies, as well as market participants and other external parties to understand how those parties are measuring climate-related risks.

We are taking a careful, thoughtful, and transparent approach to our climate work, and we will engage with all our external constituencies along the way.

- 6) We continue to have over 7 million households that, for various reasons, remain unbanked,[8] making the issue of providing them quick stimulus payments in an economic emergency challenging. Is it time to explore proposals like FedAccounts[9] to use existing systems in place that could be expanded to provide a simple and free digital wallet to allow for the quick transfer of funds to individuals and families who don’t have a bank account?

[8] FDIC, *How America Banks: Household Use of Banking and Financial Services* (Oct. 19, 2020).

[9] House Financial Services Committee hearing entitled, *Inclusive Banking During a Pandemic: Using FedAccounts and Digital Tools to Improve Delivery of Stimulus Payments* (June 11, 2020).

The Board recognizes the challenges that unbanked households face and shares the goal of improving inclusion of the unbanked in the financial system. As we welcome discussion of innovative solutions that could alleviate such challenges, we are mindful that there may be other promising tools that are more conducive to addressing the needs of the unbanked than the Reserve Banks' providing direct accounts to individuals and families. In addition, there are several challenges and other concerns regarding the provision of such accounts, including potential unintended consequences to such actions.

First, under current law the Federal Reserve Banks do not have the authority to provide direct accounts and services to individuals or businesses that are not depository institutions. The Reserve Banks provide accounts and payment services to depository institutions, the federal government, and certain other entities (such as government sponsored entities (GSEs) and international organizations), subject to oversight of these services by the Board. Depository institutions, in turn, provide accounts and services to individuals and businesses. The Reserve Banks could not provide direct accounts to individuals and businesses without legislation from Congress. Providing such accounts would be a sea change in the banking system that would require deep and careful consideration.

Second, if such legislation were passed, the current authorities, roles, and operational footprint of the Federal Reserve would be substantially redefined. Such changes could entail a large shift in the balance of public- and private-sector roles in financial services, producing structural effects beyond deposits alone. For example, legislation could result in substantial outflows of core deposits from depository institutions, which in turn could have significant adverse consequences for depository institution lending to households and businesses. A significant increase in the Federal Reserve's balance sheet would also present challenges for asset allocation and could have market distorting effects.

Changing the Federal Reserve's roles and operational footprint also would be costly and time-consuming. The Reserve Banks' operating model is designed to serve financial institutions and is not organized to meet the banking needs of individuals and families. Significant investments would be required to adapt the Federal Reserve's operations to provide retail banking services.

At the same time, the Federal Reserve remains fully committed to improving the American public's access to the payment system. One example is the movement toward instant payments, which provide receivers with immediate funds availability, through the new interbank payment service we are building—the FedNow Service.

In addition, the Federal Reserve System (System) is engaged in a number of efforts to help address the needs of traditionally underserved communities, including implementation of the Community Reinvestment Act (CRA) and efforts to modernize the CRA by looking at ways to provide additional encouragement for banks to provide banking services to unbanked, underbanked, and other low- or moderate-income individuals. Several Reserve Banks also provide technical assistance and stakeholder engagement to local initiatives designed to promote access to low cost bank accounts for all, such as the Bank On coalitions.

- 7) **Earlier this month, the Vice President of the European Central Bank gave an interview in which he said, “For us, the digital euro is not an option, it’s something we just have to do...The main reason is that digitalization has become increasingly relevant and the pandemic has accelerated the pace of digitalization.”[10] Does the Fed agree that the pandemic has made the case for a central bank digital currency more urgent?**

[10] European Central Bank, *Interview with Publico*, (Mar. 2, 2021).

The COVID-19 crisis has served as a stark reminder of the importance of a resilient and trusted payments infrastructure. Individuals, businesses, and financial institutions need reliable and prompt access to payments services and their funds, as well as multiple payments options to meet different needs. The pandemic has further demonstrated the value that the FedNow Service, once launched, will serve. With the FedNow Service, which will operate alongside the existing private-sector instant payments service owned by the largest banks, the nation will have a modern, safe, and efficient infrastructure for instant payments, where consumers and business will be able to receive funds into their bank accounts almost immediately. Our objective in providing payment services is built on the public mission given to the Federal Reserve by Congress that all depository institutions, no matter their size or geographic location, should have equitable access to the U.S. payment system.

Even as we are further modernizing our payment system—to make availability of instant payments ubiquitous—issuing and maintaining confidence in physical currency remains a key function of the Federal Reserve. The pandemic has demonstrated the continued criticality of cash and its role for the public as the Federal Reserve experienced an unprecedented demand for cash during 2020. The value of currency in circulation at the end of 2020 increased by 16 percent or \$280.9 billion from 2019; in the previous year, growth was 5.3 percent. Cash demand in 2021 remains high. March 2021 cash payments totaled \$95.3 billion, an increase of 46.9 percent compared to March 2019 payments of \$64.9 billion. This increase drove an overall increase in payments of 11 percent for the first quarter of 2021 compared to pre-pandemic volumes.

We continue to assess the policy rationales, costs, benefits, and risks of a potential Central Bank Digital Currency (CBDC) in the U.S. context. In particular, we are carefully assessing whether and how a CBDC could improve the safety and efficiency of the domestic payment system beyond the improvements that the FedNow Service is expected to deliver to American consumers and businesses and as a complement to cash and other payments options.

To help stimulate broad conversation, the Federal Reserve Board will issue a discussion paper this summer outlining our current thinking on digital payments, with a particular focus on the benefits and risks associated with CBDC in the U.S. context. Irrespective of the conclusion we ultimately reach, we expect to play a leading role in developing international standards for CBDCs. As part of that process, we will ask for public comment on issues related to payments, financial inclusion, data privacy, and information security.

- 8) **Chair Powell recently indicated that any future central bank digital currency would need to be integrated into existing payment systems alongside cash and other forms of money.[11] How do you envision this integration happening?**

[11] Financial Advisor, *Powell Says Central Bank Digital Currency Must Coexist With Cash* (Mar. 18, 2021).

We think it is important that any potential CBDC should serve as a complement to, and not a replacement of, cash and current private-sector digital forms of the dollar, such as deposits at commercial banks. We continue to research this and other questions to understand how a CBDC might produce wide public benefits in the U.S. context. In the 2020 report on CBDC that we published in collaboration with many of our peer central banks and the Bank for International Settlements in October,⁸ we noted three foundational principles for any CBDC that ensure central banks meet their public policy objectives and minimize financial stability risks:

- *“Do no harm”* - New forms of money supplied by the central bank should continue supporting the fulfilment of public policy objectives and should not interfere with or impede a central bank’s ability to carry out its mandate for monetary and financial stability.
- *Coexistence* - Different types of central bank money—new (CBDC) and existing (cash, reserve or settlement accounts)—should complement one another and coexist with robust private money (e.g., commercial bank accounts) to support public policy objectives.
- *Innovation and efficiency* - Without continued innovation and competition to drive efficiency in a jurisdiction’s payment system, users may adopt other, less safe instruments or currencies. Ultimately this could lead to economic and consumer harm, potentially damaging monetary and financial stability. There is a role for the public and private sectors in the supply of payment services to create a safe, efficient, and accessible system.

We continue to evaluate any potential CBDC against these principles. We plan to engage with a wide variety of stakeholders on key questions regarding CBDC, including implementation methods.

- 9) **During your post-FOMC press conference in March, you mentioned that the Fed would not reduce its support for the economy until it had made substantial progress toward its maximum employment goal.[12] You also mentioned that only the topline unemployment rate is included in the Fed’s summary of economic projections, although the Fed takes a “wide range of indicators” into account in making its assessment of**

⁸ See <https://www.bis.org/pub/othp33.htm>.

maximum employment. However, you said the idea of including that broader set of data into the summary of economic projections “would not be practical.” Can you explain why you think this is the case?

[12] Federal Open Market Committee, *Transcript of Chair Powell’s Post-FOMC Press Conference*, (Mar. 17, 2021).

The quarterly Summary of Economic Projections (SEP) captures salient features of FOMC participants’ economic outlooks. The SEP is intended to convey to the public, at a high level, our views about the economy and its likely evolution, progress towards our mandated goals, and the rationale for our policy decisions. In providing this information, we are conscious of the fact that the limited coverage of variables included in the SEP necessarily implies an incomplete picture of our views on the economy. In particular, the unemployment rate does not capture the full range of conditions prevailing in the labor market at any given time. It also does not offer a precise estimate of the shortfalls of employment from its maximum level. As the FOMC has frequently emphasized, assessments of shortfalls of employment from its maximum level are drawn from a broad range of indicators, analyses, and judgments, which, by their nature, cannot be consolidated into a small set of numbers or statistics.

The FOMC has periodically reviewed the content of the SEP and made enhancements to ensure that it best serves its purposes. Most recently, in December, we expanded the materials dealing with risks and uncertainty. Overall, we continue to judge it most effective to keep the SEP focused on the “big picture.” Because of the challenges in assessing the maximum level of employment, it would be impractical to include all indicators that are pertinent to our assessments. And while adding only a few indicators is certainly feasible, it is not obvious which statistics, besides the unemployment rate, would be most informative of participants’ assessments of maximum employment. The features of the labor market that are most important for assessing the shortfalls of employment from its maximum level can vary over the business cycle and can depend on the particular shocks affecting the economy and on the evolving structure of the economy. Accordingly, the importance of various indicators in our assessments of the shortfalls of employment from its maximum level can vary over time. Given this complexity, we find that other forms of public communications that allow us to explain how we are interpreting the broad range of indicators that we monitor are more effective at conveying to the public our assessments of the shortfalls of employment from its maximum level. These public communications include speeches, testimony, media interviews, meeting statements and minutes, or the Monetary Policy Report to the Congress.

10) A December analysis by the GAO found that the Federal Reserve’s emergency lending facilities ultimately had just over 1% in transaction volumes compared to their announced capacity of nearly \$2 trillion.[13] The Main Street Lending Program and Municipal Liquidity Facility were both criticized for offering stingy terms, particularly when compared with the Fed’s corporate credit facilities.[14] In some ways, the lack of uptake in the Fed’s facilities was good news, because it meant that private credit markets started functioning again after seizing up last March. But just as after the 2008 financial crisis, the Fed’s emergency lending powers are being criticized for focusing assistance on the financial sector. Your actions succeeded in stabilizing

financial markets, but they fell short in bringing our economy meaningfully closer to the Fed's maximum employment and financial stability objectives. What reforms should Congress be looking at to make sure this doesn't happen again? Should consideration be given to a "bailout manager" or sovereign wealth fund to manage assistance to nonfinancial corporations, small businesses, and state and local governments when a crisis hits?

[13] Government Accountability Office, *Federal Reserve Lending Programs: Use of CARES Act-Supported Programs Has Been Limited and Private Credit Flow Has Improved*, (Dec. 10, 2020).

[14] Congressional Oversight Commission, *Fifth Report of the Congressional Oversight Commission*, (Oct. 15, 2020).

Using funds appropriated in the Coronavirus Aid, Relief, and Economic Security Act to absorb any losses, the Federal Reserve's emergency lending facilities were able to provide critical support to a very wide range of employers, including large and small businesses, nonprofits, and state and local governments.

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

Decisions regarding the establishment of a sovereign wealth fund or other mechanisms are the province of Congress and the Executive Branch. While the Federal Reserve's primary focus remains supporting the economy as it recovers from the effects of the pandemic, we are in the process of capturing lessons learned about financial stability, financial regulation, and crisis management. We look forward to a continuing dialogue on this subject.



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

JEROME H. POWELL
CHAIR

June 4, 2021

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

Dear Congresswoman:

Enclosed is my response to the question you submitted following the March 23, 2021,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

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

Enclosure

¹ Questions for the record related to this hearing were received on April 19, 2021.

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

- 1) When you testified last year, I had raised my concern that the Federal Reserve's insurance capital proposed rule created a bifurcated regulatory approach that imposed the Federal Reserve's Building Block Approach on some insurance savings and loan holding companies and a banking capital approach under Section 171 of Dodd-Frank. As a co-sponsor of the Insurance Capital Standards Clarification Act, I do not believe it was the intent of that law to impose bank-like capital standards on insurance savings and loan holding companies.

Will you commit to working with me to ensure that the final rule reflects the will of Congress, and does not impose a separate banking capital calculation, since the Building Block Approach itself captures every material risk in these enterprises?

Do you agree that imposing a separate banking capital calculation is not the only means of ensuring that a framework is imposed “on a consolidated basis”?

As part of the Federal Reserve Board’s (Board) notice of proposed rulemaking regarding capital requirements for depository institution holding companies that are significantly engaged in insurance activities (proposal), the Board proposed to establish a risk-based capital calculation to comply with section 171 of the Dodd-Frank Wall Street and Consumer Protection Act (Dodd-Frank Act), which, in part, requires the Board to establish minimum risk-based capital requirements for depository institution holding companies on a consolidated basis. The proposal would satisfy the requirement in section 171 of the Dodd-Frank Act to establish a minimum risk-based capital requirement on a consolidated basis for depository institution holding companies, while excluding from this calculation state-regulated insurers to the full extent permitted by the Insurance Capital Standards Clarification Act of 2014 (the Clarification Act).

The Board invited public comment on all aspects of the proposal, including the section 171 calculation. Several comments suggested that the Building Block Approach (BBA) would comply with the statutory requirements without an additional calculation because the BBA’s minimum requirement would not be less than the generally applicable capital requirement. Consistent with the Administrative Procedure Act, the Board will consider the comments on the proposal, as well as the requirements of section 171 of the Dodd-Frank Act (as amended by the Clarification Act), as well as other provisions of law, before making a final rule. The Board continues to consider whether the proposed section 171 calculation is necessary to ensure that minimum risk-based capital requirements for depository institution holding companies that are significantly engaged in insurance activities are established on a consolidated basis.



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

JEROME H. POWELL
CHAIR

June 4, 2021

The Honorable Warren Davidson
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the March 23, 2021,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

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

Enclosure

¹ Questions for the record related to this hearing were received on April 19, 2021.

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

1) Can the federal debt continue to grow faster than GDP without consequence? What is your sense of what can and cannot be sustained?

Substantial fiscal policy support has been crucial in both mitigating the recent recession and supporting the ongoing recovery. Of course, these important policy actions have also contributed to the marked increase in the level of federal debt relative to GDP, which could have negative effects on the economy in the longer run. In particular, the deficits that result in a rising federal debt burden would reduce national saving, all else equal, and put upward pressure on longer-term interest rates, resulting in higher borrowing costs for households and businesses. It will therefore be important for fiscal policymakers to take actions in the longer run that achieve debt sustainability.

2) How do current policies strengthen or weaken the US dollar as a store of value?

The dollar's role as a store of value reflects the long-term strength and stability of the U.S. economy and institutions. The Federal Reserve's commitment to its dual mandate—price stability and maximum sustainable employment—helps support this role. Sustained economic growth, combined with low and stable inflation, will ensure that the purchasing power of the dollar is preserved.

3) What are the implications for fiscal and monetary policy if the US dollar were no longer the global reserve currency?

The dollar is the global reserve currency because of the size of the U.S. economy, combined with trust in the currency underpinned in the United States by a reliable rule of law, strong and transparent institutions and credible policies, deep financial markets, and an open capital account. We do not see these factors changing in a way that would erode the dollar's dominance, nor do we see strong competition on the horizon from other currencies, which often lack one or more of the factors that contribute to the dollar's leading role. U.S. firms and households benefit from the U.S. dollar being the world's leading reserve currency by having most commodity pricing and most trade invoiced in dollars, thus making the prices of goods less volatile with respect to exchange rate movements and reducing hedging costs for U.S. firms. In addition, large foreign demand for U.S. Treasury securities (and for U.S. assets more generally) means that U.S. interest rates are lower than would otherwise be the case, lowering debt-servicing costs for U.S. households and businesses as well as the government.

4) Would you agree that any Central Bank Digital Currency adopted or supported by the United States must retain the essential features of cash, preserving permissionless peer-to-peer transactions?

As we assess the policy rationales, costs, benefits, and risks of a potential general-purpose central bank digital currency (CBDC), our main focus is whether and how a CBDC could improve on an already safe, effective, dynamic, and efficient domestic payments system. We think any potential U.S. CBDC should be designed to complement, not replace, existing forms of

money available today, such as cash and commercial bank money. The ultimate design choices for a CBDC would depend on the specific intended use cases. We are currently assessing what those potential use cases might be, in addition to researching capabilities and limitations of various technologies.

Among the many important and challenging questions we are researching is how we could prevent a CBDC from being used for illicit activity and still preserve user privacy and security and how a CBDC might be designed to minimize financial or technological barriers to use. We continue to investigate these and other questions. We are also actively engaging with a wide variety of stakeholders, domestically and internationally, such as those from government, academia, and the private sector, to gather differing perspectives and expertise about potential CBDC uses, the range of design options, and other considerations.



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

JEROME H. POWELL
CHAIR

July 16, 2021

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

Dear Congressman:

Enclosed are my responses to the questions you submitted following the March 23, 2021,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive style with a large, stylized "J" and "P".

Enclosure

¹ Questions for the record related to this hearing were received on May 5, 2021.

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

- 1) Mr. Chairman, now that the Federal Reserve (Fed) has taken its decision on the supplementary leverage ratio, can you explain why additional capital should be put in place to support the overwhelming increase in Treasury securities and reserves created by the Fed in the midst of the pandemic?**

We introduced the temporary exclusions of reserves and Treasuries from the supplementary leverage ratio in April 2020 to ease strains in the Treasury market resulting from the pandemic and to support holding companies' ability to provide credit to households and businesses. The Treasury market has since recovered to normal functioning and continues to function well since the expiration of the exclusions on March 31, 2021. In addition, holding companies have strong capital levels, well above the supplementary leverage ratio (SLR) minimums, even without the exclusions. Given that the largest holding companies are mostly bound by the risk-based capital requirements, expiration of the SLR exclusions has not materially changed the binding capital requirements on large bank holding companies. As indicated in the press release issued on March 19,¹ we intend to seek feedback on potential measures that would help ensure our bank regulatory framework will work effectively in a high-reserves environment. I want to emphasize that we will make sure that any changes that we ultimately make to the SLR do not erode the overall strength of our capital requirements.

- 2) Obviously, traditionally Federal Reserve's and Treasury securities were considered risk-free assets. That changed after the financial crisis, yet you felt it important enough to not charge the supplementary capital amount during the midst of the pandemic. Why is it now with the avalanche of new reserves in Treasuries you're not willing to continue to monitor and adjust?**

The leverage ratio has been an important part of our capital framework and is designed to mitigate the build-up of excessive leverage in the banking system. We have long preferred for the risk-based capital requirements to be a banking organization's binding capital requirement and for the leverage ratio to be a backstop and complement to the risk-based capital requirements. When a leverage ratio becomes a banking organization's most stringent capital requirement, it can create skewed incentives for banks to substitute low-risk assets with high-risk ones. To maintain an appropriate level of calibration in capital requirements given the projected increases in reserves, Treasuries, and other safe assets in the banking system, we intend to seek feedback on ways to adapt the SLR to the new high-reserves environment. I do not yet have details to provide on those potential adaptations or their exact timing, but any changes we make will not erode the overall strength of our capital requirements.

- 3) Are you concerned that the unparalleled amount of Treasury issuance could imperil the high-quality functioning of the treasury market? Yields on Treasuries appear significantly out of sync with historic benchmarks such as the 10-year treasury yield favoring the nominal GDP growth rate and the long-standing spread whereby the 10-year Treasury has historically delivered an inflation-adjusted yield of 2%.**

¹ See <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210319a.htm>.

The Treasury market is the deepest and most liquid financial market in the world, and it is important that it functions well. The Federal Reserve's asset purchases since the onset of the COVID-19 pandemic have been helping to foster smooth functioning of the Treasury market, in addition to contributing to accommodative financial conditions.

Following the onset of the pandemic, the Treasury market experienced severe turmoil in March 2020 and the 10-year Treasury yield fell to historically low levels. The Federal Reserve took a number of actions to calm markets, including purchases of Treasury securities. Longer-dated nominal Treasury yields are up significantly, on balance, since the spring of 2020 amid growing optimism about the economic recovery.

It is true that the real return implied by the 10-year Treasury yield (i.e., the inflation-adjusted 10-year yield) is currently substantially lower than 2 percent; however, the low level of longer-term Treasury yields is part of a global trend toward very low long-term sovereign rates observed in most advanced economies. Indeed, longer-term yields in most advanced economies are substantially lower than U.S. Treasury yields. In part, the low level of longer-term sovereign yields reflects a low level of the equilibrium real interest rate, or "r-star"—the level of the real short-term rate that is expected to prevail in the long run in the absence of shocks. That equilibrium real rate is not determined by monetary policy, but instead reflects structural factors such as demographics, productivity growth, and the demand for safe assets.

In addition, Treasury yields have declined in recent years because of the low level of Treasury term premiums—the compensation that investors require for holding longer-term Treasury securities instead of investing in a series of short-term Treasury securities. Term premiums have declined notably over the past decades and their low levels in recent years reflect a number of factors, including continued strong global demand for Treasury securities, ongoing asset purchases by global central banks to support their economies, and the hedging value that Treasuries have been able, in more recent decades, to provide in times of economic weakness. Of note, the factors that have contributed to the low levels of r-star and term premiums are longer-term trends and do not appear to be related to Treasury market functioning.

4) Given the disruptions in the treasury market in March 2020, have you considered setting up a central clearinghouse for the Treasury market rather than relying on our historic primary dealer market?

Although the March 2020 turmoil in the Treasury market was the result of an unprecedented shock due to the pandemic, it has highlighted vulnerabilities in the critically important Treasury market that warrant careful analysis. One suggested reform to strengthen the resiliency of the Treasury market involves greater use of central clearing in Treasury cash markets. The Inter-Agency Working Group for Treasury Market Surveillance (IAWG)² has identified evaluating expanded central clearing as one of five primary areas for study to improve the resiliency of the Treasury market.³

² Comprising the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, the Federal Reserve Bank of New York, the Securities and Exchange Commission, and the U.S. Department of the Treasury.

³ See <https://home.treasury.gov/news/press-releases/jy0116>.

The IAWG plans to study to what extent expanded central clearing would promote or inhibit liquidity provision and healthy market functioning in both normal and stress periods; how different types of market participants would react to the use of central clearing; whether central clearing could lead to broader changes that could promote market liquidity; and how expanded central clearing could affect systemic risk. The findings and outcomes of this study may ultimately help inform responses by the official and private sectors to make the Treasury market more resilient. A portion of the Treasury market, including certain buy/sell and repo transactions, is currently cleared by the Fixed Income Clearing Corporation (FICC). Expanded central clearing could increase the percentage of the Treasury market cleared through FICC.

- 5) Since the beginning of January 2021, the balance sheet has increased by over \$350 billion. Reports indicate a purchase of roughly \$120 billion in assets per month. Of the total balance sheet, about 29% make up MBS purchase (Fannie Mae and Freddie Mac) and 63% are held in U.S. Treasury securities. Is this correct?**

The Federal Reserve is currently increasing its holdings of Treasury securities and agency mortgage-backed securities (MBS) by \$80 billion and \$40 billion per month, respectively. From the end of last year to July 7 of this year, the Federal Reserve's balance sheet has increased by about \$786 billion. As of July 7, the shares of Treasury securities and agency MBS in the Federal Reserve's total securities holdings stood at about 70 percent and 30 percent, respectively. Each week the Federal Reserve publicly reports these asset holdings on the H.4.1 statistical release.⁴

- 6) Given the acceleration in home prices and the vigorous expansion of mortgage lending, is it really necessary for you to be buying agency mortgage-backed securities?**

When the federal funds rate is constrained by the effective lower bound, the Federal Reserve can provide additional monetary policy accommodation by expanding its holdings of longer-term Treasury and agency securities. Increases in our securities holdings tend to put downward pressure on longer-term interest rates and contribute to more accommodative financial conditions, thereby supporting the flow of credit to households and businesses. Purchases of MBS may have a very modestly greater effect on housing than do purchases of Treasury securities, though that is not why we are buying them. Moreover, in periods of severe market distress, such as the episode in March of 2020, our purchases of Treasury securities and agency MBS can help support smooth market functioning. Currently, the Federal Reserve is increasing its holdings of Treasury securities and agency MBS by \$80 billion and \$40 billion per month, respectively. The Federal Open Market Committee (FOMC) will be considering the composition of asset purchases going forward as we continue our evaluation of our asset purchases.

- 7) Given the Fed is purchasing 22% of this new issue Treasury market, and 20% of the Agency MBS, how will this avalanche of public debt be permanently redistributed to long-term holders such as individuals, pension funds and foreign investors? Are you effectively monetizing these incredible federal spending programs in response to this pandemic?**

⁴ See <https://www.federalreserve.gov/releases/h41/>.

The Federal Reserve's ongoing asset purchases are a key policy tool to support the achievement of our dual mandate goals of maximum employment and price stability. As noted previously, with the federal funds rate constrained by the effective lower bound, these purchases foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses. The FOMC communicated its intention to continue its purchases at the current pace until substantial further progress has been made toward the FOMC's maximum employment and price stability goals.

It is important to note that the Federal Reserve does not operate in the new issue Treasury market. The Federal Reserve only purchases previously issued Treasury securities in the secondary market, and in doing so, increase the amount of reserves. These purchases therefore correspond to adjusting the composition of government debt held by the public and do not change the fact that the government must find private investors to finance its ongoing deficits.



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

JEROME H. POWELL
CHAIR

June 4, 2021

The Honorable Gregory W. Meeks
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question you submitted following the March 23, 2021,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

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

Enclosure

¹ Questions for the record related to this hearing were received on April 19, 2021.

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

- 1) It's been one year after the CARES Act passed, and we are far from out of the woods yet though there has been some semblance of hope provided by broader vaccine distribution, further stimulus and encouraging numbers with respect to new cases, hospitalizations, and deaths - all of which are falling. Looking ahead, however, we cannot predict when the next major shock to our financial system will occur - nor do we know what form that shock will take, although climate and cyber risks are noteworthy threats.

Chair Powell - are there any lessons learned by the Federal Reserve as a result of the current pandemic that will better prepare regulators for future financial shocks, whatever form they may take?

While our primary focus remains on supporting the economy as it recovers from the effects of the pandemic, we are also capturing lessons learned about financial stability, financial regulation, and crisis management. The swift and forceful actions by Congress and the Administration to support the U.S. economy were critical in avoiding worse economic outcomes, including further job losses. Likewise, using funds appropriated in the Coronavirus Aid, Relief, and Economic Security Act to absorb potential losses, the Federal Reserve's emergency lending facilities were able to provide critical support to a very wide range of employers, including large and small businesses, nonprofits, and state and local governments.

Unlike the 2007-09 financial crisis, the banking system was well capitalized and served as a source of strength during the pandemic. Steps taken in the last decade by the Federal Reserve to strengthen the banking system, including stress testing, as well as steps taken in 2020, such as limited capital distributions, allowed the banking system to remain well capitalized and positioned to withstand a severe worsening of the pandemic. Stronger capital positions allowed the banking system room to extend credit to the rest of the economy when it was most needed.

The pandemic also highlighted the need for additional work to address vulnerabilities that arise outside the banking system, such as those that we saw in money market mutual funds this past spring. In a box titled "Federal Reserve Actions to Stabilize Short-term Funding Markets during the COVID-19 Crisis" in the November 2020 Financial Stability Report, we discuss how the onset of the pandemic disrupted these key funding markets and steps that the Federal Reserve, with the support of the Department of the Treasury, took to address the sudden market instability.¹ As part of the President's Working Group on Financial Markets, the Federal Reserve contributed to a report outlining potential reforms to address the risks stemming from the money market fund sector.² In addition, members of the Financial Stability Oversight Council in the U.S. and international bodies, such as the Financial Stability Board, are working to develop recommendations that will increase resilience in some nonbank financial institutions.

¹ <https://www.federalreserve.gov/publications/2020-november-financial-stability-report-overview.htm>.

² <https://home.treasury.gov/news/press-releases/sm1219>.

As we continue to process the events of the last year and the strengths and vulnerabilities uncovered by the pandemic, we will identify more areas where improvements could be made to our disaster preparedness plans. We look forward to a continuing dialogue on this subject.



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

JEROME H. POWELL
CHAIR

July 16, 2021

The Honorable William R. Timmons IV
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question you submitted following the March 23, 2021,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

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Enclosure

¹ This question for the record related to this hearing were received on May 5, 2021.

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

- 1) One of the weaknesses highlighted by the ongoing SolarWinds attack is the data the Russians may have accessed or stolen from government systems that contain sensitive information provided by banks through the examination process, or from the government's role performing certain market functions (e.g. Fedwire). Neither Treasury nor the Fed are required to notify companies if their data has been accessed, yet the firms themselves are required to report incidents like this. Right now, these companies or their customers could be at risk and not even know it. What is Treasury/the Fed going to do about this?**

The Board of Governors of the Federal Reserve System (Board) views the cybersecurity of the financial system as a crucial priority and recognizes the risks posed by malicious cyber actors to financial institutions and the broader financial system. Central to addressing these risks is timely and effective cooperation and coordination between the public and private sectors. To enhance this cooperation and coordination, the Board joined the other banking regulators in proposing a rule to formalize the expectation that regulated entities will promptly report material cyber events. The Board is in frequent contact with the firms we supervise and the other financial regulators on these matters, and we closely coordinate with government agencies responsible for maintaining the security of the U.S. government's information systems.

While any potential intrusion to the Board's systems would be analyzed based on the specific facts and circumstances surrounding the potential intrusion, the Board's response would be animated by the same need for timely cooperation and coordination for effective remediation. The Board has an incident response process that considers the risks and severity posed by potential incidents. This process includes reporting mechanisms to specific entities (such as the U.S. Computer Emergency Readiness Team, law enforcement, the Board's Inspector General, the Board's General Counsel, and Congress) as well as a risk-based notification process to ensure that affected parties (including individuals and supervised firms) are notified in a timely manner based on the risk and impact presented by the incident.

With respect to the SolarWinds attack, the Board is aware of the reported incident and our operations remain secure. We have found no evidence that any of our systems or data were disrupted. We are monitoring the situation and will continue to take appropriate actions to protect our systems and information.

Questions for the Record for Secretary Yellen

House Committee on Financial Services – March 23, 2021

Hearing on “Oversight of the Treasury Department’s and Federal Reserve’s Pandemic Response”

Representative Gregory Meeks (D-NY)

1. It’s been one year after the CARES Act passed, and we are far from out of the woods yet though there has been some semblance of hope provided by broader vaccine distribution, further stimulus and encouraging numbers with respect to new cases, hospitalizations, and deaths – all of which are falling. Looking ahead, however, we cannot predict when the next major shock to our financial system will occur – nor do we know what form that shock will take, although climate and cyber risks are noteworthy threats.

Secretary Yellen – Now that Congress has passed necessary stimulus, are there legislative reforms Congress should seriously consider – given lessons learned throughout this pandemic – to best prepare for future shocks and protect the most vulnerable communities in the future? Enacting automatic stabilizers is one idea, but are there other structural reforms that also should be considered?

- **Answer:** The COVID-19 pandemic has laid bare many structural challenges in the economy, including importantly the profound disparities in our economy that have been exacerbated over the last year. Making our economy more resilient to future shocks requires steps to support both macroeconomic resilience – like automatic stabilizers to increase fiscal support during downturns – and microeconomic resilience – by improving household financial security so that economic shocks do not push families into poverty or cause severe disruptions like evictions. The President has advanced a bold agenda that would grow the economy and improve its resilience, including providing immediate economic stabilization and laying the groundwork for a faster recovery through the American Rescue Plan; revitalizing the economy and creating secure, well-paying jobs through the American Jobs Plan; and making sure that the economy works for families through the American Families Plan. Addressing the crisis of climate change would also be a major step forward in bolstering the economy against future shocks.

The current response to the COVID-19 economic crisis is also creating programs and infrastructure to support American families and businesses that can have long-term benefits. As one example, programs like the Emergency Rental Assistance Program and the Homeowner Assistance Fund are helping to develop a national infrastructure to deliver resources that ensure housing stability when households experience economic shocks. Evictions and foreclosures often result from a relatively short-term loss of income and have enormous costs for households. While new programs will allow us to respond at scale to the consequences of the COVID-19 pandemic, there will continue to be a need to support the housing stability of families that live paycheck to paycheck when they

lose a job, have to pay for a car repair to keep working, or experience some other shock to their household balance sheet.

2. As we have seen, it is a struggle to get the necessary financial assistance to the communities who have been hardest hit by this pandemic. Minority businesses that tend to not have close ties to larger banks had significant difficulty gaining access to the Paycheck Protection Program. Achieving racial equity in our response is crucial to providing the necessary relief. In January, President Biden issued an Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government.

Secretary Yellen, can you explain how that executive order will influence the implementation of this most recently passed package?

- **Answer:** The Executive Order on Advancing Racial Equity and Support for Underserved Communities expresses a fundamental pillar of this Administration's agenda and provides a set of critical organizing principles for Treasury's implementation on the American Rescue Plan Act of 2021 (ARP) and all of our work. As envisioned by the Executive Order, Treasury is engaged with the White House as part of a whole-of-government effort to conduct an equity assessment to identify barriers faced by underserved populations to accessing Treasury programs and contracting opportunities and what steps can be taken to eliminate those barriers.

The ARP provided Treasury with a formidable set of resources that will be central to the Administration's efforts to advance racial equity and support underserved communities. This includes the Emergency Rental Assistance Program and the Homeowner Assistance Fund, each of which makes available resources to support housing stability for struggling households. Both of these emergency housing programs will target or prioritize resources to particularly underserved populations. The ARP also made resources available for the State Small Business Credit Initiative (SSBCI), which will meaningfully increase access to capital for underserved small business owners. Finally, through the State and Local Fiscal Recovery Funds, Treasury has encouraged state, local, and Tribal governments receiving funds to pursue projects to address public health, educational, and economic disparities exacerbated by the pandemic, and looks forward to partnering with them in this effort.

Even before the ARP, the Consolidated Appropriations Act, 2021 made available \$12 billion to support Minority Depository Institutions and Community Development Financial Institutions through the Emergency Capital Investment Program (ECIP) and new programs in Treasury's CDFI Fund. Consistent with the Executive Order, Treasury is implementing these programs with a strong focus on racial equity.

Representative Al Green (D-TX)

1. With respect to the Treasury Department's ongoing implementation of the following programs, please provide time tables showing the anticipated amount of time between disbursement of funds from the U.S. Treasury until receipt of funds by the intended beneficiaries/end users of each program:

- a. State Small Business Credit Initiative

- o **Answer:** Under the State Small Business Credit Initiative, Treasury transfers funds to states for small business financing programs operated by the states, territories, and Tribal governments or their partners (eligible jurisdictions).

Treasury anticipates publishing updated guidance and an application for the program this summer and will accept rolling applications from states, tribal governments and territories through the statutory deadline of December 11, 2021. After a review period of 30-90 days and execution of the allocation agreement, Treasury will transfer a portion of an eligible jurisdiction's allocated funds. Eligible jurisdictions are required to be fully positioned to deploy SSBCI capital to small businesses within 90 days of signing their agreement with Treasury.

- b. Emergency Capital Investment Program

- o **Answer:** The Emergency Capital Investment Program (ECIP) was established by the Consolidated Appropriations Act, 2021. The program authorizes Treasury to invest up to \$9 billion in Minority Depository Institutions (MDIs) and CDFI banks and credit unions so that they can, in turn, deploy capital in small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities, that were disproportionately impacted by the economic effects of the COVID-19 pandemic.

ECIP was launched on March 4, after close consultation with banking regulators, with an initial application deadline of May 7. Treasury has engaged extensively with MDI and CDFI institutions that are eligible to apply. Treasury has heard that additional time would enable potential applicants to better understand the program before applying, so Treasury extended the application deadline by 60 days, to July 6, 2021 and will make changes, as needed. Treasury anticipates announcing investment decisions later this year. After closing on investments, funds will immediately be transferred directly to the participating institutions.

Representative Ayanna Pressley (D-MA)

1. Secretary Yellen, a growing body of research shows that student loan borrowers of color, particularly Black borrowers, disproportionately struggle under the weight of student debt, defaulting at far higher rates than their white peers. As a result, borrowers of color are disproportionately affected by the Treasury Department's extraordinary student loan debt collection tactics, including the offset of tax refunds and the Earned Income Tax Credit (EITC). The government is on pace to resume seizing these payments from student loan borrowers beginning in September, despite a punishing labor market and a deeply inequitable economic recovery. I was pleased to learn that you intend to conduct a comprehensive racial equity review of the Treasury Department's programs in the context of the administration's pandemic response. Will you commit to include the treatment of student loan borrowers in default as part of this review and, in particular, evaluate the use of the Treasury Offset Program (TOP) and its effects on Black and Brown student loan borrowers?

- **Answer:** Federal law generally mandates the offset of any federal payment made to a debtor who owes a delinquent federal non-tax debt. Treasury's Bureau of Fiscal Service assists both federal agencies and states with the collection of delinquent debt through TOP. For non-tax debt submitted to TOP, Treasury applies certain federal and state payments to a payee's delinquent non-tax debt, as provided by law.

Treasury is committed to collecting and resolving delinquent debts in a fair and just manner, consistent with the Debt Collection Improvement Act of 1996 and related authorities, including the Federal Claims Collection Standards published at 31 C.F.R. Parts 900-904 et seq. Along these lines, and pursuant to Executive Order 13985 (January 20, 2021), Treasury has selected TOP for an equity review assessment of its collection of federal nontax debts, which includes student loan debts. Treasury is interested in better understanding the composition of the TOP debt portfolio for the purposes of determining if there are issues of fairness, equity, or access because Treasury does not receive demographic information from the agencies that send the debts to Treasury. Treasury will evaluate options to obtain data to analyze delinquent debtor demographics. The output of this exercise will help determine if and where program enhancements should be considered, which may include improving the communication of relief options to debtors and engaging creditor agencies, where appropriate, to ensure equitable practices are taking place prior to debts becoming delinquent.

Representative Nikema Williams (D-GA)

I've heard from Georgians loud and clear that our pandemic recovery needs to be focused on the needs of the people. That especially means \$1,400 checks. And I'm proud to say Congress and President Biden delivered what my constituents need with the American Rescue Plan.

Secretary Yellen, I appreciate your hard work toward distributing stimulus payments efficiently and effectively. Under your predecessor, there were challenges in distributing COVID-19 stimulus payments. I'd like to review the lessons you've taken from this to inform how you will lead distribution of the latest round of payments.

In March 2020, the CARES Act was passed. By the end of the year, we heard there may have been millions owed a stimulus payment under that legislation who still had not received it. And too many had to claim a credit on their 2020 taxes in recent months to get the payments they were owed last year.

1. What steps are you taking to ensure that the American Rescue Plan's stimulus payments are delivered quickly to all those eligible?

- **Answer:** While disbursing approximately 171 million Economic Impact Payments , totaling more than \$400 billion, we have continued to focus on making sure that this relief reaches those Americans who need it the most.

Throughout each round of Economic Impact Payments, we have extended our reach far beyond our normal contacts to many lower-income, military, veterans, retired, older, limited English proficient, homeless, and rural communities around the nation. In addition, we have worked closely with our partners to distribute outreach materials in 35 languages within these communities.

Our efforts benefit from valuable assistance provided by hundreds of local community groups and religious organizations, as well as the national associations to which they belong, and numerous others to reach into their respective communities. In addition, we continuously engage with thousands of homeless organizations, including more than 300 organizations that have become "Trusted Partners" where an unsheltered homeless individual could designate to receive their payment. All of these efforts leverage the experience that we have gained during the first two rounds of disbursing Economic Impact Payments.

2. We have already started hearing from constituents about missing stimulus payments. Can you recommend some best practices for congressional offices in working with the Treasury Department to efficiently resolve their issues?

- **Answer:** Most taxpayer requests can be addressed through regular IRS channels, including online FAQs, the "Get My Payment Tool" on IRS.gov, and the special Economic Impact Payments (EIP) telephone line 800-919-9835. In addition, taxpayers with other tax issues affecting their Economic Impact Payment may seek

assistance from the Taxpayer Advocate Service. Congressional offices also may seek assistance by using the special Congressional EIP Mailbox, reaching out to their local District Congressional Liaison, or contacting the Congressional Inquiries Telephone Line.

The first two Economic Impact Payments were advance payments of the 2020 Recovery Rebate Credit and additional 2020 Recovery Rebate Credit, respectively. If eligible individuals did not receive the full amount of their first- or second-round Economic Impact Payments, they can claim these amounts on their 2020 tax return as the 2020 Recovery Rebate Credit or additional 2020 Recovery Rebate Credit. By statute, the IRS is no longer issuing first- or second-round Economic Impact Payments. Individuals can file a 2020 tax return to claim these credits – even if they do not normally file a tax return.

The IRS continues to disburse third-round Economic Impact Payments in accordance with the American Rescue Plan Act of 2021, signed into law on March 11, 2021. The IRS began disbursing third-round Economic Impact Payments to eligible individuals on March 12, 2021, with more payments sent by direct deposit and through the mail as a check or debit card in the weeks that followed. By statute, the IRS will continue to disburse payments throughout the year as tax returns are processed. As of late June, individuals who did not get the full amounts of the first and second Economic Impact Payment, who are not required to file a 2020 tax return, didn't file and don't plan to, and want to claim the 2020 Recovery Rebate Credit and get their third Economic Impact Payment can use the Child Tax Credit Non-filer Sign-up Tool.

3. As of 2019, over 7% of Georgia households were unbanked. This is a sizable population in my state that can't just get a stimulus payment from a direct deposit. And often, these are people who need relief the most. As we move forward, what should we be considering to get these folks their stimulus payments faster and more effectively?

- **Answer:** First, we should work together to reduce the number of unbanked Americans. Our experience in delivering three rounds of Economic Impact Payments has further highlighted to us that the success of a direct payment program depends on a fast, safe, and secure payment delivery connection between the Treasury Department and the payee. Direct deposit meets those requirements more effectively than any other payment delivery option. As a model for future efforts, we suggest the FDIC's "Get Banked" initiative, which helps formerly unbanked Americans open an account to receive their Economic Impact Payments through direct deposit.

Second, we should encourage the delivery of direct payments to federal beneficiaries through reloadable Direct Express debit cards. During the third round of EIPs, over 3.1 million Direct Express cardholders have received payment electronically – over a half-million more than in previous rounds. Making Economic Impact Payments directly to an individual's Direct Express card is similar to providing those benefits by direct deposit. Additionally, it allows cardholders to receive those payments the same way they typically receive their federal benefits.

Treasury's Bureau of the Fiscal Service is responsible for the Direct Express debit card, which it uses to make recurring federal benefits payments to unbanked and underbanked individuals. There are over 3.8 million active Direct Express cards. Stimulus payments can be directed to these cards so that individuals do not need to receive payments by mailed check. In the most recent round of Economic Impact. Individuals with these cards will also receive advance monthly payments of the Child Tax Credit on their cards.

If the Child Tax Credit program becomes permanent, we anticipate that millions of additional individuals will receive debit cards from Treasury for these recurring payments. These cardholders could also receive stimulus payments on these cards.

Representative Bill Huizenga (R-MI)

1. How did the IRS come to the decision to bifurcate the relief for this year's federal tax filing and payment deadlines? Specifically, why was the choice made to postpone the federal tax filing deadline but not the first estimated payment deadline?
 - **Answer:** The decision to move tax day was not based on taxpayers ability to pay or liquidity concerns but instead because the American Rescue Plan Act of 2021 had created many retroactive changes to the 2020 tax law. As a result, an extra 30 days was provided to taxpayers to pay tax for and file their 2020 tax returns. This issue was less relevant for paying the April 15, 2021 estimated taxes for the 2021 tax year so no changes were made to the payment deadline.
- a. How many business owners or others fall under this category (those who must pay first quarter estimated taxes)? Please stratify the response by Adjusted Gross Income level.
 - **Answer:** Based on the most recent tax data available for 2018, we estimated approximately 11 million business owners reporting income from sole proprietorships, farming activities, partnerships (active income only), and S corporation owners (active income only) would have had a responsibility to pay estimated taxes. Below is the distribution by adjusted gross income.

AGI	Tax units with estimated tax responsibility (000s)
Less than \$0	87
\$0 to less than \$25,000	1481
\$25,000 to less than \$50,000	1454
\$50,000 to less than \$75,000	1318
\$75,000 to less than \$100,000	1082
\$100,000 to less than \$150,000	1784
\$150,000 to less than \$200,000	1150
\$200,000 to less than \$300,000	1228
\$300,000 to less than \$500,000	883
\$500,000 to less than \$1 million	574
Greater or equal to \$1 million	380

- b. With the 1st quarter payment due a month before the return, won't many small businesses be more at risk for penalties and interest when they can least afford it?
 - **Answer:** As long as taxpayers make enough payments throughout the year, they will not have to pay a penalty and interest for underpayment of tax. Most taxpayers avoid this penalty and interest if they owe less than \$1,000 in tax

after subtracting their withholdings and credits, or if they paid at least 90% of the tax for the current year, or 100% of the tax shown on the return for the prior year (110% for taxpayers whose prior year adjusted gross income was over \$150,000 or \$75,000 if married filing separately). While taxpayers postponing filing to May results in them not knowing 100% of the tax from the prior year, they can probably make good estimates of the amount.

- c. If the IRS were to postpone the first estimated payment deadline to May 17, what is the estimated revenue loss for the Treasury?
 - **Answer:** Given currently available information, if the IRS had postponed the first estimated payment deadline from April 15 to May 17, then approximately \$35 billion of revenue attributable to Tax Year 2021 estimated payments would have *shifted* from April to May.

Representative French Hill (R-AR)

1. Given the disruptions in the treasury market in March 2020, have you considered setting up a central clearinghouse for the Treasury market rather than relying on our historic primary dealer market?
 - **Answer:** Treasury is engaged in an interagency process to study the March 2020 disruptions to the Treasury market and consider a range of potential policy proposals, including evaluating the possible effects of expanded central clearing.
2. Since the beginning of January 2021, the balance sheet has increased by over \$350 billion. Reports indicate a purchase of roughly \$120 billion in assets per month. Of the total balance sheet, about 29% make up MBS purchase (Fannie Mae and Freddie Mac) and 63% are held in U.S. Treasury securities. Is this correct?
 - **Answer:** I would defer to the Federal Reserve with respect to questions regarding its asset purchases.
3. Given the acceleration in home prices and the vigorous expansion of mortgage lending, is it really necessary for you to be buying agency mortgage-backed securities?
 - **Answer:** I would defer to the Federal Reserve with respect to questions regarding its asset purchases.
4. Given the Fed is purchasing 22% of this new issue Treasury market, and 20% of the Agency MBS, how will this avalanche of public debt be permanently redistributed to long-term holders such as individuals, pension funds and foreign investors? Are you effectively monetizing these incredible federal spending programs in response to this pandemic?
 - **Answer:** I would defer to the Federal Reserve with respect to questions regarding its asset purchases.
5. Following the TCJA, isn't it true that the U.S. tax code is more progressive?
 - **Answer:** The TCJA resulted in a tax cut at all income levels in 2019, as shown in the following excerpt of a table from the Joint Committee on Taxation (JCX-68-17). However, the drop in federal tax rates was largest for those with the highest incomes, so those with higher incomes experienced larger benefits from the TCJA (both in terms of dollars, and as a share of their prior income) than those with lower incomes. Also, over time, particularly when many of the individual tax cuts sunset in 2026, taxpayers with lower incomes will experience a tax increase due to TCJA. The distribution for 2027 is shown in the second table below.

DISTRIBUTIONAL EFFECTS OF THE "TAX CUTS AND JOBS ACT"
THE CONFERENCE AGREEMENT FOR
Calendar Year 2019

INCOME CATEGORY (2)	Average Tax Rate (4)	
	Present Law	Proposal
	Percent	Percent
Less than \$10,000.....	9.1%	8.6%
\$10,000 to \$20,000.....	-0.7%	-1.2%
\$20,000 to \$30,000.....	3.9%	3.4%
\$30,000 to \$40,000.....	7.9%	7.0%
\$40,000 to \$50,000.....	10.9%	9.9%
\$50,000 to \$75,000.....	14.8%	13.5%
\$75,000 to \$100,000.....	17.0%	15.6%
\$100,000 to \$200,000.....	20.9%	19.4%
\$200,000 to \$500,000.....	26.4%	23.9%
\$500,000 to \$1,000,000..	30.9%	27.8%
\$1,000,000 and over.....	32.5%	30.2%
Total, All Taxpayers.....	20.7%	19.0%

Source: Joint Committee on Taxation

Calendar Year 2027

INCOME CATEGORY (2)	Average Tax Rate (4)	
	Present Law	Proposal
	Percent	Percent
Less than \$10,000.....	4.7%	5.1%
\$10,000 to \$20,000.....	-0.8%	0.7%
\$20,000 to \$30,000.....	4.1%	5.1%
\$30,000 to \$40,000.....	7.6%	8.3%
\$40,000 to \$50,000.....	11.0%	11.5%
\$50,000 to \$75,000.....	14.5%	14.6%
\$75,000 to \$100,000.....	16.3%	16.3%
\$100,000 to \$200,000.....	20.7%	20.6%
\$200,000 to \$500,000.....	26.6%	26.4%
\$500,000 to \$1,000,000..	30.8%	30.5%
\$1,000,000 and over.....	32.1%	31.7%
Total, All Taxpayers.....	20.5%	20.5%

Source: Joint Committee on Taxation

Representative William Timmons (R-SC)

1. The attacks used against SolarWinds and Microsoft compromised both the recent supply chain attack against a number of federal agencies and private companies and is yet another reminder of the need for enhanced collaboration between the public and private sectors to defend our vital financial infrastructure. What is Treasury doing now working to help protect financial institutions against attacks from foreign nations? And what can Treasury commit to doing in the future to help companies and provide better tools to address cyber threats?

- **Answer:** The U.S. Department of the Treasury is the sector risk management agency for the financial services sector, one of sixteen designated critical infrastructure sectors. Sector risk management agencies, known as SRMAs, are responsible for: (1) supporting sector risk management; (2) assessing sector risk; (3) sector coordination; (4) facilitating information sharing; (5) supporting incident management; and, (6) contributing to emergency preparedness efforts. Within Treasury, the Office of Cybersecurity and Critical Infrastructure Protection (OCCIP) fulfills the Department's SRMA role. OCCIP operates at the nexus of the financial services sector, national security, cybersecurity, critical infrastructure protection, and risk management. OCCIP leads the Department's efforts to enhance the security and resilience of the financial services sector by:

1. Identifying risk to U.S. critical financial infrastructure to support sector risk mitigation;
2. Enabling effective information sharing and operational collaboration;
3. Enhancing the sector's ability to prepare for, respond to, and mitigate incidents impacting U.S. critical financial infrastructure

OCCIP fulfills its SRMA role by partnering with:

1. Private sector counterparts, such as individual institutions or through organizations such as the Financial Services Sector Coordinating Council (FSSCC) and the Financial Sector Information Sharing and Analysis Center (FS-ISAC);
2. Public sector counterparts, such as individual financial regulatory agencies or the federal regulatory agencies and state regulatory associations collectively through the Financial and Banking Information Infrastructure Committee (FBIIIC);
3. Executive branch interagency partners, such as the Department of Homeland Security's Cybersecurity and Infrastructure Security Agency, the Department of Energy, Federal Bureau of Investigation, and the Intelligence Community, and
4. Internationally, such as through bilateral engagement with counterparts, and multilateral fora like the G-7 Cyber Expert Group.

OCCIP's day-to-day activities include developing interagency policy and analyzing sector operations to identify critical processes, functions, and interdependencies to assess the associated risks, as well as coordinating incident response and recovery for incidents having a significant impact upon the financial sector, conducting tabletop exercises to assist financial services and their firms, and collaborating with the private sector, law enforcement, and the Intelligence Community to prioritize, produce, and share (in written form, and in briefings) cyber threat analysis and best mitigation practices with the financial services sector and their regulators on potentially systemic threats. OCCIP also engages with international counterparts through the Group of Seven (G-7) Cyber Expert Group, focusing on the development of incident response protocols and identification of best practices to enhance the resilience of the global financial system.

All of these efforts and relationships are focused on improving the resilience of the financial services sector against cyber threats. Treasury is committed to the ongoing operation and enhancement of these programs to ensure they are responsive to changing threats.

OCCIP is supported in this work by the Financial Crimes Enforcement Network (FinCEN), the Office of Intelligence and Analysis (OIA), the Office of Foreign Assets Control (OFAC), the Office of Terrorist Financing and Financial Crimes (TFFC), and other Treasury offices in its sector engagement. For instance, with respect to the SolarWinds attack, in April, Treasury took actions to respond to and deter Russia's harmful foreign activities. Treasury designated six Russian technology companies that provide support to the Russian Intelligence Services' cyber program, ranging from providing expertise to developing tools and infrastructure to facilitating malicious cyber activities. We will continue to hold Russia accountable for its malicious cyber activities, such as the SolarWinds incident, by using all available policy and authorities.

2. The Cyberspace Solarium Commission highlighted the need for the intelligence agencies to provide greater support to critical infrastructure to help defend against cyber-attacks from foreign nations. How is Treasury coordinating with the intelligence agencies to support the sector? What else can and should Treasury be doing to provide tools and help a more collaborative approach to defend vital financial infrastructure and the functioning of our economy?
 - **Answer:** Treasury's Office of Intelligence and Analysis (OIA) is a wholly integrated element of the Intelligence Community (IC). OIA supports the financial sector primarily by working with Treasury's Office of Cybersecurity and Critical Infrastructure Protection (OCCIP), which is responsible for sector engagement to promote the resilience of critical infrastructure, to provide monthly classified briefings to cleared individuals in the financial sector and their regulatory agencies. OCCIP supplements this effort by promoting access to the Department of Homeland Security's Private Sector Clearance Program, coordinating applications for security clearances by qualified financial services sector personnel. To ensure alignment with

sector concerns, OIA and OCCIP support financial sector access to classified information by working with financial institutions directly to understand their requirements and convey these to the IC.

3. The Commission has also recommended to Congress that it create yet another new designation called “Systemically Important Critical Infrastructure”—something Treasury would understand more than most agencies, has anyone talked to you about this new designation? Do we need another designation? While this industry already has these designations and mandates, which others should not seek to duplicate, sectors like IT do not—do you think it would help to make sure sectors like IT had to play by the same rules?

- **Answer:** I defer to Congress on the necessity of an additional designation, but would note that several designations for critical infrastructure already apply to the financial sector, include the designation of critical infrastructure firms by the Department of Homeland Security (DHS) under Section 9 of Executive Order 13636, designation of systemically important financial market utilities (SIFMUs) by the Financial Stability Oversight Council (FSOC), critical Systems Compliance Integrity (SCI) entities under Securities Exchange Commission (SEC) regulations, and designation of Multi-Regional Data Processing Services to the financial sector (MDPSS) by the Federal Financial Institution Examiners Council (FFIEC) agencies, the latter three of which determine heightened standards of supervision and regulation. Any inclusion of financial services sector critical infrastructure firms should be reconciled and harmonized with these existing designations, and with the supervisory and regulatory authorities of the responsible agencies.

The innovations and investments undertaken by critical infrastructure firms to manage their operational risks have both guided and been guided by supervisory and regulatory engagement. While there is always room for improvement, and cybersecurity threats continue to evolve, the financial services sector is generally regarded as a leader in the successful management of cybersecurity risks.

4. One of the weaknesses highlighted by the ongoing SolarWinds attack is the data the Russians may have accessed or stolen from government systems that contain sensitive information provided by banks through the examination process, or from the government’s role performing certain market functions (e.g. Fedwire). Neither Treasury nor the Fed are required to notify companies if their data has been accessed, yet the firms themselves are required to report incidents like this. Right now, these companies or their customers could be at risk and not even know it. What is Treasury/the Fed going to do about this?

- **Answer:** Following the SolarWinds supply chain compromise incident, Treasury committed to notifying any affected financial sector partner in the event of exfiltration of their nonpublic or sensitive information in conformance to applicable law, regulation, policy and guidance. We have, and always will, ensure that industry concerns are appropriately elevated, and suitable solutions identified and

implemented. The Office of Cybersecurity and Critical Infrastructure Protection (OCCIP) has been directed to work with the Finance and Banking Information Infrastructure Committee (FBIIIC) and the Financial Services Sector Coordinating Council (FSSCC) across the public and private sectors to engage member firms, agencies, and associations to identify concerns and develop solutions.

