

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

September 17, 2020

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: September 22, 2020, Full Committee hybrid hearing, “Oversight of the Treasury Department’s and Federal Reserve’s Pandemic Response”

The Committee on Financial Services will hold a hybrid hearing entitled, “Oversight of the Treasury Department’s and Federal Reserve’s Pandemic Response,” on Tuesday, September 22, 2020 at 10:30 a.m. in 2128 Rayburn House Office Building. Members who wish to participate remotely may do so via Cisco Webex. This single-panel hearing will have the following witnesses:

- **The Honorable Steven Mnuchin**, Secretary, U.S. Department of the Treasury
- **The Honorable Jerome Powell**, Chair, Board of Governors of the Federal Reserve System

Overview

The Coronavirus Disease 2019 (COVID-19) pandemic has had profound health, economic and financial impacts globally and in the United States. According to the Centers for Disease Control and Prevention (CDC), there have been more than 6.6 million cases and 196,000 deaths in the United States as of September 17.¹ Real gross domestic product declined at an annualized rate of 31.7% in the second quarter of 2020 according to the August 27 second estimate from the Bureau of Economic Analysis (BEA).² In response, Congress has enacted a series of laws, including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act),³ which was signed into law on March 27, 2020. The CARES Act directs the U.S. Department of the Treasury (Treasury) and the Board of Governors of the Federal Reserve System (Federal Reserve or Fed) to take a series of actions to assist those affected by the economic impact of the pandemic, including consumers, businesses, non-profits, states, territories, and municipalities.

The law established ongoing streams of reporting to Congress related to the activities of the Treasury and the Fed under the CARES Act including: bimonthly reporting by GAO,⁴ ongoing oversight and monthly reports by the Congressional Oversight Commission,⁵ and quarterly reports by the Special Inspector General for Pandemic Recovery (SIGPR).⁶ The law also requires the Treasury Secretary and Federal Reserve Chair to testify quarterly before the Committee.⁷ This is the Committee’s second hearing fulfilling this statutory requirement.⁸

¹ Centers for Disease Control and Prevention (CDC), “[Cases in the U.S.](#),” (last accessed Sep 17, 2020).

² BEA, “[Gross Domestic Product, 2nd Quarter 2020 \(Advance Estimate\) and Annual Update](#),” (July 30, 2020).

³ [P.L. 116-136](#)

⁴ See GAO, “[COVID 19: Opportunities to Improve Federal Response and Recovery Efforts](#),” GAO-20-625 (June 25, 2020); and GAO, “[COVID-19: Brief Update on Initial Federal Response to the Pandemic](#),” GAO-20-708 (Aug. 31, 2020).

⁵ For information about the Congressional Oversight Commission, including reports published and hearings held, see <http://coc.senate.gov>.

⁶ For first SIGPR report, see Special Inspector General for Pandemic Recovery, “[Initial Report to Congress](#),” (Aug. 3, 2020)

⁷ §4026(c) of the CARES Act

⁸ This memo is intended to provide updates on relevant CARES Act programs. For an overview and more information on these programs, see the [hearing memo](#) from the [first quarterly hearing](#) held by the Committee on June 30, 2020.

Emergency Relief for Businesses, Nonprofits, States, Territories, & Municipalities

Congress appropriated \$500 billion to the Treasury's Economic Stabilization Fund to provide loans, loan guarantees or other investments, either directly or through programs and facilities administered by the Federal Reserve, to eligible businesses, nonprofits, states, territories, and municipalities as provided under Title IV of the CARES Act.⁹

Treasury Emergency Lending Programs for Certain Industries.

Of the \$500 billion, Treasury can make up to \$25 billion available to passenger airlines, up to \$4 billion to cargo airlines, and up to \$17 billion to businesses critical to maintaining national security. Treasury can make the remainder—\$454 billion plus any unused funds initially allocated to assist the specified industries—available to support Federal Reserve lending facilities. The authority to enter into new transactions terminates on December 31, 2020. Recipients are legally required to repay assistance with interest. To date, Treasury has announced one Title IV (Subtitle A) loan of \$700 million to a trucking company (YRC Worldwide Inc.) on the basis that the company is critical to national security.¹⁰ It also announced letters of intent with ten major airlines, which may result in future loans.¹¹ Separate from the \$500 billion, Title IV of the CARES Act provides up to \$32 billion to continue payment of employee wages, salaries, and benefits at airline-related industries. As of August 12, Treasury has approved over \$27 billion to 586 applicants, with \$24.2 billion in anticipated support to 338 passenger air carriers, \$660.4 million to 35 cargo companies, and almost \$2.3 billion to 213 contractor companies.¹²

Federal Reserve Emergency Lending Programs and Facilities.

The Fed has created nine temporary emergency programs and facilities using authorities under Section 13(3) of the Federal Reserve Act in response to COVID-19.¹³ Many are backed by Treasury's Exchange Stabilization Fund (ESF), including at least \$454 billion provided through the CARES Act, in the event of losses. Seven of these programs are backed by ESF funds: Commercial Paper Funding Facility (CPFF);¹⁴ Main Street Lending Program (MSLP); Money Market Fund Liquidity Facility (MMLF);¹⁵ Municipal Liquidity Facility (MLF); Primary Market Corporate Credit Facility (PMCCF);¹⁶ Secondary Market Corporate Credit Facility (SMCCF);¹⁷ and Term Asset-Backed Securities Loan Facility (TALF).¹⁸ The other two emergency programs not backed by the ESF are the Primary Dealer Credit Facility

⁹ Treasury, "[Update on Treasury Implementation of the Payroll Support Program for the Aviation Industry](#)," (May 12, 2020); and Congressional Research Service (CRS), "[Treasury and Federal Reserve Financial Assistance in Title IV of the CARES Act \(P.L. 116-136\)](#)," (Apr. 28, 2020).

¹⁰ The Congressional Oversight Commission's third report in July 2020 expressed concerns about the loan to YRC Worldwide Inc., primarily over whether the company was appropriately designated by Treasury and the Department of Defense as "critical to maintaining national security" and whether the company's financial condition exposed taxpayers to a significant risk of loss. For more, see Congressional Oversight Commission, "[Third Report of the Congressional Oversight Commission](#)," (July 20, 2020), p. 15-16, 31-34. Further information on the rationale for granting YRC's designation is detailed in Appendix A and B of the Commission's 4th Report. See Congressional Oversight Commission, "[The Fourth Report of the Congressional Oversight Commission](#)," (Aug. 21, 2020), p. 62-75.

¹¹ U.S. Treasury, "[Statement from Secretary Steven T. Mnuchin on CARES Act Loans to Major Airlines](#)," (July 7, 2020). The amount pledged in these letters of intent has not been disclosed.

¹² U.S. Treasury, "[Payroll Support Program Payments](#)," (Aug. 12, 2020).

¹³ For a full overview of these facilities, see House Financial Services Committee hearing [memo](#) for hearing entitled, "[Monetary Policy and the Economy](#)," (June 17, 2020).

¹⁴ Federal Reserve, "[Federal Reserve Board Announces Establishment of a Commercial Paper Funding Facility \(CPFF\) to Support the Flow of Credit to Households and Businesses](#)," (Mar. 17, 2020). For more on commercial paper, see CRS Insight IN11332, "[COVID-19: Commercial Paper Market Strains and Federal Government Support](#)," by Rena S. Miller.

¹⁵ Federal Reserve, "[Federal Reserve Board broadens program of support for the flow of credit to households and businesses by establishing a Money Market Mutual Fund Liquidity Facility \(MMLF\)](#)," (Mar. 18, 2020). For more on money market mutual funds, see CRS In Focus IF11320, "[Money Market Mutual Funds: A Financial Stability Case Study](#)," by Eva Su.

¹⁶ Federal Reserve, "[Federal Reserve Announces Extensive New Measures to Support the Economy](#)," (Mar. 23, 2020).

¹⁷ Ibid.

¹⁸ Fed, "[Term Asset-Backed Securities Loan Facility](#)," (last accessed Sep. 8, 2020).

(PDCF),¹⁹ and the Payroll Protection Program Lending Facility (PPPLF).²⁰ The current amount outstanding under each program is summarized in Table 1 of the Appendix. Use of some facilities is declining, while use of others is increasing. Table 2 of the Appendix summarizes how much CARES Act funding has been pledged to each facility. In total, \$215 billion of ESF funds has been pledged to date, but if limited to the programs identified as CARES Act programs by Chair Powell, that total is \$195 billion. The distinction does determine which programs are subject to the terms and conditions of the CARES Act, however. Below is a further discussion of recent developments with the MSLP and MLF.

Main Street Lending Program (MSLP): The MSLP buys new or expanded loans from depository institutions that are five-year loans to businesses with up to 15,000 employees or up to \$5 billion in revenues. There are loan options for non-profit organizations as well.²¹ The MSLP was designed to support up to \$600 billion in lending, though the program's development thus far has been slow, with less than 1% of the program's capacity utilized.²² To date, a relatively small number of financial institutions are participating in the MSLP, with 575 lenders registered to participate (compared to 5,460 PPP lenders), and half of the MSLP's 118 loans to date facilitated by a single lender.²³ The Congressional Oversight Commission has examined the MSLP's performance, citing several reasons for lower than expected utilization, including businesses' lack of awareness of the program, favorable private sector lending conditions, and the impact of the PPP in helping small businesses.²⁴ One common barrier is the Fed's restriction on loans to companies with greater than 6x earnings before interest, depreciation, taxes, and amortization (EBIDTA), which limits the extent to which firms that entered the crisis with a high debt load can access MSLP. On September 1, Secretary Mnuchin testified that he expected MSLP loans to grow to \$50 billion in the coming weeks, but also said that he expected the program to remain under capacity, in part because of the EBIDTA restrictions.²⁵ Congressional action would be needed to increase the MSLP's risk appetite, according to a senior Fed official.²⁶

Municipal Liquidity Facility (MLF): The MLF purchases shorter-term state and municipal debt in response to higher yields and reduced liquidity in that market. The facility purchases only tax or revenue anticipation debt of states, larger counties (with at least 500,000 residents), and larger cities (with at least 250,000 residents).²⁷ Following criticism that the MLF was "functionally unusable" for the vast majority of eligible borrowers, the Fed announced on August 10 that it would reduce the penalty rates by 50 basis points across the board.²⁸ Even with these reductions, MLF rates remain "substantially higher than market rates."²⁹ Only two entities have utilized the MLF since it became operational in May: Illinois sold a \$1.2 billion bond to the MLF in June, and the New York Metropolitan Transportation Authority sold \$450 million in notes to the MLF in August.³⁰

¹⁹ Federal Reserve, "[Federal Reserve Board Announces Establishment Of A Primary Dealer Credit Facility \(PDCF\) To Support The Credit Needs Of Households And Businesses](#)," (Mar. 17, 2020). Also see Federal Reserve Bank of New York, "[Primary Dealers](#)."

²⁰ Federal Reserve, "[Federal Reserve Will Establish A Facility To Facilitate Lending To Small Businesses Via The Small Business Administration's Paycheck Protection Program \(PPP\) By Providing Term Financing Backed By PPP Loans](#)," (Apr. 6, 2020).

²¹ <https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm>

²² "[The Fourth Report of the Congressional Oversight Commission](#)," *Congressional Oversight Commission*, (Aug. 21, 2020).

²³ "[Congress needs to weigh in on expanding Main Street loan program to more businesses, Boston Fed chief says](#)," *Washington Post*, (Sep. 8, 2020).

²⁴ *Ibid.*

²⁵ "Mnuchin sees Fed 'Main Street' loans ballooning up to \$50B after slow start," *Politico*, (Sep. 1, 2020)

²⁶ *Ibid.*

²⁷ "[Municipal liquidity facility](#)," Board of Governors of the Federal Reserve System, (Apr. 9, 2020).

²⁸ "[Federal Reserve Lowers Pricing for Municipal Liquidity Facility](#)," *Yale Program on Financial Stability*, (Aug. 19, 2020).

²⁹ "[The Fourth Report of the Congressional Oversight Commission](#)," *Congressional Oversight Commission*, (Aug. 21, 2020).

³⁰ "New York MTA rejects bids, head to the Fed," *BondBuyer*, (August 18, 2020), <https://www.bondbuyer.com/news/new-york-mta-sells-second-large-deal-to-federal-reserve>

Paycheck Protection Program (PPP) for Small Businesses and Nonprofits

The CARES Act established the PPP at the Small Business Administration, which provides forgivable loans to small businesses and certain non-profit organizations through financial institutions, including banks and credit unions. The program has been modified and expanded several times by Congress. The deadline for making loans eligible for the PPP was August 8, 2020. By that date, more than 5.2 million loans with a value of about \$525 billion had been approved, leaving \$134 billion in authorized funding unused.³¹

Coronavirus Relief Fund for States, Territories, and Tribal Areas

Under Title V of the CARES Act, the law directs Treasury to administer the \$150 billion Coronavirus Relief Fund and distribute funds to governments in states, territories, and tribal areas.³² As of August 20, \$149.5 billion of the funds have been allocated by Treasury.³³ The remaining \$0.5 billion in allocations have been withheld from tribal governments while the eligibility of Alaska Native Corporations is subject to litigation.³⁴ As of June 30, 2020, nontribal governments have incurred costs for \$35.6 billion in Fund payments, or 25% of their total allocation.³⁵

Economic Impact Payment for Individuals and Families

Section 2201 of the CARES Act directed the Internal Revenue Service (IRS) to provide economic impact payments (EIPs) to most households,³⁶ and were distributed through direct deposit, Direct Express debit card, EIP Prepaid Card, or by paper check. As of July 2020, 159 million EIPs worth more than \$267 billion, with an additional \$2.5 billion delivered to individuals in territories, have been delivered.³⁷ Eligible individuals who did not receive an EIP have an opportunity to claim the payment as a tax rebate on a future tax return. Up to 12 million eligible individuals may not have received a payment.³⁸

Expiration of CARES Provisions and Economic Recovery

The expiration of key provisions in the CARES Act along with several long-term trends suggest that the economic recession caused by the COVID-19 pandemic could be severe and lasting. An August survey conducted by the *New York Times* found potentially lasting changes in consumer spending habits, with in-person business visits down nearly 25% compared to 2019, including in areas where health restrictions were mostly lifted.³⁹ Moody's Analytics estimates that renters already owed nearly \$25 billion at the beginning of August, and the expiration of a federal, state, and local moratoria on evictions could lead to a wave of evictions.⁴⁰ Over 830,000 public sector jobs have been lost since February, and more layoffs are expected.⁴¹ State governments face budget shortfalls of over \$500 billion through FY 2022,⁴² and an estimated 5.3 million public sector jobs could be lost by the end of 2021 if Congress does not pass more federal aid.⁴³

³¹ SBA, "[Paycheck Protection Program \(PPP\) Report](#)," Approvals through August 8, 2020.

³² CRS, "[The Coronavirus Relief Fund \(CARES Act, Title V\): Background and State and Local Allocations](#)," (Apr. 14, 2020).

³³ U.S. Treasury, "[Daily Treasury Statement](#)," (Aug. 20, 2020).

³⁴ U.S. Treasury, "[Coronavirus Relief Fund Tribal Allocation Methodology](#)," (Aug. 11, 2020).

³⁵ U.S. Treasury, "[Interim Report of Costs Incurred by State and Local Recipients through June 30](#)," (July 24, 2020); and "[Coronavirus Relief Fund Frequently Asked Questions](#)," (Aug. 10, 2020).

³⁶ Most individuals received \$1,200 (\$2,400 for married taxpayers filing a joint tax return) and \$500 per eligible child. These amounts phase out for individuals with an adjusted gross income above \$75,000 (\$150,000 for married joint returns).

³⁷ Internal Revenue Service, "[IRS Statement on Economic Impact Payments by state \(as of July 17, 2020\)](#)," (July 17, 2020). For a compilation of data, see CRS Report R46415, [CARES Act \(P.L. 116-136\) Direct Payments: Resources and Experts](#).

³⁸ Chuck Marr, Kris Cox, Kathleen Bryant, et al., "[Aggressive State Outreach Can Help Reach the 12 Million Non-Fileers Eligible for Stimulus Payments](#)," Center on Budget and Policy Priorities, (June 23, 2020)

³⁹ "[Virus alters where people open their wallets, hinting at a halting recovery](#)," *New York Times*, (Aug. 19, 2020)

⁴⁰ "[Trump is calling for another moratorium on evictions. Landlords are pushing back](#)," *Washington Post*, (Aug. 6, 2020)

⁴¹ Bureau of Labor Statistics, "[Employment Situation Summary](#)," (Sep. 4, 2020)

⁴² Center on Budget and Policy Priorities, "[States continue to face large shortfalls due to COVID-19 effects](#)," (July 7, 2020)

⁴³ EPI, "[Without federal aid to state and local governments, 5.3 million workers will lose their jobs by the end of 2021](#)," (June 10, 2020)

Legislation

- **H.R. 6800, the Heroes Act (Lowey).** The bill includes provisions that would: provide nearly \$1 trillion to state, local, territorial and tribal governments; \$175 billion to support renters and homeowners; an additional stimulus payment of \$1,200 per family member; an extension of enhanced unemployment benefits to January 2021; an extension and/or expansion of various emergency lending programs, including PPP, MSLP, and MLF.⁴⁴
- **H.R. 6852, To prohibit the Secretary of the Treasury and the Board of Governors of the Federal Reserve System from waiving provisions related to COVID-19 emergency relief and taxpayer protections related to such relief (Ocasio-Cortez).** The bill would prohibit the Treasury and Fed from waiving the CARES restrictions on executive compensation, stock buybacks and dividend payments.
- **H.R. 6892, To amend the CARES Act to add requirements for the Main Street Lending Program related to non-profit organizations, small businesses, minority depository institutions, and community development financial institutions, and for other purposes (Beatty).** This bill would expand the MSLP by expanding the program's support for small businesses, nonprofits and public universities, including by eliminating the MSLP's minimum loan threshold, among other changes.
- **H.R. 6918, the Paycheck Recovery Act (Jayapal).** This bill would establish a worker retention program where all public and private employers, as well as independent contractors, domestic workers, and gig workers, that have seen a 10 percent or greater revenue loss since 2019, would be eligible for a three-month, renewable lump sum grant payment to maintain their workforce at current wages and benefits, until the nationwide unemployment rate is 7 percent or lower for three months.⁴⁵
- **H.R. 7023, To require the Secretary of the Treasury to implement a program that provides financial assistance to sports facilities, museums, and community theaters, and for other purposes (Trahan-McKinley).** The bill would establish a loan program for community-owned or private small businesses that are contractually obligated to make lease, rental, or bond payments on publicly-owned sports facilities, museums, or community theaters.⁴⁶
- **H.R. 7197, the Real Economic Support That Acknowledges Unique Restaurant Assistance Needed to Survive (RESTAURANTS) Act (Blumenauer-Fitzpatrick).** The bill would create a \$120 billion grant program run by Treasury to provide financial aid to restaurants through 2020.⁴⁷
- **H.R. 7717, the Uplifting Our Local Communities Act (Tlaib).** The bill would expand the Fed's MLF by increasing the eligibility to a greater number of cities and counties, as well as territories, lengthening eligible bond maturity to ten years.
- **H.R. 7809, the Helping Open Properties Endeavor (HOPE) Act (Taylor-Lawson).** The bill would direct Treasury to utilize CARES Act funds to establish a preferred equity lending program for borrowers of commercial mortgages that have faced challenges accessing the Fed's MSLP.
- **H.R. 8002, the Aviation Manufacturing Jobs Protection Act (Estes-Larsen).** The bill would establish a Treasury program to provide up to 50 percent cost-share to help cover costs of pay and benefits for aviation manufacturing employees at risk of being furloughed due to the pandemic.⁴⁸

⁴⁴ See Financial Services Committee [fact sheets](#), Appropriations Committee [press release](#), and Small Business Committee [press release](#).

⁴⁵ See Financial Services Committee hearing entitled, "[Paycheck Security: Economic Perspectives on Alternative Approaches to Protecting Workers' Pay during COVID-19](#)," (July 7, 2020).

⁴⁶ Press Release, "[Trahan, McKinley, Rose, Simpson Introduce Legislation to Provide Additional COVID-19 Relief to Minor League Baseball Teams, Other Small Businesses](#)," (May 27, 2020)

⁴⁷ Press Release, "[Rep. Blumenauer Leads Bipartisan Coalition in Introducing Independent Restaurant Stabilization Fund](#)," (Jun. 18, 2020).

⁴⁸ Press Release, "[Estes, Larsen Introduce Legislation to Protect Aerospace Supply Chain Jobs](#)," (Aug. 11, 2020)

Appendix

Table 1. Status of Pandemic Response Programs and Facilities

Program	Current Status	Funds Disbursed or Loans/Assets Purchased Outstanding
Treasury Programs		
Loans or Loan Guarantees to Three Industries	One direct loan has been made. (See Federal Reserve Programs below for status of Federal Reserve facilities)	\$0.7 billion outstanding as of July 10, 2020
Payroll Support Program	Support to 338 passenger carriers, 35 cargo carriers, and 213 contractors has been approved	\$27 billion in support approved as of August 12, 2020
Paycheck Protection Program (jointly administered with the Small Business Administration)	Round I and Round II distributions have been made. Closed to new applications as of August 8, 2020	\$525 billion approved lending as of August 8, 2020
Economic Impact Payments (administered by the Internal Revenue Service)	Nearly 160 million payments have been disbursed to eligible households as of July 17, 2020	Payments issued totaling almost \$267 billion as of July 17, 2020
Coronavirus Relief Fund (Aid to States and Localities)	Treasury made funds available to states and localities in April 2020 and to tribal governments in May and June 2020	\$139 billion disbursed to states; \$8 billion to tribal areas; and \$3 billion to territories and Washington, DC
Federal Reserve Emergency Programs		
Commercial Paper Funding Facility	operational	\$0.03 billion outstanding as of September 9, 2020
Money Market Liquidity Facility	operational	\$7.9 billion outstanding as of September 9, 2020
Primary Market Corporate Credit Facility and Secondary Market Corporate Credit Facility	operational	\$12.6 billion outstanding as of September 9, 2020
Term Asset-Backed Securities Loan Facility	operational	\$2.6 billion outstanding as of September 9, 2020
Main Street Lending Program	operational	\$1.4 billion outstanding as of September 9, 2020
Municipal Liquidity Facility	operational	\$1.7 billion outstanding as of September 9, 2020
Primary Dealer Credit Facility	operational	\$0.2 billion outstanding as of September 9, 2020
PPP Liquidity Facility	operational	\$67.5 billion outstanding as of September 9, 2020
Discount Window	operational	\$2.7 billion outstanding as of September 9, 2020
Central Bank Liquidity Swaps	operational	\$72.1 billion outstanding as of September 9, 2020

Source: CRS

Table 2. Federal Reserve COVID-19 Emergency Programs Backed by CARES Act Funding

(billions of dollars)

	Announced Size Limit	ESF Funds Pledged	Chair Powell Identified as CARES Act?
<i>Facilities Created Prior to Enactment of CARES Act</i>			
Commercial Paper Funding Facility	n/a	\$10	N
Money Market Fund Liquidity Facility	n/a	\$10	N
Primary Market Corporate Credit Facility/Secondary Market Corporate Credit Facility	\$750	\$75	Y
Term Asset-Backed Securities Loan Facility	\$100	\$10	Y
<i>Facilities Created Since Enactment of CARES Act</i>			
Main Street Lending Program	\$600	\$75	Y
Municipal Liquidity Facility	\$500	\$35	Y
Total	n/a	\$215	\$195

Source: CRS