

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

September 27, 2021

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: September 30, 2021, Full Committee Hearing entitled, “Oversight of the Treasury Department's and Federal Reserve's Pandemic Response”

The full Committee will hold a hybrid hearing entitled, “Oversight of the Treasury Department's and Federal Reserve's Pandemic Response” on Thursday, September 30, 2021, at 10:00 a.m. in room 2128 of the Rayburn House Office Building and on the Cisco Webex platform. There will be one panel with the following witnesses:

- **The Honorable Janet L. Yellen**, Secretary, U.S. Department of the Treasury
- **The Honorable Jerome H. Powell**, Chair, Board of Governors of the Federal Reserve System

Overview

In response to the COVID-19 pandemic, Congress has enacted a series of laws, including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which was signed into law on March 27, 2020. The CARES Act directs the Secretary of the Department of the Treasury (Treasury) and the Chair of the Board of Governors of the Federal Reserve System (Fed) to testify quarterly before the Committee regarding their obligations and transactions made under the Act.¹ This is the Committee’s fifth hearing fulfilling this statutory requirement.²

The COVID-19 Pandemic, Recession, and Economic Outlook

COVID-19 resulted in the deepest economic downturn the United States has seen since the Great Depression. The peak unemployment rate in April 2020 was 14.7%, the highest monthly rate ever recorded by the U.S. Bureau of Labor Statistics (BLS);³ the second quarter annualized decline in real gross domestic product (GDP) was 31.4%, the highest single-quarter decline recorded by the Bureau of Economic Analysis (BEA).⁴ Economic conditions have improved since then. In total, real GDP fell by 3.5% for 2020⁵ and has continued to rise in the first two quarters of 2021, surpassing pre-pandemic levels in the second quarter. The unemployment rate in August 2021 was down to 5.2%, but remained 1.7% higher than the rate in February 2020, before the pandemic began.⁶ The duration of unemployment has been higher, with the percentage of unemployed individuals who had been unemployed for 27 or more weeks up to 37% in August 2021 from 19% in February 2020. Despite the overall economic gains since the

¹ §4026(c) of the CARES Act, [P.L. 116-136](#).

² The Committee previously held these hearings on [June 30, 2020](#), [September 22, 2020](#), [December 2, 2020](#), and [March 23, 2021](#).

³ BLS, [Labor Force Statistics from the Current Population Survey: Access to historical data for the "A" tables of the Employment Situation News Release](#) (Feb. 5, 2010).

⁴ BEA, [National Data: National Income and Product Accounts](#) (accessed Mar. 11, 2021).

⁵ BEA, [Gross Domestic Product, Fourth Quarter and Year 2020 \(Advance Estimate\)](#) (Jan. 28, 2021)

⁶ BLS, [Employment Situation Summary--August 2021](#) (Sep. 3, 2021)

second quarter of 2020, certain groups have not recovered as well. In August 2021, the unemployment rates for Black and Latinx workers were higher than the national average, at 8.8% and 6.4%, respectively.⁷

While economic uncertainty remains as the pandemic evolves, policies enacted at the beginning of the pandemic have benefited the economy in the short term. The Congressional Budget Office (CBO) projected the policies enacted in early 2020, including the CARES Act, would increase real GDP by 4.7% and 3.1% in 2020 and 2021, respectively, compared to if Congress had not acted.⁸ Since then, Congress passed additional pandemic-related legislation, most notably the Consolidated Appropriations Act, 2021 (CAA),⁹ which included \$900 billion in pandemic relief, and the American Rescue Plan Act of 2021 (ARPA), which provided \$1.9 trillion in pandemic relief and economic stimulus measures.¹⁰ According to the OECD, the ARPA alone could raise U.S. output by 3-4% between the second quarter of 2021 and the first quarter of 2022.¹¹ Meanwhile, inflation has been relatively high since March 2021, measuring a 12-month increase in July 2021 of 4.2% according to the Personal Consumption Expenditures (PCE) Price Index.¹² The Federal Reserve recently projected that PCE inflation will remain elevated in 2021 but decrease to 2.2% in 2022, roughly matching the Federal Reserve's stated long-run inflation target of 2%.¹³

Emergency Financial Aid provided by the Treasury and the Fed

Treasury

Congress responded to the onset of the pandemic by authorizing a wide range of emergency relief measures for small businesses, airlines, and other acutely affected industries. Specifically, Title IV of the CARES Act appropriated \$500 billion to the Exchange Stabilization Fund (ESF) for use by the Treasury Secretary to support up to \$46 billion in direct loans and loan guarantees from Treasury to passenger air carriers, cargo air carriers, and businesses critical to maintaining national security, and at least \$454 billion for Treasury to support Fed emergency lending programs.¹⁴ Treasury approved \$22 billion in loans to 35 recipients, including air carriers, ticket agencies, repair stations, and national security businesses. However, many recipients decided not to draw down most of this total, and only \$2.7 billion was disbursed.¹⁵ The CARES Act also established the Payroll Support Program (PSP), a Treasury-run program that has provided payroll assistance to airline workers and air carrier contractors. Congress provided \$63 billion in three tranches, most recently under ARPA, to support these workers through September 2021.¹⁶

Federal Reserve

Operating as “lender of last resort,” the Fed created nine emergency facilities under Section 13(3) of the Federal Reserve Act to stabilize various financial markets and serve as a backstop to financing activities typically provided by financial institutions. Seven of these Fed facilities were supported by funds

⁷ BLS, “Labor Force Statistics from the Current Population Survey: Access to historical data for the "A" tables of the [Employment Situation News Release](#).

⁸ CBO, [The Effects of Pandemic-Related Legislation on Output](#) (September 2020)

⁹ [P.L. 116-260](#). CAA was eventually agreed to after the House passed two versions of the Heroes Act in May and October 2020 while the pandemic persisted, *See* House Appropriations Committee, [House Passes The Heroes Act](#) (May 15, 2020) and [House Passes Updated Heroes Act](#) (Oct. 1, 2020), and House Financial Services Committee, [COVID – 19 Resource Center](#) (accessed Mar. 18, 2021).

¹⁰ [P.L. 117-2](#).

¹¹ Nigel Pain and Patrice Ollivaud, [The American Rescue Plan is set to boost global growth](#), OECD, Ecoscope (Mar. 17, 2021).

¹² BEA, [Personal Income and Outlays, July 2021](#) (Aug. 27, 2021)

¹³ Fed, [Federal Reserve Board and Federal Open Market Committee release economic projections from the September 21-22 FOMC meeting](#) (Sep. 22, 2021).

¹⁴ *See* Congressional Research Service (CRS), [Treasury and Federal Reserve Financial Assistance in Title IV of the CARES Act](#), (Jan. 6, 2021) The Fed's emergency lending, supported by Treasury's ESF funds, is described in the next section.

¹⁵ Treasury, [Report Under Section 4026\(b\)\(1\)\(C\) of the CARES Act on Loans to Air Carriers, Eligible Businesses, and National Security Businesses](#) (Aug. 1, 2021).

¹⁶ *See* Treasury, [PSP Payments; PSP Extension Payments; PSP Extension \(PSP3\)](#) (accessed Sep. 22, 2021).

from the Treasury’s Exchange Stabilization Fund (ESF),¹⁷ five of which were backed by CARES Act funding appropriated to the ESF, specifically: Primary Market Corporate Credit Facility (PMCCF); Secondary Market Corporate Credit Facility (SMCCF); Term Asset-Backed Securities Loan Facility (TALF); Main Street Lending Program (MSLP); and Municipal Liquidity Facility (MLF). These programs expired at the end of 2020 or shortly thereafter. Additionally, the Commercial Paper Funding Facility (CPFF) and Money Market Fund Liquidity Facility (MMLF) are backed by non-CARES Act ESF funds. In contrast, the Primary Dealer Credit Facility (PDCF) and Paycheck Protection Program Lending Facility (PPPLF) are not backed by ESF funds. The CPFF, MMLF, and PDCF expired at the end of March 2021, while the PPPLF, which provides credit to PPP lenders, expired at the end of June 2021.¹⁸ The Fed had made over \$40 billion in purchases through the MLF, MSLP, SMCCF, and other CARES Act facilities and are expected to hold those assets to maturity.¹⁹ The CAA terminated the Fed’s emergency programs supported by CARES Act funding while allowing the Fed and Treasury to re-establish substantially similar programs going forward.²⁰

Pandemic Support for Small Businesses and Community Financial Institutions

Paycheck Protection Program

Among various programs established to help small businesses during the pandemic, the most notable was the CARES Act’s creation of the Paycheck Protection Program (PPP), which is administered by the Small Business Administration (SBA) in consultation with Treasury to provide short-term, economic relief to eligible small businesses.²¹ The initial authorization of \$349 billion for PPP loans was exhausted by April 16, 2020. Congress quickly authorized another \$310 billion for PPP loans and set aside \$60 billion of those funds to be lent by community financial institutions, including minority depository institutions (MDIs) and community development financial institutions (CDFIs), through the Paycheck Protection Program and Health Care Enhancement Act.²² The ARPA subsequently extended and increased the PPP authorization amount to \$813.7 billion and allowed “Second Draw” PPP loans of up to \$2 million.²³ The PPP Extension Act of 2021 extended the acceptance of PPP applications through May 31, 2021, and authorized the SBA to process any pending applications submitted on or before that date through June 30, 2021.²⁴ Potential fraud in the program has been an issue, with one study finding that more than 15% of the program’s loans had at least one indication of potential fraud.²⁵ Financial technology (fintech) firms and their partner banks have been linked to a disproportionate number of fraudulent PPP loans.²⁶

On May 4, 2021, the SBA informed lenders that due to budgetary limitations, it was limiting new PPP loan applications to community financial institutions and would continue to process applications that had already been submitted.²⁷ As of May 31, 2021, the SBA had approved more than 11.8 million PPP loans with a value of about \$799.8 billion, leaving approximately \$6.7 billion in authorized funding

¹⁷ 12 U.S.C. §343. See CRS, [Federal Reserve: Emergency Lending](#), (Mar. 27, 2020), and CRS, [The Federal Reserve’s Response to COVID-19: Policy Issues](#) (Feb. 8, 2021).

¹⁸ Fed, [Fed announces it will extend its PPPLF by three months to June 30, 2021](#) (Mar. 8, 2021).

¹⁹ Fed, [Coronavirus Disease 2019 \(COVID-19\)](#) (accessed Mar. 18, 2021).

²⁰ Committee, [Waters Releases Extended Statement for the Record on the Consolidated Appropriations Act](#) (Dec. 22, 2020).

²¹ See CRS, [COVID-19 Relief Assistance to Small Businesses: Issues and Policy Options](#) (Mar. 15, 2021)

²² [P.L. 116-139](#); also see House Financial Services Committee [Fact Sheet on the PPP and Health Care Enhancement Act](#).

²³ See CRS, [COVID-19 Relief Assistance to Small Businesses: Issues and Policy Options](#) (Mar. 15, 2021)

²⁴ [P.L. 117-6](#)

²⁵ Griffin, John M. and Kruger, Samuel and Mahajan, Prateek, [Did FinTech Lenders Facilitate PPP Fraud?](#) (Aug. 17, 2021). See also New York Times, [15% of Paycheck Protection Program Loans Could Be Fraudulent, Study Shows](#) (Aug. 17, 2021); see also Select Subcommittee on the Coronavirus Crisis, [Select Subcommittee Releases New Findings On Trump Administration’s Failure To Prevent Billions In Small Business Fraud](#) (Mar. 25, 2021).

²⁶ *Id.* See also Bloomberg, [Fintechs Found to be Much More Likely to OK Suspicious Loans](#) (Aug. 17, 2021).

²⁷ National Association of Government Guaranteed Lenders (NAGGL), “Recent PPP Updates,” May 4, 2021, at <https://www.naggl.org/>.

unused, not counting lender fee expenses and loans still being processed through June 30, 2021.²⁸ The average PPP loan amount was \$67,647. 79.5% of loans were issued for \$50,000 or less; however, loans of this size accounted for 19.2% of the total value of all PPP loans.²⁹ Of the total PPP loans approved, 2.9 million loans accounting for \$208.8 billion were for “Second Draw” loans.³⁰ Second Draw loans had a smaller maximum loan amount (\$2 million instead of \$5 million) compared to the initial “First Draw” loans and could only be issued to borrowers meeting a gross receipts reduction test and smaller employment thresholds.

State Small Business Credit Initiative

ARPA reauthorized the State Small Business Credit Initiative (SSBCI), providing \$10 billion in federal funds to support up to \$100 billion in new loans and investments for small businesses through state, territory, tribal, and local small business programs. The SSBCI was originally authorized by the Small Business Jobs Act of 2010 to assist small businesses following the Great Recession.³¹ The Treasury Department administered the original \$1.5 billion program from 2010 through 2017. The reauthorized SSBCI program includes up to \$2.5 billion in federal funds to support business enterprises owned and controlled by socially and economically disadvantaged individuals, including minority-owned businesses. This amount also includes up to \$500 million for tribal government programs, at least \$500 million in support for very small businesses, and \$500 million to provide technical assistance to small businesses that need legal, accounting, financial, and other kinds of advice in applying for small business support programs.

Treasury published the SSBCI methodology and preliminary state allocations for amounts appropriated under ARPA on April 10, 2021, with updated information provided on May 7, 2021.³² Treasury has scheduled information sessions and SSBCI application processes for state, territorial, tribal, and local governments through 2021. States, territories, Washington, D.C., and Tribal governments must initiate an application for SSBCI capital program funds by December 11, 2021, and be completed by February 11, 2022; applications for SSBCI technical assistance funds are due by March 31, 2022.³³

Minority Depository Institutions and Community Development Financial Institutions

CAA provided \$12 billion for several capital investment and grant programs to support minority depository institutions (MDIs) and community development financial institutions (CDFIs), including minority lending institutions (MLI), a new category of CDFIs that predominantly serve communities of color and are either MDIs or meet other standards for accountability to underrepresented populations.³⁴ This includes the \$9 billion Emergency Capital Investment Program (ECIP), through which the Treasury Department can make capital investments in certain depository institutions. Treasury provided a September 1, 2021 deadline for eligible institutions to submit applications for the ECIP.³⁵ This also includes the Treasury’s Rapid Response Program (RRP), which provides \$3 billion in grants to CDFIs for economic recovery from the pandemic. In February 2021, Treasury opened the first of two tranches of funding for the program, making \$1.25 billion of the \$3 billion available. On June 15, 2021, Treasury announced that it awarded \$1.25 billion of the Rapid Response Program funding to 863 CDFIs.³⁶ The remaining \$1.75 billion is set to be made available later in 2021 for grants to MLIs.

²⁸ SBA, [Paycheck Protection Program Report](#), Approvals as of May 31, 2021. The SBA has not updated this tally post-May 31, 2021.

²⁹ SBA, [PPP Report](#), Approvals as of August 8, 2020; and SBA, [PPP Report](#), Approvals as of May 31, 2021.

³⁰ SBA, [PPP Report](#), Approvals as of May 31, 2021.

³¹ P.L. 111-240

³² U.S. Treasury, [State Small Business Credit Initiative, Preliminary Allocation Table](#) (May 7, 2021)

³³ U.S. Treasury, [Notice Regarding Applications for the State Small Business Credit Initiative \(SSBCI\)](#) (Sep. 27, 2021).

³⁴ Committee, [One pager on the provisions providing Emergency Support for CDFIs and MDIs](#).

³⁵ U.S. Treasury, [Emergency Capital Investment Program](#) (accessed Aug 30, 2021).

³⁶ CDFI Fund, [U.S. Treasury Awards \\$1.25 Billion to Support Economic Relief in Communities Affected by COVID-19](#) (June 15, 2021)

Pandemic Support for Individuals, Families, Renters, and Homeowners

Economic Impact Payments

The CARES Act included stimulus payments to individuals and families, referred to as Economic Impact Payments (EIPs), providing \$1,200 per eligible adult and \$500 per eligible child. CAA included a second EIP equal to the sum of \$600 per eligible adult and \$600 per eligible child. ARPA included a third EIP equal to \$1,400 per eligible adult and an additional \$1,400 per eligible dependent. According to data from the IRS, 161.9 million first round payments totaling \$271.4 billion were issued in 2020; 146.5 million second round payments totaling \$141.4 billion were issued in 2020, and 163.6 million third round payments totaling \$389.9 billion have been issued to date in 2021.³⁷

Emergency Rental Assistance

CAA established an emergency rental assistance program (ERA1) through the Department of the Treasury to provide \$25 billion to help families and individuals pay their rent and utility bills and remain stably housed, while also helping rental property owners of all sizes continue to cover their costs, including the costs necessary to protect residents' health and safety. ARPA provided an additional \$21.6 billion to the Treasury Department for emergency rental assistance (ERA2). According to the latest data from Treasury, as of August 31, 2021, \$7.7 billion of the \$46.6 billion in emergency rental assistance funds had been spent by state and local governments to assist approximately two million renters.³⁸ To address the delayed movement of emergency rental assistance, Treasury issued subsequent guidance urging states and localities to remove barriers and quickly allocate funds to eligible applicants. The Financial Services Committee also held a hearing on September 10, 2021 on the emergency rental assistance program, during which the Committee considered H.R. 5196, the "Expediting Assistance to Renters and Landlords Act of 2021," introduced by Chairwoman Maxine Waters.³⁹ H.R. 5196 would make several reforms to the emergency rental assistance program to ensure grantees more quickly distribute relief to renters and landlords.⁴⁰

Homeowner Assistance

ARPA also provided nearly \$10 billion for Treasury to distribute to struggling homeowners who may face housing instability and possible foreclosure through the Homeowner Assistance Fund (HAF). ARPA required states and territories to notify Treasury of their intention to receive HAF funds by April 25, 2021. While most states have received an initial 10% of their allocated HAF funds, Treasury is in the process of reviewing state plans, which must be approved before states can receive their full allocations.

Pandemic Support for State, Territory, and Local Governments

The CARES Act established the Coronavirus Relief Fund (CRF), which provided a total of \$150 billion in direct federal assistance to state, territory, and local governments. As of August 31, 2021, \$149.5 billion of the \$150 billion in CARES Act funds have been allocated by Treasury. ARPA subsequently provided a total of \$360 billion in general federal payments to state, local, tribal, and territorial governments through several funds. As of August 31, 2021, Treasury had made \$241 billion in Coronavirus State Fiscal Recovery Fund (CSFRF) and Coronavirus Local Fiscal Recovery Fund (CLFRF) payments. Treasury announced an allocation methodology for the Coronavirus Capital Projects Fund (CCPF) and began accepting applications for payments on May 10, 2021, though no payments had been made as of August 31, 2021.

³⁷ See IRS, [SOI Tax Stats - Coronavirus Aid, Relief, and Economic Security Act \(CARES Act\) Statistics](#) (Jan. 26, 2021)

³⁸ See U.S. Department of the Treasury, [Press Release: More than 420.00 Households Received Emergency Rental Assistance in August, Totaling Over \\$2.3 Billion in Payments](#) (Sept. 24, 2021).

³⁹ [Protecting Renters During the Pandemic: Reviewing Reforms to Expedite Emergency Rental Assistance](#), Hearing Before the Committee on Financial Services, 117th Cong. (Sept. 10, 2021).

⁴⁰ See [Waters on Expediting Emergency Rental Assistance to Renters and Landlords: Our Work Is Not Done](#) (Sept. 10, 2021).

Appendix

Table I. Federal Reserve COVID-19 Emergency Programs

billions of dollars, as of September 8, 2021

	Federal Reserve Funds			Exchange Stabilization Fund	
	Announced Size Limit	Current Outstanding	Peak Outstanding ^a	Funds Pledged Initially	Funds Currently Invested
<i>13(3) Facilities Not Backed by CARES Act^b</i>					
Commercial Paper Funding Facility	n/a	\$0	\$4.3 on June 10, 2020	\$10	\$0
Primary Dealer Credit Facility	n/a	\$0	\$33.4 on Apr. 15, 2020	\$0	\$0
Money Market Fund Liquidity Facility	n/a	\$0	\$53.2 on Apr. 8, 2020	\$10	\$0
Paycheck Protection Program Lending Facility	n/a ^c	\$72.7	\$90.6 on June 30, 2021	\$0	\$0
Subtotal	n/a	\$72.7	n/a	\$20	\$0
<i>13(3) Facilities Backed by CARES Act^b</i>					
Primary Market Corporate Credit Facility/Secondary Market Corporate Credit Facility	\$750	\$4.8 ^e	\$14.1 on Jan. 6, 2021 ^e	\$75	\$13.9
Term Asset-Backed Securities Loan Facility	\$100	\$1.5	\$4.1 on Dec. 23, 2020	\$10	\$3.5
Main Street Lending Program ^d	\$600	\$16.1	\$16.6 on Jan. 13, 2021	\$75	\$16.6
Municipal Liquidity Facility	\$500	\$4.4	\$6.4 on Dec. 30, 2020	\$35	\$6.3
Subtotal	\$1,950	\$26.8	n/a	\$195	\$40.3
Combined Total	n/a	\$99.5	\$197 on April 15, 2020	\$215	\$40.3

Source: CRS, based on various Federal Reserve publications.

Notes: Table includes emergency facilities created in 2020 under Section 13(3) of the Federal Reserve Act.

- a. Peak outstanding is based on a CRS analysis of weekly totals since March for Wednesdays reported in Federal Reserve, "Factors Affecting Reserve Balances—H.4.1," various dates, data release, <https://www.federalreserve.gov/releases/h41/>. Facilities identified as backed by CARES Act funding in U.S. Treasury, *Exchange Stabilization Fund Statement of Financial Position*, July 31, 2020, footnote 2, at https://home.treasury.gov/system/files/206/ESF_July_Trunc_Footnotes-82720.pdf.
- b. Facilities identified as backed by CARES Act funding in U.S. Treasury, *Exchange Stabilization Fund Statement of Financial Position*, July 31, 2020, footnote 2, at https://home.treasury.gov/system/files/206/ESF_July_Trunc_Footnotes-82720.pdf.
- c. Although the Paycheck Protection Program has a statutory size limit, the Fed's lending facility does not.
- d. There are five facilities under the Main Street Lending Program—the Main Street New Loan Facility, the Main Street Priority Loan Facility, the Main Street Expanded Loan Facility, the Nonprofit Organization New Loan Facility, and the Nonprofit Organization Expanded Loan Facility.
- e. All assistance was through the Secondary Market Corporate Credit Facility.