

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

March 18, 2021

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: March 23, 2021, Full Committee Hearing entitled, “Oversight of the Treasury Department’s and Federal Reserve’s Pandemic Response”

The Committee on Financial Services will hold a virtual hearing entitled, “Oversight of the Treasury Department’s and Federal Reserve’s Pandemic Response” on Tuesday, March 23, 2021, at 12:00 pm, on the virtual meeting platform Cisco Webex. 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 fourth 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 the second quarter, but the economy remains below full employment, with a full recovery unlikely until the pandemic subsides. The unemployment rate in January 2021 was down to 6.3%, but remained 2.8% higher than the rate in February 2020, before the pandemic began.⁵ Additionally, the duration of unemployment has been increasing, with individuals who had been unemployed for 27 or more weeks up to 39.5% in January 2021 from 19.3% in February 2020. The number of

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](#), and [December 2, 2020](#).

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 BLS, [Employment Situation Summary February 2021](#) (Feb. 5, 2021).

individuals not in the labor force stands at 7 million as of January 2021, which is 1.9 million individuals higher compared to February 2020.⁶ In total, real GDP fell by 3.5% in 2020.⁷ While much uncertainty still exists in the economy, policies enacted since the beginning of the pandemic have had a positive effect on the economy in the short term. For example, analysis from BEA supports the view that federal pandemic response programs were beneficial to many individuals and the economic situation in the short term.⁸ However, there remain major concerns about the pandemic’s long-term impact on financial stability and lasting damage to the labor market, sometimes referred to as “scarring.”

According to a recent analysis, “employment among low-wage workers remains 14 percent below pre-pandemic levels and is trending down again.”⁹ Job loss among communities of color has been especially acute, and the unemployment rate for Black and Latinx workers remains elevated, at nearly 10% and 8.5% respectively, as of February 2021.¹⁰ Women have disproportionately left the labor market, especially to provide child care during the pandemic, with 2.5 million fewer women in the labor force than there were in February 2020, compared with 1.8 million fewer men, an outcome Secretary Yellen has called “extremely unfair.”¹¹

Moreover, when Chair Powell was asked in January 2021 about potential long-term economic damage, he expressed concern for the outlook in the tourism and service sectors, and also mentioned worries about “scarring for small businesses, which don’t have the kind of resources that you need to get through this.”¹² Minutes from the January meeting of the Federal Open Market Committee (FOMC) show that staff at the Fed “characterized the financial vulnerabilities of the U.S. financial system as notable,” citing conditions in the corporate bond and commercial real estate sectors, among other risks.¹³ Data from the Fed also shows that nonfinancial corporate debt grew by over \$1 trillion in 2020, more than doubling its 2019 pace.¹⁴

Emergency Financial Assistance provided by the Treasury and the Fed

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. Section 4027 of the CARES Act appropriated \$500 billion to the Exchange Stabilization Fund (ESF) for use by the Treasury Secretary, and Section 4003 allocated up to \$46 billion for Treasury to provide direct loans and loan guarantees 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

⁶ 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).

⁷ BEA, [Gross Domestic Product, Fourth Quarter and Year 2020 \(Advance Estimate\)](#) (Jan. 28, 2021).

⁸ BEA, [Effects of Selected Federal Pandemic Response Programs on Personal Income, January 2021](#) (Feb. 26, 2021); BEA, [Personal Income and Outlays, January 2021](#) (Feb. 26, 2021).

⁹ Jaison R. Abel & Richard Deitz, [Some Workers Have Been Hit Much Harder than Others by the Pandemic](#), Federal Reserve Bank of New York (Feb. 9, 2021).

¹⁰ Joint Economic Committee Democrats, [Live Macroeconomic Dashboard](#) (accessed Mar. 11, 2021).

¹¹ [Yellen says COVID-19 having ‘extremely unfair’ impact on women’s income, jobs](#), Reuters (Mar. 8, 2021).

¹² Federal Open Market Committee, [Transcript of Chair Powell’s Press Conference](#) (Jan. 27, 2021).

¹³ Federal Open Market Committee, [Minutes of the Federal Open Market Committee, January 27-28, 2021](#) (Jan. 28, 2021).

¹⁴ Board of Governors of the Federal Reserve System, [Financial Accounts of the United States - Z.1](#) (accessed Mar. 11, 2021).

lending programs.¹⁵ Treasury approved almost \$22 billion in loans to 35 recipients, including air carriers, ticket agencies, repair stations, and national security businesses.¹⁶

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 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, whereas the Primary Dealer Credit Facility (PDCF) and Paycheck Protection Program Lending Facility (PPPLF) are not backed by ESF funds. The CPFF, MMLF, and PDCF are scheduled to expire at the end of March 2021, while the PPPLF, which provides credit to PPP lenders, is set to expire 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

Data from the Special Inspector General for Pandemic Response (SIGPR) indicates that roughly \$102 billion in unused emergency lending facility funds were returned from the Fed to Treasury at the end of December 2020.²⁰ In a recent report, the SIGPR indicated that it has opened an inquiry into the legal rationale Secretary Mnuchin used to shut down the facilities, and is also examining whether political interference played a role in certain oil and gas firms receiving MSLP loans.²¹

Paycheck Protection Program and other CARES Act Programs

The CARES Act also included direct stimulus payments to individuals and families, referred to as Economic Impact Payments (EIPs), providing \$1,200 per eligible adult and \$500 per eligible child. The law also established the Payroll Support Program (PSP), a Treasury-run program that has provided payroll assistance to airline workers and air carrier contractors. The initial round of PSP provided over \$28 billion to support these workers through September 2019.

Title I of the CARES Act created the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA) in consultation with Treasury to provide short-term, economic relief to eligible small businesses.²² PPP loans can be used to cover payroll expenses

¹⁵ See Congressional Research Service (CRS), [Treasury and Federal Reserve Financial Assistance in Title IV of the CARES Act](#), (Jan. 6, 2021) (CRS-R46329) (For more information about the provisions of Title IV of the CARES Act).

¹⁶ Treasury, [Loans to Air Carriers, Eligible Businesses, and National Security Businesses](#) (accessed Mar. 18, 2021).

¹⁷ 12 U.S.C. §343. See CRS, [Federal Reserve: Emergency Lending](#), (Mar. 27, 2020) (CRS-R44185) (Contains detailed description of the Federal Reserve’s emergency lending powers), and CRS, [The Federal Reserve’s Response to COVID-19: Policy Issues](#) (Feb. 8, 2021) (CRS-R46411) (Contains a full description of these emergency lending facilities and their various purposes).

¹⁸ Fed, [Federal Reserve Board announces it will extend its Paycheck Protection Program Liquidity Facility, or PPPLF, by three months to June 30, 2021](#) (Mar. 8, 2021).

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

²⁰ Office of the SIGPR, [Quarterly Report to the United States Congress](#), (Dec. 31, 2020).

²¹ Bloomberg, [Pandemic Watchdog Is Probing Mnuchin. Cruz Roles in Fed Lending](#) (Feb. 1, 2021).

²² See CRS, [COVID-19 Relief Assistance to Small Businesses: Issues and Policy Options](#) (Mar. 15, 2021)

and other enumerated operating costs (e.g., rent, utilities), which can be forgiven if the borrower meets certain payroll and employment retention criteria. The initial authorization of \$349 billion for PPP loans was exhausted by April 16, 2020.

Additional Laws Enacted to Respond to the Pandemic

Congress has subsequently enacted several more laws following the passage of the CARES Act to extend and enhance various CARES Act programs, or otherwise provide additional programs and measures to respond to the evolving pandemic. For example, after the PPP was exhausted in April 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.²³ In June 2020, Congress passed the Paycheck Protection Program Flexibility Act to extend the loan forgiveness period, among other adjustments to PPP.²⁴

2021 Consolidated Appropriations Act

After the House passed two versions of the Heroes Act on May 15, 2020, and October 1, 2020 while the pandemic persisted,²⁵ Congress eventually enacted the 2021 Consolidated Appropriations Act into law on December 27, 2020.²⁶ The law supplemented the stimulus and relief provisions in previous COVID-19-related legislation. Among other economic relief, the Consolidated Appropriations Act established an emergency rental assistance program 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 of necessary to ensure residents' health and safety. Eligible renters are able to receive assistance with rent and utility payments, unpaid rent or utility bills that have accumulated since the beginning of the coronavirus pandemic, and other housing expenses that were incurred due, directly or indirectly, to the pandemic. Eligible renters would also have access to services, such as case management and tenant-landlord mediation, to help them remain stably housed. A household may receive up to 12 months of assistance but may receive an additional three months of assistance only if it is necessary to ensure the household remain stably housed and funds are available.

Additionally, the Consolidated Appropriations Act extended PSP through March 31, 2021, as well as the Centers for Disease Control and Prevention (CDC) eviction moratorium through January 31, 2021. The statutory eviction moratorium has lapsed, but it has been extended administratively. The Consolidated Appropriations Act also provided a second round of direct economic stimulus payments, or EIPs, of \$600 per eligible adult and qualifying child. Congress extended the PPP through March 31, 2021, increasing the program's authorization amount from \$659 billion to over \$806 billion, and allowing second-draw PPP loans of up to \$2 million.²⁷ The law also set aside funds for new and smaller small businesses, for borrowers in low- and moderate-income communities, and for community and smaller lenders. The Consolidated Appropriations

²³ [P.L. 116-139](#); also see House Financial Services Committee [Fact Sheet on the PPP and Health Care Enhancement Act](#).

²⁴ [P.L. 116-142](#)

²⁵ 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).

²⁶ [P.L. 116-260](#).

²⁷ See CRS, [COVID-19 Relief Assistance to Small Businesses: Issues and Policy Options](#) (Mar. 15, 2021)

Act also provided \$12 billion for several capital investment and grant programs to support MDIs and CDFIs, including minority lending institutions (MLI), a new category of CDFIs that predominantly serve minority communities and are either MDIs or meet other standards for accountability to minority populations.²⁸ The law also extended accounting relief for financial institutions relating to Troubled Debt Restructurings (TDRs); and 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.²⁹

American Rescue Plan Act of 2021

On March 11, 2021, President Biden signed the American Rescue Plan (ARP) Act of 2021 into law.³⁰ Several key Treasury Department programs are authorized or extended as part of the ARP's \$1.9 trillion in pandemic relief and economic stimulus measures. For example, the ARP provided an additional \$21.6 billion to the Treasury Department to distribute to state, territorial, and local governments as part of its Emergency Rental Assistance Program. Through the Emergency Rental Assistance Program, renters are eligible to receive up to 18 months of financial assistance to cover rent and utility payments, unpaid rent or utility bills that have accumulated since the beginning of the coronavirus pandemic, and other housing expenses. The ARP also provided nearly \$10 billion for Treasury to distribute to struggling homeowners through the Homeowner Assistance Fund.

The ARP 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. This amount 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, 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.

The ARP also expands PPP eligibility to include 501(c)5 labor and agricultural organizations, as well as large community non-profit organization locations. Additionally, \$250 million in PPP assistance to digital news organizations providing public health information about the pandemic was approved. The PPP is currently scheduled to expire on March 31, 2021, although the House passed H.R.1799, the PPP Extension Act, on March 16, 2021, a bipartisan agreement has been reached to extend the PPP to allow for new applications through May 31, 2021.

Furthermore, many airlines do not expect to return to profitability until later this year and warned that they would proceed with mass layoffs if the PSP was not extended.³¹ Through the ARP, the Payroll Support Program was extended a third time, providing \$15 billion in payroll support for airline workers through at least September 30, 2021.

²⁸ House Financial Services Committee, [One pager on the provisions providing Emergency Support for CDFIs and MDIs](#).

²⁹ House Financial Services Committee, [Waters Releases Extended Statement for the Record on the Consolidated Appropriations Act](#) (Dec. 22, 2020).

³⁰ [P.L. 117-2](#).

³¹ CNBC, [U.S. airlines' 2020 losses expected to top \\$35 billion as pandemic threatens another difficult year](#) (Jan. 1, 2021).