

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

November 26, 2021

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: December 1, 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 Wednesday, December 1, 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 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 sixth hearing fulfilling this statutory requirement.²

The COVID-19 Pandemic, Recession, and Economic Outlook

The COVID-19 pandemic has resulted in over 773,000 deaths and 47.9 million cases in the United States, and over 5.1 million deaths and 258 million cases worldwide.³ More than 74% of individuals 5 years or older in the U.S. have received at least one vaccination shot.⁴ COVID-19 triggered the deepest economic downturn the U.S. has experienced since the Great Depression. The peak unemployment rate in April 2020 was 14.8%, the highest monthly rate ever recorded by the U.S. Bureau of Labor Statistics (BLS);⁵ the 2020 second quarter annualized decline in real gross domestic product (GDP) was 31.2%, the highest single-quarter decline recorded by the Bureau of Economic Analysis (BEA).⁶

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.⁷ Congress passed additional pandemic-related legislation, most notably the Consolidated Appropriations Act, 2021 (CAA),⁸ 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

¹ CARES Act § 4026(c), [15 U.S.C. § 9060\(c\)](#). This memo was prepared with the assistance of the [Congressional Research Service \(CRS\)](#).

² Previous hearings were held on [June 30, 2020](#), [September 22, 2020](#), [December 2, 2020](#), [March 23, 2021](#), and [September 30, 2021](#).

³ Centers for Disease Control and Prevention, [COVID Data Tracker](#) (accessed Nov. 26, 2021); and World Health Organization, [Coronavirus \(COVID-19\) Dashboard](#) (accessed Nov. 24, 2021).

⁴ *Id.*

⁵ BLS, [Labor Force Statistics from the Current Population Survey](#) (accessed Nov. 24, 2021).

⁶ BEA, [National Data: National Income and Product Accounts](#) (accessed Nov. 24, 2021).

⁷ CBO, [The Effects of Pandemic-Related Legislation on Output](#) (Sep. 2020)

⁸ [P.L. 116-260](#). Also see House Financial Services Committee, [COVID – 19 Resource Center](#) (accessed Nov. 24, 2021).

stimulus measures.⁹ While real GDP fell by 3.4% for 2020,¹⁰ it has risen in the first three quarters of 2021, surpassing pre-pandemic levels in the second quarter. According to the Organisation for Economic Co-operation and Development (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 The U.S. is the only major economy measured by OECD that has seen an increase in real GDP per capita,¹² and the Fed has predicted overall real growth of 5.9% in the U.S. in 2021.¹³

With respect to the labor market, jobless claims for the week ending November 20, 2021 totaled 199,000, the lowest weekly total since 1969.¹⁴ The unemployment rate in October 2021 was down to 4.6%, with 5.6 million jobs created since February 2021, but the unemployment rate remains 1.1% higher than February 2020 levels.¹⁵ The unemployment rates for Black (7.9%) and Latinx (5.9%) workers remain higher than the national average, and comparatively higher than February 2020 unemployment rates, which were 6% and 4.4% for Black and Latinx workers, respectively.¹⁶ Meanwhile, inflation has been elevated since March 2021, measuring a 12-month increase in September 2021 of 4.4% as according to the Personal Consumption Expenditures (PCE) Price Index.¹⁷ Fed Chair Powell has pointed to supply chain disruptions and bottlenecks contributing to near-term inflation, saying that, “[T]he drivers of higher inflation have been predominantly connected to the dislocations caused by the pandemic, specifically the effects on supply and demand from the shutdown, the uneven reopening, and the ongoing effects of the virus itself.”¹⁸ In September, the Fed projected that PCE inflation will decrease to 2.2% in 2022, roughly matching the Fed’s stated long-run inflation target of 2%.¹⁹

Emergency Financial Aid to Corporations 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 businesses. 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.²⁰ Treasury approved \$22 billion in direct loans to 35 recipients; while 10 loans have been fully repaid, 25 loans remain outstanding totaling around \$1.15 billion.²¹ The CARES Act also established the Payroll Support Program (PSP), a Treasury-run program that has been extended twice, most recently under ARPA, to provide payroll assistance to workers and contractors in the airline industry. As of November 2021, \$28.6 billion of PSP1 funds went to 611 airline companies; \$15.7 billion of PSP2 funds went to 487 airline companies; and \$14.7 billion of PSP3 funds went to 477 airline companies.²²

⁹ [P.L. 117-2](#).

¹⁰ BEA, [Gross Domestic Product, Fourth Quarter and Year 2020 \(Advance Estimate\)](#) (Jan. 28, 2021).

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

¹² OECD, [Household income in the OECD area fell sharply in the second quarter of 2021, despite strong growth in GDP](#) (Nov. 8, 2021).

¹³ Fed, [Federal Open Market Committee Projections materials](#) (Sep. 22, 2021).

¹⁴ Department of Labor, [Unemployment Insurance Weekly Claims Report](#) (Nov. 24, 2021).

¹⁵ BLS, [Employment Situation Summary--October 2021](#) (Nov. 5, 2021), and White House, [Remarks by President Biden on the October Jobs Report](#) (Nov. 5, 2021).

¹⁶ BLS, [Labor Force Statistics from the Current Population Survey](#) (accessed Nov. 20, 2021).

¹⁷ BEA, [Personal Income and Outlays, September 2021](#) (Oct. 29, 2021).

¹⁸ Fed, [Transcript of Chair Powell's Press Conference](#) (Nov. 3, 2021).

¹⁹ Fed, [September 22, 2021 Federal Open Market Committee \(FOMC\) Projections Materials](#) (Sep. 22, 2021).

²⁰ See CRS, [Treasury and Federal Reserve Financial Assistance in Title IV of the CARES Act](#) (Jan. 6, 2021).

²¹ Treasury, [Report Under Section 4026\(b\)\(1\)\(C\) of the CARES Act](#) (Nov. 1, 2021).

²² Treasury, [PSP Payments; PSP Extension Payments; PSP Extension \(PSP3\)](#) (accessed Nov. 22, 2021). While PSP1 went to airline passenger carriers, cargo firms, and contractors, PSP2 and PSP3 went to passenger carriers and contractors.

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 from the Treasury’s Exchange Stabilization Fund (ESF), five of which were backed by CARES Act funding appropriated to the ESF.²³ All 13(3) facilities are now closed—CARES Act facilities closed to new applicants at the end of 2020, and other 13(3) facilities closed at the end of March 2021, with the exception of the Paycheck Protection Program Lending Facility, which closed at the end of July 2021.²⁴ At their peak, these Fed facilities had \$197 billion in assistance outstanding.²⁵ While some facilities continue to hold assets until they mature, five facilities hold no assets and have returned Treasury investments to the ESF.²⁶

Pandemic Support for Small Businesses and Community Financial Institutions

Paycheck Protection Program

The CARES Act established the Paycheck Protection Program (PPP), which has been administered by the Small Business Administration (SBA) in consultation with Treasury to provide short-term, economic relief to eligible small businesses.²⁷ The initial authorization of \$349 billion for the SBA’s 7(a) loan program, including PPP loans, was exhausted by April 16, 2020, and Congress authorized another \$310 billion for the SBA’s 7(a) loan program, including PPP loans. This second tranche included a \$60 billion set aside for community financial institutions, including minority depository institutions (MDIs) and community development financial institutions (CDFIs), to make PPP loans.²⁸ Congress later expanded the PPP’s lending authorization and application window in subsequent legislation.²⁹ The last of these extensions provided for \$813.7 billion in PPP lending authority with applications accepted through May 2021. SBA reports that there were more than 8.4 million applications for forgiveness for loans totaling \$628 billion, and \$610 billion in forgiveness payments have been made by SBA.³⁰

The program had challenges reaching small businesses, particularly those in communities of color. According to one survey, only 61% of Black-owned small businesses applied for a PPP loan, while 20% never heard of the program.³¹ Moreover, 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.³² Congress continues to investigate several financial technology (fintech) firms and their partner banks that have been allegedly linked to an outsized number of fraudulent PPP loans.³³

²³ 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).

²⁴ Fed, [Fed announces it will extend its PPPLF by three months to June 30, 2021](#) (Mar. 8, 2021).

²⁵ CRS estimate based on Fed data. See Table 1 in the appendix.

²⁶ Fed, [Coronavirus Disease 2019 \(COVID-19\)](#) (accessed Nov. 20, 2021), and Table 1 in the appendix.

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

²⁸ [P.L. 116-139](#); also see House Financial Services Committee [Fact Sheet on the PPP and Health Care Enhancement Act](#).

²⁹ For legislative history, see CRS, [COVID-19 Relief Assistance to Small Businesses: Issues and Policy Options](#) (Oct. 1, 2021).

³⁰ For more on this data, see SBA, [PPP data](#) (accessed Nov. 7, 2021). Also see SBA, [SBA COVID Relief Program Report](#) (May 24, 2021); SBA, [2020 PPP Report](#) (Aug. 8, 2020); and SBA, [2021 PPP Report](#) (May 31, 2021).

³¹ Federal Reserve Bank of Boston, [Survey: Black small business owners’ credit concerns didn’t fade during pandemic](#) (Jul. 29, 2021). Also see Select Subcommittee on the Coronavirus Crisis (SSCC), [New PPP Report Shows Trump Administration And Big Banks Left Behind Struggling Small Businesses](#) (Oct. 16, 2020); David Glancy, [Bank Relationships and the Geography of PPP Lending](#), Federal Reserve (Sep. 22, 2021); and [Testimony](#) of Paulina Gonzalez-Brito, California Reinvestment Coalition, before the Committee on Sep. 29, 2021.

³² New York Times, [15% of Paycheck Protection Program Loans Could Be Fraudulent, Study Shows](#) (Aug. 17, 2021); and SSCC, [New Findings On Trump Administration’s Failure To Prevent Billions In Small Business Fraud](#) (Mar.25, 2021).

³³ SSCC, [Select Subcommittee Expands Investigation Into Role Of FinTech Industry In PPP Fraud](#) (Nov. 23, 2021); John Griffin, Samuel Kruger, and Prateek Mahajan, [Did FinTech Lenders Facilitate PPP Fraud?](#) (Oct. 29, 2021).

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.³⁴ 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. The \$10 billion for SSBCI 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 November 10, 2021.³⁵ States, territories, Washington, D.C., and Tribal governments must initiate an application for SSBCI capital program funds by December 11, 2021, and applications for technical assistance funds are due by March 31, 2022.³⁶

Minority Depository Institutions and Community Development Financial Institutions

CAA 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 communities of color and are either MDIs or meet other standards for accountability to underrepresented populations.³⁷ On June 15, 2021, Treasury announced that it awarded \$1.25 billion in grants from the CDFI Fund's Rapid Response Program (RRP) to 863 CDFIs.³⁸ The CDFI Fund also indicated it would begin deploying the remaining \$1.75 billion in grants intended to support MLIs and underserved communities this year.³⁹ Additionally, there is the \$9 billion Emergency Capital Investment Program (ECIP), through which Treasury will make capital investments in CDFI and MDI depository institutions. Treasury received 204 ECIP applications from institutions located in 36 states, D.C., and Guam requesting nearly \$13 billion in total investments, with the program oversubscribed by roughly \$4.1 billion.⁴⁰ Specifically, 113 banks requested \$9.6 billion in capital investments, and 91 low-income credit unions (LICU) requested \$3.2 billion. While some CDFIs are also MDIs, CDFIs as a group requested \$10.4 billion, while MDIs requested \$4.2 billion.⁴¹ Furthermore, the National Credit Union Administration clarified on October 20, 2021, that LICUs may accept 30-year subordinated debt investments through ECIP and receive secondary capital treatment.⁴²

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

³⁴ CRS, [State Small Business Credit Initiative: Implementation and Funding Issues](#) (Apr. 20, 2021).

³⁵ Treasury, [State Small Business Credit Initiative, Preliminary Allocation Table](#) (Nov. 10, 2021).

³⁶ Treasury, [State Small Business Credit Initiative \(SSBCI\)](#) (accessed Nov. 20, 2021).

³⁷ Committee, [One pager on the provisions providing Emergency Support for CDFIs and MDIs](#).

³⁸ CDFI Fund, [U.S. Treasury Awards \\$1.25 Billion to Support Economic Relief in Communities Affected by COVID-19](#) (June 15, 2021).

³⁹ CDFI Fund, [Message from CDFI Fund Director Jodie Harris: A Glimpse at the CDFI Fund's Calendar](#) (Feb. 12, 2021).

⁴⁰ Treasury, [Treasury Sees Robust Demand for Emergency Capital Investment](#) (Oct. 18, 2021).

⁴¹ *Id.*

⁴² NCUA, [NCUA Issues Guidance, Announces Upcoming ECIP Action](#) (Oct. 20, 2021).

payments totaling \$389.9 billion were issued in 2021.⁴³ For third round payments, 137.9 million payments totaling \$333 billion were paid electronically; 21 million payments totaling \$46 billion were paid by paper check; and 4.5 million payments totaling \$10 billion were paid by debit card.⁴⁴

Emergency Rental Assistance

CAA established an emergency rental assistance program (ERA-1) 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 (ERA-2). 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.⁴⁵ According to Treasury, 516,000 households received emergency rental assistance in October 2021, and through October 31, 2021, there have been over \$2.8 billion spent on emergency rental assistance to support more than 2.5 million renters experiencing housing instability.⁴⁶ The Committee 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.⁴⁷ H.R. 5196 would make several reforms to the emergency rental assistance program to ensure grantees more quickly distribute relief to renters and landlords.⁴⁸ The Committee approved the bill on September 14, 2021.

Homeowner Assistance

ARPA provided nearly \$10 billion for the Homeowner Assistance Fund (HAF), administered by Treasury, to help struggling homeowners who may face housing instability and possible foreclosure. As of November 20, 2021, Treasury had obligated \$965.5 million to participating entities.⁴⁹ New York is currently the only State to have received Treasury approval for its HAF plan to distribute \$539 million in assistance.⁵⁰ Treasury has extended the deadline for tribes, tribally-designated housing entities, and the Department of Hawaiian Home Lands to submit a notice requesting HAF funds to December 15, 2021.⁵¹

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.⁵² ARPA subsequently provided a total of \$360 billion in general federal payments to state, local, tribal, and territorial governments through several funds. As of November 10, 2021, Treasury had made \$246 billion in Coronavirus State Fiscal Recovery Fund (CSFRF) and Coronavirus Local Fiscal Recovery Fund (CLFRF) payments.⁵³ Treasury announced allocations for the Coronavirus Capital Projects Fund (CCPF), along with a deadline for states and territories to apply by December 27, 2021. Tribal governments have until June 1, 2022, to apply.⁵⁴

⁴³ See IRS, [SOI Tax Stats - Coronavirus Aid, Relief, and Economic Security Act \(CARES Act\) Statistics](#) (June 3, 2021)

⁴⁴ *Id.*

⁴⁵ Treasury, [Emergency Rental Assistance Programs](#) (accessed Nov. 26, 2021).

⁴⁶ Data provided by Treasury to Committee staff. Also see Treasury, [Emergency Rental Assistance Programs](#) (accessed Nov. 26, 2021).

⁴⁷ Committee, [Protecting Renters During the Pandemic: Reviewing Reforms to Expedite Emergency Rental Assistance](#) (Sep. 10, 2021).

⁴⁸ See [Waters on Expediting Emergency Rental Assistance to Renters and Landlords: Our Work Is Not Done](#) (Sept. 10, 2021).

⁴⁹ Pandemic Oversight, [Pandemic Response Funding](#), keyword "Homeowner Assistance Fund" (accessed Nov. 20, 2021)

⁵⁰ New York State, [Statement from Governor Kathy Hochul on Homeowner Assistance Fund Approval](#) (Nov. 18, 2021).

⁵¹ Treasury, [Homeowner Assistance Fund](#) (accessed Nov. 20, 2021).

⁵² Treasury, [Coronavirus Relief Fund](#) (accessed Nov. 23, 2021).

⁵³ Treasury, [Coronavirus State and Local Fiscal Recovery Funds](#) (accessed Nov. 20, 2021).

⁵⁴ Treasury, [Capital Projects Fund](#) (accessed Nov. 20, 2021).

Appendix

Table I. Federal Reserve COVID-19 Emergency Programs

billions of dollars, as of November 19, 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	\$43.7	\$90.6 on June 30, 2021	\$0	\$0
Subtotal	n/a	\$43.7	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	\$0 ^e	\$14.1 on Jan. 6, 2021 ^e	\$75	\$0
Term Asset-Backed Securities Loan Facility	\$100	\$1.5	\$4.1 on Dec. 23, 2020	\$10	\$1.4
Main Street Lending Program ^d	\$600	\$15.7	\$16.6 on Jan. 13, 2021	\$75	\$16.6
Municipal Liquidity Facility	\$500	\$4.4	\$6.4 on Dec. 30, 2020	\$35	\$4.2
Subtotal	\$1,950	\$21.6	n/a	\$195	\$22.2
Combined Total	n/a	\$65.3	\$197 on April 15, 2020	\$215	\$22.2

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.