Oversight of the Treasury Department's and Federal Reserve's Pandemic Response

House Financial Services Committee
March 23, 2021

Opening Statements

Chairwoman Waters (D-CA) noted how she was pleased with the passage of the American Rescue Plan that provides much needed relief for Americans and praised the efforts of the Biden Administration. Waters then pointed out that Secretary Yellen is the first woman to serve as Secretary of the Treasury and applauded her for this. She also thanked Powell for not extending the SLR for big banks as strong capital requirements are the cornerstone of a sound financial system. Waters continued that there is still much work to do toward a sustained and equitable recovery.

Ranking Member McHenry (R-NC) said we are in a different place than we were last March and that the economy will be opening up soon. However, the relief packages have not been as targeted and have flooded our markets with liquidity. The Fed balance sheets have grown and the Democrats are approaching this crisis like they did in 2009 with failed policies. McHenry said they need to be forward thinking and work on the economy in a bipartisan manner. He noted that $43,000 is being spent per second due to the size of the American Rescue Plan. He emphasized how the first CARES Act was bipartisan and wanted to ensure appropriate oversight of the CARES Act at the Treasury.

Rep. Green (D-TX) said he was concerned about how the funds would reach the intended beneficiaries. He noted how the December COVID package included a capital investment program for CDFIs and MDIs and that he was particularly interested in this program. Green then discussed the State Small Business Credit Initiative (SSBCI).

Rep. Barr (R-KY) commented that Republicans and Democrats worked together on previous relief bills, but the Democrats just rammed through COVID relief without Republican support. He worried about the impact of the cocktail of massive deficit spending, likely higher interest rates, tax increases and regulations dealing with ESG and climate. He advocated for market oriented pro-growth solutions.

Witnesses

The Honorable Janet L. Yellen, *Secretary, U.S. Department of Treasury,* remarked that while we are seeing signs of recovery, we need to be aware of the hole that we are digging ourselves out of. She acknowledged that CARES gave the government important tools to manage the crisis, but there are still deep pockets of pain including those behind on mortgages, rents and those who cannot afford food. When this happens, Yellen stated, people's earning potential is impacted for years which worries her. However, with the passage of the Rescue Plan, she thought that we may see a return to full employment by next year. She noted that Treasury appreciates Congress' oversight and noted how Treasury is prioritizing relief for individuals who were the hardest hit. Yellen believed that PPP was an early lifeline, but because of the design, the relief did not reach the smallest sole proprietorships. She detailed that the Treasury has $12 billion to inject into CDFIs and MDIs so they can lend that capital out. There was also $30 billion for rental assistance and the Treasury is making sure this is being properly utilized by cutting through red tape, while still preventing fraud and abuse. They have also issued millions of people stimulus checks and are working to distribute funds to state governments. Yellen then thanked the Treasury and the IRS employees for working so hard during this crisis.

The Honorable Jerome Powell, *Chair, Board of Governors of the Federal Reserve System,* started by noting the upcoming one-year anniversary of the CARES Act, historically important legislation that provided critical funding in a time of great need. He recognized that more people were able to keep their jobs and businesses were able to stay open, but there is still a long way to recovery. Powell emphasized that the road to recovery still depends on the trajectory of the virus. He reported that economic indicators have gone up and the housing sector has recovered from the downturn. Additionally, employment also rose and the hospitality sector is also recovering. He continued that the fiscal and monetary policy were key in preventing the economy from going under. Powell noted the responsibilities of the Fed and their actions at the beginning of the pandemic which prevented businesses from closing down. Fed programs helped provide a backstop and enable credit to continue to flow and much of this was provided by the CARES Act. He closed by saying that everything the Fed does is committed to its public mission and allowing the economy to recover.

Member Questions

Chairwoman Waters (D-CA) stated that the American Rescue Plan was signed into law and included $77 million in the HFSC jurisdiction, such as rent assistance; the Treasury has to distribute this rental assistance to struggling families. Waters said she was concerned about how the program was being implemented, for instance the way California is implementing it, and asked what the Treasury is doing to implement this program. Yellen answered that the Treasury has distributed the money to state, local and tribal grantees and that the money goes to households that demonstrate risk of homelessness and housing stability. She detailed that assistance can be up to 15 months and Treasury is trying to give grantees flexibility within those parameters. Yellen added that the Treasury also has outreach and technical assistance to grantees to help them understand best practices. Waters said she was concerned about the flexibility given to the states and that the different moratorium programs were confusing. She then asked if there is any role Congress can play to give guidance and clear up confusion. Yellen replied that if she has concerns, her staff could work with her to address them.

Rep. McHenry (R-NC) noted how he previously asked about the independence of the Fed and he thought he could skip that question with Yellen given her experience. McHenry then asked Powell about inflation and the risk of inflationary pressure after the passage of the recent stimulus package. He detailed that there are also reports of another $3 trillion spending bill and asked if the Fed had any concerns. Powell responded that they are strongly committed to the Fed's price stability mandate and 2% inflation target. He reported that the Fed expects inflation to go up, but it is possible that as the economy opens up there could be bottlenecks in certain sectors with prices going up. However, Powell reassured that there has been deflation for a while and the Fed is not too concerned. On fiscal policy, Powell said that it is not for the Fed to comment on. McHenry then moved on to ask Yellen about the guardrails the Treasury has in place to make sure rental assistance is actually prioritized for those most in need. Yellen answered that the Treasury has guardrails such as guidance on how the money must be used. Finally, McHenry questioned her about oversight for the CARES Act and asked for her commitment to work with them. Yellen responded that oversight is important and she pledged to work with the committee and oversight staff.

Rep. Maloney (D-NY) noted how Congress made a bipartisan compromise on legislation against shell companies, requiring them to report beneficial ownership information to FinCen. She went on that law enforcement calls it the most important tool to track illegal money activity. Maloney noted how implementing this will take a lot of resources at Treasury and asked Yellen to commit to making beneficial ownership a top priority. Yellen agreed that it was an important piece of legislation and that it was a high priority to implement. Maloney then asked Yellen and Powell about the steps that Congress can take to make sure we do not lose a generation of workers, especially women and minorities, who face depressed wages moving forward. Yellen responded that in the short term, the American Rescue Plan has substantial support for minorities and women who have been forced to drop out of the labor market as well as increases in tax credits and funding to open up schools, while in the longer term, they will have to address issues of low labor force participation of women.

Rep. Wagner (R-MO) asked if examining changes to tax policies was the correct direction at the moment. Yellen said Treasury plans to look at this while looking at programs that have held down labor supply in the U.S. Wagner asked about the impact on jobs and people's wages. Yellen replied that a package with investments in people and infrastructure will create jobs in the economy. Wagner responded that these policies tend to impact on consumers, when corporate taxes are raised, and asked if this was not passed down to them. Yellen answered that this was unclear from current studies, but revenue needs to be raised so the economy can be competitive and productive. Wagner argued that raising the corporate rate raises the cost of doing business and increases prices and asked why the Biden Administration would implement such policies. Yellen responded that the Biden Administration would not implement policies to hurt Americans or businesses. Wagner countered that it will hurt consumers and asked if the American Rescue Plan was funded with an increase in taxes. Yellen responded it was not, but they need more revenue. Wagner argued that the recent legislation still needed to be paid for and pointed to an increase in prices and asked if the Fed had the tools to address price pressures. Powell responded that the Fed can move interest rates up and down and expect an upward pressure on prices, but nothing significant.

Rep. Sherman (D-CA) noted how corporate taxes are not passed through the consumer. Sherman noted how Mnuchin planned for a tax treaty with Armenia and he hoped Yellen would continue with this. He also said how tax filings had been extended and pointed to another form that needed to be extended. Sherman commented that much of the earnings of the top 1% are going untaxed and advocated for more tax enforcement officers. Sherman also hoped she would respond to a letter from California regarding provisions in the Recovery Act. Sherman went on to discuss the need for the Fed to address wire fraud and commended Powell for his comments on CBDC and how Congress needs to approve it. Sherman turned to Yellen saying that Chairman Powell when he was last before this committee testified that federal legislation is necessary to fix the legacy LIBOR contracts so that they can continue to function after the LIBOR index is no longer published. He asked if Yellen would agree with Chairman Powell that Congress will need to act to provide for a smooth transition for these $2 trillion in contracts. Yellen agreed saying that there are certain legacy contracts where the transition could be difficult without legislation, these are contracts that do not provide for a workable fullback rate and so she thought Congress does need to provide legislation for the LIBOR transition. Finally, Sherman asked about state taxes violating the recovery legislation.

Rep. Lucas (R-OK) commented on how the Fed said that the SLR extension will expire on March 31st and will seek comment on SLR modifications. He asked if exclusions provided banks more ability to provide credit. Powell responded that the treasury market was experiencing significant dysfunction and the Fed did a number of things so it is hard to say what exactly had that effect. Lucas then asked him to elaborate on the timeline of potential SLR modifications in the future. Powell said the Fed expects to invite comment very soon and that the SLR is becoming the binding ratio from a capital standpoint which was not the original expectation. Lucas stated that his district is commodity driven and was concerned about environmental policies driving financial regulation and he asked for Powell's response. Powell responded that the Fed cannot tell banks who to lend to and are just beginning to work on the risks presented by climate change and how it impacts banks. Yellen responded that climate change is a top priority for the Biden Administration and financial regulators should look at the risks through stress testing and investors need disclosures of risk, but that they cannot determine what people invest in.

Rep. Scott (D-GA) noted that thanks to the American Rescue Plan, Congress can move toward expanding the CTC and discussed how the IRS open payment system does not allow users to add or change delivery information like they could with the first stimulus checks. Scott asked Powell if this was not an opportunity to expand access. Powell replied that greater financial inclusion was a high priority but he was not familiar with the practice he was referring to. Scott then pointed to GetMyPayment from the Treasury and how many people cannot access the money they need because they do not have high standing within the financial system. Scott noted how $350 billion went to state and local governments for lost revenue and ease the economic impact of COVID. He asked when local governments can expect guidance on this. Yellen responded that the Treasury needs to issue guidance within 60 days to distribute the funds and are working hard to sort through the issues. Scott stated that he was concerned how there were certain things included in the legislation to increase deliverables and that people are still not getting these funds quickly enough, so the Fed and Treasury need to hurry up.

Rep. Posey (R-FL) remarked that we continue to live in uncertainty, but the economy appears to be recovering as the vaccine has been distributed. Posey expressed concern about deficit spending, tax increases, and climate change mitigation measures. Posey continued that Yellen pointed to stress tests for banks on climate change and asked for the purpose of these if they did not have regulatory purpose. Yellen replied that it would be better to call them scenarios and it would look at the resiliency of these institutions and for them to better understand the risks. Posey then asked if potential solar eruptions are also being looked at. Powell responded that they already supervise for financial institutions in areas that are susceptible to natural disasters and certain weather. Posey questioned how these scenarios would be used. Powell responded that some institutions already do this and looking at scenarios and understanding the risks better which is part of the Fed's obligation. Posey asked who was doing it. Powell responded that he would not name individual institutions, but it was true for large banks and industrial institutions. He continued that it is the early days but it is important to understand the risks. Posey asked Powell if he thought the Fed would discover anything financial institutions may have missed. Powell responded that it is consistent with the Fed's mandate of ensuring resilience.

Rep. Green (D-TX) noticed a paradigm shift taking place, but that we cannot forget about minorities being left behind. He continued that people are finally talking more about the needs of minorities and women and he discussed Yellen's comparison of the level of men and women in the workforce. He was grateful people are paying more attention to the wealth gap and women's issues and told Yellen his concerns about the $10 billion going to SSBCI because when it was previously authorized, it went to the state through the agriculture department, and he thought this was not very expeditious. Green asked if Yellen would send an outline for the timeline of implementation for money at the Treasury moving to state coffers for capital investment programs and SSBCI.

Rep. Luetkemeyer (R-MO) noted that he was also Ranking Member of the Small Business Committee and loans going out to the smallest of businesses. He turned to Powell saying that we are halfway through the two-year cycle now on CECL and the capital delay which will end in 2022 and begin the phase in on deferred impacts on the capital. We've now had nearly four quarters of CECL data available and have many agencies reviewing the data. He asked if Powell can tell what the Fed review of the data is and if he would consider a more permanent calibration or revision to the current approach. Powell responded that the Fed is continuing to look at CECL and did not have anything on the data but would look at it quickly and come back to him. Luetkemeyer said that would be great because he thought having deferred it is something Powell agreed to upfront last year in the process, it is something he would probably agree to again this time and thought it is something we certainly need to review for sure if not get rid of all together, if a delay is something that we all believe is in the best of everybody affected by it. Luetkemeyer then asked about Fed data from 2020 on CRE and how banks hold many of these loans and what will happen if we remove the foreclosure moratorium. Powell said he was right that they are carefully monitoring CRE and the concentration is particularly in smaller banks and he doesn't have anything for him today, but they are monitoring and moving carefully on that issue. Luetkemeyer advocated for caution in this area and appreciated Powell's work on this.

Rep. Cleaver (D-MO) pointed to the authorization of opportunity zones from previous legislation which were designed to encourage private investment in economically distressed areas and he expressed concern that the larger promise of this has not been realized. He noted that these zones could be especially important for affordable housing and asked about the economic benefits of redesigning this program to actually help people most in need, not college students. Yellen responded that it was crucial to provide affordable housing and opportunity zones could contribute to that. She added that LIHTC and the capital management fund can also help with affordable housing.

Rep. Huizenga (R-MI) read an email from a CPA on how extending the filing deadline for taxes was necessary given changes that were made in March. Huizenga asked if Yellen was aware of issues with the tax filing deadline and if she might extend it further. Yellen answered that it is mainly high-income earners facing issues with quarterly tax. Huizenga noted how he paid quarterly taxes out of college and that many small businesses do as well. He moved on asking Powell about materiality and the network for greening the financial system and asked if materiality should be definable as well as quantifiable. Powell replied that this network is for understanding best practices and that the Fed is trying to understand, at a high level, the nature of the risks from climate change that banks face. Huizenga asked if kids should be safely sent back to school and Yellen responded that she too was concerned about the impact of kids not being in school and that they should be back safely as soon as they can.

Rep. Himes (D-CT) noted Powell's comments on CBDC and appreciated that he would not move forward without Congressional approval. He then thanked Yellen for Treasury's work and asked for quick guidance on the Restaurant Revitalization Fund. Himes said it was gratifying to see fiscal and monetary policy working in unison and that we see the effects of the flood of liquidity in the markets today. He asked each of them to see as the near to medium term risks associated with inevitable retraction of liquidity. Yellen responded while asset valuations are elevated, there's also belief that with vaccinations, the economy will be able to get back on track. In an environment of high asset prices, she said, regulators need to make sure the financial sector is resilient, that markets work well, and that financial institutions appropriately manage risk. Powell added that monetary policy is highly accommodative right now and he pointed to the Fed's monitoring of financial stability. He continued that some asset prices are a bit high, but the banking system is highly capitalized and leverage among households and businesses is somewhat high, so there's a mixed picture. Powell stated that the Fed will transition away from accommodative monetary policy as landscape changes.

Rep. Barr (R-KY) said linking hypothetical climate scenarios to the entire financial system was highly speculative and creates the real risk of driving credit away from job creating sectors like fossil fuels. He asked if Yellen was incorporating this into the risks surrounding climate, risks to employment, and the availability of energy. Yellen responded that FSOC is working to coordinate on this issue such as disclosures on climate risks, but she did not see FSOC playing a role in what kind of lending financial institutions can do. Barr stated that Treasury should consider the impact of shifting capital away from fossil fuels to more renewable energy. He moved on to broadband and how often the funding does not go to underserved rural districts. Barr asked if Yellen would make sure money for broadband went to underserved rural areas. Yellen replied that funds need to be distributed to states and localities based on guidelines in ARP and that the Treasury is going to give flexibility to the recipients as long as they comply with the guidelines. Barr asked if the Treasury or Fed intend to lengthen the maturity of government debt before interest rates rise as a result of the American Rescue Plan and the additional $3 trillion planning to be spent by the Administration. Yellen replied that the Treasury has been looking at this question and currently plans to do that.

Rep. Foster (D-IL) wanted to go deeper on CBDC and identifiers for such currencies. He expressed concern about currency being misused for illegal purposes. Yellen and Powell agreed. Foster said that the Chinese approach of government access to all transactions was also unacceptable and that a digital currency needs a secure digital ID for user authentication and access. Foster asked where they saw this digital currency and authentication going. Powell said that the Fed is engaged in looking at the technical and design issues, authentication being one of the most basic ones. He went on that a system reliant on secret or private governance would not be viable and the lack of privacy in the Chinese system is not something we could do here. Powell pointed to the potential of having a wallet outside the system. Foster noted how the coronavirus showed the lack of the country's ability to distribute funds efficiently and asked about the potential for Fed accounts. Yellen responded that she would be happy to explore this and discuss it with him.

Rep. Williams (R-TX) believed that the Biden tax plans are becoming increasingly clear and that the income brackets expected to be taxed more keeps going down. Williams asked Powell to explain business investments and productivity gains and how productivity benefits people and the economy. Powell explained that living standards rise over time due to increasing productivity and without that, incomes cannot sustainably rise and that is tied to investment, investment in human capital and advancing technology. Williams discussed the BSA and how there were concerns about the impact on small business in the form of regulatory costs and asked about a status update on the implementation of BSA. Yellen said the implementation of AML BSA implementation was a top priority and that it was well underway. Williams then asked about the workforce participation rate and how it's still lower than it was before the pandemic. He was concerned about the extension of enhanced unemployment benefits and asked how we can incentivize people to get off the sidelines. Powell emphasized the need for people to get vaccinated so the economy can open up again. Yellen agreed and said that these payments do not incentivize people not to work.

Rep. Vargas (D-CA) pointed to the hypocrisy of Republicans when it came to federal spending and how the witnesses were from both sides of the aisle, but principled and intelligent. Vargas then discussed climate change and what is one of the long-term investments we need to look at. Yellen replied that climate change poses severe risks to the wellbeing of humanity and it is a global problem that needs a global solution. She noted how the country rejoined the Paris Agreement and aims to create new jobs. Yellen continued that evaluating the risks to business and financial institutions are being looked at by financial institutions and she hoped to increase the sharing of this information via FSOC. Powell responded that the Fed looks at this through their existing mandate and climate change is an emerging risk. He went on that the Fed is in early stages of considering stress scenarios to get an understanding of how the financial system can become resilient. Vargas then noted how climate change was connected to issues of food insecurity and famine as well.

Rep. Hill (R-AR) pointed to how several countries are subject to Treasury sanctions, however there could be funding going to the IMF that ends up going to dictators. Hill asked if this does not run counter to national interest. Yellen explained that it was in the US interest to help countries struggling with recovery and that it was important to channel resources to the poorest countries. She said that China is expected to use some of these resources and recycle SDRs to the poorest countries and provide relief to countries with outstanding borrowing to China. Hill then asked about predatory lending from One Belt, One Road initiatives and SDRs. Yellen said that the Treasury will make sure SDRs do not go to pay loans from the belt and road initiatives. Hill then asked if Putin deserves a blank check from the IMF and Yellen replied that IMF members receive funds based on IMF guidelines. Hill believed that Treasury is not doing enough to limit SDR allocation access to these countries and Yellen affirmed Treasury is working with the IMF for more transparency and limiting the use for some of the countries he mentioned.

Rep. Gottheimer (D-NJ) noted how the SALT deduction increased taxes for many of his constituents and that we should fight states that put this in place. He asked if the Administration would support removing the SALT cap and enact a deduction. Yellen replied that this has led to disparate treatment and many options have been presented, but she would work to remedy inequities. Gottheimer then pointed to the rural areas without broadband and asked if the Treasury would make sure the funding for broadband from the relief package goes to these underserved areas. Yellen was not sure if they could impose that kind of restriction according to the law, but she would look into it and that there was another program in the package that could be used toward broadband. Gottheimer noted how the New York Times said there were gaps in income reporting and asked if Yellen was looking to increase audit capabilities of the IRS. Yellen said yes and would assure that those who are supposed to pay do pay.

Rep. Loudermilk (R-GA) noted how the Administration recently enacted a stimulus bill and how the Administration thinks the economy can take a major tax increase. He asked Yellen if the economy was strong or in crisis. She responded that the economy was in crisis and that the package will help the economy get through this. Yellen added that there have not been tax increases, but once the economy is strong again, the country needs to address investment shortfalls in the economy like climate, infrastructure, R&D, and manufacturing. Yellen pointed to proposals for increasing corporate taxes and disincentivizing the offshoring of jobs. Loudermilk said that growth was projected before the stimulus package was enacted and agreed with Larry Summers that the package was the most irresponsible economic policy in decades. Yellen said that we have lost 9.5 million jobs and many have dropped out of the workforce. Loudermilk noted how some states are seeing more tax revenue than previous years.