



# *FedFin Client Report*

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Tuesday, September 22, 2020

## **Powell Signals Forthcoming Capital-Distribution Decision**

Client Report: **COVID15**

### **Executive Summary**

HFSC's second CARES Act-required hearing with Treasury Secretary Mnuchin and FRB Chair Powell continued to stress the theme that has become apparent ever since negotiations on a Phase IV relief bill stalled: Democrats primarily want additional direct fiscal support and Republicans are pushing for adjustments to existing relief programs funded by unused 13(3) Treasury backstops. With little progress in sight on fiscal policy, several Members pivoted to addressing supervision and regulation. Under questioning from Rep. Foster (D-IL), Chair Powell said he expects capital distribution decisions related to CCAR will be bank-by-bank, but that a determination has not yet been made. He also pushed back on extending SLR relief to the GSIB size indicator. Rep. Himes (D-CT) called recent Treasury and perhaps even Fed actions bailouts, arguing that proceeds should go into a new U.S. sovereign wealth fund. Rep. Barr (R-KY) disputed any bailout inference, stating that federal action responds to state and local decisions to shut down their economies.

Chairman Powell again cautioned that monetary policy can only go so far, while Secretary Mnuchin reiterated that \$200 billion allocated in the CARES Act to 13(3) facilities should be redirected to support the hardest hit economic sectors. Republicans agreed, calling also for a second round of PPP. Chairwoman Waters (D-CA) criticized the Main Street program and the Municipal Lending Facility as underutilized, urging a lower minimum threshold on Main Street loans. Citing new FAQs, Reps. Hill (R-AR) and Barr urged the Fed again to reconsider its decision to not make asset-based loans.

### **Analysis**

#### ***Opening Statements***

Chairwoman Waters chastised the Administration for its overall COVID response and said the need for emergency rental assistance is growing every day, urging

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enactment of the HEROES Act ([see Client Report RESCUE73](#)). Although she praised Treasury and SBA for PPP adjustments and the Fed for expanding its programs, she stated that the response has fallen badly short and that the Administration has “sabotaged” efforts for another relief package.

Ranking Member McHenry (R-NC) praised the response of both the Administration and the Fed to the crisis, arguing that partisanship in Congress is the most immediate obstacle to providing additional relief. He commended Secretary Mnuchin for his efforts to negotiate a Phase IV deal, agreeing with Chair Powell that the recovery cannot rely on monetary policy alone.

### **Testimony**

Secretary Mnuchin said the CARES Act was critical to ensuring unemployment never rose to the levels initially predicted, but noted that some sectors are still hurting and require additional relief. He argued a targeted, bipartisan package is needed and pledged to continue to work with Congress, saying a unified government response is required.

FRB Chair Powell said the Fed remains committed to using its tools for as long as it takes to alleviate COVID’s economic fallout, noting that activity has picked up this quarter. However, activity is still below pre-pandemic levels and the downturn has not fallen equally on all Americans, with the hardest hit being those least able to handle the economic stress. Highlighting several of the facilities the Fed has set up to support the recovery, he said interest in these facilities is picking up but that they may not be the right solution for some businesses. As noted, he said direct fiscal support may be needed to support small businesses for which the emergency facilities are not designed. He also stressed that the facilities are only intended to be a backstop and are not meant to replace markets.

### **Q&A**

- Fiscal Stimulus: Rep. Heck (D-WA) argued that more fiscal support is needed to sustain the recovery, asking Chairman Powell if the economic growth will be lower than the FOMC’s recent estimates if additional support is not forthcoming; Chair Powell said it would be. Chairwoman Waters and Rep. Green (D-TX) demanded emergency rental assistance as quickly as possible. Rep. McHenry called for a bipartisan Phase IV package that targets relief to small businesses and families.
- PPP: Reps. Wagner (R-MO) and Hill urged a second round of PPP funded via repurposed unspent CARES Act funds; Secretary Mnuchin agreed. Reps. Hill,

Kustoff (R-TN), and Budd (R-NC), urged streamlined PPP loan forgiveness, with Rep. Kustoff asking if the Administration could take action to forgive loans under \$150,000; Mr. Mnuchin said this has been considered, but that new law is needed.

- **CCAR:** As noted, Rep. Foster asked if the Fed will make capital distribution determinations following the new CCAR round on a bank-by-bank basis or subject all institutions to the same restrictions. Chair Powell said a decision has not yet been made, but that he expects it will be bank-by-bank. He also indicated that there are no plans to change the living will schedule in light of the pandemic.
- **Main Street Program:** Chair Powell said there is little demand for loans below \$1 million. Rep. Barr also asked that the program's EBITDA restrictions be loosened to facilitate access for CRE borrowers and Rep. Lawson (D-FL) agreed. Rep. Loudermilk (R-GA) also asked that EBITDA restrictions be changed to allow access for nonbank consumer finance firms. Sec. Mnuchin and Chair Powell agreed that CRE borrowers need assistance, but again said that the Main Street program is not the right vehicle for this.
- **Municipal Lending Facility:** Reps. Waters and Tlaib (D-MI) criticized the facility for high rates, with Rep. Tlaib asking that the penalty rate be removed while unemployment is elevated. Rep. Waters also urged that the facility should be available to U.S. Territories.
- **New Monetary Policy Framework:** Reps. Heck and Hollingsworth (R-IN) applauded the Fed's new symmetrical inflation targeting framework. Rep. Foster urged the Fed to be transparent with its new, wider range of unemployment indicators.
- **Bailouts:** As noted, Rep. Himes argued that taxpayer bailouts should be ended but that, if they continue, then taxpayers should be fairly compensated. He suggested that warrants should be sold only when taxpayers would profit and that these profits should be set aside in a U.S. sovereign wealth fund. Reps. Barr and Budd contended the emergency COVID actions were not a bailout, with Rep. Barr instead characterizing the Congressional action as a response to economic shutdowns by state and local governments.
- **Reg Relief:** Rep. Wagner argued that regulatory relief enacted on a temporary basis should be permanently extended. Rep. Hollingsworth asked why SLR relief was not extended to the GSIB size indicator and whether this is under consideration; Chair Powell said he was not aware of any discussions to extend relief in this way.