Questions for the Record- Senator Warren
The Semiannual Monetary Policy Report to Congress
June 16, 2020

The Honorable Jerome H. Powell

Racial Inequality

1. Does the Federal Reserve currently consider the impact of its monetary policy decisions on racial inequality?

2. Does the Federal Reserve consider whether the actions it takes with respect to payments, bank regulation, and the use of its emergency authorities under section 13(3) of the Federal Reserve Act affect different racial groups in different ways?

3. Following the Great Recession, white Americans recovered from the economic damage in a faster and more robust manner than Black and Hispanic households.[1] Do you expect the same trends to occur with the recovery from the current recession?
   a. What policy decisions can the Fed make to ensure that this does not happen?
   b. What policy decisions can Congress make to ensure that this does not happen?

Safety and Soundness of Financial System

1. Can you commit that all regulatory rollbacks made in response to the COVID-19 pandemic will be temporary?

2. Describe how the Federal Reserve considers the uncertainty of the economic trajectory in the coming months when making regulatory policy decisions. Specifically, how does the Federal Reserve reconcile the fact that "significant uncertainty remains about the timing and strength of the recovery,"[2] when relaxing capital requirements and refusing to suspend bank dividend payouts?

3. I submitted the following questions for the record on leveraged lending in February for the last Humphrey-Hawkins hearing. I understand that you are still preparing responses. When you do so, please include any relevant developments regarding your views of the risks in the leveraged loan market associated with COVID-19 and the economic downturn.

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[1] The Hill, "Wealth gap grows after recession as minorities struggle to recover," Reid Wilson, November 02, 2017, https://thehill.com/homenews/state-watch/358433-wealth-gap-grows-after-recession-as-minorities-struggle-to-recover.

[2] Statement by Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, June 16, 2020, https://www.banking.senate.gov/imo/media/doc/Powell%20Testimony%206-16-202.pdf.

The most recent report from Shared National Credit (SNC) Review program conducted jointly by the Fed, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC), stated that "credit risk associated with leveraged lending remains elevated" and "lenders have fewer protections and risks have increased in leveraged loan terms through the current long period of economic expansion since the last recession."[3]

a. Please explain how the Fed monitors and evaluates the credit-risk management practices of a financial institution to ensure that these procedures, some of which are untested, will be sufficient during an economic downturn.
b. Do you believe that the Interagency Guidance on Leveraged Lending[4] issued in 2013 is sufficient to address the risks associated with leveraged lending, particularly with respect to the growth of non-bank lenders?
    i. Describe how the Fed monitors compliance with that guidance and what actions are taken when a bank is found to have inadequate credit risk protections.
c. Increasingly, the riskiest leveraged lending is occurring outside the banking system.
    i. Do those loans currently pose a risk to financial stability? If not, please explain why and under what circumstances the Fed would begin to judge them a threat to financial stability.
    ii. Many of these non-bank lenders fall into a regulatory gap. What tools does the Federal government have to mitigate the risks from the growth of leveraged lending and the deterioration of the terms of those loans?
    iii. Private equity firms often finance acquisitions through highly leveraged loans. According to the private equity industry, firms acquired in these acquisitions now employ more than 8 million workers.[5] In an economic downturn, what would you expect to happen to employment in these firms?

Fiscal Policy

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[3] Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System Federal Deposit Insurance Corporation Office of the Comptroller of the Currency, "Shared National Credit Program: 1st and 3rd Quarter 2019 Reviews," https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200131a1.pdf.

[4] Federal Reserve Board of Governors, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, "Interagency Guidance on Leveraged Lending," March 21, 2013, https://www.federalreserve.gov/supervisionreg/srletters/sr1303a1.pdf.

[5] Office of Senator Elizabeth Warren, "Letter from Senator Elizabeth Warren et al to Carmine Di Sibio, Global Chairman and Chief Executive Office of Ernst and Young AG, November 18, 2019, https://www.warren.senate.gov/imo/media/doc/Letter%20to%20Ernst%20and%20Young%20re%20PE%20report.pdf.

1. Does uncertainty regarding the fiscal policy decisions Congress will make have an impact on the effectiveness of Federal Reserve's decision making, both with respect to monetary policy and the recent 13(3) actions?

2. Do you agree with your predecessors, Chairs Ben Bernanke and Janet Yellen[6], that policies that would guarantee relief to Americans during economic downturns by automatically taking effect based on a trigger, such as the unemployment rate, would provide more financial security for households?

3. Would the use of automatic stabilizers for programs like unemployment insurance, the Federal Medical Assistance Percentage (FMAP), and state and local aid reduce economic uncertainty both at the household level and for the economy as a whole?
    a. If so, describe how that certainty would impact the effectiveness of Federal Reserve policy?
    b. Would these types of policies provide relief to low-income families that the Federal Reserve's current tools are not well-suited to deliver?

4. The latest "FedListens" report notes that many of the newly unemployed are facing a cliff when supplementary UI runs out: "Many who have been laid off are benefiting now from the one-time stimulus checks and temporary increase in unemployment insurance (UI) benefits enacted in the CARES Act (Coronavirus Aid, Relief, and Economic Security Act). The supplementary UI will end this summer. At that point, it will be difficult for many families to meet their financial commitments—rent, food, utilities, and other payments—if the economic downturn continues and the benefits are not renewed."[7]
    a. Describe how these difficulties would impact the trajectory of our economic recovery.
    b. Would the same type of difficulties apply for student loan borrowers if the suspension on loan payments is allowed to expire?
    c. Would the same type of difficulties apply for individuals in housing if mortgage forbearance and the eviction moratorium are not extended?

[6] New Democrat Coalition, "New Democrat Coalition Chair Statement on Rep. Beyer's Proposal to Implement Automatic Stabilizers for Unemployment Benefits," May 05, 2020, https://newdemocratcoalition.house.gov/media-center/press-releases/new-democrat-coalition-chair-statement-on-rep-beyers-proposal-to-implement-automatic-stabilizers-for-unemployment-benefits.

[7] Federal Reserve System, "FedListens Perspectives from the Public," June 2020, https://www.federalreserve.gov/publications/files/fedlistens-report-20200612.pdf.