As Washington scrambles for more bailout money, the Fed sits on mountain of untapped funds

Hundreds of billions of dollars from the Cares Act remains uncommitted and may go unspent despite scramble by White House to produce more aid

By Rachel Siegel and Jeff Stein  Oct. 19, 2020 at 10:10 a.m. EDT

The White House and Congress are fighting over an economic relief bill, and odds appear low they will reach a deal before the November election. Yet hundreds of billions of dollars already set aside by lawmakers to support the Federal Reserve’s emergency aid programs may never be touched, illustrating the unevenness of Congress’s bailout decisions from earlier this year.

In March, Congress allotted $454 billion to the Treasury Department to support the central bank’s emergency lending programs, including those for struggling businesses and local governments. Of that pot, only $195 billion has been specifically committed to cover any losses the Fed might take, including though loans that companies fail to repay. Seven months into the crisis, the remaining $259 billion still has not been committed to any of the Fed’s specific programs or for any other purpose, and it is unlikely that it will be anytime soon.

The fate of this money — and its inability to address remaining cracks in the economy — show the surprising limits of the nearly $3 trillion in emergency aid Congress approved early in the pandemic. Federal Reserve and Treasury Department officials say there are ways the money could be repurposed to more directly reach businesses and workers but say they cannot do so without congressional approval. White House officials tried redirecting the money without congressional approval but were told by administration attorneys that they could not do so legally, according to two people who spoke on the condition of anonymity to describe internal conversations.

U.S. budget deficit breached $3.1 trillion in 2020 as pandemic slammed economy

“It’s a total mismatch of resources,” said Ernie Tedeschi, a former Treasury Department economist and head of fiscal analysis at Evercore ISI, an investment banking advisory firm.

Now, as many companies continue to lay off workers or close altogether, the fate of these funds looms large while millions of Americans are barely getting by and are holding out hope for Congress and the White House to cut a deal. Treasury Secretary Steven Mnuchin and House Speaker Nancy Pelosi (D-Calif.) have been in talks for days, but President Trump keeps changing the terms of what he is willing to offer.

Republican lawmakers have expressed openness to pass legislation to immediately repurpose these funds, but Pelosi has rejected that approach in favor of a more comprehensive bill.
“I have over $200 billion of money that was allocated for the Federal Reserve facilities with the Treasury. I’m not going to need that,” Mnuchin said Wednesday on Fox Business.

Meanwhile, the Treasury Department and Federal Reserve have faced increasing pressure to make their borrowing facilities more attractive to private companies and local governments, with or without Congress. Some economists warn that businesses and local governments, whose budgets have been wrecked by the pandemic’s fallout, still urgently need help.

**Pelosi, Mnuchin cite progress in economic relief talks but eye obstacles with Senate Republicans**

Those are the exact areas that two of the Fed’s lending programs are intended to address. But those programs have seen meager uptake and little participation from big banks, and critics say that the programs’ onerous terms significantly limit the amount of money that can get out the door.

The Fed’s “Main Street” lending program has the capacity to issue up to $600 billion in loans to midsize businesses. But for months, businesses and banks have said that the program’s rules are so restrictive that companies desperately in need of a lifeline are being turned away. The ongoing question is whether the Fed and Treasury can agree on a new set of rules to significantly expand the reach of the program, although the Treasury Department has favored a more conservative approach in the past.

In a letter to Trump on Thursday, the chief executives of several leading national hotels urged Trump to approve an executive order to make it easier for firms to borrow from the Main Street lending program.

“We believe you have the power to call for immediate modifications to the MSLP to increase participation and help thousands of businesses,” said the letter, which was signed by the CEOs of Hilton, Marriott International and the Hyatt Hotels Corp., among other leading hotel firms.

Opening the program to riskier loans could prove difficult, since any losses are ultimately covered by taxpayer dollars. But even now, of the $195 billion that has already been committed by the Treasury Department to support the Fed’s programs, $75 billion has been set aside to cover any losses from the Main Street program. As of Wednesday, the program had a total of only $3 billion in loans on the balance sheet.

Back in the spring, the Fed also announced a program that could issue up to $500 billion in loans to states and municipalities. But the Fed’s program has issued only two loans — to the state of Illinois and New York’s Metropolitan Transportation Authority — for a total of $1.6 billion. Of the $195 billion committed from the Treasury Department to support the Fed’s program, $35 billion was set aside to cover any losses from the municipal lending program.

**Fed forecasts gloomier economic recovery without more relief from Congress**

As financial relief remains idle, cities and states have begun exploring budget cuts to make up for revenue shortfalls, with Chicago and New York City contemplating dramatic cuts to their workforces.

Fed leaders say it is a good sign that the municipal lending program has seen little uptake, as the municipal bond market perked up once the Fed announced the program. That market has almost entirely healed, allowing governments to borrow at cheaper rates and with longer timelines.
But economists and local government officials say that the Fed should extend the amount of time localities have to pay back their loans under the central bank’s program, or that the Fed should lower the interest rate on its loans.

In a statement, a Treasury representative said that since March, the department has “remained flexible and responsive to both public feedback and economic conditions.”

“The Federal Reserve, in consultation with Treasury, has modified the terms of the lending programs since they were announced to expand and enhance these programs and ensure broad access to credit and liquidity. We will continue to monitor the impact of these programs and will not hesitate to act as needed to support the economy,” the representative said.

The stakes are high for Carmela Roth and her 13-year-old company specializing in meeting and event planning, plus promotional items and apparel. The pandemic has wiped her California-based business clean of bookings, except for some virtual ones. Roth has laid off seven people from a staff of 25.

Roth’s company received about $330,000 from the PPP program and another $150,000 from the Economic Injury Disaster Loans program. Roth has contacted more than 15 banks hoping to get a loan through the Fed’s Main Street program.

Every one turned her away. Under the program, banks have flexibility to set their own terms. In some cases, Roth was told she didn’t qualify because she didn’t own commercial real estate, which could be used as collateral. One bank told Roth to take out a loan against her house — and then offered to pray for her.

“They need to scrap [the Main Street lending program],” Roth said. “It’s a failure. No matter how much they improve it, it allows banks to use their lending guidelines. Therefore, no small business in this economy will ever be considered a ‘good risk.’ The money will just sit there … What they need to do is take that money and do additional rounds of PPP.”

Moms, Black Americans and educators are in trouble as economic recovery slows

White House officials have explored whether the leftover money can be reallocated to other purposes without approval from Congress. They have looked into using the money for another round of $1,200 stimulus checks, or small-business relief through the Paycheck Protection Program, but have been told by attorneys at the Treasury Department that they cannot do so legally because Congress has power over spending decisions under the Constitution, according to two people who spoke on the condition of anonymity to disclose internal administration deliberations.

Federal Reserve Board Chair Jerome H. Powell and Mnuchin have repeatedly called for more targeted aid from Congress, saying the Fed’s programs aren’t designed to meet the needs of many businesses and local governments, particularly those that can’t afford to go into more debt. Testifying before the House Financial Services Committee last month, Mnuchin said he would reallocate $200 billion of the overall $454 billion pot to support children — perhaps through money to schools — and protect jobs in hard-hit industries.

Asked by the committee’s chairwoman, Rep. Maxine Waters (D-Calif.), whether the Treasury Department could further enhance the existing programs, Mnuchin said, “I unfortunately think there’s not more we can do.”

“Almost every single one of the facilities has extra capacity,” Mnuchin said, adding that the money could be reallocated “to better use.”
Powell said last month that he expects the Main Street lending program could cover up to $30 billion in loans by the end of 2020. Fed leaders often warn that a second wave in coronavirus cases, or a persistent slowing in the economic recovery, could spur more demand for Main Street loans over the coming months.

Still, the Fed can only lend money, and Powell has acknowledged that many businesses can’t afford to go into more debt and would instead benefit from direct grants, similar to those from the Paycheck Protection Program. At a hearing last month before the House Financial Services Committee, Powell said the program was seeing little demand for loans under $1 million, and that a facility geared toward relatively small loan amounts “would have to be a different kind of facility” than Main Street.

“Trying to underwrite the credit of hundreds of thousands of small businesses would be very difficult,” Powell said. “I think PPP is a better way to address that space in the market.”

Aaron Klein, policy director of the Center on Regulation and Markets at the Brookings Institution, said there was plenty of room to make the Fed’s lending programs more generous. But Klein said a core problem of the CARES Act is that it put too much onus on the central bank, considered the lender of last resort, to extend help to governments or businesses that need a different kind of aid to survive.

Klein said that Congress should take the untapped money “put to the Fed for a purpose the Fed could not reasonably achieve” and use it instead to fund another round of stimulus checks, enhanced unemployment benefits and infrastructure needs.

“I do not see signs from the Fed or the Treasury of radically rethinking these programs,” Klein said. “Instead I see them saying, ‘We need a different framework.’ These programs are square pegs trying to fit a round hole. The Fed cannot design a program to get money into the classroom to build plexiglass to help kids go back into school.”