



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 19, 2020

The Honorable Jerome H. Powell
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Chair Powell:

I would like to personally thank you and the entire team at the Federal Reserve for the great work in establishing 13 separate credit facilities pursuant to section 13(3) of the Federal Reserve Act and the Board's Regulation A. Our team at Treasury has been pleased to work with you on these facilities, which have been critical to restoring confidence in financial conditions.

On March 17, 2020, I approved the establishment of the Commercial Paper Funding Facility (CPFF) using a \$10 billion investment from the Treasury's pre-existing Exchange Stabilization Fund money ("Core ESF"). I also approved the establishment of the Primary Dealer Credit Facility (PDCF) without the need for Treasury funds. On March 18, 2020, I approved the establishment of the Money Market Mutual Fund Liquidity Facility (MMLF) with an investment of \$10 billion from Core ESF funds.

Over the following week, the Administration worked closely with the Senate on the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was passed by a bipartisan vote of 96-0 in the Senate on March 25, 2020. The Act was passed in the House by a voice vote the following day and signed into law by the President on March 27, 2020. This landmark bipartisan legislation provided critical fiscal support to the U.S. economy and prevented a financial crisis that could have been similar to the Great Depression. Under the legislation, Congress entrusted me with the authority to contribute up to \$454 billion to Federal Reserve facilities and provide direct Treasury loans or loan guarantees of up to \$46 billion to the airline industry and businesses critical to national security. I understand the unique situation that led to this unprecedented authority delegated to me, and I have taken this responsibility very seriously.

I approved \$195 billion using CARES Act funding for the following facilities: the Primary Market Corporate Credit Facility (PMCCF), the Secondary Market Corporate Credit Facility (SMCCF), the Municipal Liquidity Facility (MLF), the Main Street Lending Program (MSLP), and the Term Asset-Backed Securities Loan Facility (TALF). Across these facilities, the Treasury commitment combined with Federal Reserve funding would have allowed approximately \$2 trillion of lending capacity. Currently, approximately \$25 billion of loans and other assets have been funded, which is substantially below Treasury's capital commitment.

Fortunately, with the announcement of this significant financial support, markets responded positively, spreads tightened, and banks continued lending.

The Federal Reserve facilities supported by the Treasury's contribution of CARES Act funds have clearly achieved their objective. When the crisis hit in March, bond issuance volumes fell and borrowing spreads rose dramatically across the financial markets. Banks came dangerously close to their lending limits. Today, bond issuance volumes equal or exceed pre-COVID levels, and borrowing spreads have fallen 80-95% of the way back to their pre-crisis values in all major sectors of the financial markets. Banks have the lending capacity to meet the borrowing needs of their corporate, municipal, and nonprofit clients.

In the corporate bond market, the spread on investment grade bonds has fallen from a peak of 4.06% above U.S. Treasury bonds to 1.40% today, while high-yield borrowers have seen their spread reduced from 10.78% to 4.94%. In the municipal bond market, the spread on AAA-rated general obligation bonds has fallen from 2.09% above to 0.07% *below* Treasury bonds while A-rated borrowers have seen their spread fall from 2.37% to 0.26%. In the asset-backed securities market, AAA-rated credit card secured notes now trade at a spread of 0.30% over the swap rate compared to their crisis level of 2.50%, while the spread on the A-rated tranche has fallen from 4.50% to 1.20%. Market spreads on bonds secured by prime auto loans rated AAA and A that reached peaks of 3.25% and 5.50% respectively are now only 0.05% above their pre-crisis values of 0.2% and 0.7%.

During September and October 2020, states and cities were able to borrow \$111 billion (38% more than over the same period last year), while total asset-backed bond issuance of \$789 billion exceeded its 2019 same period level by 63%. Over the last two months, corporate and non-government agency asset-backed securities issuance totaled \$1,080 billion and \$155 billion respectively, on par with their same-period 2019 levels of \$1,133 billion and \$157 billion. October 2020 saw the highest monthly volumes of new bonds in both the municipal market (\$64 billion) and the asset-backed market (\$421 billion) in more than a year while the corporate bond market continued its monthly new issue pace of \$500-600 billion.

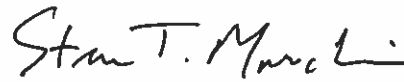
The liquidity and capital position of U.S. banks ensure that they can fulfill the financing requirements of their customers. In the most recent survey by the National Federation of Independent Business, only 2% of small and medium-size firms reported that all their borrowing needs were not satisfied.

As we have discussed, the current facilities are set to expire at year end. It has been our collective responsibility to provide economic support to restore financial conditions as a response to COVID-19. While portions of the economy are still severely impacted and in need of additional fiscal support, financial conditions have responded and the use of these facilities has been limited. In an abundance of caution, however, I am requesting that the Board of Governors of the Federal Reserve approve an extension of the two facilities that used Core ESF funding (CPFF and MMLF) and the two facilities that did not require Treasury funding (PDCF and Paycheck Protection Program Liquidity Facility) for a period of an additional 90 days.

With respect to the facilities that used CARES Act funding (PMCCF, SMCCF, MLF, MSLP, and TALF), I was personally involved in drafting the relevant part of the legislation and believe the Congressional intent as outlined in Section 4029 was to have the authority to originate new loans or purchase new assets (either directly or indirectly) expire on December 31, 2020. As such, I am requesting that the Federal Reserve return the unused funds to the Treasury. This will allow Congress to re-appropriate \$455 billion, consisting of \$429 billion in excess Treasury funds for the Federal Reserve facilities and \$26 billion in unused Treasury direct loan funds.

In the unlikely event that it becomes necessary in the future to reestablish any of these facilities, the Federal Reserve can request approval from the Secretary of the Treasury and, upon approval, the facilities can be funded with Core ESF funds, to the extent permitted by law, or additional funds appropriated by Congress. I am deeply honored to have worked on executing these programs and hope that because of our collective actions, Congress will show similar trust in Federal Reserve Chairs and Treasury Secretaries in the future.

Sincerely,

A handwritten signature in black ink that reads "Steven T. Mnuchin". The signature is written in a cursive style with a large, prominent "S" at the beginning.

Steven T. Mnuchin