
Two Fed Programs Have Bought Only One Loan Each, Watchdog Says.

- **Fed has made one Main Street loan, one state government loan**
- **Oversight panel questions whether standards need to be looser**

The Federal Reserve isn't moving quickly enough to get loans to cash-strapped small businesses and only one state government struggling to cope with the coronavirus crisis has been able to tap central bank funds, according to a panel created to monitor billions of dollars in aid approved in response to the pandemic.

Two of the Fed's programs have both purchased a single loan each — one to the state of Illinois through its municipal lending facility and a $12 million package through its Main Street lending program, which only became operational on July 6, the Congressional Oversight Commission said in a report released Monday.

"Our initial reaction is that a purchase of one $12 million loan over a week and one half seems like a small amount, given the economic challenges facing some small and medium sized businesses," the panel said in its third monthly report.

The group questioned whether standards for some businesses should be loosened, noting in the report that that some businesses too big to qualify for Paycheck Protection Program loans under current requirements — such as real estate firms, retailers with large amounts of inventory or new and growing businesses — would be good candidates.

Bond Market

New Jersey, hard hit by an virus outbreak earlier this year, and Hawaii, which has struggled after effectively turning away tourists, have publicly expressed a desire to obtain funding through the Fed's municipal lending facility, but have yet to do so.

Fed Chairman Jerome Powell and Treasury Secretary Steven Mnuchin told the commission that the relatively low utilization could be because many jurisdictions have been able to obtain financing through the bond market, where interest rates have tended to be lower than through the Fed program, according to the report.

In previous reports, the panel has said that Fed and Treasury Department relief efforts might be falling short in helping small business and found that only a small fraction of the money allocated for loans has been spent. In the new report, it said the Fed has lent $13.6 billion of the $454 billion allocated for its programs.

The panel also criticized a requirement that it says doesn't do enough to require that firms taking the money to keep workers employed. Companies must make "commercially reasonable" efforts to maintain their payrolls, which Powell said was "hortatory," or essentially voluntary, the report said.

“It is clear to the Commission they are not going to impose mandatory payroll requirements on businesses” that used the Main Street lending program unless Congress mandates it, according to the report.

Another Round

The commission was created at the insistence of congressional Democrats during negotiations that led to approval of the $2.2 trillion CARES Act stimulus package earlier this year. The new report comes as Congress begins negotiations over another round of stimulus, which Democrats say must include more money for states and local governments. President Donald Trump met with top Republican lawmakers on Monday to iron out differences over a GOP-only proposal.

Members have said the lack of a chairman has hampered the panel’s ability to establish a strategy for policing the $500 billion in bailout money. Joseph Dunford, a former chairman of the Joint Chiefs of Staff, withdrew from consideration for the post earlier this month.

The oversight panel has four members: Democratic Representative Donna Shalala of Florida; GOP Senator Pat Toomey of Pennsylvania; Bharat Ramamurti, a former aide to Senator Elizabeth Warren of Massachusetts; and GOP Representative French Hill of Arkansas.

National Security

The panel also questioned whether shipping company YRC Worldwide Inc., was a good recipient of loan money meant for companies critical to national security. The company, which ships electronics and supplies to military locations around the world, is at risk for bankruptcy because of a heavy pension burden and has been rated non-investment grade for over a decade, according to the report.

The company, which received a $700 million loan, was the first to receive funding from the $17 billion allocated for national security companies.

“This loan may indicate that the Treasury believes the national security designation permits a much higher risk tolerance to provide relief to firms that were struggling well before the Covid-19 pandemic,” according to the report.

Treasury has yet to lend any of the $29 billion it has for airlines, but it has signed letters of intent from 10 airlines that would like to receive the money.

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