Roll Call

Mnuchin’s call for returning Fed authorities meets skepticism

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March 16, 2020

Treasury Secretary Steven Mnuchin didn't specify what legislative authority he will seek as the administration tries to limit the economic damage from the COVID-19 pandemic, but experts think he wants to expand the Federal Reserve’s powers to save non-financial firms facing insolvency.

It’s unclear whether the Fed needs — or even wants — Congress to give it more power. It still has the ability to offer non-financial firms credit, and Fed Chairman Jerome Powell told reporters Sunday he doesn’t need more authority.

“We have not — at all — made a decision to require further tools or authorities from Congress,” Powell said. “It is not something we are actively considering right now.”

But speaking to CNBC on Friday, Mnuchin said Treasury was working on a third wave of response to follow the bill he negotiated with House Speaker Nancy Pelosi, D-Calif., and the $8.3 billion package enacted earlier this month.

“We don’t have the same authorities we had before Dodd-Frank in the financial crisis, but we do have authorities,” Mnuchin said. “We’ll be going back to Congress for authorities that they took away that we think we need.”

The Treasury Department did not respond to requests to clarify Mnuchin's comment.

As she went to vote on the emergency coronavirus response bill Friday, House Financial Services Chairwoman Maxine Waters, D-Calif., told CQ Roll Call that she had not heard from Mnuchin about changes to the Dodd-Frank Act, adding that she was wary of emergency regulatory changes.

‘It's bad,’ Trump says announcing new coronavirus guidelines

“One of the things I have to be careful about is watching any attempts to use this crisis to do deregulation, and so I'll be keeping an eye on that,” she said.

Diego Zuluaga of the Cato Institute said, "Mnuchin has been about as broad and confusing as he could be." But, he added, it’s likely that Mnuchin meant expanding the Fed’s ability to lend to individual non-financial companies.

During the 2008 financial crisis, the Fed used its founding statute to set up credit facilities to help keep Wall Street firms afloat, as well as non-banks that don’t normally have access to the Fed’s lending operations. While six of these were open to any company matching a broad-based criteria — like the Term Securities Lending Facility (TSLF) for any primary dealer — four others were used to save firms deemed too big to fail, including the insurance giant, AIG.

Dodd-Frank limits

The 2010 Dodd-Frank financial overhaul limited the Fed to broad-based credit facilities that at least five institutions must qualify for; required participating firms to post collateral; and prohibited the Fed from lending to insolvent borrowers. It also required at least five members of the Fed's Board to back the support. Right now, only five governors sit on the seven-seat board.

According to the Heritage Foundation's Norbert Michel, those added restrictions don't do much to constrain the Fed's ability to bail out specific non-financial firms.

"If you do broad based program, you can hide that it was for one person," he said, pointing that the TSLF in 2008 mostly just helped Bear Stearns.

"I don't see that stuff as restrictive," he said. "It sort of formalizes what you're doing. You can say that it makes it so there is a little bit more political accountability; you could also say it's a little more political cover."

Zualaga said he was of mixed minds on limiting the Fed to broader actions.

"I don't like it because it means bailouts must be bigger, rather than eliminate them" he said. "But it eliminates favoritism."

He warned that getting rid of the broad criteria could lead to insolvent, but politically-connected, firms getting credit support they shouldn't. He added that the changes seem aimed at larger non-financial corporations that couldn't get low interest bank loans to bridge the pandemic's economic slowdown despite the Fed's emergency measures to ensure liquidity.

On Monday, the U.S. Chamber of Commerce called for the Fed to seek expanded authorities, and Congress to grant them, in a letter to the president and congressional leaders calling for "legislation enabling the creation of credit facilities to provide loans and loan guarantees to employers with more than 500 employees."

Matt Stoller, research director at the left-leaning American Economic Liberties Project, said he thinks Mnuchin wants to remove the small limits on the Fed's non-bank bailout powers as part of a larger set of proposals to take advantage of the crisis.

"They'll try to do a bunch of other things, try to get as much of the shadow bailout as possible," said Stoller. Over the weekend, Mnuchin said the administration has "one hundred different things we're looking at."

Stoller said loosening accounting rules could be one of them. "That's a pretty typical way to get bailout — you tell banks you don't have to account for credit losses," he said. "That's something they did with mark-to-market accounting."

Last week, Rep. Blaine Luetkemeyer, R-Mo., introduced a bill that would postpone the current expected credit losses (CECL) accounting standard that would require banks to estimate the potential losses on loan portfolios. Luetkemeyer introduced a bill in the last Congress to block

CECL and has consistently pressured the Financial Accounting Standards Boards and other regulators to delay the rule.

Getting aid to the right place

Stoller said Congress should pass a broader bailout bill with restrictions on participating firms that would block them from buying back stocks, paying dividends, buying other firms, paying the executives more and lobbying.

“You need to pour money — just a ton of money — out there to businesses,” Stoller said “But you also need to make sure that money goes to businesses and workers, and not to financiers.”

Other left-leaning groups have echoed concerns about bailouts.

“As anxious Americans now fret about their financial and physical health, federal and state governments must prioritize Main Street over Big Business, and people over corporations," said California Reinvestment Coalition Executive Director Paulina Gonzalez-Brito in a statement Friday.

On Sunday, the Fed cut interest rates to near zero and announced a $700 billion quantitative easing measure aimed at injecting cash into the economy. The central bank also reduced bank reserve ratio requirements to zero. Despite those actions, the stock markets tumbled Monday amid fear about unprecedented shuttering of economic activity required to slow the coronavirus’s spread.

President Donald Trump, a frequent critic of Powell, praised the Fed’s actions, but Waters panned them in a press release Monday.

“Unfortunately, the Fed appears to be using its old playbook in trying to calm funding markets by flooding them with liquidity,” she wrote. “During this time of economic turbulence, it is critical that the Fed go beyond these steps and provide much-needed support to those who are on the front lines of this pandemic.”

“I call on the Fed to reevaluate its response and work creatively to address the needs of everyday Americans,” she added. Waters’ office didn't respond to requests for further comment.

There isn’t much more that the Fed can do to prop up the economy at this point, said Michel, adding that he’d like to see the central bank cut interest on excess reserves to zero. But that wouldn’t address Waters’ concerns about helping “everyday Americans.”

In a call to House Democrats on Monday, House Majority Leader Steny H. Hoyer, D-Md., said the chamber would not return from recess until it had to vote on the third coronavirus bill.