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U.S. Rep. Steil: Questions Federal Reserve Chairman Powell at Financial Services Committee hearing on economic recovery following COVID-19

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WASHINGTON, D.C.—Congressman Bryan Steil (WI-01) questioned Federal Reserve Chairman Jerome Powell during today's Financial Services Committee hearing on the Fed's actions to increase employment during coronavirus and its future economic recovery plans.

"Workers and families across the nation continue to deal with the health and economic impacts of the coronavirus pandemic. The Federal Reserve is taking action to increase employment and plan for the future to help our economy recover. I will continue to work with my colleagues and provide proper oversight of our financial system as we get people back to work and our economy moving again," **said Steil.**

Click on photo above to watch Steil's questioning

Steil's questioning and Chairman Powell's testimony below:

STEIL: During and immediately following the financial crisis of 2009, the Federal Reserve's balance sheet grew by north of 2 trillion dollars, reaching about $4.5

trillion. You noted that the Federal Reserve has been mostly holding to maturity. Wondering if you could comment on the economic indicators that you are looking at, at the Federal Reserve, between 2009 into 2019, as the Federal Reserve dropped the balance sheet by roughly half of one trillion dollars, and whether or not those same economic indicators will be guiding you as you make determinations at the Fed as to whether or not to hold those reserves all the way through their maturity or if there will be opportunities to reduce the Fed's balance sheet in advance of that maturity?

POWELL: We waited until the economy was well down the path of recovery before we even thought about to shrink the size of the balance sheet. The other thing we did was we froze the balance sheet. At the end of 2014, we froze the balance sheet for a period of three years so that the economy was growing and therefore, the ratio of the size of the balance sheet to the economy was declining. I think we declined from maybe 25% of GDP to maybe 17-18%. That is a passive way to allow the balance sheet relative to the economy. I think in this situation, we're thinking that we may do something like that, but it is so far down the road. We're in the beginning of the second phase of this process. The one where the economy begins to recover from the shutdown period. That period will take some time, and then there will probably be a lengthy period before we get back to full employment, so it will be awhile before we start really thinking about how to shrink the balance sheet. I'd say at current levels….I think we know now that the balance sheet doesn't present issues in terms of either inflation or financial stability. Those were big concerns as we grew the balance sheet during the last crisis.

STEIL: We don't have inflationary pressures today. I do hold some concerns that we may see some inflationary pressures in the future as the Fed's balance has now increased beyond $7 trillion. Obviously, you and your colleagues at the Federal Reserve will continue to watch that. Let me shift gears…we've seen articles recently related to collateralized loan obligations and the risk that may pose in the banking sector. I think what's important here to note is banking institutions came into this crisis with a much healthier balance sheet than they did in 2009. There was recently an article that was put forward identifying potential risks in the collateralized loan obligation space, indicating that banks may have broader systemic risks. Could you comment as to whether or not you hold that view or whether or not you believe banks came in with a strong balance sheet, and therefore, are well capitalized to weather these challenges?

POWELL: The CLOs are quite different from the things that were problems back in the [2009] crisis. We have a lot of transparency into what's inside the CLOs. We regularly include them in our active stress tests. We stress them really hard to see what kind of losses they produce. They're also not that large. I think it's less than one half of one percent of the assets of the banks are in these CLOs…we've been all over that problem for several years and looking at it carefully. I think the comparison to the global financial crisis is not the right one. Nonetheless it is an issue that we will continue to monitor.

STEIL: I appreciate that. I appreciate you monitoring that as well as the increases of the Fed's balance sheets and the risks that may pose to inflation down the road.

Steil is a member of the following House Financial Services Committee subcommittees: Investor Protection, Entrepreneurship, and Capital Markets; Housing, Community Development, and Insurance; and Diversity and Inclusion. Steil is also a member of the Financial Services Committee Task Force on Financial Technology.

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