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COMMITTEE ON WAYS AND MEANS  
SUBCOMMITTEE ON TRADE  
SUBCOMMITTEE ON SOCIAL SECURITY  
DEMOCRATIC STEERING AND POLICY COMMITTEE

**Congress of the United States**  
**House of Representatives**

November 23, 2020

The Hon. Jerome Powell, Chairman  
Federal Reserve  
20th Street and Constitution Ave NW  
Washington, D.C. 20551

Dear Chairman Powell:

On two occasions I have written to you highlighting the terrible plight faced by cities and states being bled into bankruptcy fighting the COVID-19 pandemic.<sup>i</sup> As the crisis intensifies and more municipalities find their bond ratings downgraded, I write to you for a third time year pleading with the Federal Reserve to do more. Your continued failure to act with all available tools may have cataclysmic consequences for Americans for decades to come.

As you are most likely aware, thousands of state and local government issuers have been placed on negative credit watch in 2020 largely due to the pandemic. Fitch's recent credit report states that 1,343 issuers have had a negative credit revision this year, and \$83 billion of debt has been downgraded.<sup>ii</sup> My own state of New Jersey also was downgraded earlier this month.<sup>iii</sup> Transportation issuers have been particularly hard hit, as evidenced by the two-notch downgrade of New York's Metropolitan Transportation Authority's bonds.

If our cities and states do not get substantial and sustained help soon, the impacts will be devastating – and borne almost entirely by regular Americans. An extended years-long recovery period will force municipalities to make unbearable cuts. Police and fire departments, road building and maintenance, teachers and social workers, and scores of other services upon which Americans rely on absolutely could be slashed or cut entirely. Public transit, particularly trains and buses, are especially vulnerable because more Americans are working from home and the increased danger of virus spread through enclosed travel have decimated transportation programs. In my state, our New Jersey Transit system continues to see ridership losses of at least 20 percent against last year.<sup>iv</sup>

Yet despite these cascading calamities, the Federal Reserve appears to be asleep at the switch. In my letters of April 6 and April 17, I called on you to invoke Section 14(2)(b) of the Federal Reserve charter to begin furiously buying up municipal debt issued by governments at the state and local levels that are seeking to create economic flexibility to fight the pandemic.

The Federal Reserve's establishment of a Municipal Liquidity Facility (MLF) to do this was a welcome start, but it has fallen woefully short. Its creation was based on Section 13(3) of the Federal Reserve charter, hobbling its reach right out of the gate. Indeed, the MLF program has unfathomably issued only two loans for approximately \$1.65 billion – a pitiful drop in the bucket for this crisis and from the \$454 billion pot specifically earmarked to support emergency loan programs. Reports suggest that in response to pleas that the central bank “offer better conditions than are available in the market – which now has very low rates – to help governments borrow money for next to nothing in times of need,” you have resisted, preposterously asserting that the MLF program “has achieved its goal by helping the market to work.”<sup>v</sup>

I again call on you to invoke Section 14(2)(b) and the Federal Reserve commence purchasing all the municipal debt it can get its hands on. Additionally, the Federal Reserve's decision, in conjunction with the Treasury Department, to close purchase of available notes on December 31, 2020 is set not by statute, but the Reserve's own regulations.<sup>vi</sup> Because the pandemic continues to ravage our nation, and because the MLF program has done precious little to help cities and states, this date should be extended immediately well into 2021.

The Treasury Secretary's absurd November 19 call<sup>vii</sup> for the Federal Reserve to return approximately \$455 billion allocated to it by the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act and shut down other pandemic relief programs by year's end is not compulsory and Congress certainly never intended for this given the length and scope of this crisis. This is up to the Fed to decide and you must emphatically disregard Secretary Mnuchin's nakedly political request. If you accede to Secretary Mnuchin's call, you will help cause further hardship to an already-beleaguered nation.<sup>viii</sup>

Without question, the burden of action to meet this crisis does not fall on the Federal Reserve's shoulders alone, and undoubtedly, Congress must continue providing relief directly into the hands of Americans as well as our cities and states. The Health and Economic Recovery Omnibus Emergency Solutions (Heroes) Act<sup>ix</sup> passed by the House of Representatives on May 15, 2020 would, among other things, allocate \$1 trillion to cities and states. While this vital legislation has been tragically blocked by the United States Senate, my colleagues and I continue to push for its immediate passage.

But the responsibility on the Federal Reserve is titanic. It remains my firm belief that the negative impacts of the Great Recession that began in 2008 were exacerbated by the Reserve's failure to take complete action on behalf of everyday Americans. Difficult moments require decisive leadership. Let me be as direct as I can: you are not doing nearly enough to help this nation and its citizens weather this unprecedented crisis, and in so doing, failing the country in its moment of need.

Meanwhile, the Federal Reserve rushed to set up multiple lending facilities to assist Wall Street and the rest of Corporate America, including the Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF). These facilities primarily purchase bonds issued by U.S. companies that were investment grade on March 22, 2020. Most importantly, borrowing terms for these corporate borrowers are much more favorable than for municipal borrowers, including longer loan terms and lower interest rates even if the

municipal borrower's bond has the same investment grade as a corporate borrower. Apparently, the Reserve believes it is more important to prop up, for instance, oil companies than providers of clean drinking water and other public goods to our citizens.<sup>x</sup>

The Federal Reserve's failure to respond to this crisis, coupled with its blatant prioritizing of Wall Street institutions above regular Americans, shakes the nation's confidence in the Federal Reserve and calls into question the cherished independence of the Federal Reserve from the peoples' Article I branch. Now you must do more. I once again demand that you awaken the full machinery of the Federal Reserve to help our nation survive this pandemic and its inevitable aftershocks. Act now.

Sincerely,



Bill Pascrell, Jr.  
Member of Congress

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<sup>i</sup> "Pascrell Calls on Federal Reserve to Aid States." *Pascrell.house.gov*, 6 Apr. 2020, [pascrell.house.gov/news/documentsingle.aspx?DocumentID=4232](https://pascrell.house.gov/news/documentsingle.aspx?DocumentID=4232).

and "Pascrell Again Calls on Federal Reserve to Aid States." *Pascrell.house.gov*, 17 Apr. 2020, <https://pascrell.house.gov/news/documentsingle.aspx?DocumentID=4263>

<sup>ii</sup> Porter, Laura, et al. Fitch Ratings, 2020, pp. 1–20, *U.S. Public Finance & Infrastructure Weekly Rating Actions Report - October 19 to October 23, 2020*.

<sup>iii</sup> Kiesche, Liz. "New Jersey GO Bond Rating Cut to BBB+ by S&P; Outlook Stable." *SeekingAlpha*, Seeking Alpha, 6 Nov. 2020, [seekingalpha.com/news/3633315-new-jersey-go-bond-rating-cut-to-bbb-s-and-p-outlook-stable](https://seekingalpha.com/news/3633315-new-jersey-go-bond-rating-cut-to-bbb-s-and-p-outlook-stable).

<sup>iv</sup> Higgs, Larry. "No NJ Transit Fare Hike This Year despite Huge Loss in Revenue from COVID-19." *NJ, Advance Local Media*, 22 Oct. 2020, [www.nj.com/news/2020/10/coronavirus-cost-nj-transit-big-bucks-but-you-wont-see-a-fare-hike-this-year.html](https://www.nj.com/news/2020/10/coronavirus-cost-nj-transit-big-bucks-but-you-wont-see-a-fare-hike-this-year.html).

<sup>v</sup> Smialek, Jeanna. "The Fed's \$4 Trillion Lifeline Never Materialized. Here's Why." *The New York Times*, The New York Times, 21 Oct. 2020, [www.nytimes.com/2020/10/21/business/economy/fed-lifeline-funds.html](https://www.nytimes.com/2020/10/21/business/economy/fed-lifeline-funds.html).

<sup>vi</sup> "Municipal Liquidity Facility." *Federal Reserve*, Board of Governors of the Federal Reserve, 11 Aug. 2020, [www.federalreserve.gov/newsevents/pressreleases/files/monetary20200811a1.pdf](https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200811a1.pdf).

<sup>vii</sup> <https://home.treasury.gov/system/files/136/letter11192020.pdf>

<sup>viii</sup> See <https://twitter.com/ChrisRugaber/status/1329544348590026753>

<sup>ix</sup> United States, Congress, *Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act*. 2020.

<sup>x</sup> United States Congress, Congressional Oversight Commission, et al. *The Fifth Report of the Congressional Oversight Commission, October 15, 2020*, Congressional Oversight Commission, 2020, Appendix I, pp. 24.