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INSIGHT

CARES Act Title IV Financial Assistance Ends

January 8, 2021

Under Title IV of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act, P.L. 116-136), the U.S. Department of the Treasury made loans to specified industries and investments in Federal Reserve programs, authorized until the end of 2020. While Coronavirus Disease 2019 (COVID-19) confirmed cases and deaths continue to reach new highs, financial conditions stabilized shortly after enactment of the CARES Act. This raised the question of whether assistance should be extended at least until the pandemic ended or allowed to expire because financial stability had been restored. The December COVID-19-related relief package (specifically, Division N, Title X, of P.L. 116-260) did not change the year-end expiration date and permanently closed down all but one of the Fed programs backed by CARES funding. In effect, those programs may be revived only by a future act of Congress and not at the Federal Reserve and Treasury Secretary's discretion.

This Insight provides some preliminary observations on Title IV assistance. For more information, see CRS Report R46329, *Treasury and Federal Reserve Financial Assistance in Title IV of the CARES Act (P.L. 116-136)*.

Size. The amount of assistance pledged under Title IV (almost $22 billion in loans to industry and $195 billion to Fed programs) turned out to be significantly less than the $500 billion that was authorized. It also turned out to be more than was needed, because the Fed provided only $41 billion to recipients in programs backed by the $195 billion, which will be used only if those programs experience losses. As a result, a fraction of the Title IV funds pledged were needed, and P.L. 116-260 rescinded the unobligated funds.

There are at least two possible explanations for the lack of uptake. First, financial conditions, which were highly unstable early in the pandemic, normalized shortly after the CARES Act was enacted and the Fed programs were announced. Programs that might have been highly subscribed if financial instability persisted were less needed or desired once financial conditions normalized. Second, the terms and conditions of the Fed's programs were not as attractive as comparable sources of private credit despite repeated modifications by the Fed to make them more attractive. These explanations are not mutually exclusive, because those private sources of credit might not have been available (at least on similar terms) if financial conditions had not normalized.

Cost. The final cost to the government of Title IV assistance will not be known until loans are repaid and securities mature, which will take years. At this point, it is certain to be lower than $500 billion, because only $63 billion of assistance is outstanding, most if not all of which will be repaid with interest. Still,

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Treasury currently estimates that the assistance was subsidized, meaning that the $500 billion will not be fully recouped in present discounted value terms.

Speed. One policy goal was to make this assistance available quickly to help stabilize a rapidly deteriorating economy. The practical limitations of setting up new and complex programs from scratch worked against this goal. In addition, because of capacity constraints, Treasury chose to prioritize implementation of several of the other urgent CARES Act programs. Similarly, the Fed had several other emergency programs not backed by the CARES Act that it rolled out first. As a result, the overall economy was recovering by the time assistance was received. The first direct Treasury loan was made in July, and the remaining loans were made between September 25 and November 13. Likewise, the various Fed programs became fully operational between May 12 and September 4.

Loans to industry. Congress chose to make these loans available to three industries. For two industries, passenger and cargo air, Congress was specific about which businesses would qualify. For the other industry, businesses critical to national security, Congress left it to the Treasury Secretary's discretion to determine which businesses qualify. The businesses that were ultimately granted loans (e.g., a trucking company) were generally not the businesses that Congress reportedly intended to receive loans (e.g., major airline manufacturers). The latter group reportedly chose not to apply for loans because they could get better terms from private creditors once financial conditions had stabilized.

Terms and conditions. The CARES Act required conditions such as restrictions on executive compensation, warrants, and restrictions on share buybacks and dividends that may have been attractive only to borrowers with no private sector alternative available. Although Congress may have envisioned that the program would serve financially healthy borrowers facing a frozen private credit market, those borrowers instead could borrow in relatively normally functioning credit markets (particularly bond markets). That potentially left a program that was primarily attractive to financially unhealthy borrowers that could not secure private credit even in normally functioning markets, which increases the risk that the program would experience future losses or would have kept inefficient producers in the marketplace.

Preserving jobs. Preserving jobs was one major goal of Title IV, but only the direct loans and one Fed program had employee retention conditions. In the case of the Fed program, the condition was not binding—borrowers needed to "make commercially reasonable efforts to maintain its payroll and retain its employees during the time the Eligible Loan is outstanding," and the Fed is reportedly not monitoring whether borrowers retain payroll. Further, several of the loans had, at most, a minimal impact on overall industry employment. For example, eight of the borrowers employed fewer than 100 employees overall.

Federal Reserve facilities. Once financial conditions stabilized, policymakers faced several questions about the Fed's role. First, how could Congress ensure that the Fed's new role did not become permanent or routine? Second, how quickly should its new role be removed: once financial conditions had stabilized or once the pandemic had ended? Finally, what if a new bout of financial instability emerged? The changes in P.L. 116-260 may help avoid the potential for an inappropriate expansion of the Fed's role after the pandemic is over at the expense of limiting the Fed's ability to respond to any new crisis before or after the pandemic has ended.

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