

June 1, 2020



## June 2020

As with the last few months, especially given the events of the last week, June in Washington promises to be quite different than previous summers with the House calendar for the month consisting entirely of “Committee Work Days” and Floor votes saved for only the very last day of the month as of now. The Senate, however, comes back this week after a week at home for Memorial Day and is expected to continue under the current form of regular order. After the House passed the HEROES Act last month, we also expect negotiations to begin in the Senate on the next COVID-19 relief package, but it is still unlikely to pass the finish line until the week of July 4<sup>th</sup> *at the earliest*. But all of that is up in the air with the protests and demonstrations in response to the killing of George Floyd now dominating the discourse throughout the country along with the pandemic, not to mention the efforts of policymakers to oversee CARES Act implementation and determine and agree on exactly what is needed in the next relief/recovery packages. Below, though, is a brief outlook of where we believe things stand at the beginning of June in Washington.

### **Appropriations**

We believe the prospect of moving appropriations bills is becoming less likely before September 30<sup>th</sup>, and the chances of a continuing resolution are greatly increasing. The House Appropriations Committee process has remained relatively on hold while the logistics of virtual markups are determined – though we still think Members would like to figure out how to move the bills across the finish line. Also, due to the sparse voting schedule throughout the summer, and how time-consuming votes on the House Floor are, moving appropriations bills will be especially challenging. We therefore don’t expect the House Appropriations Committee to start marking up bills until after July 4<sup>th</sup>, meaning that Floor activity probably won’t happen until later in July at the earliest. While the Senate has also not begun markups, we think that process will be easier because of the smaller committee size and anticipate we could see them begin this month.

### **Senate Floor Activity**

As the Senate returns from the Memorial Day recess, we expect the focus to be on nominations this week. Majority Leader McConnell filed cloture on several nominations before the recess, including Brian D. Miller to be Special Inspector General for Pandemic Recovery and could file cloture on several more when they return. Before the Senate adjourned for the recess, the hotline ran on the Rubio-Cardin-Collins-Shaheen Paycheck Protection Program (PPP) bill that would make changes that have gained bipartisan support to the program, but it failed to get unanimous consent. With the passage of H.R. 7010, the Paycheck Protection Program Flexibility Act of 2020, in the House last week, we believe the Senate could look to take up PPP changes this week as well. The House bill will head to the Senate for consideration, although it is unlikely to be taken-up in its current state as Senate Republicans have expressed significant concerns with certain aspects of the bill. A more probable outcome is the Senate considers an amended version of the House bill or attempts to reconsider their own measure.

As we look ahead to items that could potentially see Floor time this summer outside of CARES 2.0, we would expect the Senate to take-up the National Defense Authorization Act (NDAA) and potential action on the Land and Water Conservation Fund (as soon as next week), the Water Resources Development Act (WRDA) and maybe a move to go to conference on FISA.

### **Senate Banking Committee (SBC) Activity**

The Senate Banking Committee will look to get back to some degree of normalcy in June with a busy hearing schedule, which will see members participating both in-person and virtually based on their comfort level. This week, the Committee will hear from economic experts as they continue to examine the implementation of the CARES Act. We expect this hearing to follow a similar pattern of the last few CARES Act focused hearings with an examination of the effectiveness of the PPP and Federal Reserve facilities. Also this week, SBC will conduct a hearing on U.S. policy tools for dealing with the crisis in Hong Kong. This will certainly build on Congress' increasing activity related to China policy. We expect discussion of China access to US financial markets, sanctions and other financial policy implications.

On June 10<sup>th</sup>, SBC will conduct an oversight hearing with the Housing regulators including HUD Secretary Carson and FHFA Director Calabria. We expect both sides to focus on the implementation of the borrower relief provisions in the CARES Act, including the forbearance options and foreclosure prohibitions. Further, we expect discussion regarding regulator guidance provided across federal housing programs, servicer liquidity concerns, and we expect both sides to pre-position housing policy ideas ahead of the next COVID legislative package.

Finally, we are closely monitoring SBC's plans to hold the semi-annual Humphrey Hawkins testimony featuring Federal Reserve Chairman Jay Powell. Chairman Powell just testified in May, but this statutorily required hearing is being discussed as a possibility during the week of June 15<sup>th</sup>. If the hearing lands, we expect a continued focus on the progress of the various Federal Reserve facilities, and members examining the impact of COVID on economic activity.

### **House Floor Activity**

The House released its revised 2020 calendar last week, emphasizing a focus on Committee work for the month of June. The House is not scheduled to have votes again until June 30<sup>th</sup> and there are only 13 voting days planned between now and Labor Day. In a Dear Colleague to Members, Majority Leader Hoyer outlined the goal of bringing must-pass legislation to the floor over the summer including "the 2021 National Defense Authorization Act (NDAA); an infrastructure package that includes reauthorization of expiring surface transportation provisions; a reauthorization of the Water Resources Development Act (WRDA); legislation to strengthen and expand the Affordable Care Act as more Americans have come to rely on it during this pandemic; and appropriation bills for Fiscal Year 2021; among others."

Committees are broadly starting to have remote hearings, which is required before they can proceed to remote mark-ups. While most of the Committees have focused on the impact of COVID, we can expect that they will shift over the summer to include the forward-looking agenda.

### **House Financial Services Committee (HFSC) Activity**

With the entire month dedicated to getting committees back up and running more officially, HFSC has released a full schedule for June of hearings mainly at the subcommittee level. The last few weeks have seen most of the subcommittees hold virtual roundtables, but with the House rules change, they can now hold official hearings virtually. While there is no markup planned as of yet,

these hearings include the second full committee Humphrey Hawkins appearance by Fed Chairman Powell this year. Below is the list as of today (all are scheduled to start at noon), but we could still see others added, such as a potential CARES Act oversight hearing with Treasury Secretary Mnuchin and others.

- June 3<sup>rd</sup> – Consumer Protection and Financial Institutions Subcommittee hearing entitled, “Promoting Inclusive Lending During the Pandemic: Community Development Financial Institutions and Minority Depository Institutions.”
- June 10<sup>th</sup> – Housing, Community Development and Insurance Subcommittee hearing entitled, “The Rent Is Still Due: America’s Renters, COVID-19, and an Unprecedented Eviction Crisis”
- June 11<sup>th</sup> – Fin Tech Task Force hearing entitled, “Inclusive Banking During a Pandemic: Using FedAccounts and Digital Tools to Improve Delivery of Stimulus Payments.”
- June 16<sup>th</sup> – National Security, International Development and Monetary Policy Subcommittee hearing entitled, “Cybercriminals and Fraudsters: How Bad Actors Are Exploiting the Financial System During the COVID-19 Pandemic.”
- June 17<sup>th</sup> – Full Committee hearing entitled, “Monetary Policy and the State of the Economy.” (*Humphrey Hawkins*)
- June 25<sup>th</sup> – Investor Protection, Entrepreneurship and Capital Markets Subcommittee hearing entitled, “Capital Markets and Emergency Lending in the COVID-19 Era.”
- June 26<sup>th</sup> – Housing, Community Development and Insurance Subcommittee hearing entitled, “Insuring Against a Pandemic: Challenges and Solutions for Policyholders and Insurers.”

## **Regulatory Agenda**

Regulator focus over the last several weeks has been squarely on actions to accelerate the flow of capital in the economy, provide lending flexibility for programs like PPP and design and implement the Federal Reserve facilities. Regulators have also taken steps to provide comment period extensions for a number of non-COVID related regulations. Few major non-COVID regulations have progressed and June will likely continue that trend. With that said, we are closely monitoring expected action to propose a new “ability-to-repay” standard and Qualified Mortgage (QM) patch modification, which is likely to occur in June. We expect the Federal Deposit Insurance Corporation (FDIC) to take action at its June board meeting and join the Office of the Comptroller of the Currency (OCC) in finalizing an interest rate exportation regulation addressing Valid When Made. We also likely will see a report this month from the Commodity Futures Trading Commission’s (CFTC) Market Risk Advisory Committee on climate risk from a subcommittee set up to develop such a report.

On the CARES Act front, we expect to see the Main Street Lending Facility begin operations this week, and TALF to begin operations this month as well. The Federal Reserve and Treasury have continued to indicate a willingness to modify term sheets and structures for the various facilities, and as these programs begin operations, further changes may be warranted based on their performance.

## **International**

### *US-China trade agreement*

The Trump administration has given conflicting signals in the last 30 days on the fate of the US-China Phase One trade agreement. Following some positive developments in May, such as USTR and USDA releasing statements that both countries fully expected to meet their obligations under the

agreement, President Trump tweeted a threat to “terminate” the pact if China failed to buy the promised goods and services from the US, and that “100 trade deals” would not make up for the difference and lives lost from the coronavirus. On May 22<sup>nd</sup>, USTR and USDA issued a second statement announcing additional progress in the implementation of the agriculture-related provisions of the agreement, with Lighthizer quoted saying “we fully expect this agreement to be a success.” This comes amid media reports that China is not on pace to meet its commitment to increase purchases of US goods and services by \$200 billion over 2017 levels due to reduced domestic demand stemming from the pandemic. President Trump announced actions last week against China and Hong Kong that did not include the Phase One trade deal, but as we expect tensions between the US and China to continue to escalate in the coming months, the trade agreement could remain at risk.

### *Hong Kong*

Secretary of State Pompeo certified to Congress on May 27<sup>th</sup> that Hong Kong is no longer autonomous from China and does not warrant special treatment under US law. This determination from the State Department is required annually under the Hong Kong Human Rights and Democracy Act, which was signed into law last year. While this does not automatically trigger congressional action, it opened the door for President Trump to move forward on a number of executive actions, which were announced at a press conference on May 29<sup>th</sup>. These items included (1) terminating the US’s relationship with the World Health Organization; (2) issuing a proclamation to “better secure our nation’s vibrant universities, research, and to suspend the entry of certain foreign nationals from China who [are] identified as potential security risks”; (3) instructing the presidential working group on financial markets to study US-listed Chinese companies; (4) eliminating policy exemptions for Hong Kong regarding extradition, export control, and dual-use technology; (5) revising the State Department travel advisory for Hong Kong; (5) revoking treatment of Hong Kong as separate customs and travel territory; and (6) sanctioning individuals and entities. Based on Assistant Secretary of State Stilwell’s remarks, we expect part of the US response to be based on the Hong Kong Policy Act and the Hong Kong Human Rights and Democracy Act, though he did not comment further on timing.

President Trump has refrained from publicly supporting the Hong Kong protests during the Phase One trade negotiations, but we expect him to be increasingly vocal about this and possibly other politically charged issues like Taiwan. China has already warned that it will “take all necessary measures” to retaliate against the US, and some are expecting the publication of an “unreliable entities list” to pressure Chinese firms that do business with certain US suppliers. Editorials by the Global Times, China’s hawkish state tabloid, offer a glimpse into the views of the country’s nationalist faction and the retaliatory measures it could take. The breadth and scope of the executive actions that the US takes in the coming months is the key marker to watch, as well the Chinese response.

### **Political**

Even though it has been predetermined with every other candidate dropping out of the race, this month we should see Vice President Biden pass the delegate threshold to become the Democratic presidential nominee (he needs just over 400 more). This could happen as soon as tomorrow when seven states and DC hold primaries. But as primary season finally wraps up, we are beginning to move into the thick of the general election after April and most of May were rightfully spent focused on the pandemic. While that crisis will continue to shape the election from not only how it has been handled, but also to how the nominating conventions are held to how we vote in November, we have been reminded over the past week by the country’s reaction to the killing of George Floyd on

how other external events could have a significant impact on the election. And since we are still five months away from November 3<sup>rd</sup>, nobody should feel confident about betting the house on one candidate over the other. In the near term, though, speculation will continue as to who Biden will select as his running mate, which isn't expected until late July or early August. Then we'll have the conventions in some form, and then debates start in September, so buckle up.