



The CARES Act Supports Distressed Main Street Businesses

March 25, 2020

The CARES Act provides financing to America's Main Street businesses, complementing the efforts by the Treasury, the Federal Reserve, and the Small Business Administration during the pandemic, to make sure that small and medium size businesses all across America get the help they need.

Quick overview:

The CARES Fund allocates \$500 billion to what is called an Exchange Stabilization Fund (ESF).

- An ESF is basically an **emergency reserve fund** that provides the Treasury Secretary with the authority to distribute emergency funding.
- Up to **\$46 billion** can be used to assist air carriers and businesses critical to our national defense.
- Up to **\$454 billion** can fund a Federal Reserve facility for distressed businesses.

There's quite a bit of misinformation about how the \$454 billion fund works.

Here's the truth:

- The \$454 billion would allow the Treasury Secretary to provide loans and loan guarantees to businesses of all sizes.
- These funds allow the Treasury to finance Fed facilities that will be used to provide liquidity to shore up business lending and our financial markets, including through a special bank-based program for companies that employ 500-10,000 employees.
- This \$454 billion has the potential to unleash more than \$4 trillion in lending to businesses of all sizes, consumers, local governments, and money market funds.
- This is not a bailout! The fund provides loans that must be paid back—and the loans are to Americans who, through no fault of their own, are in economic jeopardy.

Why it matters:

- Financial markets are under tremendous pressure for more liquidity and credit. Right now, financial institutions are unwinding their financial positions to have more cash on hand.
- Without liquidity and credit, banks will not be able to provide much-needed financing for businesses to help with their day-to-day expenses like meeting payroll to paying the rent.
- The CARES Act allows the Treasury and the Fed to fix the current liquidity and credit problems in the financial markets by providing direct financing to eligible businesses.
- The ESF will support businesses of all sizes and the new Fed facility (500-10,000 employees) seeks to address the gap between the relief provided to small businesses of fewer than 500 employees, and some of the largest and most sophisticated companies that have access to other relief.
- 68 million Americans are employed by businesses with more than 500 employees.
- This program is in addition to the \$367 billion in assistance to America's small businesses.



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As for oversight of the fund:

- Creates a new Special Inspector General for Pandemic Recovery with subpoena power to investigate the sale of loans, loan guarantees, and any other investments made by the Treasury, including the disclosure of the categories of loans, the eligible businesses that are participating, and an explanation by the Treasury Secretary for each transaction.
- Creates a five-member Congressional Oversight Commission to conduct oversight of the Treasury and Fed in implementing the fund. The Oversight Commission can hold hearings and take testimony, and will provide reports to Congress on the fund's impact on the American economy and the effectiveness of the fund for taxpayers.
- Firms controlled by the President, Vice President, most senior-level cabinet officials, Members of Congress, as well as their immediate family members, are prohibited from receiving financing from the fund.