

Remarks by Assistant Secretary Patel at the Exchequer Club

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INTRODUCTION

Good afternoon. It is my true pleasure to speak to this esteemed audience today. Thank you Jim for the introduction and for organizing this event.

I would like to divide my remarks into three parts. First, nearly two months since the historic CARES Act was signed into law, I want to take this opportunity to reflect on a critical policy action taken in response to the global pandemic – the Paycheck Protection Program (PPP) and providing emergency assistance to America’s small businesses. Second, after over three years at Treasury, I want to briefly illustrate how different components of my portfolio have kicked into full gear in our unprecedented battle against COVID-19. The financial services sector has remained strong thus far in response to COVID-19, and the sector must continue to do so because it has an indispensable role to play in furthering the recovery and resilience of the American economy. And third, I want to close with a few thoughts on key areas within the financial landscape that will be critical to keep an eye on post-COVID-19.

THE PAYCHECK PROTECTION PROGRAM – CRITICAL ASSISTANCE FOR AMERICA’S SMALL BUSINESSES

Leading the Financial Institutions portfolio at Treasury has provided a unique vantage point from which to view major market, regulatory, and political economic forces impacting the largest institutions in the United States and across the globe. But my interest in financial services has always

been driven by the critical link between our financial system and American families and small businesses. My Dad, who grew up in abject poverty in rural India, built a better life for us in the United States over a 50-plus-year industrious career, which included operating a number of small businesses in my home state of Georgia and throughout the Southeast. Local lenders provided my Dad's businesses needed funds to survive.

This critical link animates the operational spirit behind the historic Paycheck Protection Program's effort to disburse over \$600 billion in loans across America as quickly as possible. In this extraordinary public-private mobilization effort to issue PPP loans, Treasury and the SBA have enlisted the nation's thousands of lenders, drawing on their relationships with millions of small business borrowers, as well as their operational and technological infrastructure. We have rapidly onboarded thousands of additional lenders to participate in the Program; as of early May, around 5,000 lenders were participating, multiples of the number of lenders that issued Small Business Administration (SBA) 7(a) loans in 2019.^[1] The Secretary has also approved the Federal Reserve's PPP Liquidity Facility so that all lenders have the necessary liquidity to expand their reach quickly to disburse PPP loans to as many small businesses as possible.

We have undertaken a concerted effort to strengthen this critical link for borrowers in underserved and rural markets. In addition to opening up the PPP to all federally insured depository institutions, federally insured credit unions, and Farm Credit System institutions wishing to participate, we have created a process by which nonbank lenders can also participate in the PPP. We recognize that financial technology solutions can promote efficiency and financial inclusion in implementing the PPP. We have also emphasized onboarding CDFIs and majority minority-, women-, and veteran/military-owned lenders. Treasury's Office of Community and Economic Development and CDFI Fund have engaged in focused outreach to encourage participation by lenders that may be better positioned to target those markets. The efforts to expand the universe of lenders to reach expeditiously the broadest set of borrowers, especially those in underserved and rural markets, have paid dividends. For example, between April 27, 2020 and May 8, 2020, 396 different CDFIs and MDIs approved over 100,000 PPP loans for over \$6.2 billion. Through May 8, 2020, no single lender accounted for more than 4.7% of total PPP funding authority. And, there has been robust PPP lending across all U.S. states and territories.

It is impossible to overstate the scale of the Program's impact. Small businesses in the United States represent more than 99 percent of all U.S. businesses; employ 65 million people – about half of all private sector employees; and have generated about two-thirds of new jobs in the United States since 1999.^[2] But despite being the fuel of the U.S. economic growth engine, small businesses have more

limited access to capital and less scale on which to bear COVID-19 related economic losses.

Therefore, ensuring that these smaller entities and their workers remain ready to reopen when they are able to from a public health perspective will facilitate the economic recovery.

While much work remains in implementing the PPP, it is likewise impossible to overstate the impact it has already had. In just five weeks since the Program launched, over 4.2 million individual loans had been made for over \$520 billion.^[3] These funds are keeping tens of millions of workers employed and have helped millions of small businesses, nonprofits, and other eligible small employers cover payroll and overhead.

TREASURY'S OFFICE OF FINANCIAL INSTITUTIONS DURING COVID-19

While PPP receives a great deal of attention, every part of Treasury's Office of Financial Institutions has a nexus to the response to COVID. To highlight a couple of examples:

- ***Financial Stability Oversight Council.*** By virtue of its expansive membership, FSOC serves as a venue for needed collaboration and coordination among federal and state financial regulators. Increased market volatility and economic uncertainty in light of COVID-19 have reinforced the priorities of the 15-member Council. As one example of such coordination and collaboration, the Secretary has convened a task force on nonbank mortgage liquidity to discuss conditions and activities in the mortgage servicing markets. Importantly, FSOC's work is now being undertaken based on the December 2019 guidance that prioritizes an activities-based approach to identifying and addressing potential risks posed to the U.S. financial sector.
- ***Cybersecurity and Critical Infrastructure Protection.*** Treasury and its Office of Cybersecurity and Critical Infrastructure Protection have been working around-the-clock to ensure that our financial services sector operates smoothly during this global pandemic. Americans need access to financial sector services, and federal, state and local governments must help ensure the continuity of critical financial sector functions. We worked closely with DHS on its recent guidance identifying the financial services sector as essential critical infrastructure. We have revived the FBIIC Subcommittee on Infectious Disease and are actively coordinating with the FBIIC, FS-ISAC, SIFMA, FSSCC, CISA, our private-sector financial partners, and our partners in the healthcare sector. We will continue to address issues as they arise so that our essential financial sector workers are in place, firms are operationally able to work remotely, and our markets stay open and functioning.

- **Federal Insurance Office.** On the insurance side, we are closely monitoring the insurance sector and taking efforts to make sure insurers stay resilient, while also evaluating how they are responding to COVID-19. We are also considering the role of insurers going forward with respect to pandemic risks, and the policy proposals being discussed related to insurance and business interruption losses. We look forward to working collaboratively with Congress, the States, the National Association of Insurance Commissioners, and other stakeholders in determining how to best move forward in this area. I say “going forward” because, while insurers should pay legitimate claims, measures to compel coverage of current COVID-19 related business interruption losses by imposing retroactive changes to insurance contracts fundamentally conflict with bargained-for contract rights and could have troubling implications for insurance markets.

FUTURE KEY AREAS IN THE FINANCIAL SECTOR

The PPP and other direct COVID-19 related activities are current priorities number one, number two, and at least numbers three through ten as well. Pandemic response and economic growth have our total focus. But it is also important to not lose sight of ongoing policy and regulatory reform efforts as they too are critical to the shape, stability, and strength of our economic rebound. To promote economic growth, make American businesses more competitive, and create opportunities for hardworking Americans, we need an effective and efficient regulatory system that emphasizes free markets and market discipline, innovation, and growth.

One of the most compelling ongoing developments in financial services prior to the pandemic was the constantly increasing role of technology in the provision of financial services. The increasing interconnection between financial services and technology has important implications, including the role technology can play in expanding access to financial services to underserved individuals and communities, and the increased importance of cybersecurity risk mitigation and policy in a sector increasingly reliant on technology.

Fintech and Innovation. The financial services industry is changing rapidly and in a myriad of ways, particularly with the application of new technologies. In 2016, I co-authored a law review article referring to the relationship between banks and marketplace lenders as a symbiosis. While much has changed just over the past few years, the relationship between banking and technology remains a necessary interdependence. The increased use of data, the speed of communication, the expansion of mobile devices and applications, and the democratization of information all have broken down barriers to entry for a wide range of non-traditional market entrants. These developments are a

catalyst for mature financial institutions to innovate and to join forces with a broadening class of potential partners or vendors. Going in the other direction, projects in the cryptocurrency ecosystem have even led some to start wondering about potential disintermediation of traditional financial institutions. U.S. regulators and policymakers must be farsighted and devise an appropriate response to the opportunities presented by these constantly evolving changes, one that continues to facilitate innovation, economic growth, and the global competitiveness of the U.S. financial sector.

The PPP's successes have highlighted the wide variety of lenders that are providing the capital in our financial system. From a regulatory perspective, one size clearly cannot fit every firm and relationship. Regulatory regimes should allow differing business models to flourish while appropriately addressing risk. By way of example, this could include: the option of state licensure for those firms seeking business in a limited number of states; the option of special chartering and licensing for firms seeking to offer niche products or to cater to specific customers; the option of full-fledged bank chartering for firms seeking broader scale and deposit funding with the additional responsibilities and obligations that accompany access to deposit insurance; and, in the future, further options for companies seeking to provide technology, data, security, and other services to financial firms to enhance the provision of financial services.

While much progress has been made, much more work is needed to remove unnecessary regulatory burdens, particularly in the areas of combating regulatory fragmentation and overlap. We support ways to improve the regulatory framework for innovation, including further consistency and uniformity among the states. Independent regulators can also facilitate bank and fintech partnerships and vendor arrangements. We must continue to encourage the testing of new credit models and data sources by financial firms to expand access to credit and improve the quality of risk decisions. The system should leverage new technologies and the power of cloud computing and machine learning to extract usable insights from these vast data sets. Allowing for consumers to participate in an environment where better use is made of their data, with appropriate controls and protections, will improve the quality and terms of financial services.

Market-Based Access to Financial Services. The power of innovation and technology in financial services does not rest merely in enabling faster and cheaper provision of financial services. Rather, technology and innovation play a pivotal role in expanding the reach of financial services (like the PPP) to more people. Expanding market-based access to financial services can lead directly to the upward social mobility that is a cornerstone of the American dream that my parents were able to realize, and it has been a key focus of Treasury during my service. In what feels like years ago and likely one of the last large in-person social gatherings pre-social distancing, in early March Treasury

hosted a forum to honor the Freedman's Bank's legacy and to discuss promoting economic opportunity and prosperity for all Americans. Panel discussions on expanding banking opportunities through innovation and partnerships, investing in entrepreneurs and businesses, financial literacy and building wealth, and preserving minority depository institutions highlighted just how important it is that we ensure the vital link to our financial system is available for all Americans.

Cybersecurity. I noted this top-priority area of my portfolio earlier as we ensure our critical infrastructure remains operational through this pandemic. But stepping back, the success of all other policy initiatives in financial services depends on cyber resilience. Individuals and businesses must be able to have confidence that financial firms, markets, and infrastructure will operate effectively.

Addressing cybersecurity risks requires strong partnership across government agencies and between the government and private industry. My office, Financial Institutions, and within it the Office of Cybersecurity and Critical Infrastructure Protection, plays a primary role in implementing this public-private partnership and in coordinating and harmonizing our regulatory efforts. We continue to explore ways to identify and eliminate vulnerabilities before they can be exploited, and to develop a deep understanding of threat-actor capabilities and intentions.

CONCLUSION

Access to financial services played a vital role in my family's realization of the American dream. Now, more than ever, our financial institutions, markets, and infrastructure can help preserve those dreams across the country. PPP is but one example of the role financial institutions can play in helping to preserve the livelihoods of our families, friends, neighbors, and communities. More work remains, but if history is any guide, we will meet this challenge and emerge stronger than ever.

Thank you.

[1] U.S. SBA, PAYCHECK PROTECTION PROGRAM (PPP) REPORT (APPROVALS FROM 12 PM EST 4/16/2020), <https://home.treasury.gov/system/files/136/SBA-Paycheck-Protection-Program-Loan-Report-Round2.pdf> (Apr. 16, 2020) [hereinafter *PPP Round 1 Data*]; U.S. SBA, PAYCHECK PROTECTION PROGRAM (PPP) REPORT: SECOND ROUND (APPROVALS FROM 4/27/2020 THROUGH 05/08/2020), <https://home.treasury.gov/system/files/136/SBA-Paycheck-Protection-Program-Loan-Report-Round2.pdf> (May 10, 2020) [hereinafter *PPP Round 2 Data*]; U.S. SBA, *FY 2021 Congressional Justification and FY 2019 Annual Performance Report*, 24, available at https://www.sba.gov/sites/default/files/2020-02/FY%202021%20CJ-508_FINAL.pdf ("The SBA approved 58,006 7(a) and 504 loans, through \$28.1 billion in lending to small businesses through 1,708 7(a) lenders and 212 Certified Development Companies (CDCs) in FY 2019.").

[2] See Bureau of Labor Statistics, U.S. Dep't of Labor, *Business Employment and Dynamics Survey*, <https://www.bls.gov/bdm/>.

[3] See *PPP Round 1 Data*; *PPP Round 2 Data*, *supra* note 1.



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