BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JANET L. YELLEN
CHAIR

April 11, 2014

The Honorable Ed Royce
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the written questions you submitted following the February 11, 2014, hearing before the Committee on Financial Services. A copy has also been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I can be of further assistance.

Sincerely,

Janet L. Yellen

Enclosure

**Questions for The Honorable Janet L. Yellen, Chair, Board of Governors of the Federal Reserve System from Representative Ed Royce:**

**1. I would like to get an update on the deepening economic crisis in Puerto Rico. In February 2014, Puerto Rico's debt was given junk designation by both Moodys and S&P.**

**Our constituents are not immune from this crisis - with much of the $70 billion in debt held by U.S. institutional investors and mutual funds.**

**Other than the standing White House task force created during the Clinton Administration is Federal Reserve participating in discussions with the Puerto Rican government related to the crisis? Are you aware of any Fed authority that would allow you to lend money to Puerto Rico? Would Section 14b powers apply? Have you considered using these powers?**

The financial troubles of the Commonwealth of Puerto Rico have the potential to pose significant challenges for the government and people of the Commonwealth. Puerto Rico faces serious fiscal challenges. Economic activity in Puerto Rico has contracted since 2005 and unemployment is currently about 15 percent. Total public debt--driven by primary fiscal deficits and borrowing by agencies of the government--has increased sharply and now stands at roughly $70 billion, which is more than 100 percent of the Commonwealth's gross domestic income. Of course, we are monitoring developments and continue to analyze the potential consequences for financial stability of these and other recent events.

Even prior to enactment of the Dodd-Frank Act amendments to the Federal Reserve's emergency lending authority, Chairman Bernanke explained to Congress that the Federal Reserve had little or no authority to lend directly to a state or municipal government. The Dodd-Frank Act subsequently repealed the authority of the Federal Reserve to lend to a single and specific individual, partnership or corporation in emergency situations and the Federal Reserve is not in discussions with the Commonwealth about arranging Federal Reserve credit for the Commonwealth.

Section 13(3) of the Federal Reserve Act, as revised by the Dodd-Frank Act, permits the Federal Reserve to lend only to participants in a broad-based lending facility established for the purpose of providing liquidity to the financial system, and prohibits lending to a single and specific borrower for the purpose of assisting the borrower to avoid an insolvency proceeding. Section 13(3) also specifically prohibits lending to a borrower that is insolvent or for the purpose of aiding a failing financial company. Lending under section 13(3) requires approval of at least 5 members of the Board of Governors (except in specific and rare circumstances) and the approval of the Secretary of the Treasury, and may only occur during unusual and exigent circumstances. The Federal Reserve is, however, permitted to lend to depository institutions located in Puerto Rico, and to accept obligations of the Puerto Rican government as collateral for discount window loans to depository institutions (with appropriate haircuts).

Section 14 of the Federal Reserve Act provides the Federal Reserve only limited authority to purchase obligations that are not obligations of, or guaranteed by, the United States or an agency of the United States. For example, the Federal Reserve may purchase only certain types of obligations of States and municipalities and only when those obligations have a maturity from the date of purchase of six months or less and have been issued in anticipation of the collection of taxes or receipt of assured revenues.

I continue to support the view expressed previously by Chairman Bernanke to past congressional inquiries that it is more appropriate for the Congress to address financial issues faced by States and municipalities. Congress has established extensive fiscal relationships between the federal government and state and local governments. Moreover, it is important that the Federal Reserve be able to protect itself and the taxpayer from credit losses in all lending situations and to maintain its independence. These principles would be challenged in the event the Federal Reserve became a creditor of a State or municipality.

**2. Chair Yellen, would you support holding a press conference after every meeting of the Federal Open Market Committee? If no, why not?**

Chairman Bernanke began holding press conferences following the four FOMC meetings per year for which Committee participants provide detailed economic projections. Those projections help shape the Committee's monetary policy decisions and its views about the outlook for monetary policy, so it makes sense to hold press conferences at these times so that the Chair can provide updates on the Committee's views about the economy as well as monetary policy. My intention is to continue that practice.

Whether there is a scheduled press conference or not, every FOMC meeting is a meeting in which a policy decision can be taken. If the Committee were to make a decision that required additional explanation beyond that contained in the Committee's post-meeting statement, we would make any necessary arrangements to explain that decision to the public and answer questions from the media.