Americans for Financial Reform Education Fund

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Financial Policy Responses to the COVID-19 Pandemic

The COVID-19 pandemic requires an aggressive economic response that creates the best possible conditions to preserve public health and helps individuals, families, and communities weather the disruptions that efforts to contain the pandemic require. That means steps like a moratorium on foreclosures and evictions, an end to wage garnishments, Federal Reserve help for states and localities, and supporting small- and medium-sized businesses as they are forced to close. As a coalition formed in the wake of the last financial crisis, we urge the following initial set of principles and specific measures:

First Principles

***Respond to the pandemic*:** This is not a “normal” economic downturn. It is caused by a pandemic and, especially in the short run, different measures may be required than in past economic downturns — for example, efforts to economically support people temporarily staying home from work rather than measures to create work for the unemployed. Dramatic public health steps are required urgently to prevent loss of life on a massive scale; we need economic policy responses that enable those steps and that protect individuals, families and communities from their fallout.

***Help people, not profits*:** Responses should always be tied to efforts to help those most harmed by the crisis, rather than simply subsidizing financial markets or corporate profits. Where businesses are assisted, this assistance should be tied to concrete benefits for public health or concrete assistance for vulnerable workers.

Where possible, assistance should come through fiscal policy: Many of the most direct and effective responses to this crisis are best financed through direct grants from federal spending, not loans. Although this document addresses financial regulation and lending, fiscal policy needs to be a central response to the crisis.

What to Do

***Require loan forbearance for those affected by the pandemic**:* In the coming months, workers may be encouraged or required to take time off from work, or some or all of their sources of income — like from gig employment — may be dramatically cut. An unusual number of wage-earners may become sick or hospitalized. Regulators should require banks and other creditors to delay loan payments during the epidemic period for those affected by the crisis. This will limit the harm to families and communities, and support public health responses like social distancing, quarantine, and treatment. Interest and fees should not be charged for the forbearance period, and loan forbearances should remain in place for a period after people have returned to work to allow them time to rebuild savings.

Impose an immediate moratorium on foreclosures and evictions: Federal housing regulators should require a moratorium on the foreclosure of all properties secured by a mortgage backed or insured by them. This moratorium should apply to the initiation of foreclosures, foreclosures already in process, and to the eviction of homeowners or residents in properties secured by a federally backed or insured mortgage. States and localities should also be required to suspend foreclosures and evictions related to tax liens or utility payments.

Prevent negative credit reporting: Many people may suffer a temporary loss of income due to COVID-19 that may cause them to miss payments on their loan obligations. There should be a moratorium on all negative credit reporting and longer protections for people who face lasting financial hardship from the outbreak. Consumers should be able to request an extension on the moratorium on negative credit reporting if they are suffering continuing economic hardship after the initial moratorium. Protecting consumers' credit reports and giving people the ability to manage their finances during a crisis will speed a return to normalcy and economic growth. Consumers should also have access to free credit reports and credit scores during the COVID-19 outbreak and for up to a year after the end of the outbreak to effectively monitor their credit.

Halt all debt collection efforts: All debt collection activity should be suspended – currently pending hearings should be postponed and no new lawsuits should be allowed. All new and existing garnishments and repossession should be stopped, and employers and banks should be contacted and asked to suspend any garnishments already in place. No debt should be sold, and no additional interest or fees should be added during this time. All requests to stop automatic payments should be promptly honored.

Require flexible options after loan forbearance period: Borrowers will not suddenly have the means to pay their regular loan payment or more in the immediate aftermath of the COVID-19 response. Creditors should not be allowed to demand full payment after the forbearance period, but instead should be required to develop options that allow the borrower to recover, including extension of a loan term and adding the payments to the end.

Stop bank garnishments and frozen bank accounts: It is crucial that account holders have access to the money in their bank accounts. There should be a moratorium on freezing bank accounts and garnishing any income during this time.

Increase protections against predatory lending: With more individuals, families, and small businesses under pressure from sickness and economic stress, some predatory lenders are likely to use this as an opportunity to profiteer off exploitative high cost loans. This will increase hardship and should not be permitted.

Cancel student debt: The Secretary of Education has the authority, under the Higher Education Act, to compromise and modify student debt. Student debt cancellation would provide relief for low-income borrowers who may otherwise have trouble paying medical or housing bills in addition to their student debt, and for anyone whose income is affected by the crisis. Cancelling federal student debt would be a powerful and effective economic stimulus as well as assisting those affected by the pandemic. For further information, please see our factsheet "Cancel Student Loans to Provide Short and Long-Term Stimulus."

Help front-line state and local governments finance their response to the pandemic: State and local governments are on the front line in responding to this epidemic, both in terms of making public health decisions and providing for the delivery and financing of key public services, including critical health services. Yet states and localities have limited fiscal resources and the Federal Reserve has in the past been very reluctant to directly support state and local lending markets, even as it provided trillions in assistance to less essential areas of the financial markets. Congress should pass legislation to make clear that the Federal Reserve can and should provide strong support for state and local borrowing associated with responses to the COVID-19 pandemic.

Support small and medium sized businesses**:** Small and medium sized businesses, especially retail businesses, will be hit hard by the effects of the pandemic. Loan forbearance for these businesses, along with grants and SBA lending programs, would help them stay open and finance sick leave for hourly workers.

Require banks to accumulate capital to finance forbearance and lending*:* The Federal Reserve is currently performing "stress tests" on the banking system that do not include any of the stress effects of the current pandemic shock to the economy. Before the shock occurred, the forecast was that the Federal Reserve would permit major banks to pay out significant dividends and engage in stock buybacks, and continue the pattern of depleting capital reserves that has been occurring over the past several years. The Federal Reserve should instead require banks to retain capital and build up reserves to ensure that they will provide a stable source of lending over the pandemic period and possible recession, and will have the resources to engage in needed loan forbearance.

What Not to Do

Don't go along with Wall Street demands for the same old deregulation: Big Wall Street banks and other financial institutions have a long-time list of their preferred deregulatory measures, which they have pushed for in good economic times and bad. For the most part, this wish list comes down to allowing them to increase their profits by reducing risk controls and consumer protections. These demands have absolutely nothing to do with responding to the current epidemic crisis. They are also highly inefficient and risky methods of boosting economic activity even in a "normal" crisis, since they create unnecessary risks to the economy and consumers and most of their benefits go to financial intermediaries in the form of increased profits.

Don't provide unconditional bailouts**:** Any measures to support the financial sector, as well as other corporate sectors, must be paired with restrictions on bonuses, dividends, and stock buybacks, along with limits on executive compensation to ensure that the benefits are not solely captured by executives and shareholders. There should also be a ban on any federal lobbying by any firms that are granted federal bailouts or emergency assistance. Companies that are receiving government assistance must also be required to maintain employment and to assist in the response to the pandemic by ensuring sufficient paid sick leave for all employees and contractors.

Don't subsidize inflated asset markets and bail out insiders: As the crisis hit, many asset markets were highly inflated due to the combination of inadequate financial regulation and an extended period of low interest rates. For example, equity markets had reached record peaks thanks to enormous share buybacks. Debt markets, particularly markets for high-risk debt sold to overleveraged companies, are also highly inflated due to uncontrolled private equity activity, inadequate securities regulation, and the failure of bank regulators to enforce controls on leveraged lending. Inflated asset prices have contributed to large asset price impacts of the pandemic.

The immediate effect of supporting asset markets will be to help insiders like hedge funds or overextended energy companies, not address the actual epidemic crisis or assist vulnerable families or workers. In the absence of strong evidence of liquidity effects that threaten the broader financial system, the federal government should not be directing resources to propping up asset markets.