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October 29, 2020

Mr. Jerome Powell
Chairman
The Federal Reserve
20 Constitution Ave NW
Washington, D.C. 20551

Dear Chairman Powell:

As the U.S. Board of Governors of the Federal Reserve System (the “Fed”) continues to act to stabilize the economy amid the coronavirus pandemic, I write today to ask you to clarify why the Fed is propping up firms that endanger the health of Americans, while failing to sufficiently help cities and municipalities in dire need.

Thank you for appearing before the House Financial Services Committee on Tuesday, September 22, 2020, to testify about the Fed’s pandemic response. At the hearing, I asked you about the restrictiveness in the Municipal Lending Facility (the “MLF”) and highlighted the disparity between the Fed’s criteria for corporate bond purchases and the MLF’s lending restrictions. Among those disparities is that the Fed will purchase bonds with up to a five-year maturity in the Secondary Market Corporate Credit Facility (the “SMCCF”), while the MLF has a three-year time limit on its lending. In your response, you said a three-year term is “where we have been willing to lend” and claimed that the Fed’s actions have “enabled the private market to work very well to serve state and local governments.” But analysts at the New York Federal Reserve Bank acknowledged that “improvements in muni debt markets are not necessarily sufficient to induce willingness to spend at the local level,” as I and 52 of my colleagues highlighted in an August letter.[1]

[1] https://cpc-grijalva.house.gov/uploads/Municipal%20Liquidity%20Facility.pdf

I remain concerned that the Fed is not being flexible enough in order to help state and local governments access liquidity. That is why I have introduced the *Uplifting Our Local Communities* Act, which I have asked you to examine.[2] But I am particularly troubled that the Fed is refusing to allow this flexibility while it is simultaneously purchasing the corporate debt of firms that put communities like Detroit in harm's way.

As of the October 8th disclosure, the Fed's SMCCF has purchased $4.133 billion worth of corporate bonds--$803 million of which are bonds from the Energy or Utilities sector.[3] Among these purchases are the bonds of ExxonMobil, Chevron, BP, Energy Transfer, Marathon, Phillips 66, Noble Energy, Kinder Morgan, and Schlumberger. The House Select Committee on the Coronavirus released a report that showed the Fed's SMCCF portfolio included the bonds of 95 companies that paid out dividends to their shareholders despite laying off workers, which is incongruous with the Fed's mandate to maximize employment. It also includes bonds of 227 firms that have been accused of illegal conduct.[4] Among those firms is Marathon Petroleum, in which the Fed (and the public) now owns $15 million worth of corporate bonds, and which just eliminated another 2,050 jobs.[5] The latest Broad Market Index disclosure shows the Fed intends for Marathon Petroleum to make up 0.19% of its entire portfolio.[6] I find this deeply concerning given the ways that Marathon Petroleum has repeatedly threatened the health and safety of my constituents.

Marathon Petroleum has a refinery in southwest Detroit, in the majority-Black and Brown neighborhood known as the 48217 community, though its emissions travel across southwest Detroit and to Downriver suburbs. Marathon has been the worst kind of corporate neighbor, violating Michigan state emission limits fifteen separate times since 2013.[7] In September 2019, a toxic chemical leak from their plant caused roads to be closed around the refinery, nearby workers to be evacuated, and leading to the hospitalization of two Marathon employees. I heard from constituents concerned about this leak at a Congressional field hearing held in the shadow of the Marathon refinery last year.[8] This is just one of many incidents where Marathon Petroleum

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[2] https://tlaib.house.gov/media/press-releases/reps-tlaib-neguse-introduce-bill-expanding-local-government-municipality-access

[3] The Fed's October 8, 2020 disclosures showed the SMCCF portfolio included $372,500,000 in Energy sector bonds, and $430,500,000 in Utilities sector bonds.
https://www.federalreserve.gov/publications/files/smccf-transaction-specific-disclosures-10-8-20.xlsx

[4] https://coronavirus.house.gov/sites/democrats.coronavirus.house.gov/files/Staff%20Report%20%289-23-2020%29_FINAL.pdf

[5] https://www.cantonrep.com/story/business/2020/09/30/marathon-petroleum-cut-2-050-jobs-nationwide-shutter-two-sites/3589425001/

[6] https://www.newyorkfed.org/markets/secondary-market-corporate-credit-facility/secondary-market-corporate-credit-facility-broad-market-index.

[7] Marathon Petroleum has received 15 notices from the Michigan Department of Environment, Great Lakes and Energy. https://www.theguardian.com/us-news/2020/jan/09/the-blackest-city-in-the-is-us-facing-an-environmental-justice-nightmare.

[8] https://wdet.org/posts/2019/09/17/88620-rep-rashida-tlaib-takes-on-marathon-petroleum-in-local-congressional-hearing-on-pollution/.

has endangered the health and safety of the people of Detroit. In February 2019, strong odors from the refinery spread throughout the region and caused residents to experience various illnesses.[9] In October 2018, a large flaring event occurred due to the burn off of excessive gas and liquids. And in 2017, Marathon violated the Clean Air Act, but faced a paltry $62,000 fine from the EPA.[10]

The Fed used $25 billion dollars from the CARES Act as loss absorbing capital in the SMCCF. That means the public's money, including those of my constituents, are invested in the very company that's responsible for poisoning Detroit. Meanwhile, the Fed could be lending more money to our water facilities, to our cities and municipalities which desperately need and could actually benefit from the money--but it refuses to provide flexibility.

One of the Fed's responsibilities is to promote financial stability. The Fed itself acknowledged in a 2016 rule proposal that physical commodities like oil and gas create risks for banks, because "monetary damages associated with an environmental catastrophe involving physical commodities have ranged from hundreds of millions to tens of billions of dollars."[11] But it's not just the risk of environmental disasters leading to monetary penalties from lawsuits — climate change itself is a risk to financial stability of the system and to the value of the investment of capital by the American people. And the impact of companies like Marathon Petroleum create its own set of risks to the stability of my district and the safety of its residents.

In order to better understand the effectiveness of the Fed's SMCCF, including why it is purchasing the bonds of companies that hurt our public health and safety, I ask that you provide my office with answers to the following questions:

- Has the Fed considered incorporating negative externalities and social costs into its assessment of which bonds to include in its Broad Market Index?
- Once the Fed has determined which firms are eligible for the criteria in the SMCCF termsheet, how does it decide which bonds to buy in the universe of eligible bonds?
- Why does Marathon Petroleum make up 0.19% of the Fed's Broad Market Index?
- How does purchasing Marathon Petroleum bonds through the SMCCF comport with the Fed's mandate to maximize employment and its responsibility to promote financial stability, especially as Marathon continues to cut jobs and face environmental violations and fines?
- European Central Bank President Christine Lagarde recently said that in the face of market failures to price in carbon risk, the ECB would evaluate whether market neutrality

[9] https://www.clickondetroit.com/news/breaking-marathon-confirms-foul-gas-odor-is-from-its-detroit-refinery.
[10] https://tlaib.house.gov/media/press-releases/congresswoman-tlaib-s-statement-yet-another-incident-marathon-oil-refinery.
[11] https://www.federalregister.gov/documents/2016/09/30/2016-23349/regulations-q-and-y-risk-based-capital-and-other-regulatory-requirements-for-activities-of-financial.

is the right approach, and called on all central bankers to do the same.[12] Will the Fed be conducting a similar review of its sector neutrality commitment, and consider if future bond purchases should be made with climate risk in mind?

In addition, Chair Powell I would like to personally invite you to come visit my District and see up close what it's like to live in a community next to a refinery. If the Fed is going to purchase corporate bonds of firms that perpetuate structural inequality and environmental racism, I would appreciate the opportunity to show you up close what that support is helping to facilitate.

I appreciate your timely response to these questions.

Sincerely,

Rashida Tlaib

RASHIDA TLAIB
Member of Congress

cc:
Federal Reserve Bank of New York – President Williams
Federal Reserve Bank of Boston – President Rosengren
Federal Reserve Bank of Cleveland – President Mester
Federal Reserve Bank of San Francisco – President Daly
Federal Reserve Bank of Dallas – President Kaplan
Federal Reserve Bank of Minneapolis – President Kashkari
Federal Reserve Bank of St. Louis – President Bullard
Federal Reserve Bank of Philadelphia – President Harker
Federal Reserve Bank of Kansas City – President George
Federal Reserve Bank of Richmond – President Barkin
Federal Reserve Bank of Atlanta – President Bostic
Federal Reserve Bank of Chicago – President Evans

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[12] Christine Lagarde, United Nations Environment Programme Finance Initiative, October 14, 2020, https://www.youtube.com/watch?v=xtMYoRvxesg. ("All central bankers will have to ask themselves the question as to whether or not we are not taking excessive risk by simply trusting mechanisms that have not priced in the massive risk that is out there and that results from the impact of our action — us, human beings — on our planet, and how we impact the life of future generations by not fighting this climate change that we are seeing."); and Martin Arnold, *ECB to consider using climate risk to steer bond purchases, says Lagarde*, Financial Times, October 14, 2020, https://www.ft.com/content/f5f34021-795f-47a2-aade-72eb5f455e09.