

**NOMINATIONS OF: STANLEY FISCHER, JEROME
H. POWELL, LAEL BRAINARD, GUSTAVO
VELASQUEZ AGUILAR, AND J. MARK
MCWATTERS**

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

ON

NOMINATIONS OF:

STANLEY FISCHER, TO BE A MEMBER AND VICE CHAIRMAN OF THE BOARD
OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

JEROME H. POWELL, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF
THE FEDERAL RESERVE SYSTEM

LAEL BRAINARD, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

GUSTAVO VELASQUEZ AGUILAR, TO BE AN ASSISTANT SECRETARY OF THE
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

J. MARK MCWATTERS, TO BE A MEMBER OF THE NATIONAL CREDIT UNION
ADMINISTRATION BOARD

MARCH 13, 2014

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THURSDAY, MARCH 13, 2014

**U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
*Washington, DC.***

The Committee met at 10:03 a.m., in room SD-538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN TIM JOHNSON

Chairman JOHNSON. I call this hearing to order.

Before we begin this morning, I want to say a few words about Housing Finance Reform. First, I want to thank Ranking Member Crapo. He has been a great partner throughout this process, and I am very pleased we were able to announce our agreement Tuesday.

Second, I want to thank all of the cosponsors of Corker-Warner. A lot of work went into their effort, and it provided a good base for the Committee's negotiations. I also want to thank the other Members of this Committee who provided invaluable input during this process. Last, I look forward to working with all of my colleagues on the Committee in the coming weeks as we work to move the best possible bill out of the Committee.

Today we consider five nominations: Dr. Stanley Fischer to be a Member and Vice Chairman of the Fed Board of Governors; The Honorable Jerome H. Powell and the Honorable Lael Brainard, to be Members of the Fed Board of Governors; Mr. Gustavo Velasquez Aguilar, to be an Assistant Secretary of the Department of Housing and Urban Development; and Mr. J. Mark McWatters, to be a Member of the National Credit Union Administration Board.

The Federal Reserve Board currently has important tasks at hand, including completing the implementation of Wall Street Reform; establishing policies to improve financial stability, reduce systemic risk, and end too-big-to-fail; and providing monetary policy to grow our economy and improve employment.

It is important the Board has thoughtful leaders who will not apply a one-size-fits-all approach with its rules on community banks, traditional insurance companies, and asset managers. It is critical that we have a full Board, with diverse viewpoints, and ready to respond to economic challenges that may arise.

Dr. Fischer, Mr. Powell, and Dr. Brainard are all very well-qualified to serve as Fed Board Governors. Mr. Velasquez served from 2007 through 2013 as the Director of the District of Columbia Office of Human Rights, and he will bring on-the-ground experience to the role of Assistant Secretary for Fair Housing and Equal Opportunity to ensure all Americans have equal access to housing.

Last, Mr. McWatters has been nominated to fill an expired seat on the NCUA Board. The National Credit Union Administration plays a vital role in overseeing credit unions in communities across this country. I believe Mr. McWatters will hit the ground running, with an eagerness to learn more about these important community financial institutions. It is my hope we can act quickly on all five of these nominations.

I now turn to Ranking Member Crapo for his opening statement.

STATEMENT OF SENATOR MIKE CRAPO

Senator CRAPO. Thank you, Mr. Chairman, and I join in your introductory comments about housing finance reform, and particularly I appreciate the relationship we have and the opportunity we have had to work together on this. I also want to thank our colleagues, Bob Corker and Mark Warner and those who have worked with them to help us lay the foundation for this effort.

Frankly, each Member of this Committee has been very involved in working with us and I think that should be acknowledged as we move forward. I also welcome each of our nominees today.

At today's hearing, we will hear from nominees to the Federal Reserve Board, the Department of Housing and Urban Development, and the National Credit Union Administration Board, as the Chairman has already indicated.

During Dr. Yellen's nomination hearing to chair the Federal Reserve, I noted that the turnover at the Board caused by the departures of Chairman Bernanke and Governors Raskin and Duke needed to be dealt with. I emphasized then that their replacements must bring balanced views about the direction of monetary and regulatory policy from the Fed.

The nominees before us come from academia, from policymaking, and finance at both the international and domestic levels. Dr. Stan-

ley Fischer is a noted economist, most recently serving as the head of the Bank of Israel. Lael Brainard and Jay Powell both have previously been confirmed by the Senate. Dr. Brainard served as the Under Secretary of the Treasury for International Affairs, and Jay Powell has served on the Fed Board of Governors since May of 2012.

I look forward to learning more about these nominees' position and the normalization of monetary policy, as well as the continued implementation of Dodd-Frank. In addition to the seats they will fill, there will be one remaining opening at the Board. I am hopeful that community bank experience with a priority will be utilized in establishing the qualifications for this last position.

Today we will also consider nominations to the National Credit Union Administration and the Department of Housing and Urban Development. Credit unions play an important role in our financial system in our leaders and our relationship-based lending in our communities. I look forward to hearing from Mr. McWatters about his priorities at NCUA and the opportunities and challenges facing the credit union industry.

Mr. Velasquez brings experience in economic development and housing policy, having worked in the D.C. Government as Director of the District of Columbia's Office of Latino Affairs. HUD's use of the disparate impact theory, which can bring enforcement actions for discrimination even without any direct discriminatory intent, has increased in recent years and is a concern of mine.

It is important that each of these nominees here today understand the impact of their decision on our broader economy. I look forward to the thoughts of the nominees on how we can properly balance these rules with the need to keep our markets competitive in the global economy. Thank you, Mr. Chairman, for holding this hearing. I look forward to it.

Chairman JOHNSON. Thank you, Senator Crapo. Would any other Senators like to make an opening statement?

Senator CORKER. I am not going to make an opening statement because I do not like for any of us to do that, other than the two of you, but I am going to say something. OK?

Chairman JOHNSON. Go ahead.

STATEMENT OF SENATOR BOB CORKER

Senator CORKER. I had the opportunity to meet with our three Fed nominees and spend an extensive amount of time and I am not going to stay here to ask them questions and I am glad we were able to get the other two nominees in today. What I want to say, though, is I want to thank the two of you and the staff members on both sides of the aisle because housing finance is really a complex topic. I think all of us have figured that out.

I really think that we have an opportunity on this Committee to pass something that actually matters and to do it in an environment when it would be difficult to pass a resolution thanking mothers for what they do. And yet, I think we may well do that because of the efforts that you and your staffs and many Members on this Committee have put forward.

So I thank you and I look forward to working with you and hope that we can get it not only through the Senate, but the House and into law. So thank you both very, very much.

Chairman JOHNSON. Thank you. I want to remind my colleagues that the record will be open for the next 7 days for opening statements and any other materials you would like to submit.

I will now introduce the nominees. Dr. Stanley Fischer is currently a distinguished fellow at the Council on Foreign Relations. He was head of the Bank of Israel from 2005 to 2013. Prior to his service at the Bank of Israel, Dr. Fischer held positions as Vice Chairman of Citigroup and the First Deputy Managing Director of the International Monetary Fund.

Before the IMF, Dr. Fischer was a professor and head of the Department of Economics at MIT where he taught some of the most preeminent economists of our time, including former Federal Reserve Chairman Ben Bernanke, former Treasury Secretary Larry Summers, and President of the European Central Bank, Mario Draghi.

Mr. Jerome H. Powell became a member of the Federal Reserve Board of Governors in 2012. Prior to his appointment to the Board, Mr. Powell was a visiting scholar at the Bipartisan Policy Center where he focused on Federal and State fiscal issues.

From 1997 through 2005, Mr. Powell was a partner at the Carlyle Group. Mr. Powell also served as an Assistant Secretary and as Under Secretary of the Treasury under President George H.W. Bush.

Dr. Lael Brainard served as Under Secretary for International Affairs at the Treasury from 2010 to 2013. Dr. Brainard previously served as Deputy Director of the National Economic Council and as the U.S. Sherpa to the G8. Dr. Brainard also served as Vice President of the Brookings Institution and was associate professor of applied economics at MIT Sloan School of Management.

Mr. Gustavo Velasquez Aguilar is currently the Executive Director of the Latino Economic Development Center in Washington, DC. Previously he served for 6 years as Director of the District of Columbia Office of Human Rights. He was also previously the Director of the Office of Latino Affairs in Washington, DC.

Mr. Mark McWatters currently serves as Assistant Dean for Graduate Programs at Southern Methodist University's Dedman School of Law. Mr. McWatters served as a member of the Troubled Asset Relief Program Congressional Oversight Panel. Previously he practiced for more than two decades as a domestic and cross-border tax merger acquisition and corporate finance attorney. In addition, he served as a judicial clerk to the Honorable Walter Ely of the U.S. 9th Circuit Court of Appeals.

We will now swear in the nominees. Will the nominees please rise and raise your right hand? Do you swear or affirm that the testimony that you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. FISCHER. I do.

Mr. POWELL. I do.

Ms. BRAINARD. I do.

Mr. VELASQUEZ AGUILAR. I do.

Mr. MCWATTERS. I do.

Chairman JOHNSON. Do you agree to appear and testify before any duly constituted Committee of the Senate?

Mr. FISCHER. I do.

Mr. POWELL. I do.

Ms. BRAINARD. I do.

Mr. VELASQUEZ AGUILAR. I do.

Mr. MCWATERS. I do.

Chairman JOHNSON. Please be seated. Each of your written statements will be made part of the record. Before you begin your statement, I invite each of you to introduce your family and friends in attendance. Dr. Fischer, please begin.

STATEMENT OF STANLEY FISCHER, TO BE A MEMBER AND VICE CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. FISCHER. Thank you very much, Chairman Johnson. I am very happy to have my wife, Rhoda, of 48 years sitting here behind me, and a friend from high school in Zimbabwe, now an American citizen, Tony Abrams [phonetic], also sitting behind me. Shall I make my statement now, Senator?

Chairman JOHNSON. Yes. Please proceed.

Mr. FISCHER. Chairman Johnson, Ranking Member Crapo, and Members of the Committee, thank you for this opportunity to appear before you. I am greatly honored to be nominated by President Obama to serve as a member and Vice Chair of the Board of Governors of the Federal Reserve System, and I look forward, if confirmed, to working with this Committee in the coming months and years.

In recent years, the Federal Reserve has made significant progress toward achieving its Congressionally mandated goals of maximum employment and price stability. Nonetheless, normalcy has not been restored. At 6.7 percent, the unemployment rate remains too high, and the rate of inflation has been, and is expected to remain, somewhat below the Federal Reserve's target of 2 percent.

At present, achievement of both maximum employment and price stability requires the continuation of an expansionary monetary policy, even though the degree of expansion is being gradually and cautiously cut back as the Fed reduces its monthly purchases of longer-term Treasury securities and agency mortgage-backed securities.

I would like to add that in their efforts to achieve aggregate goals, policy makers should never forget the human beings who are unemployed, nor the damage that high inflation wreaks on the economy, and thus on the lives of so many people.

The financial collapse that intensified in the last months of 2008 and early 2009 threatened, in the view of some central bankers, including this one, to result in a recession even deeper than the Great Recession we experienced. The Federal Reserve's policies in dealing with the financial collapse were courageous and effective.

Nevertheless, we must do everything we can to prevent the need for such extreme measures ever again. Among the lessons of the financial crisis are the necessity of dealing with the too-big-to-fail-

problem, and the necessity of greatly strengthening the resilience of the entire financial system.

The Dodd-Frank Act put in place a framework that should make it possible to advance these goals. The United States has moved rapidly to put a series of important measures into effect. Among them are the significant increase in capital requirements and the introduction of countercyclical capital buffers for banks; the introduction of a liquidity ratio; the sophisticated use of stress tests, the importance of which becomes ever clearer; enhanced resolution authority and the single point of entry in dealing with SIFIs; living wills; and the creation of the Financial Stability Oversight Council, the FSOC.

At the international level, the establishment of the Financial Stability Board, whose membership includes the countries of the G20 and a few other financial centers, provides an important mechanism for strengthening international coordination of financial regulation.

While we have undoubtedly made important progress in strengthening the financial system, we must also recognize that maintenance of the robustness and stability of the financial system cannot be attained without strong regulation and supervision.

Financial systems evolve, and while financial crises have many similarities, they are not identical. The Fed must remain ever-vigilant in supervising and regulating the financial institutions and markets for which it has been assigned responsibility, and it should be no less vigilant in its surveillance of the stability and resilience of the financial system as a whole.

The Great Recession has driven home the lesson that the Fed has not only to fulfill its dual mandate, but also to contribute its part to the maintenance of the stability of the financial system. Almost always, these goals are complementary. But each of them must be an explicit focus of Fed policy.

In all the situations with which the Fed will have to contend in pursuing its goals, it will be called upon to make wise decisions, which draw on the experience and the analytic skills of the staff and of the members of the Federal Reserve Board and the Federal Open Market Committee. I hope that, if confirmed, I will be able to assist Chair Yellen and my future colleagues in making those critical decisions, and so to contribute to the well-being of the citizens of the United States.

Senators, I thank you for this opportunity to appear before you today and for considering my nomination. I would be pleased to respond to any questions.

Chairman JOHNSON. Thank you. Mr. Powell, please proceed.

**STATEMENT OF JEROME H. POWELL, TO BE A MEMBER OF
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE
SYSTEM**

Mr. POWELL. Thank you, Mr. Chairman. Let me say that I am joined here today by my wife, Elissa, and my brother, Matt, in from California.

Chairman Johnson, Senator Crapo, and Members of the Committee, I am honored and grateful to President Obama for the privilege of appearing before this Committee today as a nominee to

the Federal Reserve Board. I have served as a member of the Board since May 2012. If I am confirmed to the new term for which I am now nominated, I will continue to work to the best of my abilities to carry out the responsibilities of this office.

Over the past 2 years, I have been deeply involved in the work of the Board and of the Federal Open Market Committee. Important challenges lie ahead, and I am eager to play my part in meeting them.

Before joining the Board, I spent close to 30 years working in the financial markets as an attorney, an investment banker, and an investor, and I believe that my practical experience of the private sector and the financial markets provides a valuable perspective in the work of the Board and the FOMC.

I also served as Assistant Secretary and Under Secretary of the Treasury for Finance from 1990 to 1993. Throughout that period, I worked closely with this Committee, and appeared in this room many times as a witness in hearings and markups. More recently, I testified before this Committee on anti-money laundering and the Bank Secrecy Act in March of 2013.

The early 1990s, the time of my earlier service, were turbulent years for the economy and the markets. We faced the savings and loan crisis and the resulting bailout; a severe credit crunch, with some businesses and households unable to get credit on reasonable terms; the insolvency of the FDIC's Bank Insurance Fund; and the failure or near failure of several large financial institutions, which squarely presented the problem of too big to fail.

I was deeply involved in addressing these crises and in the major legislation that followed, including, in particular, the Federal Deposit Insurance Improvement Act, or FDICIA. I also led the Administration's efforts to address a very troubling episode involving market manipulation and the submission of false bids in Treasury auctions by employees of the investment firm Salomon Brothers, and that scandal resulted in the Government Securities Reform Act of 1992, as well as extensive revisions to the Treasury's auction rules.

Today, our economy continues to recover from the effects of the global financial crisis, unevenly and at a frustratingly slow pace. The task for monetary policy will be to provide continued support as long as necessary, and to return policy to a normal stance over time without sparking inflation or financial instability. This will require a careful balancing, as there are risks from removing monetary policy accommodation too soon as well as too late.

The regulation and supervision of financial institutions and markets are as important as anything the Federal Reserve does. This is a time to continue to address the weaknesses that were exposed during the crisis and set the stage for another long period of prosperity. Working with fellow regulators in the United States and around the world, the Federal Reserve is engaged in a once-in-a-generation renovation of the financial architecture.

There is much work to be done, both in the implementation of Congress's decisions and in finalizing and implementing international accords, like Basel III. At the heart of these broad reforms is the project of ending the practice of protecting creditors and

sometimes equity holders of large global financial institutions in extremis, or too big to fail.

There has been significant progress, but more work is left to do. Realizing this objective will take time and persistence. I am eager to play a part in that. Thank you again for holding this hearing today. I will be pleased to answer your questions.

Chairman JOHNSON. Thank you. Dr. Brainard, please proceed.

STATEMENT OF LAEL BRAINARD, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Ms. BRAINARD. Chairman Johnson, Ranking Member Crapo, distinguished Members of the Committee, I appreciate the opportunity to be here with you today. It is an honor to be nominated by President Obama to serve on the Federal Reserve Board, particularly under Chairman Yellen's leadership.

I am very grateful to my husband and my three delightful daughters for supporting my return to public service after a wonderful but too brief time at home, and I am happy to be joined here this morning by my husband, Kurt, and by my daughter, Ciara, who is representing her two sisters very ably.

I cannot think of a more important moment for the work of the Federal Reserve. If confirmed, you can be sure I will be intensely focused on safeguarding the Fed's hard won credibility in preserving price stability, while supporting its indispensable role in helping Americans get back to work, and strengthening its work in ensuring a safe and sound financial system.

The Federal Reserve has a critically important and appropriately delimited role in addressing the challenges we face as a Nation in the wake of a deeply damaging financial crisis. It will need to carefully calibrate the tools of monetary policy to ensure an appropriate pace of normalization, while supporting the fragile recovery in our job market and ensuring inflation expectations remain well anchored.

The Federal Reserve will need to continue robust implementation of financial reform and enhanced supervision to ensure that no financial institution is too big to fail, and to discourage the massive leverage and opaque risk taking that contributed to the financial crisis. At the same time, it is critical that the Fed protect the savings of retirees and sound access to credit for consumers, small businesses, students, and families seeking to own their own homes.

For me, service on the Federal Reserve would be a very natural progression, building on work that I have done previously at the Treasury Department, the White House, in academia, and in the private sector. It would enable me to continue my life's work of promoting an economy that delivers opportunity for hard working Americans while safeguarding financial stability.

It is an honor to be considered for this position. If confirmed, I would look forward to working with Members of this Committee to advance our shared goal of making sure our financial system works for all Americans. Thank you.

Chairman JOHNSON. Thank you. Mr. Velasquez, please proceed.

STATEMENT OF GUSTAVO VELASQUEZ AGUILAR, TO BE AN ASSISTANT SECRETARY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. VELASQUEZ AGUILAR. Thank you. Good morning, Chairman Johnson, Ranking Member Crapo, and Members of the Committee. I would like to start by introducing my wife, Emily, and my two boys, Sebastian, who is seven, and Javier, who is four. They were promised two candies if they behaved well. I am beginning to hear Javier in the background, so I will make that three now. I am grateful for their love and support which means everything to me.

I am honored to appear before you today as you consider my nomination as Assistant Secretary for the U.S. Department of Housing and Urban Development's Office of Fair Housing and Equal Opportunity. I came to this country in my mid-20s, have proudly become a citizen, and have devoted the last 15 years of my life to public service.

My career has been marked by the pursuit of justice and the defense of civil and human rights for people from all walks of life. I am committed to promoting equal opportunity and combating discrimination, and believe that becoming Assistant Secretary for Fair Housing would be a tremendous opportunity to continue to fulfill that commitment.

My qualifications to become Assistant Secretary are based on my record as a leader, bringing people together to resolve complex public challenges; my experience in and knowledge of the field of non-discrimination laws, regulations, and enforcement, including fair housing, and my management abilities, particularly with respect to streamlining the investigation of discrimination claims for careful analysis and expeditious resolution.

Most of all, I want to highlight my experience in finding every possible way to inform the public about their rights under the law. In my previous positions, I have demonstrated expertise in working with Federal civil rights laws, regulations and programs, including Title VIII of the Civil Rights Act of 1968, and many other Federal and local antidiscrimination laws in employment, education, public accommodation, and publicly funded services and programs.

I served from 2007 through October 2013 as Director of the District of Columbia Office of Human Rights. In this capacity, I have been ultimately responsible for the investigation and disposition of thousands of discrimination cases filed by individuals and organizations.

I have also been responsible for helping establish or modify rules and guidelines to investigate and adjudicate employment and housing discrimination complaints under one of the most comprehensive nondiscrimination statutes in the country, the D.C. Human Rights Act of 1977. In doing so, I have studied and applied Federal laws and regulations from HUD and other agencies for consistency in the enforcement of civil rights in the District.

Because D.C.'s nondiscrimination law is substantially equivalent to the Fair Housing Act, for many years the D.C. Office of Human Rights has been cross-filing and investigating cases with HUD under Federal law. This has required me to understand and apply the rules and guidelines emanating from HUD's Office of Fair

Housing and Equal Opportunity for the proper investigation and disposition of Title VIII complaints.

With respect to management, in addition to many years as a not-for-profit executive manager, I have provided leadership and management in Government for two State-level agencies: The D.C. Office of Latino Affairs and the D.C. Office of Human Rights. As Director of the Office of Latino Affairs, I was responsible for designing and implementing policies and programs for the economic and social advancement of the Latino community.

At the Office of Human Rights, I led a successful agency of talented professionals working on combating discrimination in the Nation's capital. I am proud of the many accomplishments that my team of investigators, mediators, attorneys, and administrative law judges achieved under my leadership, whether in enforcement or raising awareness of the wide range of protections that people living and working in D.C. enjoy.

Mr. Chairman, Ranking Member Crapo, and Members of the Committee, I am honored by the President's nomination, the confidence of Secretary Donovan, and the opportunity to appear before you today. If confirmed, I look forward to working tirelessly on promoting fair housing and equal opportunity across the Nation and in cooperation with Members of this Committee. Thank you for your consideration of my nomination and I look forward to your questions.

Chairman JOHNSON. Thank you. Mr. McWatters, please proceed.

**STATEMENT OF J. MARK McWATTERS, TO BE A MEMBER OF
THE NATIONAL CREDIT UNION ADMINISTRATION BOARD**

Mr. McWATTERS. Chairman Johnson, Ranking Member Crapo, and Members of the Committee, thank you for the opportunity to appear before you today as an NCUA Board nominee. My wife, Denise, and our two teenage sons, Clark and Parker, were unable to join me today, but they are watching over the Internet. My sons were intrigued by the prospect of a televised job interview and reassured that such approach is rarely adopted by other employers.

In particular, I wish to thank Denise for her tireless and enthusiastic support in this endeavor, and many other endeavors, over the past 30 years. Truer words I have never spoken. I am especially grateful for Minority Leader McConnell's recommendation of me to the President for this position.

It is an honor and a privilege to be nominated to the NCUA Board, and if confirmed, I will do everything within my power to fulfill the trust placed in me by the U.S. Senate. NCUA plays a critical role as a regulator and insurer to protect the hard-earned savings of more than 96 million Americans. If confirmed, I will work diligently to ensure the continued integrity and safety and soundness of our Nation's \$1 trillion credit union industry in an ever-evolving marketplace.

On my qualifications, I currently serve as the Assistant Dean for Graduate Programs and as a professor of practice at the Southern Methodist University Dedman School of Law. As a teacher, I have found that my students often benefit from the vigorous discussion of judicial holdings and problem sets. Although we may initially approach an issue from divergent perspectives, the process of debat-

ing a challenging matter in a transparent and analytical, yet collegial, manner often produces common ground and a workable consensus.

Previously, I practiced law for more than 20 years, most of that as a partner focusing on tax, corporate finance, level. My private sector experience with three well-known international law firms covered tax law, corporate finance, and mergers and acquisitions.

My Government experience includes clerking for the U.S. Ninth Circuit Court of Appeals in Los Angeles and briefly serving as counsel to Congressman Jeb Hensarling. I also served on the TARP Congressional Oversight Panel.

While working alongside Senator Elizabeth Warren on the TARP panel, I sought to balance and respect different perspectives, and reach consensus based upon overarching principles, just like I now practice in the classroom. Ultimately, my colleagues and I worked to produce an accurate, nonpartisan analysis of the TARP and the financial crisis. I am pleased that of the 15 reports the panel issued during my tenure, 14 were unanimous.

If confirmed, I will bring the same approach to my work at NCUA. In legal practice, I have often found that the fundamental issues create the most opportunity for concern. For example, does a proposed tax structure have economic substance and business purpose?

Likewise, in assessing the risks inherent within financial institutions, I have learned that the root causes of seemingly intractable problems are often embedded not in the esoteric, but in the commonplace.

For example, do financial institutions have the capital, liquidity, and risk mitigation programs necessary to operate in an adverse economic environment? In answering questions like this one, regulators need to apply the law with impartiality and look at the larger picture. They need to think both tactically and strategically considering not just the desired outcome, but potential unintended consequences.

As such, my focus as a regulator will remain straight-forward: Do not neglect the fundamentals of capital, liquidity, and transparency, and always remember that the greatest threat to the financial system may reside where you least expect it: Hidden within plain view. In life, I have often found that and also learned about the need to earn trust and to never forget that real people are affected by decisions.

If confirmed, I will bring an open mind and a risk-based, market-oriented, targeted and transparent regulatory perspective to address the increasingly complex issues facing credit unions. I will also aim to balance competing viewpoints, to maintain the safety and soundness of the credit union system, safeguard the Share Insurance Fund, and protect taxpayers and credit union members from losses.

Thank you again for the opportunity to appear. I am pleased to answer any questions you may have.

Chairman JOHNSON. Thank you for your testimony. We will now begin asking questions of our nominees. Will the clerk please put 5 minutes on the clock for each Member?

Dr. Fischer, some suggest that community banks be subject to a different degree of regulation than larger banks. Do you support a chaired approach to regulation?

Mr. FISCHER. Senator, I grew up in a very small, rural area where there was one bank, and I know how important it is that those banks survive, particularly in a farming community. I do not think there should be a uniformity of regulation. I believe that the small banks do not have to fulfill all the requirements that are imposed on the large banks, but that the regulators have to do that in a sensible manner. Thank you.

Chairman JOHNSON. Governor Powell, resolving global firms across borders can be a challenge, but it is a key part to ending too big to fail. What are the next steps to improving cross-border resolution?

Mr. POWELL. Thank you, Mr. Chairman. I will start by saying that I am absolutely committed to ending too big to fail. I think it is fundamental, under our system, that private sector businesses can prosper or fail, as the case may be, and that it is not something that Government, as a general rule, needs to be involved in, in either process.

That said, the business of resolving global financial institutions is a challenging project and there is work going on here in the United States and all around the world on that. I think here in the United States we have done as much or more as any Nation, and I would point to stronger capital and liquidity requirements.

These big institutions have to pass severely adverse stress tests, which shows that they can continue to perform their function even in the event of a significant thing like the financial crisis.

And then the third thing I would point out is that the FDIC has developed a single point of entry approach to resolution. Very promising. It is getting a lot of support from our major trading partners around the world. So that is all positive. There is a great deal left to do here that we are working on. I would point to just a couple of things.

First, the senior debt requirement that we are imposing on the largest banks to assure that there is loss-absorbing capital in the case they do fail. Second, we are looking at a proposal of some kind to deter the excessive use of short-term wholesale financing. That was a real vulnerability in the crisis. And then finally, we are about to propose a capital surcharge on the largest firms.

The global challenges are, as your question states, very, very difficult and the work there is also going on. I guess I would go back to 2011 when the Nations of the world came together at the Financial Stability Board to agree on the key attributes of resolution mechanisms. It is a long list. I will not go through all of that, but a couple of elements I would point to.

First, and this is common with our own system, large institutions are to be required to have living wills so that we are looking carefully at how to resolve them now in good times, in reasonable times, so that we are not trying to figure this out at the last minute, as we were during the financial crisis. We are actually ready for this.

Another critical aspect of it would be our own law provides for a temporary stay so that derivative counterparties cannot foreclose

or accelerate against collateral and terminate contracts in the event an institution enters resolution. That is critical to avoid the creation of a run on an institution which can spread to the whole system.

Other Nations do not mainly have that, but it is part of the road map that they will and they are working on that. There are many other elements. I will not even think about going into them, but let me just summarize by saying there is a great deal of work going on around the world, a lot left to do, and I am eager to play a part.

Chairman JOHNSON. Dr. Brainard, an important component of bank regulation and financial stability is the ability to coordinate with our foreign counterparts on rules. If confirmed as a Governor, what experience will you bring to the Fed in this area, and how would you work to strengthen global coordination for financial rules?

Ms. BRAINARD. Thank you, Chairman Johnson. I think that in this world of very global financial markets, it is critical to have a very high degree of coordination among the largest financial centers in order to ensure the safety and soundness of our own system.

When I was at Treasury, one of my responsibilities was to work with the G20 and with the Financial Stability Board with counterparts, regulators, central bankers, finance officials around the world to try to get other countries to follow our lead.

I will say that the work that was done by this Committee in Dodd-Frank put us out in a leadership position and gave us a strong place to start, and we have had some successes bringing the rest of the world, Europe and Asia, along with us.

If you look at capital, for instance, we moved very quickly to push for high capital standards for simple leverage to augment them for a capital surcharge as well as a liquidity framework, and we have had substantial, though not complete, progress in persuading our counterparts around the world to put those things in place.

But I think as Governor Powell was saying earlier, the one area where we really are going to have to push very hard, and if I were confirmed this would be a high priority, is to make sure that other major financial jurisdictions have the capacity and the will to resolve their largest institutions and they have legal systems in place to do so. That piece is still a work in progress.

That is one of the reasons, I think, that our proposed foreign banking organization rules are so important, to make sure that our regulators have the capacity here to resolve those institutions, even as resolution frameworks are moving in the right direction overseas. Thank you.

Chairman JOHNSON. Senator Crapo.

Senator CRAPO. Thank you, Mr. Chairman. I have a number of questions and I know I am not going to get to go through them all during the hearing, and so although I am going to ask each of the individual nominees for the Federal Reserve a question, I am also going to ask the other nominees who do not get asked that question to respond to it later. So I just alert you to that.

The first one, I will start with you, Mr. Fischer, is, a recent paper presented at the U.S. Monetary Policy Forum suggests the possibility that the current monetary stimulus may involve a,

quote, tradeoff between more stimulus today at the expense of a more challenging and disruptive policy exit in the future.

Do you agree with that? And if you see that there will be challenges or dangers in the exit from our current monetary policy, could you tell us what you believe those are and whether you believe we can make an exit in a manner that is not disruptive to our economy?

Mr. FISCHER. Thank you, Senator. I think the exit is the beginning, or has begun. The extent of the purchases of the Fed, the monthly amount that is being purchased, is being reduced and conditions for the continuation of that have been described. Could that, theoretically, be disruptive?

Well, you don't have to look at theory. There was the May response, which I must confess I did not think I fully understood why the markets reacted as if it was a surprise. It had been talked about for a long time. But when the actual tapering began, it had a much more stable impact and that seems to be continuing.

What I take comfort from, in sort of thinking of all the possibilities, is that the Fed, in 2008, 2009, undertook many complicated programs. As far as I know, there were no technical failures in any of those programs, and that is a good precedent. Although the Fed is relying more, on the reactions of the market and those you have to adjust to if they are not what you expected, Senator.

Senator CRAPO. Thank you very much. And, Dr. Brainard, I am going to go to you next. You mentioned the Dodd-Frank legislation in your testimony. I worry that the aggregate impact of the rules of implementing Dodd-Frank will be immense and that we actually could push some financial companies into basically a regulatory death by 1,000 cuts if we are not careful about the evaluation of cost-benefit in terms of the regulations that are imposed as we move forward.

If you are confirmed to the Board of Governors, how do you—first of all, would you agree that there is this risk? And second, how would you intend to monitor the cumulative regulatory burden that we are putting on America's financial sector?

Ms. BRAINARD. Well, Senator, I think the process of reforming, fundamentally reforming our financial system is a work in progress. The reforms that were put in place under Dodd-Frank were extraordinarily important, very important to make sure that our largest institutions ran with less leverage, managed their liquidity much more carefully, held a lot more capital to absorb losses, changed their business models, and are fully resolvable without any taxpayer involvement.

So I think the pieces of the regulatory reform that are being put in place are each extremely important, but as you say, it is very important for us to be mindful over time of the aggregate impact and how business models change and make sure that credit is flowing to small businesses, to homeowners, to students.

So if confirmed, I would want to be very vigilant, understanding the cumulative impact of these rules, making sure that we are meeting the safety and soundness goals that were set out for us in that legislation, but I presume there will be adjustments, the need for adjustments as we go, and obviously we would expect to work

closely with this Committee as we monitor and tweak the framework.

Senator CRAPO. Thank you very much. And, Dr. Powell, I am going to ask you the same question that the Chairman asked Mr. Fischer with regard to community banks. The regulatory framework that emerged out of Dodd-Frank has made it increasingly difficult for community banks, and according to some reports, one-quarter of the small banks are now contemplating mergers because they simply cannot survive the regulatory environment.

Would you agree that we need to address this by being flexible in the kinds of standards we apply to the smaller banks as opposed to the larger banks?

Mr. POWELL. I would agree. Let me say that I believe that community banks—and I have personal experience with community banks providing a special kind of service in local communities that the large national banks are not really set up to provide—it is not a better world as community banks are going out of business. It is a better world with community banks in business. So I think they are very important in our communities, including my own community.

So in terms of regulation, most of what we have tried to do since Dodd-Frank passed is aimed at the larger banks, but there is a tendency for regulation to run to the smaller banks as well.

And so, you know, we try very hard to manage that, and we have a special council now at the Fed that former Governor Duke was instrumental in setting up called the Community Depository Institutions Advisory Council. We meet with them regularly to hear their concerns. We have also got a special subcommittee of the Board that looks at every regulation and its effect on community and regional banks.

So we are focused on this. It is separately the case that the community banking model is under pressure from national products, you know, product by product, mortgages and all those sorts of things, and car loans, have become nationalized. We do not want to add any pressure to that at all. We want to not be part of what is putting pressure on community banks if possible.

Senator CRAPO. Thank you.

Chairman JOHNSON. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. Appreciate all of our nominees here. Mr. Velasquez, I want to discuss an issue with you of high importance to the people in my State, particularly as a result of the challenge that they have faced by Hurricane Sandy.

In a challenging set of circumstances, some of the people in our States have been faced with greater challenges because of the way in which information has been distributed and decisions have been made, which have resulted in the minority community, from a series of independent reviews, not receiving fair access to recovery programs.

For example, the State's Spanish language Web site contained incorrect application instructions and missing deadlines, and it was not corrected until after the deadline to apply and/or appeal. I have also seen reports showing disproportionately higher rejection rates for African Americans and Latinos. And even if I work under the

assumption that there is no intentional discrimination, a disparate impact would be a cause for concern.

Now, my understanding is that the position for which you have been nominated is responsible for investigating these claims and ensuring fair and equitable treatment for all individuals. Yesterday I had a hearing that I conducted of the Subcommittee. Secretary Donovan mentioned that HUD is currently investigating a complaint that has been filed relating to these matters. I know you cannot speak to that.

But what I want to know is, if you are confirmed, will you make this a priority and keep our office updated about the results?

Mr. VELASQUEZ AGUILAR. Senator, you have my word that if confirmed as Assistant Secretary for Fair Housing and Equal Opportunity, I will review these matters. I will work with you and members of your staff to follow up accordingly and provide you prompt information.

Senator MENENDEZ. OK. Because it is simply—people who lost their homes and are challenged to pay their taxes like everybody else, but maybe linguistically challenged should have the same opportunity as anyone else, and it is unfair when information that was provided on the main Web site as it relates to Sandy recovery was missing on a Spanish language Web site and was not corrected, even after it was brought to his attention, until much later and rates of rejection were higher.

And when we had 80 percent of those individuals who appealed their decisions, the rejection ended up being right, they won their appeals, but Latinos did not know about the right to appeal, then something is fundamentally wrong. And so, I hope you will follow that.

I would like to ask this question to Dr. Fischer, Secretary Brainard, and Governor Powell. A great deal has been written and said about the theory of so-called expansionary austerity being tried by some of the countries in Europe.

The idea was that countries experiencing a serious economic downturn after the financial crisis and who saw their budgets fall into deficit and their borrowing costs rise as a consequence of the downturn could best move forward by implementing deep fiscal cuts and monetary tightening, with the hope that this would somehow stimulate economic growth by encouraging investor confidence.

From my perspective sitting on the Foreign Relations Committee, the way it played out has been quite the opposite. Fiscal cuts during an economic downturn caused by weak demand have further weakened these countries' economies, imposed great human cost in the form of high unemployment, and even canceling out some of the budgetary savings because of the weaker economy.

So I would like to ask you all, what lessons do you think we should draw from these countries' experiences, and have recent experience such as these, or conversely, the enhanced stimulus efforts underway in Japan, informed or influenced your approach to monetary policy?

Mr. FISCHER. Thank you for the question, Senator. The very clear lesson that one draws from experience in Europe, previous experience elsewhere, there was in the 1980s a theory that a contractionary fiscal policy could be expansionary, and there were

two countries where it seemed to happen. They were Ireland and Denmark. And what produced that, in large part, was a big devaluation in response to the fiscal action.

Well, that was not present in Europe. It cannot be present in the monetary union. So it was not relevant to Europe. That was the theory on which, and the experience on which it was being built. I think the recent experience, and also experience in Asia in the 1990s, suggests that the immediate impact of fiscal austerity is to reduce output.

Now, you may not be able to avoid that if your budget is a total mess and you cannot raise money. You may have to do that. But if you do not have to do it, then it is a negative effect.

Senator MENENDEZ. Could I hear from our other two?

Mr. POWELL. Sure. So, Senator, I would say sometimes Nations need to engage in fiscal austerity and that is a judgment not for Fed nominees, but for the legislature. No one should expect that it will result in short-term growth. It will not be expansionary, as Dr. Fischer pointed out.

The cases where it did were cases in which there was currency devaluation. And also importantly, the ability of monetary policy to respond. Where a central bank is already at the zero lower bound, there is no real ability to respond. There is no reason to think that fiscal austerity would bring growth in the sort of short and medium term.

Ms. BRAINARD. Senator, I think what we can see clearly from the case of Europe is that expansionary austerity is a contradiction and does not work. I think we have been fortunate here in the U.S. to have appropriate support for demand coming off of a very damaging financial crisis during a period where the private sector was deleveraging.

In my previous work at Treasury, I worked very hard to work with my European colleagues to persuade them that it was very important to avoid some of the terrible human costs of very high unemployment, to provide more support for demand. And, of course, it was very important for us here to have a strong partner in Europe.

So going forward, I think we should continue to hope that Europe provides support for the recovery so that we have a strong both economic and strategic partner in Europe.

Senator MENENDEZ. Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman. Congratulations to all of you on your nominations. I am going to direct my questions to Fed nominees. I will have questions in writing to Mr. Velasquez and Mr. McWatters. Thank you for joining us, too.

A recent study of the Federal Open Market Committee transcripts from 2000, 2007, found that committee members' collective background in macroeconomics seemed to cause them to miss connections between subprime lending and the exotic financial instruments with which the American public became all too familiar during the worst—during 2007, 2008, and 2009.

The transcripts of the 2008—recent released transcripts of the 2008 FOMC meetings showed that the September meeting, which was detailed and was outlined in great deal in a number of news-

papers, on the eve of the Lehman bankruptcy, that FOMC members mentioned inflation 129 times and recession 5 times.

I am concerned that a lack of diverse views on the FOMC could affect its ability to serve all Americans. Dr. Fischer, Ms. Brainard, you are the two nominees that will join, I presume, the Fed. What perspective do you bring that actually will matter and benefit the real economy and matter to families in Cleveland and Mansfield, Ohio? Dr. Fischer.

Mr. FISCHER. Senator, I do have an academic background, so I have to accept that. I think it is useful. But in terms of background for this job, I have been a central banker for 8 years. I did work through—as Governor of the Bank of Israel, I was Governor during the global crisis. You could not be in that crisis without being aware of the impact of financial problems on growth and of the absolute need to maintain employment.

Israel was lucky, or whatever, that it did not have a financial crisis, and so when we reduced interest rates, the banks could lend more and they did and Israel escaped the main burden of the crisis. That is the background.

But, Senator, in addition, I think anybody who has studied, and particularly who studied this crisis, knows the cost of unemployment, understands that slow growth is not an abstraction. Slow growth is people not finding jobs. Slow growth is problems for families in meeting even their food bill. And if one does not understand that, one cannot seriously be a policy maker. I think I understand that, Senator.

Senator BROWN. Thank you. Ms. Brainard.

Ms. BRAINARD. Senator, I have worked all my professional career on making sure that Americans have economic opportunity. I have worked extensively at the White House, most recently at Treasury, on guarding against financial crises, responding to financial crises and the terrible human cost that financial crises bring.

And, of course, I have worked quite a lot on making sure that Americans in manufacturing in places like Ohio are able to compete in the global economy and are able to borrow to send their kids to college, to borrow to buy homes, to protect their savings.

So this has been really my life's work and the Fed is a critically important place now, probably one of the most important places in terms of making sure Americans get back to work, the slack in the economy is overcome, and credit flows to those who are going to create jobs and create opportunity in the future.

Senator BROWN. Thank you. I have one other question and this is to all three Fed nominees, including Mr. Powell. Basel has proposed capital surcharges on SIFIs in a range of 1 to 2.5 percent over the Basel III standards. When she was Vice Chair of the Federal Reserve, now Federal Reserve Chair Yellen said she agreed with Governors Stein and Tarullo that these capital surcharges should be higher.

She said higher capital charges would help, and I quote, the future Chair of the Fed, end quote, offsetting any remaining too-big-to-fail subsidies and forcing full internalization of the social cost of a SIFI failure. Since then, the Fed has proposed a leverage ratio of 5 percent, as you know, but no announcement has been made about these surcharges.

My question to the three of you: Do you agree with Chair Yellen that a too-big-to-fail subsidy exists, and as a member of the Board of Governors, would you agree with Chair Yellen and Governors Tarullo and Stein that the SIFI capital surcharges should be higher? Mr. Powell, you want to start? Then Ms. Brainard, then Dr. Fischer.

Mr. POWELL. Thank you, Senator. So in terms of the subsidy, most of the studies—all of the studies show some kind of a subsidy. It is in a broad range. It is very hard to be precise. You cannot really hold all else equal. But for purposes of this answer, let us assume—and I do assume—that there is one.

Senator BROWN. And that it is significantly high, 50 basis points or more.

Mr. POWELL. You know, without the exercise, it is hard to have any confidence in these numbers. You have got to compare a huge bank to a small bank and they are very different businesses. It is just a hard thing. But I will assume it is real.

Your real question then is, are the surcharges high enough? And I would agree that they probably leave more to be done, and in fact, there are ways to get at that.

For example, one of the things we are looking at is the short-term wholesale funding aspect of these large institutions, and one of the ways to get at that—no one has decided yet—but one of the ways to get at that is through some kind of a capital surcharge based on exposure to short-term wholesale funding. So we are not done yet with the capital process.

Senator BROWN. OK. Ms. Brainard.

Ms. BRAINARD. Senator, I think it is very important that market participants understand that there can be no institution that is too big to fail. There are a lot of reforms that are underway that I think are important in addressing the perception on the previous reality of too big to fail and we need to think about them all together, the risk-based capital framework, the simple leverage ratio, liquidity requirements, stress tests extremely important in that overall framework, the orderly liquidation authority, and in particular, a single point of entry model, along with recovery and resolution planning, and as has been stated earlier, there are still rules to come on the amount of senior debt that needs to be held by these institutions, as well as short-term wholesale funding.

So I think going forward, at least in my case, I would want to be very attentive to whether that is sufficient and be open-minded about taking additional measures which could include higher capital charges on the largest institutions, and I think we will have to be very attentive to that and be willing to do more if a too-big-to-fail perception remains in the market.

Senator BROWN. I cannot tell if you think that Chair Yellen is right or wrong in her statement.

Ms. BRAINARD. Senator, I think what I would need to know is the overall impact of those changes together, and again, there may well be a role for even higher capital surcharges on the largest institutions. So there certainly may well be a role for that. But I do not know that. At this juncture, I would need to study that much more carefully. It is a very detailed analysis that I do not have access to that information right now.

Senator BROWN. Dr. Fischer.

Mr. FISCHER. Senator, I fundamentally agree with what my colleagues have said, my potential future colleagues. Excuse me. I would emphasize the bailable bond financing is another element that can help deal with too big to fail. And this is a work that is going to take a bit of time to figure out precisely whether enough has been done.

You will certainly get some guidance from what happens to estimates of the premium that the larger banks benefit from. The markets really have not had time to understand how the future system is going to work. So I think we are going to just have to keep following that premium and see what estimates of it look like as we move ahead, taking into account the reservations that Governor Powell has just expressed, which are valid, about that measure. But it is the best measure we have probably.

Chairman JOHNSON. Senator Reed.

Senator REED. Thank you very much, Mr. Chairman, and thank you all for your willingness to serve, your current service, Governor Powell. Dr. Fischer, let me ask you a question, and this is from your perspective as not a member of the Fed, but as one of the most respected experts in financial institutions and policy.

We are engaged in a current debate of whether we should apply banklike capital standards developed in Dodd-Frank with the assumption that they apply to bank holding companies to some very large insurance companies which may be classified as systemically important, and therefore, fall within this characterization.

Just in terms of the nature of an insurance company and the nature of a bank, are these identical or virtually identical standards appropriate or should they be a variation?

Mr. FISCHER. Senator, they are clearly not identical activities and there are differences in how they run their portfolios with the insurance companies trying to match the liabilities, rather than fundamentally being based on maturity transformation, which banks are.

And so, it is a different business and I think the capital requirements should take those differences into account.

Senator REED. The issue here, and it is not an insubstantial one, is whether or not the Federal Reserve has the authority through rules and regulations to do that. Without, I believe, and I will ask the Governor, a formal opinion, they decline, saying they do not have that.

But I think practically speaking, I concur with your answer and if we can reach that point, if the Fed can reach that point through their discretion, their rules and regulations for their application, that would probably be the most timely, I am sure, and perhaps the best solution. I do not know if you have a comment on that.

Mr. FISCHER. Well, Senator, I certainly had not. A lot of Senators I have spoken to expressed that view. I have also seen that there was a proposal last week to actually change the legislation and then not have to deal with the Fed's legal advisors, who are very good at their job.

Senator REED. I know they are very good at their jobs, but having been a lawyer once, I think sometimes if you know the answer ahead of time, you can find a way to get there.

Governor, you are serving right now and I do not want to put you in a disadvantaged position, but this issue of the regulatory discretion and the ability to do that is central to this whole issue. I assume you agree with Dr. Fischer about there are different balance sheets. How do we get to the point where we recognize this in practice?

Mr. POWELL. Senator, I absolutely agree that the insurance business, the traditional insurance business is very different from the banking business and that businesses that all the big banks are engaged in certainly in so many ways. And so, ideally capital requirements would reflect that.

I have not practiced law. It has been 30 years, I think, since I practiced law, but I can still read and I have read the Collins' Amendment very carefully, and I so far look in vain for flexibility. But, you know, I continue to try to look in it. Again, this is not really my call. This is the call of the professional lawyers at the Fed.

Senator REED. Well, again, I think your—this is a serious issue because it is not so clear-cut, I think, in terms of the language. Obviously there are opinions that people have rendered outside the Fed that says there is flexibility. And just sort of recalling over the years, I have at least got the impression that when the Fed wants to do something, they can find some very good lawyers on the staff to give them imprimatur to do that.

Secretary Brainard, do you have a comment on this issue?

Ms. BRAINARD. Senator, only to say that it is very clear that the insurance business model is very different, that the capital standards that were designed for banks are not well-designed for insurance companies for the traditional insurance business. I think it is very important for the Fed to find a way forward so that they can tailor their supervision.

As to whether the statute prohibits that or not, I do not have a well-informed view, but obviously, if confirmed, would want to work very hard to be able to tailor.

Senator REED. Thank you very much. Just a final point, and it reflects on the comments that my colleague, Senator Brown, said about, you know, the damage that slow growth does to real people. There is another side to this, another current debate about giving them unemployment benefits, which have lapsed.

So, Dr. Fischer, from your standpoint as someone who has sort of been through these crises, can you comment upon the value of unemployment benefits, not only to individuals, but also my understanding is that they provide economic stimulus, that they provide sort of a payback greater than the dollars that we put in. So not only helping people, they also stimulate demand to the economy. Is that a fair estimate?

Mr. FISCHER. Senator, this is not my area of expertise, so I do not know the depths of the most serious parts of the research, but there are two effects. One is the aggregate demand effect, sort of the helping people who just cannot find a job to live somewhat decently. And then there is the incentive effect which exists. You can see it when it is lengthened. When it is shortened, people tend to go back to work.

I think during a period in which jobs are much more difficult than usual to find, they should be lengthened, as they have been.

Senator REED. So that in this climate where there are three applicants for every job, I think—if I can assume—what trumps it is the aggregate demand and assisting people who are in very difficult circumstances rather than the disincentive argument? Is that fair?

Mr. FISCHER. Senator, I think that is a judgment which is not the Federal Reserve Board's to make.

Senator REED. OK. Well, it is obviously what I have made. I am just looking for a little encouragement. If Governor Powell or the Secretary want to comment?

Mr. POWELL. I cannot improve on that. Obviously, we all know. We have friends and relatives who have suffered from, particularly, long-term unemployment, and the damage to people's lives is dramatic. I think there are the two offsetting effects, but it is just not an issue that, you know, that we as unelected people have a public opinion on.

Senator REED. Well——

Ms. BRAINARD. Senator, the nature of our job market, I think, should be a huge concern of all of us. If you look even at not just at the unemployment rate, but if you look at the participation rate; if you look at the percentage of people who are working part-time, involuntarily, who would like full-time jobs; if you look at the percentage of the unemployed who are long-term unemployed, it is obvious that our job market is much weaker than it should be at this point in the recovery. That should very much color the analysis, the traditional analysis, of what role unemployment insurance plays in the system and in supporting demand.

Senator REED. Thank you very much. Thank you.

Chairman JOHNSON. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman. First I would like to welcome my former colleague, Mark McWatters. I worked closely with Mark on TARP oversight and he was always smart, thoughtful, and principled, and I strongly support his nomination to the Credit Union Board.

Dr. Fischer, after you were nominated, we met and discussed too big to fail, the fact that the big banks are growing bigger every day, and whether cutting their size would help reduce overall risk in the economic system. Now, I am concerned that the megabanks not only have the capacity to tilt the financial system, but that they also have the capacity to tilt the political system.

You know, we have learned that as big banks get bigger and bigger, their lobbying power and influence in Washington also tend to grow. That means big banks can often delay, water down, or even kill important regulations. So size can have ripple effects everywhere, and for that reason, I think it is a mistake to talk about size without considering how it affects the ability of Government to enforce meaningful regulation.

A century ago when Teddy Roosevelt and other progressives worked to break up the giant trusts, this was a big concern, not just the economic impact of size, but the political impact that came with size as well. So, Dr. Fischer, you have a great deal of experience as an observer and as a participant in the financial system.

Is this a point that you have thought about? And do you think it is possible for large Wall Street banks to amass too much political power?

Mr. FISCHER. Senator, thank you. I went back from our meeting and thought about this issue and it sort of rang some bells in me. I did go and look at the speech I thought I had given at the Jackson Hole conference in 2009. I discovered the following, which does not answer your question, but it is on the same point.

It says, Even for the largest economies, there is a case for discouraging financial institutions from growing excessively. While it is clear that there are economies of scale in commercial banking up to a certain point, it is less clear that these economies of scale continue at the very largest banks, and it is even less clear that there are serious economies of scope in the financial sector; that is, there is little evidence that the financial supermarket view by which the end of Glass-Steagall was justified, leads to more efficient and cheaper provision of financial services.

So I did not have to go into the political side of the issue. As a citizen, I think this possibility you raise is one which seems natural. When I went off to be Governor of the Bank of Israel, a friend gave me a copy of later Justice Brandeis' book, *Other People's Money*, and there was a powerful, very powerful attack before he became a justice.

Senator WARREN. Well, we have much to continue to talk about. But, Dr. Fischer, let me ask this question a different way. You know, many big banks are well-represented in Washington, but the connection between Citigroup and Democratic administrations really sticks out.

Three of the last four Democratic Treasury Secretaries have Citigroup ties. The fourth was offered but turned down the CEO position at Citigroup. Former Directors of the National Economic Council and the Office of Management and Budget at the White House, and our current U.S. Trade Representative also have Citigroup ties. You once served as President of Citigroup International and are now in line to be number two at the Federal Reserve.

Now, I know that Citigroup has some very smart people and I know that private sector experience can be very important in Government service. When I set up the new consumer agency, I hired many people from the private sector. But I also think it is dangerous if our Government falls under the grip of a tight-knit group connected to one institution.

Former colleagues get access through calls and meeting. Economic policy can be dominated by group-think. Other qualified and innovative people can be crowded out of top Government positions. So the question I want to ask you, Dr. Fischer, are you concerned about the revolving door between recent Democratic administrations and Citigroup, either in terms of policy or in terms of just public perception, or do you think there is nothing here to see?

Mr. FISCHER. Well, there is obviously something to be worried about, but I think we would look at the other side of this. In my case, my 3 years at Citigroup were the most important element in my education. It enabled me to be an effective supervisor of banks, which is one of my duties as Governor of the Bank of Israel.

Without that experience, I would have come to it largely with an academic background without ever having seen the inside of a bank, or furthermore, without ever having worked in the private sector.

Senator WARREN. Dr. Fischer—

Mr. FISCHER. I thought that that experience was extremely valuable. When my people who worked with me would explain to me the theory of what was determining the exchange rate, I could explain to them, Guys, I have seen what determines the actions of the guys who operate in the foreign exchange markets. It is not what you are talking about.

Senator WARREN. Dr. Fischer, because we are over time, I just want to be sure that we are drawing in on the same point. The point I was trying to make is not whether or not private industry experience is important. I would readily acknowledge that. As I said, I hired people when I was setting up the Consumer Financial Protection Bureau, and having private industry experience was one very important qualification.

The question I was asking about is the tight connection between the same institution and the Government and whether or not we need more diversity in that.

Mr. FISCHER. I think diversity is always worthwhile. It is true that I worked at the same institution as some of the people now in Government. We were not colleagues at the time. They were not there. I was there earlier. I left in 2005 after 3 years on the job and I know the people, I respect them, but there are people from other institutions whom I also know and respect very much, and I do not see that as a particular problem, at least in my case.

Senator WARREN. Thank you very much. I appreciate it. I appreciate your service. I do think it is important that we continue to talk about size and how it not only can tilt the economic system, but also the political system and how this works. Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Schumer.

Senator SCHUMER. Well, thank you, Mr. Chairman. First I want to say there are times when we are asked to consider nominees that are leading thinkers in their field. Other times when a nominee has a wealth of experience. It is rare you get the two together, and I think you are just that person.

You are one of the most brilliant people in terms of how a central bank should run. Your experience in Israel shows it. And you have also been somebody who has very broad experience. Diversity is good between people, but it is also good within someone. You have spent 3 years in the private sector and decades in the public sector at the IMF, at the World Bank, and as head of the Bank of Israel.

My view would seem to be that your 3 years in the private sector—we talked about this—made you a better central banker because you understood how the private sector would act. All too often, we have regulators who do not understand how the private sector acts and the private sector runs rings around them. So experience itself should, at 3 years at Citibank, I think should be an asset rather than a liability if you use that to understand how to regulate institutions that you are asked to regulate. I think you will, knowing you.

So I think—I think you would great at this. You have been a great voice on monetary policy. You have been one of the most respected economists of your generation. You have served as a leader on the national and international stage. You have had broad experience in the public sector, private sector, and academia, a great intellect, and you have had a strong moral compass. And not to mention, Mr. Chairman, he is a New Yorker, maybe the greatest qualification of them all.

So here is my question, first question, and this was the greatest challenge that our central bankers faced in the last decade which was the collapse in 2008. I was there. And I think the steady hand of Ben Bernanke was amazing, and that will be the number one thing that goes down about Chairman Bernanke in history, and that is what he was able to do and convince the political side to do to save our country from a massive depression.

I was one of the 10 or 12 legislators sitting at that table and I can tell you that. So my experience is this—my question is this: In 2008 and 2009, the Israeli economy was able to mainly avoid the global financial crisis, and this was in large part a result of your decisions as Governor of the Central Bank to do things quickly like cutting interest rates, reducing the value of the shekel.

As you look at the U.S. economy today, what advice would you offer to Chair Yellen as to how the Fed can better foster economic growth across the country? That is our number one problem, in my opinion. It is not inflation at the moment. It is the lack of middle class income growth. It is the lack of good-paying jobs. It is the basic stagnation of the economy, which may tarnish, for the first time, or to have a better word, glow much less brightly the American dream.

That lady in the harbor that I represent basically says if you work hard, you are going to be doing better 10 years from now than you are doing today. That is how the average person would put the American dream. Nothing fancy, nothing highfalutin. What advice can you give us, will you give Chair Yellen about how we are going to get better economic growth, and what monetary policy decisions can help make that happen? I understand we are the main people who ought to do that on the fiscal side, but we are a bit paralyzed.

Mr. FISCHER. Thank you. Thank you very much indeed, Senator. I am very proud to be a New Yorker, but I have to work on my accent, I understand.

Senator SCHUMER. You sound to me like you are from Brooklyn.
[Laughter.]

Mr. FISCHER. I think the Fed, in terms of what it has under its control, which is fundamentally monetary policy and now supervisory policy to a greater extent, what it has going for it that many central banks do not have is a dual mandate. The Fed is charged with trying to achieve maximum employment as well as maintain price stability, which is defined as 2 percent inflation.

I think the mixture that we are seeing coming out of the Fed now is approximately appropriate. There will be questions about the speed of tapering and so forth. But in terms of the instruments it controls, keeping an eye on the financial system and making sure that it does not get into a crisis of this sort again, and maintaining

incentives to growth, which is what low interest rates do, are appropriate at this time.

It then becomes harder when interest rates eventually will start rising, as they have to, and one will then start talking about trade-offs between inflation and unemployment. We are not there yet. We can focus on unemployment and that is what we, the United States, need to do.

Senator SCHUMER. One final question, with the indulgence of the Chair. Just elaborate, because I asked you about this. You said to me that your experience at Citibank for the 3 years you were there in your long career helped you be a much better central banker. And you are one of the few. There are probably—you could count on two hands the number of people who have your experience in the world dealing with crises.

Just tell me, just elaborate for the Committee and for the public how you think it was an asset and made you a better central banker, both in terms of the economy, but also in terms of regulating banks.

Mr. FISCHER. Well, Senator, I answered this a little bit in answering Senator Warren's questions. The basic issue is what do you think you are seeing out there. Do you understand when the markets are behaving one way or the other, and particularly when what happened in the Israeli case.

I happened to be getting the *New York Times*, as well as the Israeli papers. They were more worried about the aftermath of Lehman. The headlines were blacker and more difficult in the Israeli press than they were in the United States. And a panic descended and we knew it. We knew what the banking system's shape was. It had no relationship to what actually happened.

And the fact that you could have the confidence based on what you saw and go out and speak to people and avoid the sort of tricks that journalists play—Governor, can you guarantee us that there will never be a bank failure? That sort of thing. You have to give people confidence without exaggerating.

Senator SCHUMER. Right. One final question. You had mentioned to me that in one instance you had to, as head of the Israel bank, Bank of Israel, go after one of the major financial families in Israel for wrongdoing and one of them ended up spending time in jail. Could you just tell people about that? I know you do not—well, you may not want to talk about that. I do not know.

Mr. FISCHER. Well, that incident happened. It was not pleasant and it happened in the middle of a global crisis, which made it very delicate. It involved the chairman of one of the very big banks. We reached the conclusion, based on evidence we had, that he should not continue as chairman of that bank. It was very difficult to get him out, but we did eventually. This is one person who was tough. We dealt with it appropriately. He was later convicted of a variety of crimes.

Senator SCHUMER. I just bring it up because I think it shows that you will go after people who violate the law, do the wrong thing, et cetera. Thank you, Mr. Chairman.

Chairman JOHNSON. Mr. McWatters, what opportunities and challenges do you see for credit unions in the current environment?

Mr. MCWATTERS. I think the greatest opportunity for credit unions is to continue what they are doing now. With 96 million Americans in credit unions, they are growing, their loan base is growing, and the like. One opportunity is particularly for low-income credit unions to expand their mandate to those Americans who are underbanked and unbanked. There is opportunity there. Those folks need financial services. They need financial services at a reasonable rate, and I think there is opportunity there.

Challenges. I think the principal challenge is to look to the future and anticipate the next systemic shock or the next shock to the financial system. This applies to credit unions and also to banks. If you roll the clock back 6 years, 7 years, the talk about the overconcentration of mortgage-backed securities on the books of financial institutions, the too-big-to-fail end of large corporate credit unions, was virtually nonexistent.

If you look at the transcripts of the Fed tapes from 2008, there is very little, if any, discussion about this. It was there. It was hiding in plain sight. Loans were clearly inappropriately underwritten. There was an overconcentration of mortgage-backed securities. This led to the huge financial crisis that we are still suffering through.

That is the greatest challenge: to look into the future. But you have to be careful with that. If you are always crying wolf, you will be considered a flake, so you need to exercise judgment carefully and judiciously.

Another challenge to credit unions, I think, is the regulation of small credit unions, perhaps the overregulation of small credit unions. NCUA has made some progress in this area. I think more work though, needs to be done. If I am confirmed to this position, it is a scenario I want to look into. I want to talk to credit unions. I want to talk to the NCUA. I want to reach an independent analysis myself as to whether or not small credit unions are overregulated or not.

Other issues which have come up, risk-based capital has been proposed for credit unions. Risk-based capital, philosophically makes sense to me, that if you have riskier assets on your books, you should carry greater amounts of capital. But the devil is in the details. So if I am confirmed to this position, again, this is something I would very much want to look into. Thank you.

Chairman JOHNSON. Mr. Velasquez, as the Director of the District of Columbia Office of Human Rights, you work with HUD's Office of Fair Housing and Equal Opportunity. How will your experience as a local partner of HUD inform your activities as Assistant Secretary for FHEO?

Mr. VELASQUEZ AGUILAR. Thank you, Mr. Chairman. I believe that if confirmed, my experience as a strong local partner of the Office of FHEO will be both extremely relevant and useful. Working across the Nation's capital on the ground with communities, with neighborhoods, with industry groups, with different fair housing groups, I believe, especially at the local level, is a unique opportunity and a unique experience that will relate very well to this national role, if confirmed.

Because the D.C. Human Rights Act, one of the most robust non-discrimination laws in the country, is substantially equivalent to

the Fair Housing Act, we have worked together on a number of initiatives and programs. First and foremost, the investigation of complaints filed by District residents under Federal law, but we have also done a number of other proactive initiatives, including paired match testing across the city in the rental market, the analysis of mortgage lending data, training for industry groups at the local level, and very, very importantly, educational campaigns and awareness campaigns to continue to raise the knowledge of District residents about what are their rights under the Fair Housing Act and other civil rights laws nationally.

Chairman JOHNSON. I thank all the nominees for your testimony and for your willingness to serve our Nation. I ask all Members to submit questions for the record by COB Thursday, March 20. To the nominees, please submit your answers to the written questions as soon as possible so that we can move your nomination forward in a timely manner.

This hearing is adjourned.

[Whereupon, at 11:40 a.m., the hearing was adjourned.]

[Prepared statements, biographical sketches of nominees, and responses to written questions supplied for the record follow:]

PREPARED STATEMENT OF STANLEY FISCHERTO BE A MEMBER AND VICE CHAIRMAN OF THE BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

MARCH 13, 2014

Chairman Johnson, Ranking Member Crapo, and Members of the Committee, thank you for this opportunity to appear before you. I am greatly honored to have been nominated by President Obama to serve as a member and Vice Chair of the Board of Governors of the Federal Reserve System and I look forward, if confirmed, to working with this Committee in the coming months and years.

In recent years the Federal Reserve has made significant progress toward achieving its Congressionally mandated goals of maximum employment and price stability. Nonetheless, normalcy has not been restored. At 6.7 percent, the unemployment rate remains too high, and the rate of inflation has been, and is expected to remain, somewhat below the Federal Reserve's target of 2 percent. At present, achievement of both maximum employment and price stability requires the continuation of an expansionary monetary policy—even though the degree of expansion is being gradually and cautiously cut back as the Fed reduces its monthly purchases of longer-term Treasury securities and agency mortgage-backed securities.

I would like to add that in their efforts to achieve aggregate goals, policy makers should never forget the human beings who are unemployed, nor the damage that high inflation wreaks on the economy and thus on the lives of so many people.

The financial collapse that intensified in the last months of 2008 and early 2009 threatened, in the view of some central bankers, including this one, to result in a recession even deeper than the Great Recession we experienced. The Federal Reserve's policies in dealing with the financial collapse were courageous and effective. Nonetheless, we must do everything we can to prevent the need for such extreme measures ever again. Among the lessons of the financial crisis are the necessity of dealing with the "too-big-to-fail" problem, and the necessity of greatly strengthening the resilience of the entire financial system. The Dodd-Frank Act put in place a framework that should make it possible to advance these goals, and the United States has moved rapidly to put a series of important measures into effect. Among them are: the significant increase in capital requirements and the introduction of countercyclical capital buffers for banks; the sophisticated use of stress tests, the importance of which becomes ever clearer; enhanced resolution authority and the single point of entry in dealing with SIFIs; living wills; and the creation of the Financial Stability Oversight Council (FSOC). At the international level, the establishment of the Financial Stability Board (FSB), whose membership includes the countries of the G20 and a few other financial centers, provides an important mechanism for strengthening international coordination of financial regulation.

While we have undoubtedly made important progress in strengthening the financial system, we must also recognize that maintenance of the robustness and stability of the financial system cannot be attained without strong regulation and supervision. Financial systems evolve, and while financial crises have many similarities, they are not identical. The Fed must remain ever-vigilant in supervising and regulating the financial institutions and markets for which it has been assigned responsibility, and it should be no less vigilant in its surveillance of the stability and resilience of the financial system as a whole.

The Great Recession has driven home the lesson that the Fed has not only to fulfill its dual mandate, but also to contribute its part to the maintenance of the stability of the financial system. Almost always, these goals are complementary. But each of them must be an explicit focus of Fed policy. In all the situations with which the Fed will have to contend in pursuing its goals, it will be called upon to make wise decisions, which draw on the experience and the analytic skills of the staff and of the members of the Federal Reserve Board and the Federal Open Market Committee. I hope that, if confirmed, I will be able to assist Chair Yellen and my future colleagues in making those critical decisions, and so to contribute to the well-being of the citizens of the United States.

Senators, Thank you for the opportunity to appear before you today and for considering my nomination. I would be pleased to respond to any questions.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES
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Name: Fischer Stanley
 (Last) (First) (Other)

Position to which nominated: Vice-Chair, Federal Reserve Board

Date of nomination: January 13, 2014

Date of birth: 15/10/1943 **Place of birth:** Lusaka, Zambia
 (Day) (Month) (Year)

Marital Status: Married **Full name of spouse:** Rhoda Keet Fischer

Name and ages of children: Michael Adam Fischer, Age 43
 David Benjamin Fischer, Age 41
 Jonathan Philip Fischer, Age 38

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	London School of Economics	1962-1966	B.Sc. (Econ)	1965
			M.Sc. (Econ)	1966
	Massachusetts Institute of Technology	1966-1969	Ph.D.	1969

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

Distinguished Fellow, American Economic Association, 2014
 Honorary Fellow, London School of Economics, 2000
 Guggenheim Fellow, 1985
 Fellow, American Academy of Arts and Sciences, 1981
 Fellow, Econometric Society, 1977

Honorary Doctorates: Hebrew University, Israel, 2006
 University of Sofia, Bulgaria, 2004
 Tel Aviv University, Israel, 2001
 Ben Gurion University, Israel, 1998
 Tbilisi State University, Georgia, 1996

The Banker, Middle East Central Banker of the Year, 2013

Global Finance Magazine, Central Bank Report Card, Grade A (Africa and the Middle East)

- 2012
- 2011
- 2010
- 2009
- 2007

Euro money, Central Bank Governor of the Year, 2010

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
• Blavatnik School of Government	Member, Advisory Board	2012-Present
• Peter G. Peterson Institute for International Economics	Member, Board of Directors	2002-present
• Ohel Moshe Synagogue, Herzliya Israel	Member	2005-2013
• Advisors Group for the International Year of Microcredit	Chair	2005
• International Crisis Group	Member, Board of Trustees	2004-2005
• Women's World Banking	Member, Board of Directors	2003-2005
• Visiting Committee of MIT Economics Department	Member	2003-2005
• Federal Reserve Bank of New York	Member, Academic Advisory Council	1992-1994; 2002-2005
• Financial Stability Forum Chairman's Advisory Council	Member	2002-2005
• New Economic School	Member, International Advisory Board	Moscow, 2002-2005
• Group of 30	Member	2001
• Falk Institute for Economic Research in Israel	Member, Board of Trustees	1987-1998
• Kennedy School of Government, Harvard University	Member, Visiting Committee	1991-1997
• American Economic Association	Vice-President	1995
• Council on Foreign Relations	Member	1994
• Congressional Budget Office	Member, Academic Advisory Council	1993-1994
• Advisory Council of the Woodrow Wilson School, Princeton University	Member	1990-1994
• Gasparini Institute for Economic Research, Milan	Chairman, Fellowship Committee	1990-1994
• Institute for Monetary and Economic Studies, Bank of Japan	Honorary Adviser	1987-1994
• Hebrew University, Jerusalem	Member, Board of Trustees	1986-1994
• Panel for Economic Policy	Member	1992-1993
• Brookings Panel on Economic Activity	Member	1981-82; 1991-1992
• Executive Committee of the American Economic Association	Member	1989-1991
• National Science Foundation Economics Panel	Member	1978-80
• Consultant: U.S. Treasury, U.S. State Department, World Bank, International Monetary Fund, Bank of Israel		

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

- Distinguished Fellow, Council on Foreign Relations, New York, NY, 2013-present

- Governor, Bank of Israel, Jerusalem, Israel, May 2005–June 2013
- Vice Chairman, Citigroup, New York, NY, February 2002–April 2005
- First Deputy Managing Director, International Monetary Fund, Washington, DC, 1994–2001
- Elizabeth and James Killian Class of 1926 Professor, M.I.T., Cambridge, MA, 1992–1995
- Head, Department of Economics, M.I.T., Cambridge, MA, 1993–1994
- Professor, Department of Economics, M.I.T., Cambridge, MA, 1977–1994
- Director, World Economy Laboratory, M.I.T., Cambridge, MA, 1991–1993
- Vice President, Development Economics and Chief Economist, World Bank, Washington, DC, January 1988–August 1990
- Max Bogen Visiting Professor of Economics, Hebrew University, Jerusalem, Israel, 1984
- Visiting Scholar, Hoover Institution, Stanford, CA, 1981–82
- Fellow, Institute for Advanced Studies, Hebrew University, Jerusalem, Israel, 1976–77
- Associate Professor, Department of Economics, M.I.T., Cambridge, MA, 1973–77
- Visiting Senior Lecturer, Department of Economics, Hebrew University, Jerusalem, Israel, 1972
- Assistant Professor, Department of Economics, University of Chicago, Chicago, IL, 1970–73
- Postdoctoral Fellow, Department of Economics, University of Chicago, Chicago, IL, 1969–70
- Instructor, Department of Economics, M.I.T., Cambridge, MA, 1969

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

- Adviser to Secretary of State George Shultz on the Israeli Economy, 1983–86
- Member of Joint (US-Israeli governments) Economic Development Group, 1984–86, 1990–94
- Member, Academic Advisory Council, Federal Reserve Bank of New York; 1992–1994; 2002–2005
- Member, Academic Advisory Council, Congressional Budget Office; 1993–1994

Published Writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

I have done my best to identify titles, publishers and dates of books, articles, reports or other published materials, including a thorough review of personal files and searches of publicly available electronic databases. Despite my searches, there may be other materials I have been unable to identify, find or remember. I have located the following:

Books

1. *Macroeconomics*, twelfth edition, (with R. Dornbusch and R. Startz), McGraw-Hill, 2014.
2. *IMF Essays From A Time of Crisis: The International Financial System, Stabilization, and Development*, M.I.T. Press, 2004.
3. *Lectures on Macroeconomics*, (with O. Blanchard), M.I.T. Press, 1989.
4. *Economics*, second edition, (with R. Dornbusch and R. Schmalense), McGraw-Hill, 1987.
5. *Indexing, Inflation, and Economic Policy*, (Collected papers), M.I.T. Press, 1986.
6. Editor of *Living Standards and the Wealth of Nations: Successes and Failures in Real Convergence*, (with L. Balcerowicz), M.I.T. Press, 2006.
7. Editor of *Securing Peace in the Middle East: Project on Economic Transition*, (with L. Hausman, A. Karasik, and T. Schelling), M.I.T. Press, 1994.

8. Editor of *Monetary Theory and Thought: Essays in Honor of Don Patinkin*, (with Haim Barkai and Nissan Liviatan), Macmillan, London, 1993.
9. Editor of *The Economics of Middle East Peace*, (with Dani Rodrik and Elias Tuma), M.I.T. Press, 1993.
10. Editor of *Adjustment Lending Revisited*, (with Vittorio Corbo and Steven Webb), World Bank, 1992.
11. Editor of *Economic Reform in Sub-Saharan Africa*, (with A. Chhibber), World Bank, 1991.
12. Editor of *Lessons of Economic Stabilization and Its Aftermath*, (with M. Bruno, E. Helpman, N. Liviatan and L. Meridor), M.I.T. Press, 1990.
13. Editor of *Inflation Stabilization* (with P. Aspe, M. Bruno and R. Dornbusch), M.I.T. Press, 1988.
14. Editor of *Macroeconomics and Finance: Essays in Honor of Franco Modigliani*, (with R. Dornbusch and J. Bossons), M.I.T. Press, 1987.
15. Editor of *Rational Expectations and Economic Policy*, University of Chicago Press, 1980.

Journals

- Member, Editorial Advisory Board, *The World Economy*, 1990-1995
- Editor, *NBER Macroeconomics Annual*, 1986 to 1994; (1989-93, joint with O. Blanchard; 1994, joint with J. Rotemberg)
- Associate Editor, *Journal of Economic Perspectives*, 1986-1988
- Associate Editor, *Journal of Economic Literature*, 1982-1984
- Associate Editor, *Journal of Monetary Economics*, 1975-1994
- Associate Editor, *Econometrica*, 1975-1987
- Associate Editor, *Journal of Economic Theory*, 1973-1975
- Associate Editor, *Journal of Money, Credit and Banking*, 1973-1975

Articles

1. "Assets, Contingent Commodities and the Slutsky Equation," *Econometrica*, (March 1972), 371-86.
2. "Money, Income, Wealth and Welfare," *Journal of Economic Theory*, (April 1972), 289-312.
3. "Simulation of Monetary Rules in the FRB-M.I.T.-Penn Model," (with J.P. Cooper), *Journal of Money Credit and Banking*, (May 1972), 384-96.
4. "International Capital Movements Along Balanced Growth Paths: Comments and Extensions," (with J.A. Frenkel), *Economic Record*, (June 1972), 266-71.
5. "Investment, The Two Sector Model, and Trade in Debt and Capital Goods," (with J.A. Frenkel), *Journal of International Economics*, (August 1972), 211-34.
6. "Stabilization Policy and Lags: Summary and Extension," (with J.P. Cooper), *Annals of Economic and Social Measurement*, (October 1972), 407-18.
7. "Stochastic Simulation of Monetary Rules in Two Macro- Econometric Models," (with J.P. Cooper), *Journal of the American Statistical Association*, (December 1972), 750-60.
8. "Keynes-Wicksell and Neoclassical Models of Money and Growth," *American Economic Review*, (December 1972), 880-90.
9. "A Life Cycle Model of Life Insurance Purchases," *International Economic Review*, (February 1973), 274-77.
10. "The Use of the Secant Method in Econometric Models," (with J.P. Cooper), *Journal of Business*, (April 1973), 274-77.
11. "Stabilization Policy and Lags," (with J.P. Cooper), *Journal of Political Economy*, (July/August 1973), 847-77.

12. "Monetary and Fiscal Policy in the Fully Stochastic St. Louis Model," (with J.P. Cooper), *Journal of Money, Credit and Banking*, (February 1974), 1-22.
13. "Interest Rate Equalization and Patterns of Production, Trade and Consumption in a Two-Country Model of Economic Growth," (with J.A. Frenkel), *Economic Record*, (December 1974), 555-80.
14. "Economic Growth and Stages of the Balance of Payments: A Theoretical Model," (with J.A. Frenkel), *Trade, Stability and Macroeconomics, Essays in Honor of Lloyd A. Metzler*, George Horwich and Paul Samuelson (eds.), Academic Press, 1974.
15. "Money and the Production Function," *Economic Inquiry*, (December 1974), 517-33.
16. "A Method of Stochastic Control of Non-Linear Models and an Application," (with J.P. Cooper), *Econometrica*, (January 1975), 147-62.
17. "Recent Developments in Monetary Theory," *American Economic Review, Papers and Proceedings*, (May 1975), 157-66 Extended version . (with R.J. Barro), *Journal of Monetary Economics*, (April 1976), 133-84.
18. "The Demand for Index Bonds," *Journal of Political Economy*, (June 1975), 509-34. (Reprinted in M. Sarnat (ed.), *Inflation and Capital Markets*, Ballinger, 1978.)
19. "An Analysis of Alternative Nonstandard Mortgages," (with R.A. Cohn), *Conference Series #14*, F. Modigliani and D. Lessard, (eds.), Federal Reserve Bank of Boston, 1976.
20. "Long-Term Contracts, Rational Expectations and the Optimal Money Supply Rule," *Journal of Political Economy*, (February 1977), 191-206. (Reprinted in R. Lucas and T. Sargent (eds.), *Rational Expectations and Econometric Practice*, University of Minnesota Press, 1981.)
21. "Stability and Exchange Rate Systems in a Monetarist Model of the Balance of Payments," *Political Economy of Monetary Reform*, R.Z. Aliber (ed.), Macmillan, 1977.
22. "Wage Indexation and Macro-Economic Stability," *Stabilization of the Domestic and International Economy*, Vol. 5 Carnegie-Rochester Public Policy Series, North-Holland, 1977. 107-148.
23. "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," (with R. Dornbusch and P.A. Samuelson), *American Economic Review*, (December 1977), 823-39.
24. "On the Non-Existence of Privately Issued Index Bonds in the United States Capital Market," *Inflation Theory and Anti-Inflation Policy*, Erik Lundberg (ed.), Macmillan, 1977. (Reprinted in R. Dornbusch and M. Simonsen (eds.) *Inflation, Debt and Indexation*, M.I.T. Press, 1983.)
25. "Call Option Pricing When the Exercise Price is Uncertain, and the Valuation of Index Bonds," *Journal of Finance*, (March 1978), 169-76.
26. "Towards an Understanding of the Real Effects and Costs of Inflation," (with F. Modigliani), *Weltwirtschaftliches Archiv*, (1978), 810-32.
27. "Anticipations and the Non-Neutrality of Money," *Journal of Political Economy*, (April 1979), 225-52.
28. "Capital Accumulation on the Transition Path in a Monetary Optimizing Model," *Econometrica*, (November 1979), 1433-40.
29. "Sterling and the External Balance," (with R. Dornbusch), *Britain's Economic Prospects Revisited*, Richard Caves and Lawrence Krause (ed.), Brookings Institution, 1980.
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- "Comments on the IMF and the Environment," *Finance and Development*, Dec. 1995, 48.
- "Comments on Aslund, Boone, and Johnson," in *Brookings Paper on Economic Activity*, 1996, 1, 292-298.
- "Comments on Campbell and Shiller," in *NBER Macroeconomics Annual*, 1996, 197-201.

- "Comments on 'Why Is Financial Stability a Goal of Public Policy,'" in *Maintaining Financial Stability in a Global Economy*. A Symposium Sponsored by the Fed. Res. Bank of Kansas City, Aug. 1997, 37-45.
- "Comments on Feldstein," M. Feldstein (ed), *The Costs and Benefits of Price Stability*, Chicago: University of Chicago Press, 1999, pp 40-43.
- "Comments on 'Currency Crises,'" M. Feldstein (ed), *International Capital Flows*, Chicago and London: University of Chicago Press, 1999, pp 453-458.
- "Comments on 'The End of Stabilization,'" G. L. Perry and J. Tobin (eds), *Economic Events, Ideas, and Policies*, Brookings Institution, 2000, 99-104.
- "Comments on 'Between Meltdown and Moral Hazard: The International Monetary and Financial Policies of the Clinton Administration,'" J. Frankel and P. Orszag (eds.), *American Economic Policy in the 1990s*, Cambridge, Massachusetts: MIT Press, 2002.
- "Comments on 'IMF Stabilization Programs,'" Martin Feldstein (ed.), *Economic and Financial Crises in Emerging Market Economies, National Bureau of Economic Research*, Chicago: University of Chicago Press, 2003.
- "Comments on Kletzer," *India Policy Forum 2004*, Brookings Institution Press, 2004, 264-267.
- "Comments on Meltzer," in C. Campbell and W. Dougan (eds), *Alternative Monetary Regimes*, Baltimore, MD: Johns Hopkins University Press, 161-167.

Other (Presentations, Testimonies, Remarks)

- "The Determinants and Effects of Changes in Interest Rates," (with R. Dornbusch), prepared for the Trustees of the Banking Research Fund Association of Reserve City Bankers, 1979.
- "Savings, Capital Formation, and Social Security," prepared for the National Commission on Social Security, (March 1980).
- "Inflation, Monetary Policy, and Gradualism in the U.S. in the 1970's," prepared for the Conference on Problems of Fiscal and Monetary Policies in the U.S. and Japan, (July 1981).
- "The Administration's Budget Message," testimony to the Senate Budget Committee, (February 1983).
- "The Inflation Outlook," delivered at Federal Reserve Board Academic Consultants' Meeting, (May 1983).
- "The Budget and the Economy," testimony to the Senate Budget Committee, (February 1984).
- "The Israeli Supplementary Aid Request," Congressional Testimony, (April 1985).
- "International Debt and the Baker Plan," testimony to Joint Economic Committee, (January 1986).
- "Resolving the International Debt and Growth Crises," presented at State Department conference, (February 1986).
- "Socialist Economy Reform," presented at Federal Reserve Board Academic Consultants' Meeting, (June 1990).
- "Soviet Economic Reform and the Role of the West," testimony to the Senate Foreign Relations Subcommittee on European Affairs, (June 1991).
- "The Israeli Loan Guarantees," testimony to the Foreign Operations Subcommittee of the House Appropriations Committee, (February 1992).
- Interview, in B. Snowdon, H. Vane and P. Wynczyk (eds), *A Modern Guide to Macroeconomics*. Aldershot, England: Edward Elgar, 1994.
- Interview on the Middle East peace process, in *WorldLink*, (Nov/Dec 1994), 8-13.
- Interview, in IMF Staff News, (June 1995), 1-4.
- "Emerging Markets: The Outlook, and the Role of the Fund," delivered at the Spring Membership Meeting of the Institute for International Finance, (April 1997).

- "The Asian Crisis Countries and International System Improvements," Berlin 1998: *The Annual Meeting of the Trilateral Commission*, 1998, 3-9.
- "Interview: Stanley Fischer," *Central Banking*, XII, 2, (November 2001), 33-39.
- "What I Learned at the IMF," *Newsweek International*, (December 2001-February 2002), 86-87.

Reports

- Responsibility for World Development Report, World Bank: 1988, 1989, 1990
- Report on Adjustment Lending: I, 1988, II, 1990
- Report on Trade Policy Reform: 1989
- Participated in joint (IMF, IBRD, OECD, EBRD) *Study of the Soviet Economy*: 1990

Political Affiliations

and activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

Political

Contributions: Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

None

Qualifications: State fully your qualifications to serve in the position to which you have been named.

My qualifications to serve as Vice-Chairman of the Federal Reserve Board are based on the following aspects of my experience:

1. My academic degrees, in which I specialized in studying monetary and macro-economics, including the history of central banking.

2. My teaching experience in the same fields, for nearly twenty years at the Massachusetts Institute of Technology (MIT) and for three years at the University of Chicago.

3. My practical experience:

In advising Secretary of State George Shultz on the stabilization of the Israeli economy, 1984-86

As Chief Economist and Vice President for Development Economics of the World Bank, 1988-1990

As First Deputy Managing Director (the number two position) of the International Monetary Fund (IMF), 1994-2001, during which I played a leading role in dealing with economic crises in Mexico (1994-5), Asia (1997-98), Russia (1998-2000), Brazil (1998-2000) and several smaller countries

In the private sector, as Vice Chairman of Citigroup, 2002-05, during which I learned a great deal about banking in practice, experience which served me very well – especially during the economic crisis – when, as Governor of the Bank of Israel (2005-2013), I was responsible for bank supervision in Israel.

As Governor of the Bank of Israel, 2005-2013, when my major responsibilities were:

- To chair the Monetary Committee, the equivalent of the Federal Open Market Committee;
 - To direct the operations of the Bank Supervisor's department;
 - To serve as Economic Adviser to the Government;
 - Together with the Supervisory Committee (the equivalent of a Board of Directors), to manage the Bank
- In addition, during my period in office, I negotiated with the Treasury and the Prime Minister's Office a new Bank of Israel Law to replace the 1954 law, which was passed by the Israeli legislature in April 2010. The new law reduced the authority of the Governor by setting up both a Monetary Committee and a Supervisory Committee – previously all monetary policy decisions and all managerial decisions were in the sole discretion of the Governor.
- Israel came through the global financial crisis with only a very short (6-month) recession, and without suffering a financial crisis, and returned to growth in excess of 4% within a year.

Future employment

relationships: 1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Yes

Potential conflicts

of interest: 1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

In connection with the nomination process, I have consulted with the office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the Board's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the Board's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the Board's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

In connection with the nomination process, I have consulted with the office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the Board's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

**Civil, criminal and
investigatory
actions:**

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

PREPARED STATEMENT OF JEROME H. POWELL

TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

MARCH 13, 2014

Chairman Johnson, Senator Crapo, and Members of the Committee, I am honored and grateful to President Obama for the privilege of appearing before this Committee today as a nominee to the Federal Reserve Board. I have served as a member of the Board since May 2012. If I am confirmed to the new term for which I am nominated, I will continue to work to the best of my abilities to carry out the responsibilities of this office.

Over the past 2 years, I have been deeply involved in the work of the Board and of the Federal Open Market Committee. Important challenges lie ahead, and I am eager to play my part in meeting them.

Before joining the Board, I spent close to 30 years working in the financial markets as an attorney, as an investment banker, and as an investor. I believe that my practical experience of the private sector and the financial markets provides a valuable perspective in the work of the Board and the FOMC.

I also served as Assistant Secretary and then Under Secretary of the Treasury for Finance from 1990 to 1993. Throughout that period, I worked closely with this Committee, and appeared in this room many times as a witness in hearings and markups. More recently, I testified before this Committee on anti-money laundering and the Bank Secrecy Act on March 7, 2013.

The early 1990s were turbulent years for our economy and the markets. We faced the savings and loan crisis and the resulting bailout; a severe credit crunch, with some businesses and households unable to get credit on reasonable terms; the insolvency of the FDIC's Bank Insurance Fund; and the failure and near failure of several large financial institutions, which presented squarely the problem of too big to fail.

I was deeply involved in addressing these crises and in the major legislation that followed, including the Federal Deposit Insurance Improvement Act of 1991 (FDICIA). I also led the Administration's efforts to address a very troubling episode involving market manipulation and the submission of false bids in Treasury auctions by employees of the investment firm Salomon Brothers. This scandal resulted in the Government Securities Reform Act of 1992, as well as revisions to Treasury's auction rules.

Today, our economy continues to recover from the effects of the global financial crisis, unevenly and at a frustratingly slow pace. The task for monetary policy will be to provide continued support as long as necessary, and to return policy to a normal stance over time without sparking inflation or financial instability. This will require a careful balancing, as there are risks from removing monetary accommodation too soon as well as too late.

The regulation and supervision of financial institutions and markets are as important as anything the Federal Reserve does. This is a time to continue to address the weaknesses that were exposed during the crisis and set the stage for another long period of prosperity. Working with fellow regulators in the United States and around the world, the Federal Reserve is engaged in a once-in-a-generation renovation of the financial regulatory architecture. There is much work to be done, both in the implementation of decisions Congress has made and in finalizing and implementing international accords, such as Basel III.

At the heart of these broad reforms is the project of ending the practice of protecting creditors and sometimes equity holders of large global financial institutions in extremis—too big to fail. There has been significant progress, but more work is left to do. Realizing this objective will take time and persistence. I am eager to play a part in that.

Thank you again for holding this hearing today. I would be pleased to answer your questions.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Powell Jerome Hayden
(Last) (First) (Other)

Position to which nominated: Governor, Federal Reserve Board

Date of nomination: January 16, 2014

Date of birth: 4 February 1953 **Place of birth:** Washington, DC
(Day) (Month) (Year)

Marital Status: Married **Full name of spouse:** Elissa Ann Leonard

Name and ages of children: Samuel Hayden Powell (26); Lucy Leonard Powell (24); Susan Elizabeth Powell (15)

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	Princeton University	1971-75	B.A.	1975
	Georgetown University Law Center	1976-79	J.D.	1979

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

Alexander Hamilton Medal, for service in United States Treasury Department, awarded 1993.

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
D.C. Prep (charter schools)	Trustee	2006 – 2012
The Nature Conservancy	Trustee	2009 – 2012
Sidwell Friends	Investment Committee	2000 – 2012
Beauvoir School	Trustee	2002 – 2008
Center City Consortium	Chairman, Trustee	1998 – 2007
Bendheim Center for Finance (Princeton University)	Advisory Council Member	2007 – 2012
Council on Foreign Relations	Member	1995 (est) – present
Chevy Chase Club	Member	1990 – present
	Board of Governors	2010 – 2012
Burning Tree Club	Member	2000 – 2011
The Metropolitan Club	Member	1998 – present
Gibson Island Club	Member	2007 – present
Blue Ridge Numerics	Director	2009 – 2010
Cantaloupe Systems	Director	2009 – 2010

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work and inclusive dates of employment.

Warehouse Assistant, M.S. Ginn's, Bladensburg, MD, September – December 1975

Legislative Assistant, Sen. Richard S. Schweiker, Washington, DC, February – August 1976
 Summer Associate, Law Offices of Mac S. Dunaway, Washington, DC, June – August 1977
 Summer Associate, Baker & McKenzie, Washington, DC, June – August 1978
 Summer Associate, Gibson, Dunn & Crutcher, Los Angeles, CA, June – August 1979
 Law Clerk, Hon. Ellsworth Van Graafeiland, United States Court of Appeals for the Second Circuit, Rochester, NY, August 1979 – July 1980
 Associate, Davis Polk & Wardwell, New York, NY, January 1981 – September 1982
 Associate, Werbel & McMillin, New York, NY, October 1982 – December 1983
 Associate, VP and SVP, Dillon Read & Co., New York, NY, January 1983 – June 1990
 Assistant Secretary for Domestic Finance, U.S. Treasury, Washington, DC, June 1990 - December 1991
 Under Secretary for Finance, U.S. Treasury, Washington, DC, January 1992 - January 1993
 Managing Director, Bankers Trust, New York, NY, March 1993 – December 1994
 Managing Director, Dillon, Read & Co., New York, NY, January 1995 – August 1997
 Partner, The Carlyle Group, Washington, DC, September 1997 – September 2005
 Consultant, Promontory Financial Group, Washington, DC, November 2005 - January 2006
 Founder, Severn Capital Partners, Washington, DC, September 2006 – December 2007
 Managing Director and Senior Advisor, Global Environment Fund, Chevy Chase, MD, May 2008 – December 2011
 Visiting Scholar, Bipartisan Policy Center, Washington, DC, September 2010 – May 2012
 Governor, Federal Reserve Board, May 2012 – Present

Government

Experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

Assistant Secretary for Domestic Finance, U.S. Treasury, June 1990 – December 1991
 Under Secretary for Finance, U.S. Treasury, January 1992 – January 1993
 Legislative Assistant, Senator Richard S. Schweiker, February – August 1976
 Law Clerk, Hon. Ellsworth Van Graafeiland, United States Court of Appeals for the Second Circuit, August 1979 - July 1980
 Governor, Federal Reserve Board, May 2012 – Present

Published Writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

I have done my best to identify titles, publishers and dates of books, articles, reports or other published materials, including a thorough review of personal files and searches of publicly available electronic databases. Despite my searches, there may be other materials I have been unable to identify, find or remember. I have located the following:

Real Implications of Debt Debate, *Politico*, June 29, 2011
 Nation in Fiscal Crisis Faces only Tough Choices, *The Hill*, July 10, 2011
 Will Social Security Be Paid?, *Politico*, July 26, 2011

WSJ letter to the editor:

More on Stanley Druckenmiller and the Risk of Default, May 25, 2011
 More Vulnerable to Inflation, May 20, 1993

Blog posts and TV appearances, 2011 - 2012: <http://bipartisanpolicy.org/search/node/jay%20powell>: Numerous blog posts and TV appearances concerning fiscal policy, the debt ceiling, financial regulation, and the economy.

Political Affiliations and activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

Political Contributions: Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

Romney for President, June 25, 2011, \$1,000
 HPAC (Huntsman), June 13, 2011, \$1,000
 McCain Victory 2008, May 27, 2008, \$30,800
 Republican National Committee, May 29, 2011, \$28,500
 McCain Palin Compliance Inc., May 31, 2011, \$2,300
 John McCain 2008, January 8, 2008, \$2,300
 Talent for Senate, November 6, 2006, \$1,000
 Steele for MD, November 6, 2006, \$1,000
 Friends of George Allen, November 1, 2006, \$1,000
 Bob Corker for Senate, October 17, 2006, \$1,000
 Election Fund of Tom Kean, July 21, 2006, \$1,000
 Friends of George Allen, April 18, 2006, \$1,000
 Straight Talk America, October 21, 2005, \$5,000
 National Republican Congressional Committee, May 17, 2005, \$1,000
 Republican National Committee, May 12, 2005, \$2,000
 National Republican Senatorial Committee, May 10, 2005, \$1,000

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

I have served as a member of the Federal Reserve Board since May 2012. During that period I have participated in many meetings of the Board of Governors and the Federal Open Market Committee. I am also a member of several of the Board's internal committees, including the Committee on Payments, Settlement, and Clearing, which I chair; the Committee on Reserve Bank Affairs, which I chair; the Committee on Board Affairs; the Committee on Bank Supervision; and the subcommittee that reviews the potential effects of supervisory and regulatory decisions on community banks. I testified before the Senate Committee on Banking, Housing, and Urban Affairs on anti-money laundering and the Bank Secrecy Act on March 7, 2013.

Before joining the Board, I spent close to 30 years working in the financial markets as an attorney, as an investment banker, and finally as an investor. I believe that my practical experience in the markets provides a valuable perspective in Board and FOMC deliberations.

I served as Assistant Secretary and then Under Secretary of the Treasury for Finance from 1990 to 1993. Virtually every aspect of economic and financial regulatory policy was called into question by the crisis events of this period, including monetary policy and, particularly, financial regulatory policy.

In the late 1980s, a sharp downturn in commercial and residential real estate markets resulted in a wave of more than 1,000 failures among depository institutions. As a result, at Treasury we faced the savings-and-loan cleanup; the insolvency and bailout of the Bank Insurance Fund; and the failure of large financial organizations, which squarely

presented the too-big-to-fail problem. The devastation in the financial sector also resulted in a severe credit crunch, with businesses and consumers unable to get credit on reasonable terms, and a sharp rise in unemployment.

I was deeply involved in addressing these multiple crises and in the major legislation that followed, including the Federal Deposit Insurance Improvement Act of 1991 (FDICIA). I also led the Administration's efforts to deal with the Salomon Brothers scandal in the government securities markets, which involved market manipulation and the submission of false bids in Treasury auctions. This scandal resulted in the Government Securities Reform Act of 1992, as well as revisions to Treasury's auction rules.

After leaving Treasury in 1993, I remained a careful observer and student of economic policy and events. From 2010 until I joined the Board in 2012, I worked full time at the Bipartisan Policy Center as a Visiting Scholar, focusing on federal and state fiscal issues. My principal projects during that time included: a study of the operation of the federal debt ceiling, published in June 2011; the public simulation of a failure of a large, global bank under Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Orderly Liquidation Authority") (October 2011); and the public simulation of the insolvency of a major American state (October 2010).

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I have no such plans.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

In connection with my 2012 nomination process, I consulted with the Office of Government Ethics and the Federal Reserve Board's designated agency ethics official to identify potential conflicts of interest. All potential conflicts of interest were resolved in accordance with the terms of an ethics agreement that I entered into with the agency's ethics official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

In connection with my 2012 nomination process, I consulted with the Office of Government Ethics and the Federal Reserve Board's designated agency ethics official to identify potential conflicts of interest. All potential conflicts of interest were resolved in accordance with the terms of an ethics agreement that I entered into with the agency's ethics official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

In connection with my 2012 nomination process, I consulted with the Office of Government Ethics and the Federal Reserve Board's designated agency ethics official to identify potential conflicts of interest. All potential conflicts of interest were resolved in accordance with the terms of an ethics agreement that I have entered into with the agency's ethics official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

Confidential Financial Statement

Net Worth

Provide a complete, current financial net worth statement which itemizes in detail all assets (including bank accounts, real estate, securities, trusts, investments, and other financial holdings) all liabilities (including debts, mortgages, loans, and other financial obligations) of yourself, your spouse, and other immediate members of your household.

PREPARED STATEMENT OF LAEL BRAINARD

TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

MARCH 13, 2014

Chairman Johnson, Ranking Member Crapo, distinguished Members of the Committee, I appreciate the opportunity to be here with you today.

It is an honor to be nominated by President Obama to serve on the Federal Reserve Board and particularly under Chairman Yellen's leadership. I want to express gratitude to my husband and my 3 dynamic daughters for supporting my return to public service after a wonderful but too brief time at home.

I cannot think of a more important moment for the work of the Federal Reserve in promoting price stability and maximum employment alongside financial stability. If confirmed, you can be sure I will be intensely focused on safeguarding the Fed's hard won credibility in preserving price stability, while supporting its indispensable role in getting Americans back to work, and strengthening its role in ensuring a safe and sound financial system.

The Federal Reserve has a critically important and appropriately delimited role in addressing the challenges we face as a Nation in the wake of a deeply damaging financial crisis. It will need to carefully calibrate the tools of monetary policy to ensure an appropriate pace of normalization, while supporting the fragile recovery in our job market and ensuring inflation expectations remain well anchored. The Federal Reserve will need to continue robust implementation of financial reform and enhanced supervision to ensure that no financial institution is too big to fail and to discourage the massive leverage and opaque risk taking that contributed to the financial crisis, while protecting the savings of retirees and sound access to credit for consumers, small businesses, students, and households seeking to own their own home.

For me, service on the Federal Reserve would be a very natural progression, building on my more than 6 years of experience formulating economic policy at the White House National Economic Council and Council of Economic Advisers, and my nearly 5 years of recent experience in financial diplomacy at the Treasury, as well as my earlier work in the private sector and academia focused on U.S. competitiveness in key industries. It would enable me to continue my life's work of promoting an economy that delivers opportunity for hard working Americans while safeguarding financial stability.

It is an honor to be considered for this position. If confirmed, I would look forward to working with Members of this Committee to advance our shared goal of making sure our financial system works for all Americans.

Overseas Private Investment Corporation
Board Member June 4, 2010 –
November 8, 2013

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

2009-13	Department of the Treasury Under Secretary of the Treasury for International Affairs Counselor to the Secretary	Washington, D.C.
2001-09	Brookings Institution Vice President and Founding Director Senior Fellow and Bernard L. Schwartz Chair	Washington, D.C.
1994-2000	White House National Economic Council Deputy National Economic Adviser and Deputy Assistant to the President and G-8 Sherpa Special Assistant to the President White House Fellow	Washington, D.C.
1990-1996	Massachusetts Institute of Technology Associate Professor of Applied Economics and MIT Class of 1956 Chair Assistant Professor of Applied Economics, Sloan School of Business	Cambridge, Massachusetts
1989-90	Council of Economic Advisers Staff Economist	Washington, D.C.
1987	Harvard Consultant	Kaolack, Senegal
1986	Ford Foundation Consultant	Dakar, Senegal
1983-1985 1982	McKinsey and Co. Business Analyst and Gilbert Clee Scholar	New York, NY and London, UK

Government

experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

2009-13	Department of the Treasury Under Secretary of the Treasury for International Affairs Counselor to the Secretary	Washington, D.C.
1994-2000	White House National Economic Council Deputy National Economic Adviser and Deputy Assistant to the President and G-8 Sherpa Special Assistant to the President White House Fellow	Washington, D.C.

1989-90 Council of Economic Advisers Washington, D.C.
 Staff Economist

Published

Writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

I have done my best to identify titles, publishers and dates of books, articles, reports or other published materials, including a thorough review of personal files and searches of publicly available electronic databases. Despite my searches, there may be other materials I have been unable to identify, find or remember. I have located the following:

"Political leaders often overlook the key to economic growth: women," *The Guardian*, July 31, 2013
<http://www.theguardian.com/commentisfree/2013/jul/31/political-economic-equality-for-women>

Treasury Blog, *Cincinnati Manufacturers on Front Lines of President's Effort to Double American Exports*, July 26, 2012

Treasury Blog, *A Preview of Treasury's Participation at the G-20 Summit*, September 4, 2013
<http://www.treasur.gov/connect/blog/Pages/Brainard-G20-Preview.aspx>

Strengthening American Competitiveness: Regaining Our Competitive Edge, coauthor with Jason Bordoff, Carola McGiffert and Isaac Sorkin, Brookings, 2009.

Climate, Trade, and Competitiveness: Is a Collision Inevitable? coeditor with Isaac Sorkin, Brookings Institution Press, 2009.

Brazil as Economic Superpower? Understanding Brazil's Changing Role in the Global Economy. coeditor and contributing coauthor with Leonardo Martinez Diaz, Brookings Institution Press, 2009.

Development in the Balance: How Will the World's Poor Cope with Climate Change? coeditor with Abigail Jones and Nigel Purvis, Brookings Institution Press, 2009.

Top 10 Global Economic Challenges Confronting America's 44th President, editor and contributing coauthor, Brookings, October 2008.

"New Economy Safety Net," *Democracy Journal*, # 8, Spring 2008.

"Can America Still Lead in the Global Economy?" with David Lipton, Aspen Strategy Group, 2008.

Global Development 2.0 Can Philanthropists, the Public, and the Poor Make Poverty History? coeditor and contributing coauthor with Derek Chollet, Brookings Press 2008.

"An Empirical Assessment of the Proximity-Concentration Tradeoff between Multinational Sales and Trade," *American Economic Review*, 87 (4), September 1997. Reprinted in David Greenaway, Holger Görg and Richard Kneller, eds., *Globalization And Productivity*, Edward Elgar Publishing, 2008.

Too Poor for Peace: Understanding the Poverty-Insecurity Nexus, coeditor and contributing coauthor with Derek Chollet, Brookings Press 2007.

Top 10 Global Economic Challenges, editor and contributing coauthor, Brookings, February 2007.

"Adjusting to China's Rise," in *China's Long March on the 21st Century*, Kurt M. Campbell, ed., Aspen Institute, 2006.

Security by Other Means: Foreign Assistance, American Leadership, and Global Poverty, editor and contributing author, Brookings Press, 2007.

Offshoring White Collar Work, coeditor with Susan M. Collins, Brookings Press, 2006.

Transforming the Development Landscape: the Role of the Private Sector, editor and contributing coauthor, Brookings Press, 2006.

"A Fairer Deal for America's Workers: Wage Insurance in a New Era of Offshoring," with Robert E. Litan and Nicholas Warren, in Lael Brainard and Susan M. Collins, eds., *Offshoring White Collar Work: the Issues and Implications*, Brookings Press, 2006.

"Services Offshoring, American Jobs, and the Global Economy," with Robert E. Litan, *Perspectives on Work*, University of Illinois Press, Volume 8, Number 2, Winter 2005.

"Reassessing National Security," with Michael O'Hanlon, in Alice Rivlin and Isabel Sawhill, eds., *Restoring Fiscal Sanity: How to Balance the Budget*, Brookings Press, 2004.

"Offshoring Services Jobs: Bane or Boon and What to Do," with Robert E. Litan, Brookings Policy Brief, 2004.

The Other War: Global Poverty and the Millennium Challenge Account, lead author with Carol Graham, Nigel Purvis, Steve Radelet, and Gayle Smith, Brookings Press, 2003.

"Making the Millennium Challenge Account Work for Africa," with Allison Driscoll, *Brookings Policy Brief #123*, September 2003.

"What is the Role for Health in the Fight against International Poverty?" in *Biological Security and Global Public Health*, Kurt M. Campbell and Philip Zelikow, eds., WW Norton and Company, 2003.

"Compassionate Conservatism Confronts Global Poverty," *The Washington Quarterly*, Spring 2003. Reprinted in Alexander T. Lennon, ed., *The Battle for Hearts and Minds: Using Soft Power to Undermine Terrorist Networks*, MIT Press, 2003.

"Building Common Ground on Trade Demands More Than a Name Change," with Hal Shapiro, *The George Washington International Law Review*, 2003.

"A Turning Point for Globalisation? The Implications for the Global Economy of America's Campaign against Terrorism," *Cambridge Review of International Affairs*, July 2002.

"A Global Economic Agenda for the United States" with Robert Litan, in James Lindsay, Pietro Nivola and Henry Aaron, eds., *Agenda for the Nation*, Brookings Press, 2003.

"Capitalism Unhinged," *Foreign Affairs*, January/February 2002.

"Trade Policy in the 1990s," in Jeffrey Frankel and Peter Orszag, eds., *American Economic Policy in the 1990s*, MIT Press, 2002.

"The New Transatlantic Agenda," in Kurt Campbell and Philip Zelikow, eds., *America and Europe*, WW Norton and Company, 2002.

"Are U.S. Multinationals Exporting U.S. Jobs?" with David Riker in David Greenaway and Douglas R. Nelson, eds., *Globalization and Labour Markets*, Edward Elgar, 2001.

"Fast Track Trade Promotion Authority," with Hal Shapiro, *Brookings Policy Brief 91*, December 2001.

"Trading Places: The Prospects for Global Trade Negotiations," *The International Economy*, July/August 2001.

"Strategic Trade Policy with Incompletely Informed Policymakers," with David Martimort, *Journal of International Economics*, 1997.

"US Multinationals and Competition with Low Wage Countries" with David Riker, *National Bureau of Economic Research Working Paper No. 5959*, 1997.

"The Political Economy of Declining Industries: Senescent Industry Collapse Revisited," with Thierry Verdier, *Journal of International Economics*, 42(1-2), February 1996, pp. 221-37.

"Strategic Trade Policy Design with Asymmetric Information and Public Contracts," with David Martimort, *Review of Economic Studies*, 1996.

"Lobbying and Adjustment in Declining Industries," with Thierry Verdier, *European Economic Review*, 38, 1994, pp. 586-595.

"Last One Out Wins: Trade Policy in an International Exit Game," *International Economic Review*, 35(1), February 1994, pp. 151-172.

"Sectoral Shifts and Cyclical Unemployment Reconsidered," with David Cutler, *Quarterly Journal of Economics*, February 1993, pp. 219-241.

"An Empirical Assessment of the Factor Proportions Explanation of Multinational Sales," *National Bureau of Economic Research Working Paper No. 4583*, 1993.

"A Simple Theory of Multinational Corporations and Trade with a Tradeoff between Proximity and Concentration," *National Bureau of Economic Research Working Paper No. 4269*, 1993.

"Sectoral Shifts Unemployment in Interwar Britain," *National Bureau of Economic Research Working Paper No. 3980*, 1992.

"Protecting Losers: Optimal Diversification, Insurance, and Trade Policy," *National Bureau of Economic Research Working Paper No. 3773*, 1991.

"Senegal Community and Enterprise Development Project" published in C. Mann, M. Grindle, and P. Shipton, eds., *Seeking Solutions: Framework and Cases for Small Enterprise Development Programs*, 1989.

"Problems in Modeling Competition in the Aircraft Industry," with Paul Krugman, *MIT Working Paper*, 1988.

Political

Affiliations

and activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

Political

Contributions: Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

09/09/2012	Obama, Barack	2000.00
9/30/2008	Obama for America	2300.00
09/16/2008	Obama, Barack	2300.00
03/20/2007	Clinton, Hillary Rodham	2300.00
09/30/2007	Reed, Jack F.	2300.00
09/12/2006	Clinton, Hillary Rodham	2100.00
12/31/2005	Clinton, Hillary Rodham	2000.00

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

The Federal Reserve Board is responsible for implementing monetary policy to achieve maximum employment and price stability and for financial supervision and regulation to achieve financial stability. Over three decades, during periods in the private sector and the public sector, my work has focused on promoting a stronger and more stable economy and financial system for Americans.

The Federal Reserve Board plays a central role in responding to financial crises. I developed extensive experience on financial crisis response during my service at the White House and Treasury. That work has entailed considerable collaboration with senior officials from finance ministries and central banks around the world and in the U.S. For the past several years, I have been responsible for working with financial authorities around the world to promote recovery from the U.S. financial crisis and to craft the policy response to contain the euro area financial crisis as the U.S. Treasury representative to the G-20 and the G-7. Previously, during my service at the White House, I was responsible for policy coordination during the Asian financial crisis of 1997-98 and the Brazilian and Russian financial crises of 1998, and for work on the Mexican financial crisis of 1994-5.

The position I held at Treasury also had some responsibility for U.S. exchange rate policy and oversight over the Exchange Stabilization Fund. I worked bilaterally with Japan and with China, through the Strategic and Economic Dialogue, and multilaterally, through the G-7 and the G-20, to secure prohibitions against targeting exchange rates for competitive purposes and commitments to market-determined exchange rates. During this time, China's exchange rate appreciated 16 percent against the dollar adjusted for inflation.

The Federal Reserve Board plays an important role in financial regulation, while supporting credit to promote robust job growth. As the U.S. Treasury representative to the Financial Stability Board (FSB), I worked with central bank officials and financial regulators to ensure that all major foreign financial jurisdictions pursued financial reforms in parallel with the United States in order to build a stronger and more resilient financial system and ensure a level playing field. Our work in the G-20 and the FSB led to important agreements on regulating derivatives, bringing transparency and oversight to shadow banking, and ensuring banks have strong capital cushions to absorb losses in order to protect taxpayers and guard against financial crisis.

In addition to fostering price stability, Congress has charged the Federal Reserve Board with supporting maximum employment. Employment issues have been the focus of my work for three decades. I started my career in the private sector, where I worked with US car manufacturers struggling to maintain market share against foreign competitors and with U.S. financial institutions as they worked to build national networks to provide credit to households and businesses. I had opportunities as a business school professor and later during my time in public service to analyze how workers and businesses in the U.S. steel industry and in semiconductors adjusted to tough foreign challenges. During doctoral studies at Harvard and later as a faculty member at MIT, I developed measures to distinguish structural unemployment from cyclical unemployment in the United States – a critical distinction for monetary policy—and undertook analysis of the relationship between offshore production, trade and jobs. As a White House Fellow and at the White House National Economic Council, I helped craft a U.S. policy response to help equip American workers and businesses compete on a more level playing field as they confronted challenges from Japan and later from China. My focus on U.S. competitiveness continued as I built a new program at Brookings – only the fifth in its 90 year history—to address key global economic challenges confronting America. And in my work at Treasury, I placed a high priority on developing a more balanced economic relationship with China that delivers greater opportunities and a more level playing field for American workers and businesses. During this time, China’s current account surplus fell from 10 percent of GDP at its peak to over 2 percent today.

Future employment

relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

**Potential conflicts
of interest:**

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the Board's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the Board's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

In connection with the nomination process, I have consulted with the office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the Board's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

**Civil, criminal and
investigatory
actions:**

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

PREPARED STATEMENT OF GUSTAVO VELASQUEZ AGUILAR
TO BE AN ASSISTANT SECRETARY OF THE DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT

MARCH 13, 2014

Chairman Johnson, Ranking Member Crapo, and Members of the Committee, I am honored to appear before you today as you consider my nomination as Assistant Secretary for the U.S. Department of Housing and Urban Development's Office of Fair Housing and Equal Opportunity (FHEO). I would like to start by introducing my wife Emily and my two sons, Sebastian and Javier, who are with me here today. I am grateful for their love and support, which means everything to me.

I came to this country in my mid-20s, have proudly become a citizen, and have devoted the last 15 years of my life to public service. My career has been marked by the pursuit of justice and the defense of civil and human rights for people from all walks of life. I am committed to promoting equal opportunity and combating discrimination, and believe that becoming Assistant Secretary for Fair Housing and Equal Opportunity would be a tremendous opportunity to continue to fulfill that commitment. My qualifications to become Assistant Secretary are based on my record as a leader, bringing people together to resolve complex public challenges; my experience in and knowledge of the field of nondiscrimination laws, regulations, and enforcement, including fair housing; and my management abilities, particularly with respect to streamlining the investigation of discrimination claims for careful analysis and expeditious resolution. Most of all, I want to highlight my experience in finding every possible way to inform the public about their rights under the law.

In my previous positions, I have demonstrated expertise in working with Federal civil rights laws, regulations and programs, including Title VIII of the Civil Rights Act of 1968 (Fair Housing Act), and many other Federal and local antidiscrimination laws in employment, education, public accommodation, and publicly funded services and programs.

I served from 2007 through October 2013 as Director of the District of Columbia Office of Human Rights. In this capacity, I have been ultimately responsible for the investigation and disposition of thousands of discrimination cases filed by individuals and organizations. I have also been responsible for helping establish or modify rules and guidelines to investigate and adjudicate employment and housing discrimination complaints under one of the most comprehensive nondiscrimination statutes in the country—the D.C. Human Rights Act of 1977. In doing so, I have studied and applied Federal laws and regulations, from HUD and other agencies, for consistency in the enforcement of civil rights in the District.

Because D.C.'s nondiscrimination law is substantially equivalent to the Fair Housing Act, for many years the D.C. Office of Human Rights has been cross-filing and investigating cases with HUD under Federal law. This has required me to understand and apply the rules and guidelines emanating from HUD's Office of Fair Housing and Equal Opportunity for the proper investigation and disposition of Title VIII complaints.

With respect to management, in addition to many years as a not-for-profit executive manager, I have provided leadership and management in Government for two State-level agencies: the D.C. Office of Latino Affairs, and the D.C. Office of Human Rights.

As Director of the Office of Latino Affairs, I was responsible for designing and advancing policies and programs for the economic and social advancement of the Latino community.

At the Office of Human Rights, I led a successful agency of talented professionals working on combating discrimination in the Nation's capital. I am proud of the many accomplishments that my team of investigators, mediators, attorneys, and administrative law judges achieved under my leadership, whether in enforcement or raising awareness of the wide range of protections that people living and working in D.C. enjoy.

Mr. Chairman, Ranking Member Crapo, and Members of the Committee, I am honored by the President's nomination, the confidence of Secretary Donovan, and the opportunity to appear before you today. If confirmed, I look forward to working tirelessly on promoting fair housing and equal opportunity across the Nation and in cooperation with Members of this Committee. Thank you for your consideration of my nomination. I look forward to your questions.

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

Executive Director, Latino Economic Development Center

2316 18th St. NW
Washington, DC 20009
11/4/2013 - Present

Director, District of Columbia Office of Human Rights

441 4th St. NW, Suite 570N
Washington, DC 20001
01/01/2007 – 10/30/2013

Director, District of Columbia Office of Latino Affairs

2000 14th St, NW 2nd floor
Washington, DC 20009
09/23/2003 – 12/31/2006

Director of Operations, Congreso de Latinos Unidos, Inc.

216 Somerset St.
Philadelphia, PA 19133
09/01/2001 (est.) – 09/20/2003

Division Director, Children, Youth, and Families, Congreso de Latinos Unidos, Inc.

216 Somerset St.
Philadelphia, PA 19133
05/20/1999 (est.) – 08/30/2001 (est.)

Special Assistant to the Deputy Secretary of Planning, Department of Agriculture and Rural Development, Mexican Federal Government.

Mexico City
01/01/1995 (est.) – 07/15/1996 (est.)

Government

experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

I served as an Executive Service Mayoral appointee for the District of Columbia for three consecutive Mayors, in the positions described above as Director of the District of Columbia Office of Human Rights and Director of the District of Columbia Office of Latino Affairs:

In addition to these positions, I served in DC as the founding chairman of the Mayor's Bullying Prevention Taskforce, starting in 2012 through 2013; Chairman of the District of Columbia Fair and Inclusive Housing Taskforce in 2013; member of the Mayor's Commission for the Commemoration of the 50th Anniversary of the March on Washington, in 2013; member of the Mayor's Commission on Reentry and Returning Citizens, starting in 2012 through 2013; and member of the DC Police Department Inclusive Policing Taskforce, starting in 2008 through 2013.

In Philadelphia, I also served as a member of the Title I Planning Council for HIV/AIDS, appointed by the Mayor of Philadelphia, starting approximately in 2000 through 2002; founding member of the Latino Taskforce for Workforce Development in 2001; and founding member of the Philadelphia Affordable Housing Coalition between approximately 2000 and 2001.

Published

Writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

NONE

Political

Affiliations and activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

NONE

Political

Contributions: Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

\$500 contribution in support of Robert Bobb, candidate for School Board President in Washington, DC. Non-partisan election, 2006.

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

See attached sheet

Future employment

relationships: 1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

YES

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

NO

3. Has anybody made you a commitment to a job after you leave government?

NO

4. Do you expect to serve the full term for which you have been appointed?

YES

**Potential conflicts
of interest:**

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

NONE

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Department of Housing and Urban Development's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the Department's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Department of Housing and Urban Development's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the Department's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

NONE

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Department of Housing and Urban Development's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the Department's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

**Civil, criminal and
Investigatory actions**

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

During my tenure as Director of the DC Office of Human Rights, occasionally my name would appear in my official capacity in Petition for Review cases filed in DC Superior Court against decisions rendered by the Office.

In 2012, I was a named defendant in my official capacity in a case filed at the Equal Employment Opportunity Commission by an employee of the DC Office of human Rights. This matter was resolved by a settlement agreement and no findings were rendered.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

NONE

Qualification Statement

My qualifications for the position of Assistant Secretary for Fair Housing and Equal Opportunity (FHEO) at the Department of Housing and Urban Development (HUD) are based on my experience in and knowledge of the field of non-discrimination laws, regulations, and enforcement, including fair housing, and my management experience, particularly with respect to investigation of discrimination claims.

I have demonstrated expertise in working with federal civil rights laws, regulations and programs, including Title VIII of the Civil Rights Act of 1968 (Fair Housing Act); Title VI and VII of the Civil Rights Act of 1964; Section 504 of the Rehabilitation Act of 1973; Section 3 of the Housing and Urban Development Act of 1968; the American with Disabilities Act; the Age Discrimination Act; and relevant policies and regulations.

I served from 2007 through October, 2013 as the Director of the DC Office of Human Rights, or DC-OHR. In this capacity, I was responsible for the investigation and disposition of thousands of discrimination cases filed by individuals and organizations in the areas of employment, education, public accommodations, and housing. I also was responsible for helping establish or modify rules and guidelines to investigate and adjudicate employment and housing discrimination complaints under one of the most comprehensive non-discrimination statutes in the country – the DC Human Rights Act of 1977. In doing so, I studied and applied federal laws and regulations (primarily from HUD, the Department of Labor, and the Equal Employment Opportunity Commission) for replication and consistency in the enforcement of civil rights in the local jurisdiction.

Because DC's non-discrimination law is substantially equivalent to the Fair Housing Act, the DC-OHR has been for many years cross-filing and investigating cases with HUD under federal law. This required me to understand and apply the rules and guidelines emanating from HUD's Office of Fair Housing and Equal Opportunity (FHEO) for the proper investigation and disposition of Title VIII complaints.

With respect to management, in addition to many years as a non-for-profit executive manager, I have provided leadership and management in government for two state-level agencies: The DC Office of Latino Affairs, and the DC Office of Human Rights.

The Office of Latino Affairs, or OLA, resembles State-level Hispanic commissions responsible to advocate for inclusive policies and programs that can benefit Latino constituencies. In the District of Columbia, OLA has the authority to design programs and provide the financial support for non-profit community-based organizations to implement them. As such, I was responsible for reviewing and approving annually more than \$5 million in local appropriations and federal funding for a wide range of community programs.

At the Office of Human Rights, I managed a team of 30 talented professionals working on combating discrimination in the Nation's capital. This Office is similar to state human relations commissions or non-discrimination enforcement bodies. The staff under my purview included investigators, mediators, compliance specialists, attorney advisors, and administrative law judges. This experience will be particularly important if I am confirmed as Assistant Secretary for FHEO given FHEO's role in combating discrimination in housing.

February 7, 2014

The Honorable Tim Johnson
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510-6075

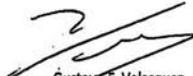
The Honorable Michael Crapo
Ranking Member
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510-6075

Dear Chairman Johnson and Ranking Member Crapo:

I am writing with respect to my questionnaire submitted to the Committee on January 31, from which two prior memberships on civic and charitable boards were inadvertently omitted. I was a steering committee member of the Community Foundation of the National Capital Region Immigration Partnership from 2004 to 2005 and of the Greater Washington chapter of Hispanics in Philanthropy in 2006.

Thank you and the Committee for your consideration of my nomination.

Sincerely,



Gustavo F. Velasquez

PREPARED STATEMENT OF J. MARK MCWATTERS
TO BE A MEMBER OF THE NATIONAL CREDIT UNION ADMINISTRATION BOARD
MARCH 13, 2014

Chairman Johnson, Senator Crapo, and Members of the Committee, thank you very much for the opportunity to appear before you today as a nominee for the National Credit Union Administration Board.

My wife, Denise, and our two teenage sons, Clark and Parker, were unable to join me today, but they are watching over the Internet. My sons were intrigued by the prospect of a televised job interview and were reassured that such an approach is rarely adopted by other employers. In particular, I wish to thank Denise for her enthusiastic and tireless support in this endeavor and over the last 30 years.

It is an honor and a privilege to be nominated to the NCUA Board, and if confirmed, I will do everything within my power to fulfill the trust placed in me by the President and the U.S. Senate. I'm especially grateful for Minority Leader Mitch McConnell's recommendation of me to the President for this position.

Through my education and work, I have developed a broad knowledge of the financial services industry and an understanding of the heavy responsibilities of regulators. NCUA plays a critical role as a regulator and insurer to protect the hard-earned savings of more than 96 million Americans in an industry with more than \$1 trillion in assets. If confirmed, I will work diligently to ensure the continued integrity and safety and soundness of our Nation's credit union system in an ever-evolving marketplace.

On my qualifications, I currently serve Southern Methodist University in three roles: as the Assistant Dean for Graduate Programs, as a Professor of Practice at the Dedman School of Law, and as an Adjunct Professor at the Cox School of Business. As a teacher, I have found that my students and I often benefit from the vigorous discussion of judicial holdings and problem sets. Although we may initially approach an issue from divergent perspectives, the process of debating a challenging matter in a transparent and analytical, yet collegial, manner often produces common ground and a workable consensus.

I also currently serve as an uncompensated member of two public entities. Since March 2012, I have served on the Governing Board of the Texas Department of Housing and Community Affairs, which assists in the financing of approximately \$1 billion of affordable housing units per year. Since September 2012, I have also served on the Advisory Committee of the Texas Emerging Technology Fund, a \$400 million-plus State venture capital and job creation fund. My work with both bodies focuses primarily on the oversight of taxpayer-funded resources and, if confirmed, should directly translate to my responsibilities on the NCUA Board.

Previously, I practiced law for more than 20 years, most of that at the partner level. My private sector experience with three well-known international law firms covered tax law, corporate finance, and domestic and cross-border mergers and acquisitions. I also served as the tax and merger and acquisition counsel to a cross-border investment firm.

Additionally, I have Government experience, clerking for a judge on the U.S. Ninth Circuit Court of Appeals in Los Angeles and briefly serving as counsel to Congressman Jeb Hensarling. From this latter position, I was appointed to serve on the Troubled Asset Relief Program Congressional Oversight Panel. In this role, I was privileged to work alongside someone who now serves on this Committee, Senator Elizabeth Warren.

While on the TARP Congressional Oversight Panel, I sought to balance and respect different perspectives, and reach consensus based upon a set of overarching principles, just like I now practice in the classroom. Ultimately, my colleagues and I worked to produce an accurate, nonpartisan analysis of the TARP and the financial crisis.

I'm pleased that of the 15 reports the panel issued in my tenure, 14 were unanimous. We achieved this result by working together in an open and respectful manner, with the goal of finding a common ground and working cooperatively through any differences. If confirmed by the Senate, I will bring this same approach to my work with my NCUA Board colleagues, NCUA staff, State regulators, and external stakeholders.

In my legal practice, I have often found that the fundamental issues create the most opportunity for concern. For example, does a proposed transaction generate sufficient cash flow? Does a tax structure have economic substance and business purpose?

Likewise, in assessing the risks inherent within financial institutions, I have learned that it's the basic issues that lead to the difficult questions. For example,

do financial institutions have the capital, liquidity and risk mitigation programs necessary to operate in an unexpectedly adverse economic environment? And are their financial statements transparent and understandable, so that it's possible to assess their business strategies and contingent liabilities?

In answering these questions, lawyers and regulators need to take a step back and apply the law with impartiality and look at the larger picture. They also need to think both tactically and strategically, always considering not just the desired outcome, but potential unintended consequences.

I am convinced that regulators should remain mindful that the root causes of seemingly intractable problems are often embedded not in the esoteric, but in the commonplace. As such, my focus as a regulator will remain straightforward: Don't neglect the fundamentals of capital, liquidity, and transparency, and always remember that the greatest threat to a financial system may reside where you least expect it—hidden within plain view.

Additionally, my experiences in the private and public sectors have taught me valuable lessons on leadership and responsibility, including the importance of: finding common ground, paying attention to the fundamentals, earning trust, and never forgetting that real people are affected by your decisions. As a result, these experiences have provided a solid foundation and comprehensive skill set for evaluating the important policy issues now facing the NCUA Board.

If confirmed, I will bring my 30-plus years of legal experience, accounting training, general understanding of the broader financial markets, an open mind, and a risk-based, market-oriented, targeted and transparent regulatory perspective to address the increasingly complex and sophisticated issues facing credit unions. Even more so, I will aim to balance competing viewpoints while maintaining the safety and soundness of the credit union system, safeguarding the Share Insurance Fund, enforcing consumer protection rules, and protecting taxpayers and credit union members from losses.

Thank you for the opportunity to appear here today, and for this opportunity to again serve my country. I am happy to answer any questions you may have.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES
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Name: McWatters John Mark
 (Last) (First) (Other)

Position to which nominated: Board Member, National Credit Union Administration

Date of nomination: 07 01 2014

Date of birth: 07 09 1954 **Place of birth:** Dallas, TX
 (Day) (Month) (Year)

Marital Status: Married **Full name of spouse:** Denise Clark McWatters

Name and ages of children:

John Clark McWatters, 18

Christopher Parker McWatters, 15

Education:

Institution	Dates Attended	Degrees Received	Dates of Degrees
New York University, School of Law	August 2002 to May 2003	LL.M.	May 2003
Columbia University, School of Law	August 2001 to May 2002	LL.M.	May 2002
University of Texas, School of Law	August 1979 to May 1982	J.D.	May 1982
Michigan State University, School of Business	September 1977 to August 1978	MBA	August 1978
Texas Christian University, School of Business	August 1974 to May 1977	BBA	May 1977

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

- Columbia University, School of Law – James Kent Scholar – May 2002
- University of Texas, School of Law – top 5 percent of class; Order of the Coif; Phi Kappa Phi – May 1982
- Michigan State University – Graduate Teaching and Research Assistant – August 1978
- Texas Christian University – number one graduate in school of business; Teaching and Research Assistant; Beta Alpha Psi, president; Omicron Delta Epsilon; Beta Gamma Sigma; Who's Who Among Students in American Universities and Colleges – May 1977

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office Held (if any)	Dates
Texas bar	Member	1982 to present
New York bar	Member	2003 to present
Texas Certified Public Accountant	Member	1979 to present
American Bar Association	Member	1982 to present
American Institute of Certified Public Accountants	Member	1979 to present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

Southern Methodist University, Dedman School of Law, Dallas, Texas
 Assistant Dean for Graduate Programs (formerly, Director of Graduate Programs), August 2011 to present
 Professor of Practice (formerly, Adjunct Professor) January 2011 to present
 See <http://www.law.smu.edu/> for a description of the Southern Methodist University's Dedman School of Law.

Southern Methodist University, Cox School of Business, Dallas, Texas
 Adjunct Professor, August 2009 to present
 See <http://www.cox.smu.edu/web/guest/home> for a description of the Southern Methodist University Cox School of Business.

Texas Department of Housing and Community Affairs, Austin, Texas
 Member of the Governing Board, March 2012 to present (no compensation)
 See <http://www.tdhca.state.tx.us/> for a description of the TDHCA.

Texas Emerging Technology Fund, Austin, Texas
 Member of the Advisory Committee, September 2012 to present (no compensation)
 See <http://governor.state.tx.us/ecodev/etf/> for a description of the TETF.

Main Street Growth Project, Arlington, Virginia
 Member of the Board, July 2013 to present (no compensation)
 MSGP is a nonprofit, nonpartisan organization to strengthen our communities and small businesses by educating Americans about the operation and regulation of the financial markets.

TARP Congressional Oversight Panel, Washington, D.C.
 Member of the Panel, December 2009 to April 2011
 See <http://cybercemetery.unt.edu/archive/cop/20110401223205/http://www.cop.senate.gov/> for a description of the TARP Congressional Oversight Panel and access to the thirty reports issued by the Panel and the testimony presented at the twenty-seven public hearings conducted by the Panel.

U.S. House of Representatives, Washington, D.C.
 Counsel to Congressman Jeb Hensarling (Texas 5th) in his role as the Ranking Member of the TARP Congressional Oversight Panel and counsel to former SEC Commissioner Paul Atkins in his role as a member of the TARP Congressional Oversight Panel, May 2009 to December 2009

HBK Capital Management L.P. (investment firm), Dallas, Texas
Tax and Mergers and Acquisitions Counsel, August 2007 to April 2009

Patton Boggs L.L.P. (law firm), Dallas, Texas
Partner, January 2004 to August 2007

Fulbright & Jaworski L.L.P. (now Norton Rose Fulbright) (law firm), Dallas, Texas
Partner, November 1990 to October 2001

Hughes & Luce L.L.P. (now K&L Gates L.L.P.) (law firm), Dallas, Texas
Partner and Associate, June 1986 to November 1990

McGinnis, Lochridge & Kilgore L.L.P. (law firm), Austin, Texas
Associate, September 1983 to June 1986

The Hon. Walter Ely, United States Court of Appeals, Ninth Circuit, Los Angeles, California
Judicial Clerk, August 1982 to August 1983

Arthur Andersen & Co. (CPA firm), Dallas, Texas
Staff tax CPA, September 1978 to August 1979

Government

Experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

Texas Department of Housing and Community Affairs, Austin, Texas
Member of the Board, March 2012 to present (no compensation)
See <http://www.tdhca.state.tx.us/> for a description of the TDHCA.

Texas Emerging Technology Fund, Austin, Texas
Member of the Advisory Committee, September 2012 to present (no compensation)
See <http://governor.state.tx.us/ecodev/etf/> for a description of the TETF.

TARP Congressional Oversight Panel, Washington, D.C.
Member of the Panel, December 2009 to April 2011
See <http://cybercemetery.unt.edu/archive/cop/20110401223205/http://www.cop.senate.gov/> for a description of the TARP Congressional Oversight Panel and access to the thirty reports issued by the Panel and the testimony presented at the twenty-seven public hearings conducted by the Panel.

U.S. House of Representatives, Washington, D.C.
Counsel to Congressman Jeb Hensarling (Texas 5th) in his role as the Ranking Member of the TARP Congressional Oversight Panel and counsel to former SEC Commissioner Paul Atkins in his role as a member of the TARP Congressional Oversight Panel, May 2009 to December 2009

The Hon. Walter Ely, United States Court of Appeals, Ninth Circuit, Los Angeles, California
Judicial Clerk, August 1982 to August 1983

Published Writings:

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

I have done my best to identify titles, publishers and dates of books, articles, reports or other published materials, including a thorough review of personal files and searches of publicly available databases. Despite my searches, there may be other materials I have been unable to identify, find, or remember. I have located the following:

1. Panel member of the TARP Congressional Oversight Panel, see www.senate.cop.gov for access to the reports.
2. *Wall Street Journal* op-ed, "TARP Was No Win for the Taxpayers," March 17, 2011, Paul Atkins, J. Mark McWatters and Ken Troske, at <http://online.wsj.com/article/SB10001424052748703899704576204383282043422.html>.
3. *Washington Post* op-ed, "AIG is Still Costing Taxpayers," March 29, 2012, Senator Elizabeth Warren, Damon Silvers, J. Mark McWatters and Ken Troske, at http://www.washingtonpost.com/opinions/aigs-past-losses-cost-taxpayers-now-and-into-the-future/2012/03/29/gIQA18ssiS_story.html.

Political Affiliations and activities:

List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None.

Political Contributions:

Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

I have made no political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years.

Qualifications: State fully your qualifications to serve in the position to which you have been named.

The National Credit Union Administration works to protect the hard-earned savings of nearly 100 million Americans in an industry with more than \$1 trillion in assets. As the credit union industry has grown more complex, questions about the ability of credit unions to use derivatives and effective mechanisms for interest rate risk management are just some of the many questions that have arisen. If confirmed, my knowledge of law, financial services and accounting developed during the last three decades will provide a solid foundation for addressing these and other important policy issues.

I currently serve as the Assistant Dean for Graduate Programs and as a Professor of Practice at Southern Methodist University's Dedman School of Law and as an Adjunct Professor at Southern Methodist University's Cox School of Business where I teach classes on different aspects of taxation.

In addition to my ongoing work at Southern Methodist University, I serve (without compensation) as a member of:

- the Governing Board of the Texas Department of Housing and Community Affairs (which finances the construction of approximately \$1 billion of affordable housing units per year and oversees down payment and homeless assistance programs, among other projects),
- the Advisory Committee of the Texas Emerging Technology Fund (a \$400+ million state financed venture capital and job creation fund), and
- the Board of the Main Street Growth Project (a newly formed non-profit charged with addressing the systemic risk inherent in too-big-to-fail financial institutions).

I received a J.D. degree from the University of Texas School of Law (1982) and an LL.M. degree from each of Columbia University School of Law (2002) and New York University School of Law (2003). I am licensed to practice law in Texas (1982) and New York (2003), and as a Certified Public Accountant in Texas (1979).

Prior to joining Southern Methodist University, I practiced for more than 20 years as a domestic and cross-border mergers and acquisitions, tax and corporate finance partner with three large international law firms (Patton Boggs LLP, Fulbright & Jaworski LLP (now, Norton Rose Fulbright) and Hughes & Luce LLP (now, K&L Gates LLP)). I also served as counsel to a cross-border investment firm (HBK Capital Management LP) and to Congressman Jeb Hensarling (TX-5). My public service has also included serving on the TARP Congressional Oversight Panel and clerking for a judge on the United States Court of Appeals for the Ninth Circuit.

I have worked throughout my legal career to create a diverse and broad-based legal practice—private and public sector, profit and non-profit, “real world” and academic, domestic and cross-border, federal and state. As such, I have sought to balance and respect different perspectives and reach consensus based upon a set of overarching best practices standards whenever possible. This statement is not merely a goal. As a member of the TARP Congressional Oversight Panel I worked with my colleagues to produce an analysis of the financial crisis that, in my view, was nonpartisan. Of the 15 reports of the TARP Panel that I joined, 14 were unanimous. In order to achieve this result, the members of the Panel and staff worked together in an open, collegial and transparent manner with the goal of finding a common ground and working collegially through

any differences to the maximum extent possible. If confirmed by the Senate, I would bring this same approach to my work on the NCUA Board.

In legal practice, I have found that it's often the simple stuff that creates the most opportunity for questions and confusion. For example, does a proposed transaction generate sufficient cash flow, does a tax structure have economic substance and business purpose, and does an attorney's work properly balance the client's goals with the attorney's ethical obligations? Lawyers, like regulators, need to take a step back and apply the law with impartiality and look at the big picture. An attorney ignores this situational analysis at his or her peril. An effective regulator must do the same.

Likewise, in assessing the risk inherent within financial institutions, I have learned from my experience on the TARP Panel and as a practicing attorney that it's also the simple issues that lead to the difficult questions. For example, do financial institutions have adequate capital and liquidity lined up to operate in an unexpectedly adverse economic environment, are their financial statements transparent and understandable where it's possible to assess their business strategies and contingent liabilities, are transactions properly underwritten on a risk-adjusted basis relative to expected return, are employees paid to close transactions with or without reference to the transaction's subsequent performance, and do the institutions support a culture of compliance and accountability or an "anything goes" environment?

While complex derivative products and legal structures no doubt exacerbated the recent financial crisis, in my view, a principal cause of the crisis resides in the pedestrian and mundane, that is, the simple stuff. If the home mortgage loans that served as the foundation—the DNA—of the mortgage-backed securities and collateralized debt obligations that exploded in 2008 had been underwritten in accordance with prudent, transparent and ethical standards, Main Street and Wall Street would have suffered a far less severe economic downturn. The crisis was attributable, in part, to a compensation system that often permitted loan originators and securitized debt issuers to receive their full bonuses and compensation awards without reference to the future performance of the instruments they underwrote and sold.

In regulating financial institutions, it is critical to remain vigilant for both the financial alchemy and the occasional chicanery and fraud that emerges. Methods of wrongdoing will continue to evolve, so regulators must remain ever vigilant and not overlook the fundamental significance of prudent underwriting standards and compensation programs that create incentives for quantity instead of quality. Regulators should remain mindful that the root causes of seemingly intractable problems are often embedded not in the esoteric, but in the common place. That is, don't forget the simple stuff.

If confirmed to the NCUA board, I will bring my 30-plus years of legal experience, accounting training, general understanding of the broader financial markets, an open mindset, and a risk-based, targeted regulatory perspective to address the increasingly complex and sophisticated issues of credit union regulation. Even more so, I will aim to balance competing viewpoints while maintaining the safety and soundness of the credit union system, safeguarding the Share Insurance Fund, enforcing consumer protections, and protecting taxpayers from losses.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I have no such plans.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

**Potential conflicts
of interest:**

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and NCUA's Designated Ethics Official to identify potential conflicts of interest. Any conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with NCUA's Designated Ethics Official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and NCUA's Designated Ethics Official to identify potential conflicts of interest. Any conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with NCUA's Designated Ethics Official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and NCUA's Designated Ethics Official to identify any potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with NCUA's Designated Ethics Official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

I have engaged in no such activity.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

In connection with the nomination process, I have consulted with the Office of Government Ethics and NCUA's Designated Ethics Official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with NCUA's Designated Ethics Official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

**Civil, criminal and
investigatory
actions:**

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

First Lawsuit

Description. The Inclusive Communities Project, Inc. (ICP) v. the Texas Department of Housing and Community Affairs (TDHCA), the Board Members of the TDHCA, in their Official Capacity, and the Executive Director of the TDHCA in his Official Capacity, filed in the Federal District Court for the Northern District of Texas on March 28, 2008.

Note: The suit was filed on March 28, 2008; the District Court decided the suit on March 20, 2012; and I joined the board of the TDHCA on March 3, 2012.

The case was decided within three weeks after I joined the board of the TDHCA and, as such, I was not involved in the litigation and was not serving on the board during any of the underlying challenged conduct. TDHCA has filed documents noting the change in board members. Because the court has not taken action, both docket sheets still reflect the original board members.

Nature of the action. ICP alleges that the way in which TDHCA operates the federal low-income housing tax program perpetuates racial segregation in the City of Dallas. Specifically, ICP claims that TDHCA's actions have resulted in an over-concentration of tax-credit units in minority areas and few tax-credit units in Caucasian areas, making it difficult for ICP to place its African-American clients in Caucasian neighborhoods. ICP brought suit against the TDHCA, its Board members in their official capacities, and its Executive Director in his official capacity, asserting that these actions violate the Fourteenth Amendment (via 42 U.S.C. § 1983), 42 U.S.C. § 1982, and the Fair Housing Act (42 U.S.C. §§ 3604, 3605).

Results of the action. As noted in the Lexis summary, a practice of approving tax credits for low-income housing developments in minority neighborhoods while denying credits in Caucasian neighborhoods supported a disproportionate impact claim under 42 U.S.C.S. §§ 3604(a) and 3605(a) because, under a rational relationship test, the TDHCA

did not prove that no alternative course of action would enable its articulated interests to be served with less discriminatory impact. Therefore, the Court found the Defendants liable for disparate-impact discrimination under the Fair Housing Act. The District Court ordered Defendants to create a remedial plan designed to address the disparate-impact. Defendants complied, and the District Court entered an order requiring use of the plan in the Dallas metropolitan area and stating it would monitor the plan for the next five years. The District Court also awarded ICP over \$1.8 million in attorneys' fees and costs. Defendants have appealed the judgment in favor of ICP. The District Court otherwise concluded that ICP failed to prove that Defendants were intentionally discriminating on the basis of race. The District Court, therefore, dismissed ICP's claims under the Fourteenth Amendment, § 1982, and § 1983.

Second Lawsuit

Description. Galveston Open Government Project, Sandy Taylor, Terri Lynn Griffin and Daniel Jerome Arvie (together, the Plaintiffs) v. The United States Department of Housing and Urban Development (HUD), Shaun Donovan, in his official capacity as Secretary of HUD, the General Land Office of the State of Texas, the Galveston Housing Authority, the City of Galveston and the Texas Department of Housing and Community Affairs (TDHCA) (together, the Defendants) filed in the Federal District Court for the Southern District of Texas on December 3, 2013 (Case 3:13-cv-00439).

Nature of the action. This is a class action civil rights suit brought by minority residents who are eligible to live in the City of Galveston's public housing. The Plaintiffs allege that Defendants have "intentionally perpetuated and refused to disestablish racial segregation" in Galveston in violation of the United States Constitution and the Fair Housing Act." The Plaintiffs additionally allege that the Defendants have "[f]ailed to act affirmatively to further fair housing opportunities" in violation of the Fair Housing Act. The Plaintiffs also allege discrimination in the provision of federal financial assistance in violation of Title VI of the Civil Rights Act. (Quotes are from Plaintiffs' Original Petition).

Note. In addition to TDHCA (where I serve on the Governing Board), other Defendants include HUD and HUD Secretary Donovan, in his official capacity. I have not been joined in the action in my (individual) official capacity.

TDHCA received a letter, dated October 29, 2013, from the Acting Assistant Secretary, HUD Office of Fair Housing and Equal Opportunity, the Acting Assistant Secretary, HUD Office of Community Planning and Development, and the Assistant Secretary, HUD Office of Public and Indian Housing, stating that the affordable housing developments that are the subject of the above referenced litigation will "affirmatively further fair housing" and "lower the concentration of poverty in these neighborhoods."

The Defendants received a letter, dated December 12, 2013, from The Galveston Northside Taskforce, The Galveston County Coalition for Justice, Gulf Coast Interfaith, NAACP, Galveston Unit #6180, and LULAC, Galveston Council #151 in support of the Defendants.

Results of the action. The case is still pending. Some of the defendants (including TDHCA) have filed an answer to the Plaintiffs' original petition. Other defendants (including HUD) have received an extension of time by the District Court to file an answer.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAPO
FROM STANLEY FISCHER**

Q.1. The regulatory framework that emerged out of Dodd-Frank has made it increasingly difficult for community banks. According to some reports, one-quarter of small banks are contemplating mergers because they can no longer survive. How will you work to minimize the regulatory burden being placed on community banks?

A.1. By beginning to taper the rate of its purchases of Treasury securities and agency-backed mortgage based securities, the Fed has already begun the process of returning to a more normal monetary policy, one that will rely on the short-term interest rate as its main instrument. But it is likely to take well over a year until the interest rate is first increased, since it is expected to remain at its current level for a considerable period even after the Fed ends quantitative easing.

The Fed has been developing tools for use during the period of transition to a more normal monetary policy, particularly the interest rate on reserves, a term deposit facility, and the use of reverse repos. These instruments should enable the Fed to maintain a close link between the rate paid on reserve balances and market rates.

Thus, the Fed will have the tools to manage the short-term interest rate. However, during the period of transition, the markets are likely to be very sensitive to expectations about the timing of the first increase in the Fed interest rate. The Fed will thus have to be very precise in its market guidance—while accepting that market reactions are sometimes unexpected.

Q.2. I worry that the aggregate impact of the rules implementing Dodd-Frank will be immense. For some financial companies it will result in a regulatory death-by-a-thousand-cuts, with significant impact for the economy at large. If confirmed to the Board of Governors, how will each of you intend to monitor the cumulative regulatory burden on entities affected by the Fed's rulemakings?

A.2. I fully agree with the underlying premise of the question, namely that the overall burden of the banking regulations imposed in the last 5 years, and particularly since the passage of DFA, may impose significant costs on banks, especially smaller banks. I understand that the Fed considers the costs and benefits of every rule that it issues—and also is working with other regulators to try to make sure that smaller banks are not faced with the same regulatory burdens as the larger banks.

If confirmed, I will certainly be attentive to the costs and benefits of Fed rules and regulations, and their burden—especially on smaller institutions.

Q.3. As part of its QE purchases, the Fed has accumulated a significant percentage of all new Federal mortgage-backed security issuances. The large nature of the Fed's purchases appear to be a deterrence to private capital from coming back into the market and issuing new mortgage-backed securities. What effect does the Fed's role as the dominant buyer of mortgage-backed securities have on the market?

A.3. The Fed's purchases of Government-backed mortgage-backed securities (MBS) should have had the effect of driving down the in-

terest rate on MBS, thus encouraging some private investors to buy closely related assets, including privately backed MBS, whose interest rates would have been less affected by the Fed's MBS purchases.

The FOMC has said that it is unlikely that it would sell agency mortgage-backed securities as part of the normalization of the balance sheet, except perhaps in the long run in order to reduce or eliminate residual holdings in the process of going back to holding a smaller portfolio composed largely or entirely of Treasury securities. Rather it will allow the MBS to mature and thus run off its holdings gradually so as to reduce market pressures that could result from the process of reducing its stock of MBS. As the Fed reduces its holdings of Government-backed MBS, interest rates on these securities are likely to rise, encouraging those who had moved to adjacent markets to return to the Government-backed MBS market.

Q.4. For the size of the balance sheet and the quantity of assets that the Fed has accumulated, there seems to have been only a limited effect on businesses willingness to hire. Please discuss about whether QE policy and implementation has been effective in reducing employment, and how you view the importance of fiscal and regulatory reform in growing our economy.

A.4. Research suggests that QE has lowered longer-term yields and eased broader financial conditions, and has also lowered mortgage rates. The market's response last spring to the FOMC's discussion of tapering suggests that the QE policies have had a significant effect on market interest rates—which in turn should have had a significant effect on investment, including in the housing market, and thus also on economic activity, employment, and unemployment. But direct estimates of the size of the effect of QE on employment and unemployment are not precise.

In principle, fiscal and regulatory reform can have an important impact on economic growth, but the impact would of course depend on the details of the reform measures.

Q.5. The New York Fed's report on household debt shows that one area we see an increase in individuals taking on significant amount of student loan debt. In addition, the Kansas City Fed recently held a conference on this same topic. In recent years, the vast majority of these loans are obtained by students through Federal programs. The relative ease of access to these Federal loans is encouraging students to take out significant amounts of loans. Should we be concerned about students acquiring this significant amount of debt? How will this affect the future of our Nation's economy?

A.5. The volume of student loans outstanding now exceeds \$1.2 trillion, and the 2-year cohort default rate on Federal student loans has increased from 6.7 percent in 2007, to 10 percent in 2011, which is the latest available data point.

Given the rise in the unemployment rate between 2007 and 2011, some of the increase in the default rate is likely to be due to the difficulty of finding jobs in 2011, and the default rate may already have started declining. Further, the return to college education does not seem to have declined significantly—so there re-

mains good reason to continue to encourage investment in college education.

Nonetheless the very large outstanding stock of loans gives cause for concern and careful monitoring of the situation.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED
FROM STANLEY FISCHER**

Q.1. Several experts and witnesses have stated in comment letters, legal memoranda, and testimony that the Federal Reserve has broad flexibility in the way it develops and applies minimum capital standards under Section 171 of the Dodd-Frank Act known as the Collins Amendment—for insurance companies and other nonbank financial companies supervised by the Federal Reserve. If and when you are confirmed and confronted with this issue, can we have your assurance that you will consider and evaluate the total mix of information available on this issue, including these legal memoranda and other views that were shared with the Subcommittee on Financial Institutions and Consumer Protection at its hearing on March 11, 2014?

A.1. Yes, if confirmed, I will consider and evaluate the total mix of information available on this issue, including relevant materials that have been shared with the Banking Committee this year.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN
FROM STANLEY FISCHER**

Q.1. Each of you testified that there is still work to be done to end Too Big to Fail. Do you think that ending Too Big to Fail should be the Board of Governors of the Federal Reserve System's (Fed) top regulatory priority?

A.1. Ending TBTF has been and must continue to be a key objective of the Federal Reserve. More generally, a key objective of financial sector regulation and supervision by the Fed and other supervisory agencies must be to end TBTF, in the sense that in future crises, the resolution of financial institutions should be possible without any direct cost to the public sector. Not less important is the need to prevent future crises, through the implementation of changes in laws and regulations, like the Dodd-Frank Act, which provide tougher and higher capital requirements for banks, a binding liquidity ratio, the use of countercyclical capital buffers, better risk management, the increasingly sophisticated use of stress tests, more appropriate remuneration schemes, more effective corporate governance, and improved and usable resolution mechanisms, along with moving transactions in derivatives to organized exchanges, and dealing with the shadow banking system.

Q.2. Do you think that regulators must ultimately reduce the size of the largest financial institutions to end Too Big to Fail? Do you believe it will be possible through other regulatory approaches—such as resolution authority—to convince the markets that the Government will truly let a massive institution fail?

A.2. The Fed and other regulators should do everything they can to address the TBTF problem. As mentioned in answering your

first question, many measures have already been put in place to reduce the likelihood of the failure of large financial institutions. Other measures are intended specifically to deal with the largest financial institutions, including the 10 percent deposit cap and the DFA 10-percent liability cap on bank holding company acquisitions. In addition, the Fed is required to consider the effect on financial stability of proposed acquisitions by large banking organizations, and in this context and others, regulators must consider all factors, including size, in assessing financial stability and other risks.

The importance of measures making large (and other) banks more resolvable should not be underestimated. Both the living will process and the “single point of entry” resolution strategy for bank holding companies are significant developments. Nonetheless, because the post-Great Recession financial system is still a work in progress, and because the private sector tries to innovate around regulations, we need to bear in mind the possibility that further measures and new approaches to the TBTF problem may be needed over the course of time.

Q.3. At a Banking subcommittee hearing this January, I asked four economists—Luigi Zingales from the University of Chicago, Simon Johnson from the MIT Sloan School of Management, Harvey Rosenblum from the Southern Methodist University, and Allan H. Meltzer of the Tepper School of Business—whether the Dodd-Frank Act would end Too Big to Fail when it was fully implemented. They each said it would not. Do you agree? If so, what kind of additional authority do you think the Fed needs to ensure that Too Big to Fail is ended? If not, what gives you confidence that Dodd-Frank, once fully implemented, will successfully address Too Big to Fail?

A.3. It is clear that real progress has been made in dealing with the TBTF problem, in the sense that in future crises, the resolution of bankrupt financial institutions should be possible without any direct cost to the public sector. That is made more likely by the provision in DFA that allows the costs of the failure of a bank or banks to be paid by means of a charge levied on the solvent banks. Further, we should be continuing work to strengthen the financial system by reducing the probability of failures of individual banks, and of systemic failures. While ending TBTF should be a key objective of the Fed, we need to realize that that is a goal that we must always strive to achieve, even though, we cannot foresee future developments in the financial system with sufficient clarity to be certain that we have fully eliminated TBTF—indeed, anyone who ever believes that TBTF has been totally eliminated is less likely to supervise the financial system with the caution and vigilance that is required.

Q.4. Congressman Cummings and I sent a letter to Chair Yellen in February urging her to revise the Fed’s delegation rules so that the Fed’s Board would have to vote on any settlement that included at least \$1 million in payments, or that banned an individual from banking or required new management. At a hearing last month, Chair Yellen testified that it was “completely appropriate for the Board to be fully involved in important decisions,” and that she “fully intend[ed]” to make sure the Board would be more involved going forward. Do you agree in principle with Chair Yellen’s testi-

mony and will you support her efforts to require Board members to vote on major settlement agreements?

A.4. Chair Yellen has stated that she agrees with the view that the Federal Reserve Board should be actively involved in all important enforcement decisions. I share that view and if confirmed will work with the Chair to translate it into practice.

Q.5. Last February, the Fed and the Office of the Comptroller of the Currency entered into what they touted as a \$9.3 billion settlement with mortgage servicers accused of illegal foreclosure practices. In their joint press release accompanying the settlement, the agencies claimed they had secured \$5.7 billion in relief for homeowners in the form of “credits” for what the agencies described as “assistance to borrowers such as loan modifications and forgiveness of deficiency judgments.” The press release did not disclose that the manner in which the credits were calculated could allow the servicers to pay only a small fraction of that \$5.7 billion, potentially reducing the direct relief to injured borrowers by billions of dollars.

Senator Coburn and I recently introduced the Truth in Settlements Act, which would require agencies to publicly disclose all the key details of their major settlement agreements—including the method of calculating any credits. Of course, agencies are not required to wait for congressional action to adopt such basic transparency measures. Do you think the Fed should voluntarily adopt the disclosure provisions of the Truth in Settlements Act?

A.5. The Fed is currently required by law to disclose publicly all written agreements enforceable by it against regulated entities and individuals, and any final orders in administrative enforcement proceedings—a law that applies also to consent agreements with regulated entities and individuals. I agree with Chair Yellen that the Fed should continue to look for ways to be more transparent and, if confirmed, will work with her to that end.

Q.6. For the last five years, the Fed has kept interest rates extremely low and has used asset purchases to drive rates down even further. Yet the unemployment rate still remains higher than the Fed’s target for full employment. In such situations where the Fed is struggling to fulfill its full employment mandate using monetary policy alone—should the Fed consider using its regulatory authority to attempt to boost job growth?

A.6. The fundamental goals of the Fed’s regulatory and supervisory responsibilities are to ensure the safety and soundness of regulated firms and to ensure financial stability. Nonetheless, its supervisory and regulatory measures may have macroeconomic consequences, which need to be taken into account when making the relevant decisions. Some of the changes made in implementing DFA, for example countercyclical capital buffers, automatically take the macroeconomic situation into account. In seeking to increase growth, it would be desirable for the Fed to focus on its monetary policy tools and more broad-based regulatory measures such as countercyclical capital buffers.

Q.7. Section 165(d) of the Dodd-Frank Act requires the Fed and the Federal Deposit Insurance Corporation (FDIC) to ensure that large

financial institutions can be resolved in an orderly fashion using the conventional bankruptcy process. These institutions are required to submit “living wills” that describe how such a conventional resolution could occur. If the Fed and the FDIC find that those plans lack credibility, they may require the financial institution to divest subsidiaries, hold increased capital, reduce leverage, or take other steps to shrink or simplify the institution. To date, over 100 institutions have submitted living wills, and the Fed and the FDIC have not rejected a single plan as lacking credibility.

What gives you confidence that our largest financial institutions could currently be resolved through a conventional bankruptcy procedure? What criteria would you use to determine whether a resolution plan is “credible” for the purposes of Section 165(d)? Are you willing to take the actions identified in Section 165(d)(5) of Dodd-Frank—including mandating divestiture of subsidiaries—if you believe a resolution plan lacks credibility?

A.7. The requirement that large financial firms prepare living wills is designed to ensure that both the firms and the regulators have examined what would need to be done if a bank were to go bankrupt, and are prepared to undertake those actions. They also provide information on the order of precedence of creditor claims, make it clear that bondholders will be bailed in if necessary, and should show that the firm could be resolved without needing injections of public money.

At this stage I do not have enough information to be able to judge whether the living wills meet these criteria. I understand that the Fed and the FDIC are currently reviewing the 2013 plans, and may jointly determine that a plan is not credible, nor would facilitate an orderly resolution of the company. I do not know how this process is being implemented. If confirmed, I would seek to become fully informed on the adequacy of the plans, in accordance with the process now under way between the Fed and the FDIC.

If confirmed, I would be willing to support taking any actions that are compliant with the law and that are necessary to meet the goal of reducing risks to the stability of the financial system.

Q.8. As a fraction of GDP, the financial sector today is about twice as large as it was in the 1970s. Despite this growth in size, researchers have found that the sector is less efficient than it once was in allocating credit for the real economy. Do you believe that there are effectively “reverse economies of scale,” such that financial institutions can grow so large that they become less efficient at performing their primary function of allocating credit?

A.8. There is no question that the share of the financial sector in GDP has grown significantly since the 1970s. During that period there has been a great deal of financial innovation. Not all the innovations have increased the efficiency of the financial sector in allocating capital—as was evident in the degree of complexity in many derivative contracts in the run-up to the financial crisis. The new regulatory system being put in place at present, which seeks to end TBTF by in effect aligning the private returns to financial activities with their social returns, may well lead to a decline in the size of the sector relative to GDP.

During the same period, there has been an increase in concentration within the banking sector, with the large banks growing relatively larger. Research on whether there are economies of scale in banking has not yet reached a definitive conclusion. In this area too, changes in regulations (particularly the measures designed to end TBTF) that in effect seek to align private returns in banking with social returns may have important effects on the size of the largest firms, and perhaps on the size of the banking system.

Q.9. Last year, the Financial Stability Board (FSB) directed the International Association of Insurance Supervisors (IAIS) to propose global qualitative capital standards by 2016 for “internationally active insurance groups” (IAIGs)—a category that includes U.S.-based insurance companies that have not been designated as systemically important financial institutions. Ostensibly, the three U.S. representatives to the FSB—the Fed, the Securities Exchange Commission, and the Treasury Department—supported the FSB’s directive to the IAIS.

U.S. insurance regulation is primarily State-based and relies on State guaranty funds, whereas European insurance regulation is primarily based on capital standards and does not rely on guaranty funds. Given this difference in regulatory approach, do you think it is appropriate for U.S.-based IAIGs to be subject to a single, global capital standard for their U.S. operations?

A.9. The international capital standard for insurance companies being developed by the IAIS is designed to achieve greater comparability of capital requirements of internationally active insurance groups (IAIGs) across jurisdictions. The capital standard relates to the insurance group, and not to individual institutions within the group. It is designed to provide for a more level playing field for firms across countries, and to enhance supervisory cooperation and coordination among national supervisors. The international standard would supplement but not replace insurance risk-based capital standards at U.S. domiciled insurance legal entities within the overall firm. In fact, neither the IAIS nor the FSB has the authority to implement requirements in any jurisdictions.

Q.10. What do you see as the proper role of the General Counsel’s office in both the Fed’s rulemaking process and its supervisory and enforcement processes? Does it go beyond the duties that are specifically delegated to the General Counsel’s office in 12 CFR §265.6?

A.10. The role of the Legal Division is to provide legal advice and services to the Board, including with regard to the Board’s supervisory and regulatory responsibilities and authority. The Board is permitted to delegate certain functions—except those relating to rulemaking and those pertaining mainly to monetary and credit policies—to Board members and employees. Any Board member may require the full Board to review any matter delegated to staff or to the reserve banks.

Q.11. In your view, did deregulation cause the 2008 financial crisis?

A.11. There were many factors that caused the financial crisis, including the rapid pace of innovation in the financial system as a

whole, inadequate risk supervision in the private sector, an inadequate and outdated regulatory system, and inadequate supervision among regulators.

Q.12. The Senate Permanent Subcommittee on Investigations recently released a report detailing Credit Suisse's role in aiding thousands of Americans evade their U.S. tax obligations. Credit Suisse and the Swiss Government have not been cooperating with the Department of Justice's investigation. Do you think it is appropriate for the Fed to use any of its regulatory or enforcement authority under the circumstances?

A.12. The Fed has the authority to impose conditions and penalties on foreign banks and their U.S. operations, to ensure the safety and soundness of their operations and compliance with U.S. law. I understand it has taken action in this context in the past, and will no doubt do so in the future when appropriate. With regard to Credit Suisse, the investigation by the Department of Justice is now under way and it would not be appropriate to comment on the matter, which is related to a single firm.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR KIRK FROM STANLEY FISCHER

Q.1. *Capital Rules for Insurance Companies:* While many of us believe that the Dodd-Frank Act already gives the Federal Reserve the authority to distinguish between insurance companies and banks when promulgating capital standards under the Collins Amendment, the Federal Reserve has made statements publicly that it does not believe it has the statutory authority to do so. Therefore, a number of senators on this Committee introduced legislation, S.1369 to codify and clarify that the Federal Reserve can and should make distinctions between insurance companies and banks when setting capital standards. Is it your interpretation that this authority currently exists?

A.1. The Collins Amendment requires that the Fed Board establish consolidated minimum risk-based and leverage requirements for depository holding companies and nonbank financial institutions (NBFIs) designated by the FSOC that are not less than the generally applicable risk-based capital requirements that apply to insured depository institutions. If confirmed, I will work with the other governors and the staff of the Fed to craft a regulatory capital regime for insurance companies and other NBFIs that is appropriate for the risk profile of the companies that is consistent with the Collins Amendment.

Q.2. This ability for distinction should also transfer to the Fed's ability to distinguish between insurance companies and banks for purposes of accounting practices. I have at least two insurance companies in my State that are supervised by the Fed as savings and loan holding companies. These companies are not publicly traded and do not prepare financial statements in accordance with GAAP—but rather, in accordance with GAAP-based insurance accounting known as Statutory Accounting Principles (SAP). Every person I consult tells me that SAP is the most effective and prudent way to supervise the finances of an insurance company. It

is my understanding that the Federal Reserve may want to force these insurance companies that have used SAP reporting for many decades to spend hundreds of millions of dollars preparing GAAP statements—primarily because the Fed is comfortable with GAAP and understands it since it's what banks use. Is this true? If it is true, is it simply because the Fed is so accustomed to bank regulation and not insurance regulation that it simply wants to make things easier for itself? Do you agree with this one-size-fits-all approach to regulation? Can you provide a cost benefit analysis to this as it seems to not add any additional supervisory value and only adds astronomic costs to these companies?

A.2. The Federal regulatory framework for depository institution holding companies, including regulatory and supervisory tools being developed under DFA, includes the goal of promoting the safety and soundness of the consolidated holding company. I recognize that any accounting change would be difficult and costly for affected insurance companies. I understand that the Fed has delayed the capital rulemaking for these companies in order to study these issues in more detail, including the costs and benefits of moving to GAAP accounting by insurance companies that do not currently use GAAP. You may be sure that, if confirmed, I will keep in mind the concerns you have raised as these rules are finalized.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR MORAN
FROM STANLEY FISCHER**

Q.1. A growing concern that many of my colleagues and I are following involves the Financial Stability Board's (FSB) possible effort to impose European insurance capital standards on the U.S. insurance industry, specifically companies that are designated as "internationally active."

In my opinion, Dodd-Frank is clear that if an insurer is not designated as a SIFI or is not a savings and loan holding company that the insurer would continue to be subject to the risk-based capital standards per individual State regulation.

Imposing foreign insurance standards on "internationally active" American companies appears to be a significant departure from the appropriate, traditional State regulation these companies were previously subject to.

Some of the Federal Reserve nominees may have past experience with this specific issue in prior governmental roles. Please provide your views on whether or not you feel that foreign capital standards are appropriate for "internationally active insurance companies" and whether that foreign regulatory framework should preempt individual States' rights to oversee this industry.

A.1. The international capital standard for insurance companies being developed by the FSB and the IAIS (International Association of Insurance Supervisors) is designed to achieve greater comparability of capital requirements of internationally active insurance groups (IAIGs) across jurisdictions. The capital standard relates to the insurance group, and not to individual institutions within the group. It is designed to provide for a more level playing field for firms across countries, and to enhance supervisory cooperation and coordination among national supervisors. The stand-

ard would supplement—but not replace—insurance risk-based capital standards at U.S. domiciled insurance legal entities within the overall firm. In fact, neither the IAIS nor the FSB has the authority to implement requirements in any jurisdictions, and implementation in the U.S. would have to be consistent with U.S. law and comply with the administrative rulemaking process.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAPO
FROM JEROME H. POWELL**

Q.1. A recent paper presented at the U.S. Monetary Policy Forum suggests the possibility that current monetary stimulus may involve a “tradeoff between more stimulus today at the expense of a more challenging and disruptive policy exit in the future.” How concerned are each of you about the exit from all this monetary stimulus of the past several years?

A.1. As the recovery continues, the Federal Reserve will move over time to return monetary policy to a more normal stance. The pace and timing of this process will depend on developments in the economy—particularly, further progress in reducing unemployment, and inflation moving back toward the FOMC’s 2 percent longer-range target for inflation—as well as financial market developments. After such a long period of highly accommodative policy, it is important that the FOMC be as predictable and transparent as possible about the path of policy. In all likelihood, the process of normalization will take several years.

The Federal Reserve and the FOMC have a growing range of tools to manage the normalization process. The FOMC has indicated that interest rates will be the main tool used to tighten policy when economic and financial conditions warrant such a change. The FOMC has also indicated that most Committee participants do not anticipate sales of mortgage-backed securities during the normalization process.

Increasing the interest rate paid on reserve balances that depository institutions hold at the Federal Reserve Banks is also likely to be an important tool for raising the Federal funds rate when doing so becomes appropriate. In addition, the FOMC has been testing a number of additional tools, including a term deposit facility, term reverse repurchase agreements, and an overnight fixed-rate reverse repurchase agreements, in order to strengthen the link between the rate paid on reserve balances and market rates. I am confident that the Federal Reserve has the tools it needs to exit over time from its highly accommodative stance of policy. While the process of exiting may not always be a smooth one, I believe that it will be manageable.

Q.2. I worry that the aggregate impact of the rules implementing Dodd-Frank will be immense. For some financial companies it will result in a regulatory death-by-a-thousand-cuts, with significant impact for the economy at large. If confirmed to the Board of Governors, how will each of you intend to monitor the cumulative regulatory burden on entities affected by the Fed’s rulemakings?

A.2. I agree that regulators should be careful to consider the cumulative regulatory burden on entities of regulations. The Federal Reserve considers the costs and benefits of every rule that it issues.

The Federal Reserve seeks to minimize burden and the impact on the economy of regulations it issues while faithfully implementing the requirements of each statutory mandate. The Federal Reserve looks to present its proposed regulations as a package of integrated changes wherever possible to ensure that banking institutions have a good opportunity to evaluate the impact of the changes collectively. The Federal Reserve also includes explanations in the preambles to proposed regulations of the interaction between the proposal and other regulations.

Many of the regulations that are being put in place are targeted at the large banks. The Federal Reserve is working with other regulators to help ensure that its rules are properly calibrated so that smaller institutions are not faced with the same burdens as large institutions. If confirmed, I will be attentive to the costs and benefits of Federal Reserve rulemakings.

Q.3. As part of its QE purchases, the Fed has accumulated a significant percentage of all new Federal mortgage-backed security issuances. The large nature of the Fed's purchases appear to be a deterrent to private capital from coming back into the market and issuing new mortgage-backed securities. What effect does the Fed's role as the dominant buyer of mortgage-backed securities have on the market?

A.3. The FOMC's MBS purchases have held mortgage rates lower than they otherwise would have been, which has supported the housing sector and the broader recovery. MBS purchases have also reduced other interest rates. As the Federal Reserve gradually reduces the pace of its MBS purchases, private capital should return and take up any slack. The fact that mortgage and MBS rates have been broadly stable since the FOMC began to reduce MBS purchases suggests that this is occurring in the market today.

QE affects the prices of MBS and other assets through a portfolio rebalancing channel and has decisively lowered MBS yields and mortgage rates. These interest rate effects have spillovers to other assets and corporate bond rates, which are also pushed down by QE. However, the extent of these effects varies depending on the economic and policy environment.

Thus, the Federal Reserve's purchases of Government-backed MBS should have pushed investors out of Government-backed MBS and encouraged them to seek higher returns by investing in other assets, including privately backed MBS (e.g., MBS backed by jumbo mortgages that are above the conforming loan limit).

Enactment of GSE reform legislation would also support MBS activity and the housing market by reducing uncertainty about the structure of housing finance in the United States.

Q.4. For the size of the balance sheet and the quantity of assets that the Fed has accumulated, there seems to have been only a limited effect on businesses willingness to hire. Please discuss about whether QE policy and implementation has been effective in reducing employment, and how you view the importance of fiscal and regulatory reform in growing our economy.

A.4. The evidence suggests to me that QE has meaningfully lowered interest rates and raised asset prices. It is likely that lower rates and higher asset prices have provided meaningful support for the economy, through channels that are reasonably well under-

stood. Since we cannot know how the economy would have performed under a different policy, it is not possible to estimate these effects with high certainty.

That said, since the current asset purchase program began in September 2012, growth in payroll employment has been higher and declines in unemployment have been greater than many FOMC members expected at that time. Since September 2012, unemployment has declined from 8.1 percent to 6.7 percent, and approximately 3 million payroll jobs have been added.

While monetary policy is a useful tool in achieving stable prices and full employment, it is not generally thought to affect the potential of the economy in the long run. Fiscal and regulatory policies are more powerful tools that can have such effects. Surveys suggest that uncertainty about fiscal and regulatory policy may have raised uncertainty among business decision makers and caused them to hold back from hiring and investment. It is critical that all aspects of our economic policy support growth, including fiscal, regulatory and monetary policy.

Q.5. The New York Fed's report on household debt shows that one area we see an increase in individuals taking on significant amount of student loan debt. In addition, the Kansas City Fed recently held a conference on this same topic. In recent years, the vast majority of these loans are obtained by students through Federal programs. The relative ease of access to these Federal loans is encouraging students to take out significant amounts of loans. Should we be concerned about students acquiring this significant amount of debt? How will this affect the future of our Nation's economy?

A.5. Since 2007, outstanding student loan debt has more than doubled from about \$550 billion to over \$1.2 trillion. The main reasons for the rapid expansion of student loan debt are the increase in tuition and fees and an increase in college enrollment. An increasing share of borrowers (at least through 2011) has found it difficult to meet their student loan repayment obligations. The 2-year cohort default rate on Federal student loans has increased from 6.7 percent in 2007 to 10 percent in 2011—the latest data point available. However, the wage premium of college graduates over high school graduates has stayed substantial. In addition recent improvements in labor market conditions should put downward pressure on student loan default rates.

This is an important issue that should be carefully monitored going forward.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED
FROM JEROME H. POWELL**

Q.1. Several experts and witnesses have stated in comment letters, legal memoranda, and testimony that the Federal Reserve has broad flexibility in the way it develops and applies minimum capital standards under Section 171 of the Dodd-Frank Act known as the Collins Amendment—for insurance companies and other nonbank financial companies supervised by the Federal Reserve. If and when you are confirmed and confronted with this issue, can we have your assurance that you will consider and evaluate the total mix of information available on this issue, including these legal

memoranda and other views that were shared with the Subcommittee on Financial Institutions and Consumer Protection at its hearing on March 11, 2014?

A.1. The Collins amendment requires that the Board establish consolidated minimum risk-based and leverage requirements for depository institution holding companies and nonbank financial companies designated by the FSOC that are no less than the generally applicable risk-based capital and leverage requirements that apply to insured depository institutions. If confirmed, I will continue to work with the other Governors and the staff of the Federal Reserve to craft a regulatory capital regime for insurance companies and other nonbank financial companies that is strong but appropriate for the risk profile of the companies consistent with the Collins Amendment. In so doing, I will consider and evaluate all available information on this issue, including materials that were shared with the Subcommittee earlier this year.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN
FROM JEROME H. POWELL**

Q.1. Each of you testified that there is still work to be done to end Too Big to Fail. Do you think that ending Too Big to Fail should be the Board of Governors of the Federal Reserve System's (Fed) top regulatory priority?

A.1. As I mentioned in my testimony before the Committee, I believe that ending Too Big to Fail (TBTF) is at the heart of the postfinancial crisis reform program. We need a strong financial system that can play its critical role in supporting economic activity by providing credit to businesses and households, without exposing taxpayers to losses or creating incentives for excessive risk taking. Ending TBTF is a necessary step in ensuring financial stability.

Ending TBTF is and will continue to be a core objective of the Federal Reserve, in coordination with the other U.S. bank regulatory agencies, the SEC, the CFTC, and international regulatory agencies. Regulators around the world have made significant progress on this front—including the Basel 3 capital and liquidity rules for large, global banks; capital surcharges for the most systemically important banking firms; and new statutory resolution regimes to handle the failure of systemically important financial firms. But we also realize that much work remains to be done to end TBTF. I am committed to continuing this critical effort.

Q.2. Do you think that regulators must ultimately reduce the size of the largest financial institutions to end Too Big to Fail? Do you believe it will be possible through other regulatory approaches—such as resolution authority—to convince the markets that the Government will truly let a massive institution fail?

A.2. I am committed to ending TBTF. I believe that regulatory reforms around the world since the financial crisis have produced significant progress to that end. If those reforms ultimately prove inadequate, then additional measures should be considered.

In the past few years, the Federal Reserve and other regulators have taken important actions to reduce the likelihood of a failure of a systemically important institution. Such actions include:

- Basel III capital rules, plus proposed supplementary leverage ratio and planned SIFI risk-based capital surcharges.
- Stress tests of large U.S. banking firms
- Basel III liquidity rules
- Improvements in supervision of firms
- Derivatives transparency, central clearing, and margining

In addition, regulatory checks are in place that aim to curb the expansion of the largest financial firms. These include the 10-percent deposit cap and DFA 10-percent liability cap on BHC acquisitions, as well as the Federal Reserve's consideration of the effect on financial stability of proposed acquisitions by large banking organizations.

Further, regulators are taking many steps to make systemically important financial firms more resolvable—through the living wills process and the development of the FDIC's preferred “single point of entry” resolution strategy. And the Federal Reserve is working with the FDIC on a minimum long-term debt requirement that would promote the resolvability of the largest, most complex U.S. banking firms.

While meaningful progress has been made, more work needs to be done, and I am committed to finishing the job. Over time, these efforts and continued use of regulatory and supervisory tools should contribute to greater market confidence that these institutions are less likely to fail and resolvable without systemic impact if they do fail.

Q.3. At a Banking subcommittee hearing this January, I asked four economists—Luigi Zingales from the University of Chicago, Simon Johnson from the MIT Sloan School of Management, Harvey Rosenblum from the Southern Methodist University, and Allan H. Meltzer of the Tepper School of Business—whether the Dodd-Frank Act would end Too Big to Fail when it was fully implemented. They each said it would not. Do you agree? If so, what kind of additional authority do you think the Fed needs to ensure that Too Big to Fail is ended? If not, what gives you confidence that Dodd-Frank, once fully implemented, will successfully address Too Big to Fail?

A.3. As discussed in the prior response, the Federal Reserve and the global regulatory community have made significant progress towards eliminating TBTF in the past few years by reducing the probability of failure of large financial firms and reducing the damage to the system if a large financial firm were to fail. The rating agencies and other market participants have recognized that progress. More work remains to be done to eliminate TBTF, including work to fully implement the provisions of the Dodd-Frank Act, and we are committed to completing that work as expeditiously as possible.

If the statutory implementation and regulatory reform work in train proves to be insufficient to solve the TBTF problem, we should be willing to look at the costs and benefits of additional approaches.

Q.4. Congressman Cummings and I sent a letter to Chair Yellen in February urging her to revise the Fed's delegation rules so that the Fed's Board would have to vote on any settlement that included

at least \$1 million in payments, or that banned an individual from banking or required new management. At a hearing last month, Chair Yellen testified that it was “completely appropriate for the Board to be fully involved in important decisions,” and that she “fully intend[ed]” to make sure the Board would be more involved going forward. Do you agree in principle with Chair Yellen’s testimony and will you support her efforts to require Board members to vote on major settlement agreements?

A.4. I support the principle that members of the Board should be involved in important enforcement decisions and will work with Chair Yellen on future steps for carrying out that principle.

Q.5. Last February, the Fed and the Office of the Comptroller of the Currency entered into what they touted as a \$9.3 billion settlement with mortgage servicers accused of illegal foreclosure practices. In their joint press release accompanying the settlement, the agencies claimed they had secured \$5.7 billion in relief for homeowners in the form of “credits” for what the agencies described as “assistance to borrowers such as loan modifications and forgiveness of deficiency judgments.” The press release did not disclose that the manner in which the credits were calculated could allow the servicers to pay only a small fraction of that \$5.7 billion, potentially reducing the direct relief to injured borrowers by billions of dollars.

Senator Coburn and I recently introduced the Truth in Settlements Act, which would require agencies to publicly disclose all the key details of their major settlement agreements—including the method of calculating any credits. Of course, agencies are not required to wait for congressional action to adopt such basic transparency measures. Do you think the Fed should voluntarily adopt the disclosure provisions of the Truth in Settlements Act?

A.5. The Federal Reserve is required by law to publicly disclose any written agreement that is enforceable by the agency against a regulated entity or individual and any final order in any administrative enforcement proceeding. This requirement applies to enforcement actions entered into by consent with the regulated institution or individual.

Accordingly, the amended consent orders that implemented the payment agreement with the mortgage servicers relating to illegal foreclosure practices were publicly disclosed by the Federal Reserve in February 2013 as attachments to the press release that announced the issuance of those actions. The publicly disclosed amended consent orders contain all of the enforceable provisions governing the payment agreement, including the methodology under which the servicers would obtain credit for specific foreclosure assistance activities in connection with the servicers’ obligations under the amended consent order to provide such activities.

Q.6. For the last 5 years, the Fed has kept interest rates extremely low and has used asset purchases to drive rates down even further. Yet the unemployment rate still remains higher than the Fed’s target for full employment. In such situations where the Fed is struggling to fulfill its full employment mandate using monetary policy alone—should the Fed consider using its regulatory authority to attempt to boost job growth?

A.6. The Federal Reserve carries out its responsibilities to regulate and supervise financial firms so as to help ensure the safety and soundness of regulated firms and to help protect financial stability. In doing so, the Federal Reserve adopts a macro- as well as micro-prudential perspective, which means, among other things, that it takes into account the potential systemic consequences of financial distress as well as the safety and soundness of individual firms.

Relaxing its supervision of regulated financial firms in an effort to support economic growth would risk greater economic volatility in the future, and could ultimately result in worse economic performance over time. That said, the Federal Reserve monitors its regulatory actions for signs that its supervision may inadvertently reduce credit availability and thereby restrain economic growth.

Q.7. Section 165(d) of the Dodd-Frank Act requires the Fed and the Federal Deposit Insurance Corporation (FDIC) to ensure that large financial institutions can be resolved in an orderly fashion using the conventional bankruptcy process. These institutions are required to submit “living wills” that describe how such a conventional resolution could occur. If the Fed and the FDIC find that those plans lack credibility, they may require the financial institution to divest subsidiaries, hold increased capital, reduce leverage, or take other steps to shrink or simplify the institution. To date, over 100 institutions have submitted living wills, and the Fed and the FDIC have not rejected a single plan as lacking credibility.

What gives you confidence that our largest financial institutions could currently be resolved through a conventional bankruptcy procedure? What criteria would you use to determine whether a resolution plan is “credible” for the purposes of Section 165(d)? Are you willing to take the actions identified in Section 165(d)(5) of Dodd-Frank—including mandating divestiture of subsidiaries—if you believe a resolution plan lacks credibility?

A.7. One of the most important goals of the Dodd-Frank Act and the regulatory community after the crisis is to end “too-big-to-fail.” The perception of “too-big-to-fail” is greatly mitigated when market participants understand that losses from the failure of a major financial firm would fall exclusively on shareholders and creditors. The “living wills” provision of the Dodd-Frank Act helps guide institutions and regulators to improve the resolvability in bankruptcy of large financial institutions.

The staff of the Federal Reserve and FDIC are reviewing and assessing the plans filed by the large financial firms under Section 165(d) of the Dodd-Frank Act. At this time, no decision has been reached by the Board regarding the adequacy of the plans for facilitating the resolution of the firms in bankruptcy. If confirmed, I expect to explore the adequacy of the plans and whether improvements should be made in the plans and/or the bankruptcy code to ensure that no firm is too big to fail.

Section 165(d)(5) of the Dodd-Frank Act permits the Board and FDIC to take action if a resolution plan is determined to not be credible and the institution does not correct the plan within a certain period of time. I would be willing to support any actions appropriate to ensure compliance with the law and mitigate risks to the financial stability of the United States.

Q.8. As a fraction of GDP, the financial sector today is about twice as large as it was in the 1970s. Despite this growth in size, researchers have found that the sector is less efficient than it once was in allocating credit for the real economy. Do you believe that there are effectively “reverse economies of scale,” such that financial institutions can grow so large that they become less efficient at performing their primary function of allocating credit?

A.8. Many fundamental changes have occurred in the financial sector and the broader economy since the 1970s. Without a doubt, one important development is the increased concentration in the financial services industry. There is not a consensus among researchers that increased concentration has a direct effect on the efficiency of credit allocation, either adverse or otherwise. However, increased concentration in the financial sector has raised a number of other pressing public policy issues, notably the concern that some institutions have grown “too big to fail.”

Q.9. Last year, the Financial Stability Board (FSB) directed the International Association of Insurance Supervisors (IAIS) to propose global qualitative capital standards by 2016 for “internationally active insurance groups” (IAIGs)—a category that includes U.S.-based insurance companies that have not been designated as systemically important financial institutions. Ostensibly, the three U.S. representatives to the FSB—the Fed, the Securities Exchange Commission, and the Treasury Department—supported the FSB’s directive to the IAIS.

As a member of the Fed at the time of the FSB’s directive to the IAIS, did you agree with the Fed’s decision to support (or at a minimum, not oppose) the directive?

A.9. Yes. In its July 2013 press release announcing the policy measures that would apply to the designated global systemically important insurers (GSIIs), the IAIS also stated that it considered a sound capital and supervisory framework for the global insurance sector more broadly to be essential for supporting financial stability and that it planned to develop a comprehensive, groupwide supervisory and regulatory framework for internationally active insurance groups (IAIGs), including a capital standard (ICS). The business of insurance has become increasingly global in the past few decades. The decision of the IAIS to develop an ICS for IAIGs reflects that trend and has a parallel in the development of capital standards for internationally active banks by the Basel Committee on Banking Supervision.

The FSB endorsed these proposed measures by the IAIS. That endorsement was consistent with the mission of the FSB to coordinate at the international level the work of national financial authorities and international standard setting bodies, including the IAIS, and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. State insurance supervisors, the National Association of Insurance Commissioners, the Federal Insurance Office, and more recently, the Federal Reserve, are members of the IAIS.

Q.10. U.S. insurance regulation is primarily State-based and relies on State guaranty funds, whereas European insurance regulation

is primarily based on capital standards and does not rely on guaranty funds. Given this difference in regulatory approach, do you think it is appropriate for U.S.-based IAIGs to be subject to single, global capital standard for their U.S. operations?

A.10. A goal of the international capital standard (ICS) being developed by the IAIS is to achieve greater comparability of the capital requirements of IAIGs across jurisdictions at the groupwide level. This should promote financial stability, provide a more level playing field for firms and enhance supervisory cooperation and coordination by increasing the understanding among groupwide and host supervisors. It should also lead to greater confidence being placed on the groupwide supervisor's analysis by host supervisors. The standards under development by the IAIS are not contemplated to replace existing insurance risk-based capital standards at U.S. domiciled insurance legal entities within the broader firm. Any IAIS capital standard would supplement existing legal entity risk-based capital requirements by evaluating the financial activities of the firm overall rather than by individual legal entity.

It is important to note that neither the FSB, nor the IAIS, has the ability to implement requirements in any jurisdiction. Implementation in the United States would have to be consistent with U.S. law and comply with the administrative rulemaking process.

It is also important to note that the Basel Committee on Banking Supervision has been promulgating capital requirements for internationally active banks since the 1980s. The U.S. Federal banking agencies, which are members of the Basel Committee, have long contributed to and supported the work of the Committee to develop common baseline prudential standards for global banks.

Q.11. What do you see as the proper role of the General Counsel's office in both the Fed's rulemaking process and its supervisory and enforcement processes? Does it go beyond the duties that are specifically delegated to the General Counsel's office in 12 CFR §265.6?

A.11. The role of the Legal Division is to provide legal advice and services to the Board to meet its responsibilities in all aspects of its statutory duties, including the Board's bank supervisory and regulatory responsibilities and authority. The Legal Division also is responsible for drafting regulations and assisting the Board in analyzing legislation and drafting statutory changes affecting the Board and its work. The Legal Division provides legal support for the Board's role in developing and implementing monetary policy, employing its financial stability tools; and all aspects of the Board's operations, including the Board's procurement and personnel functions, ethics, and information disclosure. In addition, the Legal Division represents the Board in litigation in Federal and State court, and pursues enforcement actions against individuals and companies over which the Board has supervisory authority.

Section 11(k) of the Federal Reserve Act permits the Board to delegate to Board members and employees functions other than those relating to rulemaking or pertaining principally to monetary and credit policies. 12 CFR §265.6 lists various authorities the Board had delegated to its staff and to the Reserve Banks. Importantly, the Board retains ultimate responsibility for all authorities

it has delegated, and provided in section 265.3 that any single Board member may, on the member's own initiative, require the full Board to review a matter delegated to staff or the Reserve Banks.

Q.12. In your view, did deregulation cause the 2008 financial crisis?

A.12. The argument that deregulation caused the financial crisis may well hold some truth. I believe that the more fundamental explanation is that the pace of innovation and change in the financial sector led over time to a situation where the existing regulatory regimes were inadequate.

Beginning in the 1970s and accelerating in the 1980s, many traditional forms of credit intermediation as practiced by commercial banks were supplemented and in some cases displaced by securities-based financing models, with mortgage securitizations and money market funds being only the most important examples. During the same period, banks and broker dealers were increasingly organized on a global basis, with multiple legal entities in various jurisdictions. These developments brought considerable benefits, but ultimately allowed a systemic crisis that imposed enormous costs on the broader economy in 2008.

In my view, most of these key developments were not spawned directly by deregulation; rather, they reflect the failure of regulatory regimes to keep up with the pace of innovation. A number of the provisions of Dodd-Frank have been crafted to recognize this reality, and provide policy makers tools that will be sufficiently flexible over time to address new and emerging concerns as institutions and market practices evolve.

Q.13. The Senate Permanent Subcommittee on Investigations recently released a report detailing Credit Suisse's role in aiding thousands of Americans evade their U.S. tax obligations. Credit Suisse and the Swiss Government have not been cooperating with the Department of Justice's investigation. Do you think it is appropriate for the Fed to use any of its regulatory or enforcement authority under the circumstances?

A.13. Authority to enforce compliance with U.S. law is by law administered by a number of Federal agencies. For example, the Department of Justice is responsible for criminal prosecutions. The Federal Reserve has authority to take specific types of regulatory and enforcement actions against foreign banks and their U.S. operations to ensure safe and sound operations and compliance with U.S. law. These actions can include informal direction to institutions as well as formal actions such as cease and desist orders, civil money penalties, or, in serious cases, termination of U.S. officers. We consider use of this enforcement authority in appropriate circumstances within the limits imposed by law, and believe that firms of all sizes, including the largest financial firms, must be held accountable for failure to comply with the law.

With regard to Credit Suisse, I understand that firm is under investigation by the Department of Justice. It would not be appropriate to comment on an ongoing investigation or potential supervisory actions related to a specific firm.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR KIRK
FROM JEROME H. POWELL**

Q.1. *Capital Rules for Insurance Companies:* While many of us believe that the Dodd-Frank Act already gives the Federal Reserve the authority to distinguish between insurance companies and banks when promulgating capital standards under the Collins Amendment, the Federal Reserve has made statements publicly that it does not believe it has the statutory authority to do so. Therefore, a number of senators on this Committee introduced legislation, S.1369 to codify and clarify that the Federal Reserve can and should make distinctions between insurance companies and banks when setting capital standards. Is it your interpretation that this authority currently exists?

A.1. The Collins amendment requires that the Board establish consolidated minimum risk-based and leverage requirements for depository institution holding companies and nonbank financial companies designated by the FSOC that are no less than the generally applicable risk-based capital and leverage requirements that apply to insured depository institutions. If confirmed, I will continue to work with the other governors and the staff of the Federal Reserve to craft a regulatory capital regime for insurance companies and other nonbank financial companies that is strong but appropriate for the risk profile of the companies consistent with the Collins Amendment.

Q.2. This ability for distinction should also transfer to the Fed's ability to distinguish between insurance companies and banks for purposes of accounting practices. I have at least two insurance companies in my State that are supervised by the Fed as savings and loan holding companies. These companies are not publicly traded and do not prepare financial statements in accordance with GAAP—but rather, in accordance with GAAP-based insurance accounting known as Statutory Accounting Principles (SAP). Every person I consult tells me that SAP is the most effective and prudent way to supervise the finances of an insurance company. It is my understanding that the Federal Reserve may want to force these insurance companies that have used SAP reporting for many decades to spend hundreds of millions of dollars preparing GAAP statements—primarily because the Fed is comfortable with GAAP and understands it since it's what banks use. Is this true? If it is true, is it simply because the Fed is so accustomed to bank regulation and not insurance regulation that it simply wants to make things easier for itself? Do you agree with this one-size-fits-all approach to regulation? Can you provide a cost benefit analysis to this as it seems to not add any additional supervisory value and only adds astronomic costs to these companies?

A.2. One of the key differences between SAP and GAAP accounting is the financial reporting of subsidiaries; SAP does not allow for consolidation accounting. SAP accounting is prescribed by the National Association of Insurance Commissioners and is used by State insurance regulators to evaluate the financial condition and solvency of domestic insurance subsidiaries. The Federal regulatory framework for depository institution holding companies, including regulatory and supervisory tools being developed and implemented

under DFA, is based on protecting financial stability, protecting the safety and soundness of the consolidated holding company, and protecting the Federal deposit insurance fund. I recognize the unique characteristics of insurance companies and understand the concerns raised by insurance companies that do not currently use GAAP for financial reporting. The Fed delayed the capital rule-making for these entities in order to further study these issues, including the associated costs and benefits of requiring use of GAAP by insurance entities that do not use GAAP currently.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR MORAN
FROM JEROME H. POWELL**

Q.1. A growing concern that many of my colleagues and I are following involves the Financial Stability Board's (FSB) possible effort to impose European insurance capital standards on the U.S. insurance industry, specifically companies that are designated as "internationally active."

In my opinion, Dodd-Frank is clear that if an insurer is not designated as a SIFI or is not a savings and loan holding company that the insurer would continue to be subject to the risk-based capital standards per individual State regulation.

Imposing foreign insurance standards on "internationally active" American companies appears to be a significant departure from the appropriate, traditional State regulation these companies were previously subject to.

Some of the Federal Reserve nominees may have past experience with this specific issue in prior governmental roles. Please provide your views on whether or not you feel that foreign capital standards are appropriate for "internationally active insurance companies" and whether that foreign regulatory framework should preempt individual States' rights to oversee this industry.

A.1. A goal of the international capital standard (ICS) being developed by the International Association of Insurance Supervisors (IAIS) is to achieve greater comparability of the capital requirements of internationally active insurance groups (IAIGs) across jurisdictions at the groupwide level. This should promote financial stability, provide a more level playing field for firms and enhance supervisory cooperation and coordination by increasing the understanding among groupwide and host supervisors. It should also lead to greater confidence being placed on the groupwide supervisor's analysis by host supervisors. The standards under development by the IAIS are not contemplated to replace existing insurance risk-based capital standards at U.S. domiciled insurance legal entities within the broader firm. Any IAIS capital standard would supplement existing legal entity risk-based capital requirements by evaluating the financial activities of the firm overall rather than by individual legal entity.

It is important to note that neither the FSB, nor the IAIS, has the ability to implement requirements in any jurisdiction. Implementation in the United States would have to be consistent with U.S. law and comply with the administrative rulemaking process.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAPO
FROM LAEL BRAINARD**

Q.1. A recent paper presented at the U.S. Monetary Policy Forum suggests the possibility that current monetary stimulus may involve a “tradeoff between more stimulus today at the expense of a more challenging and disruptive policy exit in the future.” How concerned are each of you about the exit from all this monetary stimulus of the past several years?

A.1. On balance, the accommodative stance of monetary policy undertaken by the Federal Reserve has been critically important in the face of extraordinarily challenging circumstances to achieving price stability and improving labor market conditions consistent with the dual mandate. At the same time, it is important to be attentive to risks such as excessive leverage building in certain markets. As the recovery gains momentum and monetary policy normalizes, the Federal Reserve has indicated that it will rely centrally on interest rates and does not anticipate sales of mortgage-backed securities. In that regard, the Federal Reserve appears to have the necessary tools to exit at an appropriate pace. The interest rate paid on reserve balances held by depository institutions at the Federal Reserve Banks is likely to be an important tool for raising the Federal fund rate, and the Federal Reserve has been testing additional tools to strengthen the link between the rate paid on reserve balances and market rates, including a term deposit facility, term reverse repurchase agreements, and overnight fixed-rate reverse repurchase agreements.

Q.2. I worry that the aggregate impact of the rules implementing Dodd-Frank will be immense. For some financial companies it will result in a regulatory death-by-a-thousand-cuts, with significant impact for the economy at large. If confirmed to the Board of Governors, how will each of you intend to monitor the cumulative regulatory burden on entities affected by the Fed’s rulemakings?

A.2. While there is a compelling rationale for the individual components of Dodd-Frank, implementation is a work in progress, and it is important to assess the cumulative impact as implementation progresses. In particular, it is important that regulation and supervision be appropriately tailored so that an undue regulatory burden is not imposed on smaller, less complex institutions. If confirmed, I will be attentive to the cumulative impact of Federal Reserve rulemakings and seek to ensure they do not impose an undue burden on smaller, less complex institutions.

Q.3. As part of its QE purchases, the Fed has accumulated a significant percentage of all new Federal mortgage-backed security issuances. The large nature of the Fed’s purchases appear to be a deterrent to private capital from coming back into the market and issuing new mortgage-backed securities. What effect does the Fed’s role as the dominant buyer of mortgage-backed securities have on the market?

A.3. The Federal Reserve’s Large Scale Asset Purchase programs have helped promote the dual objectives of price stability and full employment. Researchers have documented a direct effect from Fed purchases of Government mortgage-backed securities (MBS) on

lowering yields in the Government MBS market and thus mortgage rates for homebuyers. There is also a spillover effect on other asset markets, such as corporate bonds and private MBS, as investors re-allocate their investment portfolios. Uncertainty regarding possible housing finance reforms is also likely influencing private capital investment in the MBS market, which should be resolved once legislation is enacted.

Q.4. For the size of the balance sheet and the quantity of assets that the Fed has accumulated, there seems to have been only a limited effect on businesses willingness to hire. Please discuss about whether QE policy and implementation has been effective in reducing employment, and how you view the importance of fiscal and regulatory reform in growing our economy.

A.4. Although it is difficult to precisely quantify the effects of the Federal Reserve's Large Scale Asset Purchase programs in supporting employment, it appears they have helped promote the dual objectives of price stability and full employment. A number of researchers have identified direct and measurable impacts in terms of lower mortgage rates. Some researchers also identify indirect effects in lowering corporate bond rates and on other asset markets. The reduction in the cost of longer term credit for families and businesses in turn has positive effects on the housing market and job market, although the magnitude is harder to measure precisely.

Q.5. The New York Fed's report on household debt shows that one area we see an increase in individuals taking on significant amount of student loan debt. In addition, the Kansas City Fed recently held a conference on this same topic. In recent years, the vast majority of these loans are obtained by students through Federal programs. The relative ease of access to these Federal loans is encouraging students to take out significant amounts of loans. Should we be concerned about students acquiring this significant amount of debt? How will this affect the future of our Nation's economy?

A.5. The rapid increase in student debt warrants careful analysis and monitoring. The increase in outstanding student loan debt from about \$550 billion in 2007 to over \$1.2 trillion today reflects increases in tuition and fees and increased college enrollment. Over that time, the wage premium associated with college graduation over wages earned by high school graduates has remained substantial, suggesting a college education remains a sound investment for many. On the other hand, there has been a notable increase in default rates on Federal student loans through 2011, the latest available data, which is a concern.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED
FROM LAEL BRAINARD**

Q.1. Several experts and witnesses have stated in comment letters, legal memoranda, and testimony that the Federal Reserve has broad flexibility in the way it develops and applies minimum capital standards under Section 171 of the Dodd-Frank Act known as the Collins Amendment—for insurance companies and other nonbank financial companies supervised by the Federal Reserve. If and when you are confirmed and confronted with this issue, can we

have your assurance that you will consider and evaluate the total mix of information available on this issue, including these legal memoranda and other views that were shared with the Subcommittee on Financial Institutions and Consumer Protection at its hearing on March 11, 2014?

A.1. I recognize that the business models and balance sheets of traditional insurance companies and banks differ in important respects and that supervision should be appropriately tailored. If confirmed, I will consider and evaluate the total mix of information available regarding the responsibilities and flexibility of the Federal Reserve in implementing minimum capital standards for the insurance companies and nonbank financial companies under its supervision according to the requirements of the Collins Amendment (Section 171).

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN
FROM LAEL BRAINARD**

Q.1. Each of you testified that there is still work to be done to end Too Big to Fail. Do you think that ending Too Big to Fail should be the Board of Governors of the Federal Reserve System's (Fed) top regulatory priority?

A.1. Ending Too Big to Fail should be a top regulatory priority of the Federal Reserve Board of Governors. Important work is underway that should create a significant penalty to size and complexity while ensuring all financial institutions are resolvable without threatening financial stability. These critical reforms include significant strengthening of the leverage ratio, liquidity rules, and capital surcharges for the largest institutions on top of the Basel III capital rules, which should significantly raise capital buffers to absorb losses, undergirded by rigorous stress tests. The implementation of Orderly Liquidation Authority, along with the Single Point of Entry approach to resolution, holds out the prospect of making the largest firms resolvable, and the regulators have new authority on firm structure and size through their oversight over the resolution and recovery plans of the large institutions. Anticipated rules on wholesale funding and minimum requirements on long-term debt should also provide important checks on Too Big to Fail. The Volcker Rule's prohibition against proprietary trading and new rules on clearing, trading, and reporting of derivatives transactions are also significant. Nonetheless, additional steps may be necessary to fully achieve this critical regulatory priority.

Q.2. Do you think that regulators must ultimately reduce the size of the largest financial institutions to end Too Big to Fail? Do you believe it will be possible through other regulatory approaches—such as resolution authority—to convince the markets that the Government will truly let a massive institution fail?

A.2. It is critically important to convince the markets that no institution can be too big to fail. The cumulative impact of the significant reforms that are underway or in the rulewriting phase should create a significant penalty to both size and complexity while ensuring all financial institutions are resolvable without threatening financial stability. Orderly liquidation authority, together with reg-

ulators' oversight over the resolution and recovery plans of the largest institutions, provides significant new powers to ensure that large, complex firms are fully resolvable. Nonetheless, additional steps may be necessary to fully achieve this critical regulatory priority.

Q.3. At a Banking subcommittee hearing this January, I asked four economists—Luigi Zingales from the University of Chicago, Simon Johnson from the MIT Sloan School of Management, Harvey Rosenblum from the Southern Methodist University, and Allan H. Meltzer of the Tepper School of Business—whether the Dodd-Frank Act would end Too Big to Fail when it was fully implemented. They each said it would not. Do you agree? If so, what kind of additional authority do you think the Fed needs to ensure that Too Big to Fail is ended? If not, what gives you confidence that Dodd-Frank, once fully implemented, will successfully address Too Big to Fail?

A.3. Cumulatively, the reforms that are underway and those that are in the rulewriting process or earlier stages should make significant progress in penalizing size and complexity and in ensuring the orderly resolvability of even the largest and most complex firms. Nonetheless, additional steps may be necessary to fully achieve this critical regulatory priority.

Q.4. Congressman Cummings and I sent a letter to Chair Yellen in February urging her to revise the Fed's delegation rules so that the Fed's Board would have to vote on any settlement that included at least \$1 million in payments, or that banned an individual from banking or required new management. At a hearing last month, Chair Yellen testified that it was "completely appropriate for the Board to be fully involved in important decisions," and that she "fully intend[ed]" to make sure the Board would be more involved going forward. Do you agree in principle with Chair Yellen's testimony and will you support her efforts to require Board members to vote on major settlement agreements?

A.4. I agree with Chair Yellen's principle that members of the Board should be involved in important enforcement decisions and will work with her on future steps for carrying out that principle.

Q.5. Last February, the Fed and the Office of the Comptroller of the Currency entered into what they touted as a \$9.3 billion settlement with mortgage servicers accused of illegal foreclosure practices. In their joint press release accompanying the settlement, the agencies claimed they had secured \$5.7 billion in relief for homeowners in the form of "credits" for what the agencies described as "assistance to borrowers such as loan modifications and forgiveness of deficiency judgments." The press release did not disclose that the manner in which the credits were calculated could allow the servicers to pay only a small fraction of that \$5.7 billion, potentially reducing the direct relief to injured borrowers by billions of dollars.

Senator Coburn and I recently introduced the Truth in Settlements Act, which would require agencies to publicly disclose all the key details of their major settlement agreements—including the method of calculating any credits. Of course, agencies are not required to wait for congressional action to adopt such basic trans-

parency measures. Do you think the Fed should voluntarily adopt the disclosure provisions of the Truth in Settlements Act?

A.5. Transparency of this nature is important. I have been informed that the Federal Reserve is required by law to make public disclosure of any written agreement enforceable by the Federal Reserve against a regulated entity or individual and any final order in any administrative enforcement proceeding, including enforcement actions entered into by consent with the regulated institution or individual and including the underlying methodologies or calculations. I would continue to support and build upon such transparency measures.

Q.6. For the last 5 years, the Fed has kept interest rates extremely low and has used asset purchases to drive rates down even further. Yet the unemployment rate still remains higher than the Fed's target for full employment. In such situations where the Fed is struggling to fulfill its full employment mandate using monetary policy alone—should the Fed consider using its regulatory authority to attempt to boost job growth?

A.6. The Federal Reserve should continue to support sound growth of credit, particularly to households and small businesses, whose activities are so critical to achieving maximum employment, consistent with the dual mandate. The Federal Reserve should also vigorously regulate and supervise financial firms to ensure their safety and soundness and to ensure financial stability more broadly. The Federal Reserve should be on the lookout to address circumstances in which its supervision activities might inadvertently and unnecessarily restrain healthy growth in credit.

Q.7. Section 165(d) of the Dodd-Frank Act requires the Fed and the Federal Deposit Insurance Corporation (FDIC) to ensure that large financial institutions can be resolved in an orderly fashion using the conventional bankruptcy process. These institutions are required to submit “living wills” that describe how such a conventional resolution could occur. If the Fed and the FDIC find that those plans lack credibility, they may require the financial institution to divest subsidiaries, hold increased capital, reduce leverage, or take other steps to shrink or simplify the institution. To date, over 100 institutions have submitted living wills, and the Fed and the FDIC have not rejected a single plan as lacking credibility.

What gives you confidence that our largest financial institutions could currently be resolved through a conventional bankruptcy procedure?

A.7. The authority given to the Fed and the FDIC to oversee the resolution and recovery plans submitted by large financial institutions and, if necessary, to require additional changes to structure or size to ensure full orderly resolvability of these institutions is a critical part of the overall reforms to ensure no institution is too big to fail. Since the process of implementation is far from complete, it is too early to be confident that our largest institutions could currently be resolved through a conventional bankruptcy procedure.

Q.8. What criteria would you use to determine whether a resolution plan is “credible” for the purposes of Section 165(d)?

A.8. My understanding is that the Federal Reserve and the FDIC are currently in the process of reviewing the 2013 resolution plans, which are required to include each institution's strategic analysis and descriptions of the corporate governance relating to resolution planning, interconnections and interdependencies, organizational structure, and management information systems, in addition to supervisory and regulatory information. If confirmed, I would expect to review whether the resolution plans are credible in facilitating orderly resolution of the company under the bankruptcy code.

Q.9. Are you willing to take the actions identified in Section 165(d)(5) of Dodd-Frank—including mandating divestiture of subsidiaries—if you believe a resolution plan lacks credibility?

A.9. If a resolution plan is determined to lack credibility, and the institution does not take corrective action in a timely manner, I would support taking the actions necessary to ensure compliance with the law and mitigate risks to the financial stability of the United States.

Q.10. As a fraction of GDP, the financial sector today is about twice as large as it was in the 1970s. Despite this growth in size, researchers have found that the sector is less efficient than it once was in allocating credit for the real economy. Do you believe that there are effectively “reverse economies of scale,” such that financial institutions can grow so large that they become less efficient at performing their primary function of allocating credit?

A.10. The research regarding economies or diseconomies of scale in the financial sector and the efficiency of credit allocation is mixed. What is clear and unambiguous from the crisis, however, is that no financial institution can be too big to fail.

Q.11. Last year, the Financial Stability Board (FSB) directed the International Association of Insurance Supervisors (IAIS) to propose global qualitative capital standards by 2016 for “internationally active insurance groups” (IAIGs)—a category that includes U.S.-based insurance companies that have not been designated as systemically important financial institutions. Ostensibly, the three U.S. representatives to the FSB—the Fed, the Securities Exchange Commission, and the Treasury Department—supported the FSB's directive to the IAIS.

U.S. insurance regulation is primarily State-based and relies on State guaranty funds, whereas European insurance regulation is primarily based on capital standards and does not rely on guaranty funds. Given this difference in regulatory approach, do you think it is appropriate for U.S.-based IAIGs to be subject to a single, global capital standard for their U.S. operations?

A.11. The qualitative standards under development by the IAIS would in no way replace existing insurance risk-based capital standards at U.S. domiciled insurance legal entities. The development of any IAIS qualitative capital standard would be complementary to existing legal entity risk-based capital requirements by evaluating the financial activities of the firm overall rather than by individual legal entity. That said, U.S. based IAIGs would continue to be subject to U.S. laws and regulations. Neither the FSB, nor

the IAIS, has authority to implement requirements in the United States or any jurisdiction.

I support the broad objective of the IAIS to achieve greater comparability of capital requirements of IAIGs at the groupwide level in order to promote financial stability, ensure against regulatory arbitrage, provide a more level playing field, and enhance host supervisors' confidence in the groupwide supervisor's analysis. U.S. interests and approaches should be well reflected in the work of the IAIS given strong representation of U.S. insurance authorities as members of the IAIS, including State insurance supervisors, the National Association of Insurance Commissioners, the Federal Insurance Office, and the Federal Reserve.

Q.12. What do you see as the proper role of the General Counsel's office in both the Fed's rulemaking process and its supervisory and enforcement processes? Does it go beyond the duties that are specifically delegated to the General Counsel's office in 12 CFR §265.6?

A.12. It is my understanding that the role of the General Counsel's office is to provide legal advice and services to the Board in meeting its statutory duties, including the Board's bank supervisory and regulatory responsibilities and authority. In that regard, the General Counsel's office is responsible for drafting regulations and assisting the Board in analyzing legislation.

I understand that the Federal Reserve Act permits the Board to delegate to Board members and employees functions other than those relating to rulemaking or pertaining principally to monetary and credit policies. It is also my understanding that the various authorities the Board had delegated to its staff and to the Reserve Banks are listed in the Federal Register, and the proper role of the General Counsel's office does not extend beyond these important responsibilities to the Board.

Q.13. In your view, did deregulation cause the 2008 financial crisis?

A.13. Failures of regulation and supervision were important contributors to the extraordinarily destructive financial crisis, which led to deep and protracted damage to American families, workers, and small businesses, and regulatory reform has to be at the center of our efforts to prevent crises of this magnitude occurring again.

Q.14. The Senate Permanent Subcommittee on Investigations recently released a report detailing Credit Suisse's role in aiding thousands of Americans evade their U.S. tax obligations. Credit Suisse and the Swiss Government have not been cooperating with the Department of Justice's investigation. Do you think it is appropriate for the Fed to use any of its regulatory or enforcement authority under the circumstances?

A.14. I understand that Credit Suisse is under investigation by the Department of Justice, and it would not be appropriate to comment on an ongoing investigation or potential supervisory actions related to a specific firm under these circumstances. More broadly, no institution is above the law, and, if confirmed, I would support the Federal Reserve actively working with other enforcement agencies to ensure full compliance with U.S. law.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR KIRK
FROM LAEL BRAINARD**

Q.1. *Capital Rules for Insurance Companies:* While many of us believe that the Dodd-Frank Act already gives the Federal Reserve the authority to distinguish between insurance companies and banks when promulgating capital standards under the Collins Amendment, the Federal Reserve has made statements publicly that it does not believe it has the statutory authority to do so. Therefore, a number of senators on this Committee introduced legislation, S.1369 to codify and clarify that the Federal Reserve can and should make distinctions between insurance companies and banks when setting capital standards. Is it your interpretation that this authority currently exists?

A.1. I recognize that the business models and balance sheets of traditional insurance companies and banks differ in important respects and that supervision should be appropriately tailored. If confirmed, I will consider and evaluate the total mix of information available regarding the responsibilities and flexibility of the Federal Reserve in implementing minimum capital standards for the insurance companies and nonbank financial companies under its supervision according to the requirements of the Collins Amendment (Section 171).

Q.2. This ability for distinction should also transfer to the Fed's ability to distinguish between insurance companies and banks for purposes of accounting practices. I have at least two insurance companies in my State that are supervised by the Fed as savings and loan holding companies. These companies are not publicly traded and do not prepare financial statements in accordance with GAAP—but rather, in accordance with GAAP-based insurance accounting known as Statutory Accounting Principles (SAP). Every person I consult tells me that SAP is the most effective and prudent way to supervise the finances of an insurance company. It is my understanding that the Federal Reserve may want to force these insurance companies that have used SAP reporting for many decades to spend hundreds of millions of dollars preparing GAAP statements—primarily because the Fed is comfortable with GAAP and understands it since it's what banks use. Is this true? If it is true, is it simply b/c the Fed is so accustomed to bank regulation and not insurance regulation that it simply wants to make things easier for itself? Do you agree with this one-size-fits-all approach to regulation? Can you provide a cost benefit analysis to this as it seems to not add any additional supervisory value and only adds astronomic costs to these companies?

A.2. I recognize the distinct characteristics of insurance companies and understand the concerns raised by insurance companies that have long used SAP accounting for financial reporting. My understanding is that the Federal Reserve delayed the capital rule-making for these entities in order to further study these issues, including the associated costs and benefits of requiring use of GAAP by insurance entities that have long used SAP and not GAAP. If confirmed, I will be sure that the costs and benefits are appropriately considered as the Federal Reserve promulgates a final rule on this issue.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR MORAN
FROM LAEL BRAINARD**

Q.1. A growing concern that many of my colleagues and I are following involves the Financial Stability Board’s (FSB) possible effort to impose European insurance capital standards on the U.S. insurance industry, specifically companies that are designated as “internationally active.”

In my opinion, Dodd-Frank is clear that if an insurer is not designated as a SIFI or is not a savings and loan holding company that the insurer would continue to be subject to the risk-based capital standards per individual State regulation.

Imposing foreign insurance standards on “internationally active” American companies appears to be a significant departure from the appropriate, traditional State regulation these companies were previously subject to.

Some of the Federal Reserve nominees may have past experience with this specific issue in prior governmental roles. Please provide your views on whether or not you feel that foreign capital standards are appropriate for “internationally active insurance companies” and whether that foreign regulatory framework should preempt individual States’ rights to oversee this industry.

A.1. The qualitative standards under development by the IAIS would in no way replace existing insurance risk-based capital standards at U.S. domiciled insurance legal entities. The development of any IAIS qualitative capital standard would be complementary to existing legal entity risk-based capital requirements by evaluating the financial activities of the firm overall rather than by individual legal entity. That said, U.S. based IAIGs would continue to be subject to U.S. laws and regulations. Neither the IAIS nor the FSB has authority to implement requirements in the United States or any jurisdiction.

I support the broad objective of the IAIS to achieve greater comparability of capital requirements of IAIGs at the groupwide level in order to promote financial stability, ensure against regulatory arbitrage, provide a more level playing field for firms, and enhance the confidence in the groupwide supervisor’s analysis on the part of host supervisors. U.S. interests and approaches should be well reflected in the work of the IAIS given strong representation of U.S. insurance authorities as members of the IAIS, including State insurance supervisors, the National Association of Insurance Commissioners, the Federal Insurance Office, and the Federal Reserve.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAPO
FROM GUSTAVO VELASQUEZ AGUILAR**

Q.1. In recent years, several Federal regulatory agencies have increased significantly the use of “disparate impact” enforcement actions in their oversight of the housing and financial sectors. Disparate impact enforcement actions have been brought even in the absence of direct discriminatory evidence or discriminatory motive. In your opinion, when should disparate impact enforcement actions and cases be brought when there is no evidence of direct discriminatory evidence or discriminatory motive exist? Should a Federal agency be required to share any economic analysis conducted upon

which such action has been based? If not, then how should these analyses be verified?

A.1. If confirmed as Assistant Secretary, my commitment is to follow the law and all applicable HUD administrative procedures. HUD's Office of Fair Housing and Equal Opportunity (FHEO) receives complaints of discrimination from individuals and organizations. FHEO may also initiate a case based on evidence it obtains regarding possible discrimination. In every case, HUD conducts a full and fair investigation and throughout the investigation provides the parties with sufficient information on the claims and defenses, which may include economic analyses, to allow them to rebut any evidence. Given that the facts of every case are different, decisions about what legal theory to pursue in litigation cannot be made in the abstract. If confirmed, I would consult with the Office of General Counsel at HUD when making such determinations. I understand that with respect to disparate impact in particular, there are currently two pending lawsuits challenging the final HUD rule on implementation of the Federal Fair Housing Act's Discriminatory Effects Standard. If confirmed, I will obey the final ruling of the courts on this issue.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAPO
FROM J. MARK MCWATTERS**

Q.1. Streamlining outdated and burdensome regulations is crucial to providing regulatory relief to small financial institutions, including credit unions, and it is one of my top priorities. The annual Gramm-Leach-Bliley privacy notice is one such burden that is costly for credit unions. Would you briefly outline other regulatory burdens that credit unions face, and tell us how you would minimize regulatory burdens for credit unions, if confirmed?

A.1. Federally insured credit unions currently face real pressures resulting from regulatory burdens, market competition, and members' demands. In 2013, we continued to see the number of federally insured credit unions contract, in large part because of these pressures.

I also recognize that smaller credit unions are often the only provider of much-needed financial services in rural, innercity and low-income communities. I want to help these institutions remain viable. If confirmed, I will make prudent regulatory relief, consistent with safety and soundness, one of my top priorities. As such, I will question the need for each regulation the NCUA Board considers and seek to provide regulatory relief where possible.

Last year, the NCUA Board raised the definition of a small credit union from \$10 million and under to \$50 million and under. The change excluded more credit unions from NCUA's regulations, like the risk-based capital rule and the requirement for adopting interest rate risk policies. The change also made these small credit unions eligible for assistance from NCUA's Office of Small Credit Union Initiatives. The NCUA Board must now use the new threshold to consider whether to exempt small credit unions from each proposed and final rule. This change was a step in the right direction, but we cannot stop there.

NCUA is the only financial services regulator that conducts a rolling 3-year review of all regulations issued by the agency. If confirmed, I will work to ensure more credit unions are aware of this process and use it to advocate for regulatory relief. For those rules that NCUA enforces but does not write, I would urge the agency to work with other regulators like the Consumer Financial Protection Bureau to cut unnecessary burdens.

However, I'd be careful in making any changes so as to not increase the risk to the Government-backed Share Insurance Fund and potentially the American taxpayer. As with all things, this task will require balance. If confirmed I will bring an open mind, and a risk-based, market-oriented, targeted and transparent regulatory perspective to address the increasingly complex and sophisticated issues facing credit unions.

Q.2. When trying to maintain a healthy capital ratio, credit unions must comply with a rigid capital definition established in the Federal Credit Union Act. Specifically, credit unions can't access supplemental capital and must instead solely rely on retained earnings as a percentage of total assets. What is your position on the ability of a credit union to access supplemental capital and consider that in its capital ratio?

A.2. Capital is one of the fundamentals that I want to focus on at NCUA. During the recent financial crisis, financial institutions with greater capital did much better than those with less capital.

Currently, about a third of credit unions are able to accept supplemental capital if the majority of their members qualify as low-income households. The Federal Credit Union Act states that credit unions have a mission to meet the credit and savings needs of consumers, especially people of modest means, and the ability to receive supplemental capital provides an incentive for credit unions to seek and maintain the designation.

That said, most credit unions currently only have one way to raise capital—through retained earnings. Without access to other ways to raise capital, credit unions are more exposed to risk when the economy falters. I know NCUA has expressed support for legislation to permit qualified credit unions to accept supplemental capital.

As a policy issue, increasing the availability of capital for a financial institution is generally a positive in my view. Supplemental capital would achieve this objective, but there are also costs associated with obtaining it. Increasing access to supplemental capital could also result in a reduction in the advantages for credit unions to seek and maintain the low-income designation. Because this is a statutory issue, Congress ultimately would need to act on allowing supplemental capital for more credit unions before NCUA could issue regulations to expand its availability. If confirmed, I would work to implement any such law in accordance with the requirements set by Congress.

Q.3. Credit unions have been hit especially hard by recent data breaches at retailers. Card replacement costs, fraud monitoring, and reputation risks hit small institutions the hardest. What are some of your priorities for addressing data security and card technology issues in the credit union industry?

A.3. Data security and cyber-fraud are key risks that all financial institutions face, including credit unions. For smaller financial institutions to remain viable, they need to offer their members access to credit cards, debit cards, online banking, and mobile products. As we see every day in the news, the risks involved in offering these products are only growing by increasingly sophisticated criminals who tap into networks to steal money and personal information.

I believe NCUA could do more to help protect credit unions from these threats, especially small, low-income and rural institutions. I know the agency has issued collaborative grants from the Community Development Revolving Loan Fund to low-income credit unions to encourage them to cooperate with other credit unions on key issues. I believe the issue of data security and card technology could be one area for NCUA to explore using such grants. In addition, I believe NCUA should become more active in identifying and notifying credit unions of potential cyber-threats. I also believe we need to have clear rules about which parties should pay and how much in the event of security breaches and cyber-crimes. If confirmed, I will make this issue one of my priorities.