DOMESTIC AND INTERNATIONAL POLICY UPDATE

HEARING

BEFORE THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

ON

REVIEWING DOMESTIC AND INTERNATIONAL POLICY ISSUES AND RECEIVING UPDATES ABOUT THESE ISSUES FROM THE SECRETARY OF THE DEPARTMENT OF TREASURY

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OPENING STATEMENT OF CHAIRMAN MIKE CRAPO

Chairman Crapo. This hearing will come to order.

Today we will receive testimony from the Secretary of the United States Department of Treasury on domestic and international policy issues.

Thank you, Mr. Secretary, for attending today.

This is Secretary Mnuchin's first hearing since being sworn in as Treasury Secretary in February, and we look forward to our discussion.

Many of this Committee’s priorities fall within the jurisdiction of the Treasury Department, including housing finance reform and development of policies to encourage a healthier economy. We look forward to working with you and your staff on these priorities and improving the lives of Americans.

Housing finance reform remains the most significant piece of unfinished business following the crisis, and it is important to build bipartisan support for a path forward. Last week, we received testimony from Federal Housing Finance Agency Director, Mel Watt. At that hearing, Director Watt emphasized that it is Congress that needs to act to determine the future of housing finance reform. The hearing reinforced why conservatorship is unsustainable—namely, GSEs having zero capital, taxpayers on the hook for losses, and the Government effectively taking all risks.

A number of groups have released proposals for reform in recent months, including the MBA, the ICBA, the Milken Institute, several co-authors writing jointly for the Urban Institute, and many others.

Three years ago, seven Republicans and six Democrats on this Committee voted in support of a comprehensive housing finance reform bill. A key priority for this Congress is to build on that bipartisan legacy and these new ideas and pass legislation that will create a sustainable housing finance system for future generations.

I look forward to working with you, Secretary Mnuchin, and your staff at the Treasury Department as this Committee develops this
bipartisan legislation that will fix the broken housing finance system. Regarding economic growth, I am encouraged by President Trump's Executive Order on Core Principles for Regulating the Financial System. I understand that the Treasury Department will be issuing a report identifying laws and regulations that inhibit Federal regulation of the U.S. financial system in a manner consistent with the core principles soon. I will review this report and work with you, regulators, and Members of the Committee to enact measures to improve our financial system.

Financial regulation should help ensure a safe and sound financial system, but in a tailored manner to help grow and maintain a healthy economy. We want our Nation's banks to be well capitalized and well regulated, without being drowned by unnecessary compliance costs. Undue regulation chills innovation and imposes significant and unnecessary costs and burdens on financial institutions and companies, often disproportionately on smaller ones.

For example, community banks and credit unions lack the personnel and infrastructure to handle the overwhelming regulatory burden of the past few years, yet in many ways are treated the same as the world's biggest institutions. Our regulatory regime should be properly tailored and avoid a one-size-fits-all approach.

One area I would like this Committee to address is the $50 billion SIFI threshold for regional banks. In prior hearings, we have discussed whether $50 billion is the appropriate threshold, and I hope that we can work together to craft a more appropriate standard.

My goal is to work with you, Secretary Mnuchin, Senators of this Committee, and financial regulators to look for ways to improve regulation and foster economic growth, while maintaining resiliency in the economy.

Senator Brown.

STATEMENT OF SENATOR SHERROD BROWN

Senator Brown. Thank you, Mr. Chairman. Welcome, Mr. Secretary. Nice to see you two days in a row. Thank you so much.

I thank Chairman Crapo for calling this hearing. Treasury has played a key role in our Government since its creation more than two centuries ago. That role expanded in the wake of the Great Recession when it became clear, at great cost, that the rules in place for financial services were inadequate. Given the greater role that the Treasury Secretary plays in oversight of Wall Street, it makes sense that he devotes some of his time to conveying his views and those of the Administration on issues within this Committee's jurisdiction to us and to the public.

So far, that communication has been insufficient. Questions posed to the Secretary by me and questions posed to the Secretary by other Senators have gone either unanswered or were answered by non sequiturs. So I hope today will give an opportunity to all of us for more forthright conversations.

On Tuesday, we held an ordinary hearing that, in my mind, turned out to be quite extraordinary. Three of the four nominees will work in national security positions in Treasury, if confirmed; the fourth will work in a national security position at Commerce.
One Senator after another felt compelled to ask the nominees, to ask each of them, if they would put the law and the Constitution and their country ahead of loyalty to the President. Amazing and unprecedented that we thought we had to ask that question. Given all the troubling revelations from the White House and about the White House, such a question is vital for every nominee in a sensitive position. This was hours before we learned that President Trump very likely asked FBI Director Comey to shut down an investigation.

Honesty is critical. Our national interests are undermined, whether national security or domestic economic security, when our leaders traffic in falsehoods. You cannot lead if we do not believe you. And when I say “we,” I mean the American public. China was a champion of currency manipulation, and then it was not. Wealthy taxpayers would not get a tax cut, and then they would. The deficit would be eliminated in 8 years, and then it would not. Wall Street was getting away with murder, but now it has too big a compliance burden. The carried interest loophole would be closed, but now maybe not. We must invest $1 trillion in our “Third World infrastructure,” but now there seems to be no rush. No cuts to Medicaid, it was promised; now a $900 billion—$900 billion—cut to Medicaid is fine.

The President launched the examination of Dodd-Frank with the claim that creditworthy borrowers cannot get loans, but the spigot is not dry and we do not need to, in the President’s words, original words perhaps, “prime the pump.” Bank loans and profits are at record levels. These are facts that bear repeating. Bank loans and profits are at record levels.

The President was elected saying Wall Street has caused tremendous problems for us; “we are going to tax Wall Street,” his words. Now that he is in office, he seems to have forgotten the tremendous problems that Wall Street created for middle-class families across America. That same amnesia seems to have infected a number of my colleagues who seem to forget what Wall Street did 10 years ago to our country, to our economy, to our families, to our neighborhoods. The President sacked a dedicated public servant for a bank lawyer to oversee the Nation’s biggest banks. He is threatening the Consumer Bureau, one of the only champions that consumers have in the executive branch.

Can we improve upon how we regulate the banks and the shadow banks and the rest of the financial services industry? Of course we can. I believe we can do so for smaller institutions. But let us do so based on facts. The fact is that one in five homeowners in the city of Cleveland—one in five—holds a mortgage that is more than 120 percent of the value of their home. The fact is that bank lending has grown 6 percent annually over the past 3 years. Loan growth at community banks was 8 percent—8 percent—this past year. Lending stalled in the first quarter of this year. Why? Because demand was not there.

The fact is that U.S. households have more debt now than they did at the peak in 2008, driven by increased auto and student debt. The fact is the wealthiest Americans may have recovered from the Great Recession, recovered and then some, but many, many families like these Cleveland homeowners have not. If we want to
improve our economy, we would be better off debating how to create jobs through an effective means like infrastructure investment rather than the thoroughly discredited trickle-down approach, whether achieved through the Tax Code or by raising the speed limit for Wall Street.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Secretary Mnuchin, we will now turn to you. You have the time that you may need to make a statement. If you would like to introduce anyone, as you choose, you may do so. And the time is yours.

STATEMENT OF STEVEN T. MNUCHIN, SECRETARY, DEPARTMENT OF THE TREASURY

Mr. MNUCHIN. Thank you. I would like to introduce my fiancee, Louise Linton, who is with me this morning, as well as many other members of my team at Treasury.

Chairman Crapo, Ranking Member Brown, and Members of the Committee, it is an honor to appear before you today for the first time as Treasury Secretary. During my confirmation hearing, I promised to work with Congress to create and maintain prosperity for all Americans. I want to reaffirm that commitment to you today.

Let me begin by discussing the Treasury’s recent report on foreign exchange policies of our major trading partners. Ensuring that American business, consumers, and workers face a level playing field is one of the essential components of this Administration’s agenda. When foreign governments engage in currency manipulation, it makes the playing field uneven, which is why we regularly monitor these practices.

After careful study, the Treasury Department has found that no major trading partner met the criteria for currency manipulation during the current reporting period. We will continue to follow this important issue and have established a “Monitoring List” of economies that warrant close attention. This list comprises China, Germany, Japan, Korea, Switzerland, and Taiwan.

Additionally, we are committed to rethinking our foreign agreements and trading practices to ensure that they are both free and fair to American business and workers. In my discussions with the IMF and the finance ministers of the G–20, I have emphasized this goal, and I will continue to do so.

Turning to our domestic agenda, it has been more than 30 years since we have had comprehensive tax reform in this country. Combined with often imprudent regulations crafted in the midst of the crisis, the entire American prosperity has slowed. I believe that a goal of 3 percent GDP or higher economic growth is achievable if we make historic reforms to both taxes and regulation.

There are about 100 people working at the Treasury on the issue of tax reform. It is our goal to bring relief to middle-income Americans and make American business competitive again. We will do this all while simplifying the tax system.

On regulatory reform, Treasury is preparing its initial report in response to the President’s Executive Order on “Core Principles for Regulating the United States Financial System.” These principles
provide a road map for the Administration’s approach to financial services regulation. We have taken a systemic approach in our work by meeting with a variety of stakeholder groups to hear what works, what does not work, and what can be improved. Our initial report contains recommendations to provide relief for community banks and make regulations more efficient, effective, and appropriately tailored.

Housing finance reform is another priority of mine. This has been an unresolved issue for far too long and one we are committed to fixing. We will ensure that there is both ample credit for housing and that we do not put taxpayers at risk. This Committee has done extensive work on this along with your work on community financial institution regulatory relief. My hope is that we can partner on both of these issues. I look forward to working with the Congress to develop a solution.

Finally, another area that is crucially important to Treasury is our commitment to combating terrorist activities and financing. We have announced a number of sanctions against individuals and entities associated with destabilizing regimes like Syria, Iran, and North Korea. This work is essential to the Administration’s efforts to continue to keep Americans safe.

The first few months of this Administration have been significant. We have been working hard at Treasury to develop and implement policy that will allow the economy to grow. This will make the dream of prosperity once again a reality for all Americans.

Thank you.

Chairman Crapo. Thank you very much, Secretary Mnuchin. And I want to thank you personally for your responsiveness to this Committee. We appreciate your willingness to work with us on these issues, and certainly your expertise and assistance can help us get to the right results.

I want to ask my first question about housing finance reform and the status quo. As I indicated in my opening remarks, last week Director Watt of the FHFA indicated that this was critical for Congress to deal with. My question to you is: Do you agree that the status quo is unsustainable and that Congress must move on this issue?

Mr. Mnuchin. Thank you, Chairman Crapo. I do agree completely with that. We are committed to working with you on a solution on housing reform. I think we need to fix Fannie and Freddie. We are committed to make sure that there is proper liquidity in the housing markets. It is a very, very important part of the American economy, and we need to make sure that there is ample credit for the middle class to buy homes, while at the same time making sure that the taxpayers are not at risk. As you know, the Treasury has a very big line outstanding to those two entities.

Chairman Crapo. Well, thank you. And as you know, during the 113th Congress, this Committee developed a comprehensive housing reform bill. We had to make a lot of compromises to achieve that bipartisan legislation.

As the Committee again focuses on housing finance reform, what do you think are the key compromises that need to be achieved?

Mr. Mnuchin. Well, I think we are open to working with you, as I have suggested. We need to find a solution that creates nec-
necessary liquidity while making sure we do not put taxpayers at risk. And while we have been busy working on tax reform and focusing on regulatory issues, during the second half of this year I will focus on housing reform and look forward to speaking to many of you on ideas.

Chairman CRAPO. Well, one of the big issues that does face us on housing finance reform is whether there should be an explicit Government guarantee provided through the housing system. Do you believe that such a guarantee is necessary? And if so, how do we deal with implementing adequate taxpayer protections in exchange for any Government guarantee?

Mr. MNUCHIN. Well, I think it is a bit early for me to make a conclusion on whether a guarantee is necessary. That is something that we would like to study very carefully, and if there is a guarantee, we would want to make sure that there is ample credit and real risk in front of that guarantee so that taxpayers are not at risk.

Chairman CRAPO. All right. Thank you.

I want to move quickly to the Executive order that the President has issued. I notice I only have a couple minutes left, and I did not at the beginning of this remind all of our colleagues that we need to pay very close attention to the 5 minutes for questioning because I am confident that every Senator on this Committee wants to have his or her opportunity to speak with you. So I will just in my last 2 minutes quickly bring up the Order that President Trump signed in February outlining the Administration’s Core Principles for Regulating the U.S. Financial System.

Now, the Executive order requires you to report within 120 days on the extent to which existing laws and regulations promote those core principles and to identify laws and regulations that inhibit the Federal regulation of the U.S. financial system in a manner consistent with them.

And, by the way, I strongly agree with those core principles, and I am looking very much forward to working with you on this effort.

Can you tell the Committee some of the specific issues you have looked at and perhaps some of the findings that we may expect to see in your report?

Mr. MNUCHIN. Yes, thank you. We have had a very large group at Treasury working on this. One of the things that I emphasized to the team ahead of time was that we wanted to make sure that we reached out to many different groups and got feedback, that this was not something that Treasury was just designing on its own.

I know certain people refer to this as a “review of Dodd-Frank.” That is one of the things we are looking at. But it is actually much broader than that in looking at the core principles.

We have met with over 16 different groups, many of them having 50 to 100 people. We have had community banks. We have had small- and medium-sized banks. We have reached out to each one of the regulators and had working groups with each one of the independent regulators to make sure we have input from them. And we will be issuing a series of reports, the first one coming out shortly, which will be on banking. And I will say one of the big focuses, we will make sure that as we have different regulators, we
have proper coordination between them, and this is something that I have also been working on at FSOC where I take my responsibility as Chair very seriously.

Chairman CRAPO. Thank you very much.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman. And welcome again, Mr. Secretary.

At your nomination hearing on January 19th—and as a member of the Finance Committee, I was there—you stated that OneWest, the bank you were affiliated with, did not engage in robosigning and other types of misconduct related to mortgage practices. Since, there has been a lot of news, including reports in Ohio from perhaps our State’s most conservative newspaper, some 1,900 signings in Ohio just in the six largest counties, reports that OneWest did, in fact, engage in robosigning. Earlier this week, your former company, Financial Freedom, settled with the Department of Justice for $89 million—related to violations of Federal law.

Do you stand by that January 19th testimony?

Mr. MNUCHIN. Yes. Let me first comment and let me first say that, as you know, I am no longer on the board of CIT, so I only have access to public information and what I have read. But I would like to comment on the Financial Freedom settlement which was in the recent press.

Let me first say——

Senator BROWN. Please make it as short as possible. I have other questions.

Mr. MNUCHIN.——that these issues were identified by my management team and self-reported to HUD and FHA when we became aware of them. These were issues that existed prior to us taking over the bank. We were concerned. We sent a team to go see the FHA Commissioner, and we dealt with that.

We also took reserves, and as soon as we learned there were issues, we put in policies to correct those issues immediately.

Senator BROWN. I am sorry to interrupt, but my question, Mr. Secretary, was did you—forgetting the settlement. You said OneWest did not engage in robosignings. Do you stand by that statement from January 19th that you said under oath to the Finance Committee?

Mr. MNUCHIN. I do, and I would also just comment, I believe in a series of questions that were issued to me after that hearing, we responded on the definition of robosigning. And, again, I am no longer at the bank, so I cannot comment——

Senator BROWN. I know that. All right.

Mr. MNUCHIN.——on anything that——

Senator BROWN. Thank you. Chairman Crapo mentioned the Executive order, and then you gave us some detail about it, and I am appreciative of that. As you and your team at Treasury work through this, are you reviewing the reforms made to the mortgage market that would address practices that took place in places like IndyMac and OneWest, including protecting—and you mentioned all the banks that you have brought in the room, but there are customers, there are community people that you did not mention. But the practices that took place at OneWest and IndyMac, protecting home buyers from predatory mortgages, banning robosignings,
other harmful servicing practices, evaluating borrowers for their ability to repay a loan, are you looking at—are you reviewing those reforms?

Mr. Mnuchin. There will be a series of reports, and we will be making recommendations on things that impact home mortgages.

Senator Brown. I am just concerned, as I sit through these hearings year after year after year, that so many of my colleagues have suffered this collective amnesia about what happened 10 years ago. I do not want you as Treasury Secretary to suffer from the same affliction.

Another question. You are meeting with stakeholders on the Wall Street reform Executive order and housing finance reform. How many industry groups have you—not your staff, but how many industry groups have you met with versus how many consumer groups?

Mr. Mnuchin. First of all, let me just comment on your other thing. I will not forget those issues. I lived with those issues very seriously from the problems at IndyMac, and I spent many years trying to fix those and work on home loan modifications.

In regards to industry groups, I have met with several groups of industry leaders and community areas. We have worked with them, and we have had several meetings of large groups that have come in.

Senator Brown. Could you spell out for this Committee—I assume you cannot recite numbers now, but would you get back to this Committee within the week that the Chairman usually calls on to delineate whom you have met with, which banks? I mean, give us a litany of—I mean, diversity of meetings is not small banks, medium banks, large banks. There are customers, there are community groups. There is all that. So if you would spell out specifically whom you have met with and give that to this Committee, whom you have met with about the Executive order, if you would be willing to do that.

Mr. Mnuchin. We would be more than happy to do that on a confidential basis.

Senator Brown. Of course. Of course, and I accept that and would honor that.

Last question, Mr. Secretary. You committed to Senator Hatch in the Finance Committee that you would respond to all the Finance Committee members’ questions. I wrote to you 2 ½ months ago, on March 2nd. I have not received an answer that I asked for about potential conflicts of interest and ownership in the Administration.

Just today, there is a front-page story in the, shall we say, mainstream media—it is the Wall Street Journal—about the President’s business partners and his financial entanglements with a Russian bank that is on the sanctions list. So I would like to pose the question again that I asked in Finance in follow-up—I am sorry, that I wrote to you on March 2nd. Will you get a complete list of Trump business associates and financial ties to ensure that any foreign entanglements are benign with respect to the laws you enforce—terrorism, money laundering, sanctions, CFIUS, IRGC associations and the like? So would you commit to us to get a complete list of Trump business associates and financial ties because of the threat they could have to ensure that they are, in fact, benign?
Mr. MNUCHIN. Well, let me first say I did review before I came today to make sure that my staff had fully responded to all the inquiries from you and the Committee, and I believe we have. And if there are outstanding questions that you have from letters that you have sent us, please make sure you follow-up with me after this, and we will make sure that we are responsive.

In regards to your specific question, again, if you would just send me a note on what you are looking for, we will review internally whether it is appropriate to come from us or somewhere else, and we are happy to respond to you.

Senator BROWN. I appreciate that. Thank you for your cooperation. But the letter was March 2nd. It was not answered. I am asking it again. I will follow up with a letter again. But we want to know—we want a complete list—I mean, people in this country are troubled by the President’s business connections. They are troubled when the President’s family goes to another country to do business and American taxpayers provide security for their families and that money goes to the Trump business empire, including the President. People want to know about those financial entanglements. That is not an academic or a political science exercise. It is not even a political exercise. It is about the national security of this country, and it is about people wanting, needing to know that information. So I reiterate how important it is.

We just last week listened to the nominee for CFIUS and terrorism and financial crimes, all those very important issues—or those positions, and we want to make sure his ties do not affect their ability, the Under Secretary of Treasury for Terrorism and Financial Crimes, the ability of the CFIUS nominee to do their jobs.

Mr. MNUCHIN. Well, I can assure you I take the CFIUS responsibility very seriously. I review the cases weekly. My team reports to me on it, and I can assure you that if there were any cases that involved the President or any members of his family, they would be treated very seriously, and we would review them like anything else.

Senator BROWN. But the public needs to know that as you review them.

Thank you, Mr. Chairman.

Senator SHELBY. [Presiding.] Senator Corker.

Senator CORKER. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here. I appreciated our conversation yesterday evening, and I know that you heard Chairman Crapo’s commitment to housing reform in his opening comments. I know that you have got some tax reform issues and others to deal with, but it is my sense that you are strongly committed to finally dealing with housing finance reform in an appropriate way. Is that correct?

Mr. MNUCHIN. That is correct, and I hope that is something that we can do on a bipartisan basis.

Senator CORKER. And I think the only way to do it appropriately, where you deal with some of the charter issues that are necessary to really go beyond the model that we had back in 2008, the only real way to do that is through congressional action. Is that correct?

Mr. MNUCHIN. My strong preference is to do it through congressional action and working with you and your colleagues. I will say
that, obviously, the Treasury has a lot of exposure and taxpayers are at risk. But my strong preference is to do it exactly as you have described.

Senator CORKER. I talked to you a little bit about the—I guess a couple nights ago Mr. White called me to talk a little bit about a conversation we had had here publicly about the capital cushion and some other issues, and, you know, I sincerely believe that he feels strongly about the position that he has laid out. I discussed that with you a little bit last night, and I know your position there. But it seems like we have got another 75 days or so to figure out the appropriate resolve to that. Is that correct?

Mr. Mnuchin. That is, and I appreciated you calling me and talking about that issue. I have had the opportunity to meet with Mel Watt several times. The last time we talked about the dividend extensively, and I did tell him that it was our expectation at Treasury that they would pay us the dividend, and we hope they continue to do so per the agreement.

Senator CORKER. I think most of the models that have been put forth to try to resolve the issues that have continued to exist with Fannie and Freddie, most of them call for an explicit guarantee because of the fact that there was an implied guarantee, which really caused the situation where there were private gains and public losses. Certainly if there is any guarantee that is put in place after hopefully a large amount of capital being put in front, that is something that should be priced, should it not?

Mr. Mnuchin. Absolutely. If we do end up with a situation where the Government is issuing a guarantee, no different than FDIC insurance or FHA insurance, the Government and the taxpayers should be compensated for that risk.

Senator CORKER. Well, I would just like to say, again, there has been a lot of work, Senator Warner and myself, many of the people here at the Committee, have spent a great deal of time on this issue. As I mentioned to you last night, I doubt we will have a Secretary of Treasury like you that knows as much about this topic as you, and I look at this as a tremendous opportunity really to resolve this issue because of your knowledge and the strong interest on our Committee.

I think when we attempted this back in 2013, we did so in a fashion that was so complicated, very difficult, even though we passed something out of the Committee, to bring that into the mainstream on the floor, and certainly in front of the American people. My sense is there has been a lot of work to streamline since, and I will say I feel for the first time a real opportunity to align not just the interest of U.S. taxpayers and the fact that we want to have a housing finance system that is robust, but also, in fairness, one that more fully aligns the public sector interest and the private sector interest.

I know I talked to you a little bit about some potential proposals last night on the phone, but I just want to thank you for your interest in this and look forward to hopefully completing the work that is the last piece of work, the one piece of work that really should have been front and center on financial reform when we did it in 2010. And I want to thank you for your concern, your interest, and hopefully involvement in bringing this to a close.
Mr. Mnuchin. Thank you. I am committed to work with you on it.

Chairman Crapo. [Presiding.] Thank you.

Senator Reed.

Senator Reed. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for joining us today.

You noted in your testimony the importance of the work done in the Treasury Department to identify and disrupt terrorist activities specifically by targeting their financial networks, and this work is critical and depends a great deal on cooperation of our allies around the world, specifically where intelligence sharing is concerned.

After the recent revelation that President Trump shared highly classified information with the Russian foreign minister, reportedly information given to him by an ally but shared without its knowledge, do you have concerns about the chilling effect this is likely to have on our relationships with these critical intelligence-sharing partners?

Mr. Mnuchin. Well, I cannot comment on what information was shared or not since the only thing I know is what I read in the press. But I will say I am probably spending 50 percent of my time on TFI issues. It is, I think, perhaps the most important issue right now as part of my job. I assure you that I take it very seriously. I have had two foreign trips, meeting with both the G–7 and G–20, and in each one of those meetings with my counterparts, I have discussed this. And I am happy to report that we have a very close working relationship with our partners and our allies on this issue and something I think can be incredibly effective in stopping terrorism throughout the world.

Senator Reed. Thank you. The White House has also asked you to review the orderly liquidation authority established by the Dodd-Frank Act. And as you know, the statutory purpose of the OLA is to provide the necessary authority to liquidate failing financial companies that pose a significant risk to the financial stability of the United States and a mandate that mitigates such risk and minimizes moral hazard. And I would like to highlight some of the OLA provisions and ask whether you support them.

In the case of a failure of a mega bank, do you support the mandatory removal of the mega bank’s executives and board members responsible for the failure?

Mr. Mnuchin. Again, we are going through an extensive review of OLA as instructed by the President. We are just starting that process. I have had discussions with many finance ministers and Governors throughout Europe, and this is something that is obviously very important to them as well.

It would be premature for me to make any specific comments on any aspects of it. We are doing a review. I am open-minded to looking at all these, and I look forward to issuing a report, and we would be more than happy to come back and update you once we have done more work on it.

Senator Reed. Let me, recognizing your answer, put on the record two other issues which I would like you to give particular attention, and I will put it in the form of a question, understanding that your response would probably be similar to your initial
response. Do you support the FDIC’s authority to claw back compensation from executives and directors substantially responsible for the failure?

Mr. Mnuchin. I would say as a general matter I think that that is a good policy that has been instituted. So, again, it is something we will review, but, yes, I generally support that.

Senator Reed. Would you support the statutory mandate that taxpayers shall bear no losses from the exercise of any authority under OLA?

Mr. Mnuchin. Again, I would say that that is an objective, but, again, I would reserve comments, specific comments, until we complete the review. Obviously, we do not want to put taxpayers at risk in any way, and that is one of the reasons we are looking at all the core principles.

Senator Reed. Mr. Secretary, the tax plan is rather terse in details, but it suggests that some of the highest-income Americans would receive significant tax cuts, and the majority of the tax relief to the remaining Americans would be rather minuscule or certainly small. And there is a possibility that in the proposal there could be indeed some increases on individual families or individual taxpayers.

Are you committed now to ensuring that there will be no increase on families or individual taxpayers of less than $250,000 a year? And I am picking that as kind of a reference point, but are you committed to something like that?

Mr. Mnuchin. Let me just say that, obviously, tax reform is something that we are working on with the House and the Senate. But I can assure you that the President’s objective and my objective is that we create a middle-income tax cut and that we do not raise taxes on the middle-income. If anything, the opposite. We are trying to create a middle-income tax cut.

Senator Reed. Would that tax cut be equivalent to the tax cut enjoyed by the very richest Americans, people who make about—the 1 percent, highest 1 percent?

Mr. Mnuchin. Again, obviously, we are working on the details. One of the things we have done is we have proposed getting rid of almost every single deduction, which is something that is used by the rich, in return for a slight reduction in taxes. And our objective is that 95 percent of Americans will not need to use itemized deductions and will be able to fill out simplified tax returns. And we look forward to working with you as we progress on the details.

Senator Reed. Thank you, Mr. Secretary.

Chairman Crapo. Senator Toomey.

Senator Toomey. Thank you, Mr. Chairman. And, Mr. Secretary, thanks for joining us. Good to see you again.

I do want to take a moment to compliment you on the extraordinary accessibility. You have been before groups of us, members of the Finance Committee. I have lost track of the number of times you have been on the Hill to get input on the various issues in your brief. You have been available by phone. You have hosted meetings at the White House. And that is a very welcome change from the previous regime, and I am grateful for your accessibility and responsiveness.
I also want to commend you for reiterating the goal that we should be striving to create an environment in which we can sustain growth that is above 3 percent. I think that is entirely achievable, and it is a very important goal. So thanks for mentioning that.

As a quick follow-up to the comments from the Senator from Rhode Island, I would just like to underscore that as you do this review of the OLA and the OLF, I hope we will keep in mind that this very convoluted construct, which, at the end of the day, contemplates a taxpayer-funded bailout through the OLF of a failed bank, it is a creature of the fact that we do not have an adequate resolution mechanism in bankruptcy. And some of us have been working for some time on legislation that would give us the confidence that we could resolve even a very large, complex firm in bankruptcy so that we would not need to put taxpayer funds at risk indirectly through the OLF, nor all of these very prescriptive punishment mechanisms that the FDIC would subjectively decide to impose, of which the Senator from Rhode Island mentioned a few.

In this general topic, I wanted to address one of the egregious problems with the FSOC, which you chair now, and it has to do with the designation of these too-big-to-fail firms, the SIFI designation. It strikes me there are several obvious problems with the way that had been run, and I am hoping to get your reassurance it is going to be run differently.

Some of the things I have objected to is a completely opaque process where a prospective designee would have no idea the criteria by which they would be designated. Second is a complete lack of a defined so-called stringent regulation, which is the Dodd-Frank-prescripted punishment for being designated; no clear off ramp; no mechanism by which you could, once designated, change your business practices so that you could be relieved of the designation. And even firms like asset managers had to worry about being designated, and asset managers, as you know, do not intermediate credit risk. They do not fund themselves with deposits. They do not have the kind of risk profile that banks have.

So my question for you is: Can you assure us that under your leadership the FSOC is not going to launch a whole new wave of designations and is not going to be run in this very opaque fashion? And could you share with us how you do intend to lead the FSOC since it does exist in statute?

Mr. Mnuchin. Sure. Well, again, I take my responsibility of Chair of FSOC very seriously, not only on the designation issue, but it is also a very important forum where we can talk about issues across the regulators. Cybersecurity is something that I am very focused on, and we are working at FSOC and other areas with the regulators.

Specifically on your question, the President has signed an Executive order where we are reviewing the FSOC designation process. Again, it is early in that work, but I will tell you I do support the concept of transparency, and I do believe that if a company is being designated, that they should understand what would be required to be de-designated if they want to de-risk their business. So, yes,
generally in regulation, I believe that there should be transparency.

Senator Toomey. Thanks. And then just quickly on the CFPB, I remain deeply concerned that the way this entity was structured has left it completely unaccountable, and it behaves as an unaccountable regulator in many ways. The House Financial Services Committee had to take extraordinary steps to even discover the nature of their processes in their regulation of indirect auto lending, despite the fact that the statute forbids them to regulate auto lending. They continue to fail to produce a timeline that we have requested to explain their involvement in the discovery of the Wells Fargo abuses, where it appears that the CFPB jumped in at the end to take credit for what others had done. And Director Cordray has still yet to respond to QFRs that I submitted to him over a year ago. I think this lack of responsiveness and accountability is the logical consequence of an entity that even a court has determined is unconstitutional in its construct.

I hope you would agree to work with us to change the governance of this entity, make it subject to appropriations and appropriate congressional oversight.

Mr. Mnuchin. Yes, we would work with you on that.

Senator Toomey. Thank you.

Thank you, Mr. Chairman.

Chairman Crapo. Thank you.

Senator Menendez.

Senator Menendez. Thank you, Mr. Chairman. Mr. Secretary, welcome.

Mr. Mnuchin. Thank you.

Senator Menendez. The President spent a great deal of time on the campaign trail highlighting those neighborhoods and communities throughout the country that seldom reap the benefits of economic expansion but are reliably and disproportionately burdened by economic downturns. And in responses to my questions for the record after your confirmation hearing, you said, “I share your commitment to bring back jobs to these communities that have been so gravely affected by economic conditions for which they had no part in creating. If confirmed, I will work with you to make sure the poorest and rural areas of America are no longer left behind,” which was heartening to hear.

So, with that, let me ask you about community development financial institutions (CDFIs), the private community partners that have stepped up for the better part of a century to inject capital, create jobs, provide mortgage credits, small business loans, banking services in those forgotten communities.

In 2016 alone, CDFIs made over 39,000 loans and investments totaling more than $3.6 billion, financed over 11,000 small businesses and over 33,000 affordable housing units.

So explain to me, how is it possible to reconcile the President’s promises and your commitments with the Administration’s plan to eliminate the community development financial institution from the very foundation on which these investments are made possible?

Mr. Mnuchin. Sure. Well, let me first again say I am committed to work with you on helping these communities. In traveling with the President during the campaign, I had the opportunity to see a
lot of this, and I also had the opportunity at OneWest to see this where previous loans had been made improperly by IndyMac.

In regards to your question on CDFIs, as you know, the President’s budget has as a priority to make sure that we reinstitute proper spending for the military. The President is very concerned that we have not made those proper investments over the last number of years, and that that required a huge investment on the part of the Government. So we had to make difficult decisions in where we would try to save money on other areas.

While I share some of your concerns with the CDFIs, we had to look at this across a lot of different priorities. It is an area where this market is mature and there is private capital that will come in and the banks do lend. But I do share your concerns on this.

Senator MENENDEZ. Well, let me respond to that, because I believe in a strong defense. We spend more than the next seven countries combined. And we can do better, but not at the cost of everything that makes America worthy of fighting for and dying for, and not at the cost of millions of Americans who languish in an economic situation for which none of us generally would want to live in.

And when I looked at the budget justification that was put out by the Administration, the justification proposed in the budget outline as to why it should be zeroed out is not even an accurate description of the program’s statutory purpose. It said that this was to “jump-start an industry.” That was not the case. It was created to promote access to capital and promote economic growth in economically distressed areas.

So we obviously disagree on the value of the program because in my mind, when there are more than 50 million Americans living in communities with high percentages of adults who are not working and many who have no high school degree, every block has a few vacant homes, and incomes are stagnant, these communities desperately need investments that will allow them to start small businesses, create jobs, purchase homes. This is why I thought I was going to find common ground with the Administration, but zeroing out, for example, CDFIs, even in your desire to do national defense, does not make any sense on behalf of the very people who we supposedly want to defend. We want to defend, but we also want to create economic opportunities.

So even the banking industry, the ABA and the ICBA, said it best in their letter to Congress requesting full funding. They said CDFIs work in the exact communities that were the focus of this conversation, they are uniquely positioned to understand local credit needs.

So as we go into the 2018 fiscal cycle, I hope that you can be an advocate within the Administration for something that would meet the President’s goal and your own stated goal. And, you know, I hope to be able to work with you to make that happen.

Last, I wrote a letter in March to you concerning the real possibility that the Administration would be forced to deal with an offer from Russia’s state-owned oil company to acquire critical entity infrastructure in the United States. Last year, Venezuela’s large state-owned oil company, PDVSA, pledged nearly 50 percent of Citgo shares to Rosneft as collateral for its loan. I received your
response on Friday evening and, frankly, it does not say anything. It just recites relevant statutes and standard CFIUS procedures.

So my question is: Would it concern you, Mr. Secretary, if Venezuela's state-owned oil company defaults on the debt, and as a result, Russia's state-owned oil company exercised a near-majority ownership stake if they have not purchased additional shares in the open market? They may have, the possibility being the majority owner. With 48 U.S. petroleum product terminals, 3 refineries in 3 different States, 9 pipelines throughout the country, wouldn't that be something that would concern you?

Mr. Mnuchin. Well, let me just be very clear in stating this. This is an issue that I am aware of, not just from your letter but from other people who have raised the concern. I can assure you that this, like any other national security issue, will be reviewed at CFIUS, and at the appropriate—where national security issues are also discussed in other confidential settings. And at the appropriate time, I would be more than—as issues progress, on a classified basis we would be more than happy to have a confidential discussion.

Senator Menendez. Well, I look forward to that.

Thank you, Mr. Chairman.

Chairman Crapo. Thank you.

Senator Scott.

Senator Scott. Thank you, Mr. Chairman. It is good to see Mr. Tillis here with us today. Everyone is giving him thumbs up, so it is good to see you healthy here.

[Applause.]

Senator Scott. That is why I do not run at 8 a.m. in the morning, however. Excuse me. We will talk to you later.

Mr. Secretary, it is good to see you here as well. Like you, I had a past professional life. I spent about 20 years in the insurance industry. Now, that may not be as cool as making "The LEGO Batman Movie," but it is germane to my question.

I was pleased to see the President call for you to review the FSOC's nonbank SIFI designation authority. I think examining the transparency, the due process, and likelihood of distress associated with these designations is good public policy. At the end of the day, insurance companies are not banks, and they should not be treated as such.

Under existing law, FSOC includes an independent member with insurance expertise. Most FSOC members can have their vacancies on the Council filled by whoever takes their place. The law specifically allows that. Unfortunately, such a provision does not exist for the independent member with insurance expertise.

When the current insurance expert’s 6-year term ends, there will be no one there to take his place and no voting member with any insurance expertise. Do you believe that Congress should address this discrepancy between the vacancies of the FSOC members? And if so, how would you suggest that we do so?

Mr. Mnuchin. First of all, let me just say I have had the opportunity to meet with him several times. I do think it is very important that we have someone on the FSOC that represents and has experience in the industry, knowledge. I would be happy to work with you on that issue. We are aware that his term is coming up,
and if you or anybody else have suggestions for us for someone to replace him, we would be happy to listen to that. But I share your concern, and we want to make sure that we keep that spot on FSOC.

Senator Scott. I assume that when you make your presentation to the President on your review, that you would perhaps bring that issue up to the President as well?

Mr. Mnuchin. Yes.

Senator Scott. I want to thank Chairman Crapo and Ranking Member Brown who have both committed to solving this issue as well. So I think if we work as a Committee, we can solve this discrepancy that is unusual and certainly not practical.

Thank you.

Chairman Crapo. Thank you.

Senator Tester.

Senator Tester. Thank you, Mr. Chairman and Ranking Member Brown, and thank you for being here, Secretary Mnuchin. I appreciate your presence at this hearing.

Senator Moran and I have a community bank reg relief bill called the CLEAR Act. Have you had a chance to take a look at that at all?

Mr. Mnuchin. I have only looked at it briefly, but I would be happy to get together with you and go through it.

Senator Tester. OK. The reason I bring that up is that it is a bipartisan bill. There are a number of Democrats that are willing to work with you and Republicans that are willing to work with you to try to get some common sense reg relief for community banks, and if you could take a peek at that and get back to us, I would like that a lot.

Mr. Mnuchin. I would be more than happy to do that, and I can assure you that one of the things that will be in the report to the President is relief for community banks.

Senator Tester. Thank you.

There is a bill out there called the Marketplace Fairness Act. It deals with requiring small businesses to collect sales tax on behalf of other States and local governments when selling goods over the Internet. Are you familiar with that bill?

Mr. Mnuchin. I am familiar with the bill.

Senator Tester. Do you or the President have a position on that bill?

Mr. Mnuchin. I have not discussed it with the President, so I do not know his view. I think this is something that we seriously need to look at, and I share certain concerns of yours on it.

Senator Tester. How about a national sales tax in general? Is that something that the Administration supports?

Mr. Mnuchin. We have had no discussions on a national sales tax. It is not something that we are inclined to do.

Senator Tester. OK. Recently, you along with NEC Director Cohn announced a one-page tax plan and a briefing. The document is not specific, but that is OK. Nonpartisan experts have said that this plan could cost $5.5 trillion. I do not think any of us here think that that is a good idea, saddling the kids with additional debt. I think even Senator McConnell has recently said the plan cannot add to the debt.
Could you commit that this plan, this tax relief plan, would not add to the debt?

Mr. Mnuchin. First of all, let me assure you that this plan—we would never propose a plan that we thought would cost $5 trillion. OK? Only specific parts of the plan were released, so I do not know how it could be responsibly scored. And what I have said repeatedly is that any plan we put forward we believe should be paid for with economic growth.

Now, I am concerned as to whether some of the models will attribute enough growth in dynamic scoring, but when we present the details, we will present how we think it should be paid for.

Senator Tester. I would just—a couple things. First of all, the budget that the President put out—and, quite frankly, Senator Menendez talked to part of it, but it does not bode well for rural America. So if we are talking about economic growth and rural America to pay for a tax plan based on the budget that the President laid out, we have got some huge problems. I am just telling you it is not going to happen with that budget. I will just be quite honest with you.

The other thing I would say is that I am very suspicious of dynamic scoring because it has been done before. It is not the first time we have been here. And oftentimes, through dynamic scoring, the end product looks really good, but then when reality hits, it is not that way at all.

So if you are concerned about the debt—and I do believe you are, by the way—I would just ask this needs to be done very prudently.

Mr. Mnuchin. I can assure you that I am very concerned about the debt, and I will give you my 10-second commercial on the debt limit, which we do need to raise, and I look forward to working with all of you on that.

Senator Tester. And we look forward to working with you on that, too.

GSE reform has been brought up several times. Do you support a 30-year fixed-rate note?

Mr. Mnuchin. I do indeed.

Senator Tester. OK. And you talked several times about protecting taxpayers, and I think that is a solid. Would your support for that go away if, in fact, there was some taxpayer risk with the GSE rebuild?

Mr. Mnuchin. Well, again, I think that the 30-year mortgage has been a fundamental part of our——

Senator Tester. Yes, no doubt.

Mr. Mnuchin.——mortgage finance for as long as most people can possibly remember.

Senator Tester. It is a big deal.

Mr. Mnuchin. Again, if we end up with a scenario where we need some type of explicit guarantee, I would expect that it would be paid for, and I would expect that it would hopefully never be hit, no different than there is an FDIC Insurance Fund or an FHA Insurance Fund.

Senator Tester. OK, OK. The FSOC underwent a number of changes related to transparency and the designation process. You have talked about some of them: notifying companies when they move between stages, making public the calculation for Stage 1
evolution, providing more information to companies as they go through their annual review.

Would you support codifying those changes into law?

Mr. Mnuchin. Again, we are looking at recommendations, but I think that is one of the things we will look at and potentially recommend.

Senator Tester. OK. Thank you very much.

Thank you, Mr. Chairman.

Chairman Crapo. Thank you.

Senator Shelby.

Senator Shelby. Mr. Secretary, thank you for your willingness to serve. You bring unique experience from the private sector to the Office of Treasury. You know well that we need meaningful bank reform. You have been in the banking business.

A lot of us have pushed for overall and comprehensive bank reform, but it seems to me that a lot of the smaller banks and regional banks that, to my knowledge, having been here 31 years on this Committee and Chairman three times, that they do not pose a systemic risk to this country, you know, the small banks and regional banks.

So do you support in concept and would you work with us to try to bring some meaningful fundamental bank reform to our system?

Mr. Mnuchin. Absolutely. And I think that regional banks and community banks are critically important to lending. These are the banks that know the communities, know what is needed, and they know how to make loans, and we should make sure that they can do it without undue regulatory burden, without putting taxpayers at risk.

Senator Shelby. And, sir, aren't they mainly the banker for the small- and medium-sized businesses in this country which are the job creation machines?

Mr. Mnuchin. They are indeed.

Senator Shelby. On the tax reform, which we are all interested in and we have talked about, we talk about the corporate rate, 35 percent is too high. Of course, nobody pays 35 percent, as we know. But I have brought this up with the Administration several times. A lot of us have. Most of the small- and medium-sized businesses that we are talking about in this country are taxed under Subchapter S of the IRS Code, and that is the pass-through. Is that correct?

Mr. Mnuchin. That is.

Senator Shelby. So if we are talking about tax relief for the biggest of the biggest, what are some of your proposals or what are you working on—you have got a lot of smart people working on this—for the small businesses and so forth? Because I for one would not want to support a big reduction just for the biggest of the biggest and do nothing for our basic base and job creation small- and medium-sized businesses. Are you working in that area?

Mr. Mnuchin. Yes, thank you, Senator. We share your concerns, and I have referred to this in the plan as a “business rate” as opposed to a corporate rate. We need to figure out and we have a large team working on how we would deal with pass-throughs.

But I also just want to emphasize that we are committed to making sure that rich people do not use pass-throughs as a loophole to
pay lower rates. So we do want small- and medium-sized businesses to have the benefit of lower rates, but we will make sure that, you know, not every single accountant, lawyer, and doctor who should be paying higher personal rates sets up an LLC or a pass-through to get around the system.

Senator Shelby. But, again, this is the backbone of our economy, is it not?

Mr. Mnuchin. It is, and we are working hard on how we create growth in that part of the economy.

Senator Shelby. I do not want to put you on a calendar right now, but as you flesh this out and you get into the weeds on this, I hope you will be briefing us. I know the Finance Committee has jurisdiction over this, but we have more than a passing interest in all of it.

Mr. Mnuchin. Absolutely, and we will be more than happy to come back and brief you and your staff on this.

Senator Shelby. Thank you very much.

Chairman Crapo. Thank you, Senator Shelby.

Senator Heitkamp.

Senator Heitkamp. Thank you, Mr. Chairman. And welcome, Mr. Secretary.

Mr. Mnuchin. Thank you.

Senator Heitkamp. This is your first appearance in front of this Committee, and I could not agree with you more. One of the demands of the American public and the responsibility of Washington, DC, is to encourage economic growth. That can solve a lot of our problems as we go forward. And so I want to talk a little bit about the Ex-Im Bank. It is not a big surprise to a lot of people on this Committee that I will be raising it.

In 2014, Ex-Im Bank’s last fully functioning year, the Bank supported 164,000 jobs across the country. That is compared to about 52,000 jobs in 2016. That is because we did not have a quorum.

In 2015 alone, three Chinese export credit agencies financed a total of $500 billion. The potential there is that those could have been markets that we were accessing, but we are not getting access to today.

Do you believe that the Ex-Im Bank is a critical tool for enabling American manufacturing competitiveness?

Mr. Mnuchin. I do. I have actually spent a lot of time looking at this, and I am concerned that, without more members on it, they can only make loans up to $10 million. I think that the board should obviously look at credit risk and everything else, but the Ex-Im Bank is an important tool, and the President has proposed adding new members.

Senator Heitkamp. One of the great fears that we have is that the suggestion of the leadership of the Ex-Im Bank going to former Representative Scott Garrett, who really is not just a critic of the Bank and a reformer, I think he is someone that we are very concerned would not advance the interest of the Bank and does not believe in the mission of the Bank, not just reforming the Bank.

Do I have your commitment to work on a bipartisan basis to forward leadership in the Bank that would, in fact, make sure that the Bank is fully functioning and that these credits actually come before the board for up-or-down approval?
Mr. Mnuchin. I am sorry. I just want to make sure I understood your question. Is it on——

Senator Heitkamp. My question is: If, in fact, Scott Garrett’s name is advanced to lead the Bank as Chairman, we are deeply concerned that many of these credits that are—you know, $30 billion worth of manufacturing today will not even see the light of day because the head of the Bank has the ability to set the agenda for the board. And so it is very important that—you know, I quite honestly do not care if Mr. Garrett is on the board, but I do care if he is setting the agenda for the Ex-Im Bank.

And so my commitment to you—or my question to you is: Are you willing to work on a bipartisan basis so that we can move these nominees as expeditiously as possible without getting into the weeds on someone that many of us suspect might be a saboteur of the Bank?

Mr. Mnuchin. Yeah, I mean, I cannot comment on his specific situation. He was proposed by the President. I would say I can assure you that the President is interested in making sure that the Ex-Im Bank can lend. We have had lots of business people come in and talk about this, and it is something that Director Cohn and I are deeply involved in.

Senator Heitkamp. OK. I would tell you that I raised this issue as early as December with the President and was grateful to hear that he was supporting the Bank. But as we move forward—we are already in May, looking to June—we do not have nominees yet, and the nominees that have been proposed I think cause great hesitation on our part. And so we will leave it there.

I wrote you a letter on May 11th—you should have received it by now—about the Central States Pension System. These are good Americans, the kind of Americans that the President talks about every day, who worked very hard, negotiated and bargained for a pension and health care, and yet they are being told in many cases in my State that their pensions will be reduced 70 percent. Now, we were able to, I think, reject—Treasury rejected a plan that was submitted.

Where are you at with reviewing Central States? And how do you see this moving forward?

Mr. Mnuchin. So, again, let me just comment on—I do recall this is something that you mentioned at my meeting and confirmation. I am a lot more familiar today on this issue than I was beforehand.

At Treasury, we perform an important function when people make applications on these, but it is not a subjective function. It is a function of we go through and run tests. I share your concerns, and we look forward to working with you and others. It is a complicated issue.

Senator Heitkamp. It certainly is, and I look forward to your response to the May 11th letter. Thank you, Mr. Secretary.

Senator Shelby. [Presiding.] Senator Rounds.

Senator Rounds. Thank you, Mr. Chairman.

Mr. Secretary, we appreciate the opportunity to visit with you today. I would like to talk about just a couple of items.

I would like to go back to an insurance-related issue, if I could, and that has to do with the U.S.-EU Covered Agreement. We may
be getting into the weeds a little bit on it, and if you would like
to take it for the record, that would be fine. I am curious. There
are different types of insurance carriers that do business in the
United States. Some do business in Europe as well. They all want
to be able to—or at least a number of them want to be able to do
business both within the European market but also within the
United States market. Some only do business here. A lot of our
property/casualty carriers do, but they have reinsurance connec-
tions with the European market.

Their concern in many cases—there is a little bit of a discrepancy
between some of the reinsurers who want to basically have full ac-
cess and capability to do business in all of the EU markets, and
because of that, there was a covered agreement that was created,
one in which we have a temporary seat basically in this decision-
making body. But property/casualty carriers on our side of the
ocean have some real concerns about what the impacts are of being
included in this Covered Agreement, which leaves a number of dif-
ferent areas unanswered with regard to it.

Some of my friends on the other side of the aisle suggested in
our last meeting with Treasury officials that when I indicated it
was kind of like passing a law to find out what is in it, that I was
going back to Obamacare and that I did not need to do that at this
time. But this Covered Agreement which is there leaves some real
unanswered questions for a number of our property/casualty car-
riers that are doing business within the United States, but who
may be subject to some of the requirements found under the Cov-
ered Agreement in the future.

Would you just simply—number one, I will submit a question
specifically to you for the record on it, but would you commit to
work with us and get back with us on taking a second look at what
is in that Covered Agreement, whether or not it really is in the
best interest of most of the carriers that do business within the
United States market today?

Mr. Mnuchin. I will. And I would just comment this is another
area that I am actually a lot more familiar with than when I first
came during my hearing. We have had several internal meetings
where I have been briefed on this. We have actually reached out
to industry, and we are aware of—there are people who support it
and people who do not support it. The agreement specifically, this
is something we do in conjunction with the U.S. Trade Representa-
tive, and now that the Trade Representative has been confirmed,
we will be close to making a decision. But we would be more than
happy to reach out to you and hear your views before we make that
final decision.

Senator Rounds. Thank you. I just think some of the questions
which they have asked really do deserve to be able—we should be
able to get an answer to them one way or another before we actu-
ally get into this.

Mr. Mnuchin. I can assure you we will, and this is something
I am familiar with.

Senator Rounds. All right. Thank you, Mr. Secretary.

Also, in following up a little bit on Senator Shelby’s discussion
in terms of the tax rates and so forth and the fact that a lot of our
job creators are not C corporations, they are S corporations, and so
forth, but they all come back down to a private tax rate or an individual tax rate. I am just curious. You know, we have a lot of discussion here about tax reform. Within a 74,000-page tax bill, some of those pages giveth and some taketh away when every time we talk about simplification we can have people that get hurt and people that have an advantage or that receive an advantage. When we start talking about doing that, and particularly if we are doing this, there are going to be individuals who will lobby hard against not allowing some of the deductions to be removed, even if there is a lower tax rate, once they have done the calculation in their own situation.

While we want to see a simplification, and I think a lot of people out there would love to see that happen, there is also a concern that, as the President would suggest, it is truly time to prime the pump similar to the way that it occurred during the Kennedy administration and during what was a very successful Reagan administration where we refueled the economy. Part of that has got to be regulatory reform, but the second part is actually allowing a few more dollars to remain with individuals so that they can reinvest back into businesses as well.

When we get right down to it, are we stuck with only a program which is revenue neutral, meaning that we basically are going to take away as much as we give back? Or could we actually consider some sort of a downpayment perhaps on a tax plan in which we allow for a reduction in actual taxes collected so that that can be reinvested back in the economy in a very small nature, perhaps as in a bill that I am suggesting and one that I will be introducing in which we take our basic tax rate for those individuals at 10 down to 8, from 15 to 13, from 25 to 23, from 30 to 28, from 35 to 33, from 39 to 37. It is not a huge expense, and yet it may very well impact those at the very bottom a little bit more than those at the top, and it would be a downpayment to the American public clearly indicating that there are additional resources that they can invest back into business and basically back into the economy.

Mr. Mnuchin. Well, the President and I fundamentally believe that tax reform is critical to growing the economy and getting back to sustained economic growth. We look forward to working with you. I think different people will have different views as to under what scenarios it should be revenue neutral. As we have heard today, some people believe in dynamic, some people believe in static. The President does believe that we need to create economic growth and that we are willing to have lower tax revenues in the short term if that will create economic growth.

I think as I have said, the difference between 2 percent and 3 percent GDP is roughly $2 trillion over a 10-year period of time. That is a lot of money, and economic growth will help us deal with a lot of other complicated economic issues we have.

Senator Rounds. Thank you, Mr. Secretary.
Thank you, Mr. Chairman.
Chairman Crapo. [Presiding.] Thank you, Senator.
Senator Van Hollen.
Senator Van Hollen. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for your service.
Recently, I sent you a letter together with many of my colleagues on this Committee objecting to your decision to put Keith Noreika in charge at the OCC by using a maneuver that evaded Senate confirmation. As you well know, the OCC serves as the chief banking regulator overseeing over 2,000 banks, and Mr. Noreika has spent most of his career working very closely to protect the interests of those banks.

I appreciate the letter I got back yesterday. It raised some additional questions, and I am going to be sending you another letter to ask you to respond to the following questions:

Why were you willing to install him as head of the OCC before his ethics pre-vetting has actually been certified so that the American public can know whether or not conflicts exist now that he is in charge, at least for now, of regulating 2,000 banks?

And, second, your letter indicated that Mr. Noreika’s special temporary 130-day status allows him to avoid President Trump’s ethics pledge, and I am going to want to know whether that would allow him to immediately leave the OCC and lobby or work on behalf of big banks. And I am also interested in whether all this means that you will be presenting a nominee in the next 130 days. So I am going to send you a letter to ask for your follow-up on that.

I want to ask you a question about tax policy, and I agree with my colleagues who have said that if we are going to do tax reform—and I think tax reform can work, can be an important step—that we should focus on middle-income tax relief and not another round of tax breaks for the very wealthy and special interests.

In fact, Mr. Secretary, last November you agreed with that statement, and I quote what you said in November: “Any reduction we have in upper-income taxes will be offset by less deductions, so there will be no absolute tax cut for the upper class.” That is what you said.

Now, Senators Reed and Tester have asked you questions about the tax reform plan that you are thinking of submitting or will be submitting. I have a question related to a tax cut plan that is already in progress that you and President Trump have strongly endorsed, and that is the House health care plan, which, according to the Congressional Budget Office, has $900 billion in tax cuts, including $270 billion in tax cuts that go to higher-income families, and the analysis of that tax cut is that millionaires will get on average $50,000 a year in tax cuts. And that is because what we did in the Affordable Care Act was we applied capital gains and net income taxes, Medicare taxes, on very high income individuals on their investment income so they could help shoulder their share of the Medicare Trust Fund.

That totally violates—totally violates—the standard you set forward in November, doesn’t it?

Mr. Mnuchin. Let me just first——

Senator Van Hollen. It is really a yes-or-no question, Mr. Secretary.

Mr. Mnuchin. The first question you asked I wanted to respond to, which was on the Comptroller of the Currency, the OCC. So, yes, it is our intention—we actually have someone who the President has approved that is going through the FBI vetting process. I think as you know, unfortunately, with all the candidates, this is
a time-consuming process. But we do hope that there will be somebody who is cleared and somebody who will go through a Senate confirmation process. So this was in no way an attempt to put someone in who would not be going through. This is someone who is in on an acting basis.

On your second comment, I have only been partially involved in the health care. That is not really in my priority area of responsibility. My comments are really more focused on tax reform and, yes, the President's intent is that there is a middle-income tax cut, and that is our major focus——

Senator Van Hollen. Mr. Secretary, my question was it is a fact that the healthcare bill, so-called healthcare bill that passed the House has $900 billion in tax cuts, combined with almost $900 billion in cuts to Medicaid and some to Medicare. So a huge pillar of this is tax cuts. And isn't it the case that the provision that gets rid of the Medicare tax on investment income flatly contradicts your test that any reduction we have in upper-income taxes will be offset by less deductions so there will be no absolute tax cut for the upper class? Isn't it an absolute tax cut for millionaires? Yes or no.

Mr. Mnuchin. Again, my comments were focused on tax reform——

Senator Van Hollen. Mr. Secretary, this is tax policy. It is a tax—Mr. Chairman, I think it—what has been interesting about this healthcare debate is that you have got this major tax change masquerading under the cover of health care. Why is there a big tax cut in a healthcare bill? You are the Secretary of the Treasury. You deal with tax policy.

Mr. Mnuchin. Again, I think the idea was that that tax was hurting investment and jobs in this country, and that, again, that was part of the healthcare repeal. So, yes, factually, that tax will help people who are investing money back into the economy and will create jobs.

Senator Van Hollen. All right, Mr. Chairman. It flatly contradicts your statement of no absolute tax cuts for the upper class. It is a flat contradiction.

Thank you, Mr. Chairman.

Chairman Crapo. Senator Perdue.

Senator Perdue. Thank you, Chair. Mr. Secretary, thank you for being here.

Mr. Mnuchin. Thank you.

Senator Perdue. I appreciate you being willing to step up and do this, and it is nice to have a private sector guy in here trying to figure this out.

I want to go to the debt and the portfolio. We have got about $20 trillion of debt all in. That is about a third of all sovereign debt in the world. It is about 200 total debt—200 trillion of total debt in the world. But one out of every three Government debt dollars that are out there are ours.

We have also got the largest debt balance sheet in history, and the question is: During this period of low interest rates, about a little over 50 percent, I think, are 3 years or less in maturity, while the United Kingdom has about 48 percent of their bond portfolio is 20 years or longer.
So my question is: Is this something that you guys are taking a look at? And do you plan to go a little longer while interest rates are still in somewhat of a low environment?

Mr. Mnuchin. It is. It is something that I have talked about. We are studying ultra-long bonds, which would be 50-year bonds or even longer. We have been working with the Treasury Borrowing Advisory Committee, which is comprised of outsiders, to advise us on what the market is for that. And it is something that we will consider as we look at debt management. No decision has been made, and we are seeking guidance as to the demand.

Senator Perdue. All right. Thank you.

Let us move to Basel III. Can we talk about that for a second?

Mr. Mnuchin. We can.

Senator Perdue. It is part of your job, as I understand it. You know, it looks to me like that we are unilaterally way ahead of our other signatory partners in Basel III in terms of our capital reserve requirements. It looks to me like as a business guy that for small banks and community banks, regional banks, that they are inordinately hampered by the cost of compliance and also by this reserve requirement.

Is there any attempt in your future priorities to look at what we are doing regarding our future commitments to Basel III and what we can do to get the other partners in Basel III to line up and at least catch up with us in terms of the commitment of the safety for banks?

Mr. Mnuchin. There is, and I have had conversations most recently when I was at the G–7 in Bari with other board governors and other finance ministers about Basel III, and it is something that we will be looking at as part of the President's Executive order.

Senator Perdue. But no decision is taken yet regarding it?

Mr. Mnuchin. No decisions have been taken, and I think as you know, Chairwoman Yellen is—the Fed is the one who technically participates in Basel, but it is something that we are looking at.

Senator Perdue. Thank you. I met with her this week and talked about that, and we talked about the fact that we have got somewhere around $6 trillion of liquidity, U.S. liquidity, that is really not at work in the economy today, between the Russell 1000 balance sheets that have a very strong liquidity position, probably the strongest ever, a few trillion dollars in the bank balance sheets because of this capital reserve requirement, and then also the unrepatriated U.S. profits.

Let me move to growth just for a second, because the capital investment is one that I think is a part of our future in terms of getting the economy moving again. It looks to me like—the GAO has said that—or CBO has said that 1 percent of GDP growth is about $3 trillion over a decade in terms of Federal impact on the Federal budget. But yet we tend to talk in the Senate about spending cuts or tax increases as a bilateral conversation, and yet growth really is very rarely talked about because it is an esoteric term here in the Senate. But I know that is job one for you guys.

Can you talk about how to balance those and relative to—the 800-pound gorilla in the room, relative to our deficit spending, and that is, mandatory expenses, and how the President and how the
Administration sees fiscal policy now marrying up with the monetary policy of our future?

Mr. MNUCHIN. Well, let me just comment. You did talk about repatriation, and that is something that we are looking at as part of tax reform, because there are literally trillions of dollars sitting offshore. It is not a surprise. With the highest corporate tax rate, worldwide taxation, and this concept of deferral, why would U.S. companies bring money back? So as part of tax reform, we do hope that there are literally trillions of dollars that come back. And as it relates to the other economic issues, we look forward to continuing to talk to you about them.

Senator PERDUE. But the corporate tax rate also puts U.S. companies at risk for foreign companies who have a lot of liquidity who can come in and make an acquisition of a U.S. company and basically use the tax arbitrage to basically pay for that acquisition. Is that not correct?

Mr. MNUCHIN. They can indeed, and I hear that almost every day as I meet with business leaders reminding me of that, particularly U.S. companies who feel like they are at risk of getting taken over and at risk of having the jobs moved outside of the United States. We have an uncompetitive system that we need to fix.

And I would also just comment there are several economic reports that over 70 percent of the corporate tax burden is actually borne by the workers. And for far too long, workers in this country have not had wage increases. That is something that we clearly saw when we met with hundreds of business leaders across the country and something we are focused on.

Senator PERDUE. Thank you for that.

Senator WARNER. Thank you, Mr. Chairman. Secretary Mnuchin, good to see you again.

Mr. MNUCHIN. Nice to see you.

Senator WARNER. I do not want to belabor the point that Senator Van Hollen was making, but I would just add, beyond the fact that the healthcare legislation, which I strongly oppose, offered a massive tax cut for folks like you and me, it also—and I say this as a former Governor—is really just a transfer of obligation from the Federal Government, which used to share in the Medicaid responsibility, to the States. It is an $830 billion transfer of responsibility back to the States.

Now, the States can cut their Medicaid, or they can end up resulting in dramatic tax increases to continue to pay for that Medicaid, which will slow the kind of growth that Senator Perdue and I would like to see.

So I really hope—I know today is tax reform, but the healthcare debate really is going to influence how many of us approach the tax reform debate, because whether it comes from repatriation, when it comes to these other issues, I want to work with you.

Mr. MNUCHIN. I appreciate that.

Senator WARNER. But we have got to do it in a way that is at least deficit neutral and does not follow up on something that, frankly, does not do the best for health care, does not
disproportionately benefit folks like you and me, and, candidly, is simply a transfer of responsibility to the States.

I want to move to two other topics in my time. One is, as you are aware, I am up to my eyeballs in the issue around the Russia investigation, and it is, I have said repeatedly, maybe the most important thing I will ever do in public life. Senator Burr and I have asked the Treasury Department for cooperation, particularly from the FinCEN division, on getting appropriate documents that will be part of our investigation. I am happy to see that we received some of those documents yesterday, and we are reviewing them. My understanding of how we query that big data is going to require some collaboration. And I just would like to ask you at this hearing that we will have your commitment, your personal commitment, that you will continue to work with this bipartisan committee and bipartisan investigation in a way so that we can get to the bottom of it and get the facts out to the American public.

Mr. MNUCHIN. Yes, you have my assurance, and I did meet with my general counsel and review and make sure we were being responsive to you on that.

Senator WARNER. I appreciate that, because this is an area of enormous interest, and this particular area in terms of, in a sense, following the money is something that is terribly important. So I appreciate that, and I will try to hold you to it.

Actually, I think somebody else raised this issue, but I want to take you through at least a hypothetical in terms of the kind of orderly liquidation authority in Title II of Dodd-Frank, Title II which my good friend Senator Corker and I spent a lot of time on it, the one part of Dodd-Frank that actually got 80 votes.

The hypothetical is this: If we have a large $1 trillion-plus SIFI institution headquartered in the United States and operating across the world with multiple subsidiaries, if it runs into a credit crunch and the rest of the financial industry stops doing business with this SIFI, and it therefore fails, in order to have an orderly failure and wind-down, would you agree that shareholders need to be wiped out in that SIFI institution?

Mr. MNUCHIN. Again, it is hard to respond to a hypothetical situation, but——

Senator WARNER. But the normal course would be——

Mr. MNUCHIN. Yes, but——

Senator WARNER.——if the institution got into trouble and we do not want to have a taxpayer bailout, you would want to have, first of all, the shareholders wiped out, right?

Mr. MNUCHIN. Again, let me just comment on that it is hard to comment on a hypothetical——

Senator WARNER. But if a large institution is failing, I would think you would want, based upon earlier comments, and everybody else’s comments, you would want the shareholders wiped out——

Mr. MNUCHIN. I would——

Senator WARNER.——you would want the creditors to take some losses.

Mr. MNUCHIN. I would expect——

Senator WARNER. You would want the management fired.
Mr. MNUCHIN. I would expect that shareholders would be wiped out before the Government was risked. I am only saying that it is a hypothetical situation. There could be situations, OK, where, for various regulatory reasons, Title I and Title II may not be appropriate.

Senator WARNER. I guess what I believe is that if you wipe out the shareholders, wipe out the management, end up having the creditors take the loss, and you have still got a liquidity issue, you need some backstop there. And I believe that, while not perfect by any means, the orderly liquidation process we set up in Title II makes the most sense. And I just find—I know my time is running out here, but back when we had your confirmation, we talked about this. I referenced the fact that the National Bankruptcy Conference, which is composed of bankruptcy judges and lawyers, believes “orderly liquidation authority under Title II should continue to be available, even if the Bankruptcy Code is amended.”

I just hope that as you go through this process—I know you are reviewing Title II. If there are ways to improve—but some folks who are characterizing Title II as a bailout I think are—frankly, it is not accurate. And there is a recoupment clause, as you know, for any of that liquidity that may be needed in the short term.

So thank you. I know we are going to have more conversation on this, but I wanted to at least put this out for further——

Mr. MNUCHIN. Yes, and thank you. And let me just assure you, we have not reached any conclusions on this. So this is something we are looking at. We have not reached a conclusion. And I do share your concern and the concern others Senators have expressed. The current Bankruptcy Code does not work for financial institutions, and liquidity is a serious concern as to even if we went through a bankruptcy process.

So I look forward to continuing to work with you on this.

Senator WARNER. Thank you.

Chairman CRAPO. Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman. Good morning, Mr. Secretary. For your benefit and mine, I am going to ask you to encapsulate your answers within 30 seconds. If you could, we can cover more ground.

A few months ago, the Chairwoman of the Federal Reserve was with us, and she was asked what, if anything, the community banks and credit unions defined as less than $10 billion in assets did wrong in 2008, and she said, “Nothing.” Do you agree with that?

Mr. MNUCHIN. I do.

Senator KENNEDY. Would you support a bill that would eliminate community banks and credit unions defined as less than $10 billion in assets from supervision under Dodd-Frank?

Mr. MNUCHIN. That is likely going to be one of the recommendations that we make when we come out with the report.

Senator KENNEDY. Because if you do that, it is not as if the community institutions are not going to still be regulated. Is that not accurate?

Mr. MNUCHIN. That is correct. They would be regulated by their primary regulator, which would make sense.
Senator Kennedy. OK. Do we still have financial institutions in America that are too-big-to-fail?

Mr. Mnuchin. I do not believe that anything is too-big-to-fail. Some of them may be too big to succeed.

Senator Kennedy. Do we still have financial institutions in America that are so big that if they did fail, it would have a substantial, reprehensible, if you will, impact on the American economy?

Mr. Mnuchin. It could.

Senator Kennedy. OK. Do you think Dodd-Frank has eliminated that risk?

Mr. Mnuchin. Again, I would just make the comment that it is very fact-specific as opposed to being hypothetical.

Senator Kennedy. OK. If those financial institutions that I just referenced had more capital, would that help them?

Mr. Mnuchin. I believe right now that the large financial institutions actually have plenty of capital.

Senator Kennedy. But if they had more, it would make them safer, wouldn’t it?

Mr. Mnuchin. Well, more is obviously always better than less, but the question is, if more is stopping them from lending, that is concerning.

Senator Kennedy. OK. My question is not meant to suggest my thinking about this. I honestly want your opinion. What do you think about Glass-Steagall?

Mr. Mnuchin. Glass-Steagall, we do not support a separation of banks from investment banks. We think that that would have a very significant problem on the financial markets, on the economy, on liquidity. And we think that there are proper things that potentially we could look at around regulation, but we do not support a separation of banks and investment banks.

Senator Kennedy. OK. Why is our productivity growth so low, in your opinion, in our economy?

Mr. Mnuchin. I think that is a complicated question that is going to take a lot more——

Senator Kennedy. You have got a full 30 seconds.

Mr. Mnuchin.—than 30 seconds, but I will be happy to come back and talk to you about it. I think——

Senator Kennedy. Can you just give me the CliffsNotes version?

Mr. Mnuchin. I think it is a multi-factor issue. It is a combination of regulatory issues. It is a combination of job training issues. It is a combination of tax issues. I think there are a lot of issues that is leading to lower productivity.

Senator Kennedy. Now, if we could increase productivity growth from 1 percent to what I think is normal, 2 percent, wages ought to go up, right?

Mr. Mnuchin. That is true, and we would create huge growth in GDP.

Senator Kennedy. OK. Once again, this is a question, not a suggestion. Do you think it is possible to do legislation to incent businesses to do more profit sharing so that it is a win-win, the idea being that it would increase profits for the entity as well as incent workers to work harder and, therefore, make them more productive and make their wages go up?
Mr. Mnuchin. I think there has been very successful scenarios of companies with profit sharing, but I support leaving that to private industry to decide what is best. I do not support legislation for that.

Senator Kennedy. OK. I have got 30 seconds. Could you tell me why GDP growth is so anemic?

Mr. Mnuchin. You know, I listen to a lot of economists tell me why we are in a secular situation and give me all the reasons. I have repeatedly said that may be the case, but we are going to do everything. I think fundamentally we need to grow GDP and our focus is a combination of tax reform, regulatory relief, and renegotiating trade agreements that will create sustained economic growth.

Senator Kennedy. Thank you, Mr. Chairman. Thank you, Mr. Secretary.

Chairman Crapo. Thank you.

Senator Warren. Thank you.

I want to go back to your remarks about Glass-Steagall. As you know, the original Glass-Steagall was put in place to divide commercial banks and investment banks. The law was repealed in 1999, which created the too-big-to-fail banks like Citigroup and JPMorganChase that got so large. And since then, there have been many proposals, including my own bipartisan bill, with Senators McCain, Cantwell, and King, for a 21st century Glass-Steagall that would break up the banks and modernize the wall between commercial banking and investment banking.

Now, I want to look at the history of this. The President and this Administration have said repeatedly that they support a 21st century Glass-Steagall. It was in the Republican Party platform. Donald Trump said it specifically a few weeks before the election. You said, “We need a 21st century Glass-Steagall,” at your confirmation hearing. And now you have just said exactly the opposite.

You know, in the past few months, you and the President have had a number of meetings with big banks’ CEOs and lobbyists. Is that the reason for the reversal on Glass-Steagall?

Mr. Mnuchin. No, not at all. There actually was not a reversal. So——

Senator Warren. It was not a reversal?

Mr. Mnuchin. No. Let me just explain. So the Republican——

Senator Warren. I am ready.

Mr. Mnuchin.——platform did have Glass-Steagall. We during the campaign—and I had the opportunity to work with the President on this——specifically came out and said we do support a 21st century Glass-Steagall.

Senator Warren. Yes.

Mr. Mnuchin. Which is that means that there are aspects of it, OK, that we think may make sense. But we never said before that we supported a full separation of banks and investment banks.

Senator Warren. I am sorry——

Mr. Mnuchin. If we had said that, we would have—we would have——

Senator Warren. Let me just stop you right there, Mr. Secretary.

Mr. Mnuchin. You are not letting me finish.
Senator WARREN. Yeah, I am not because I really have to understand what you have just said. There are aspects of Glass-Steagall that you support, but not breaking up the banks and separating commercial banking from investment banking? What do you think Glass-Steagall was if that is not right at the heart of it?

Mr. Mnuchin. Again, I am well aware of what Glass-Steagall was, and as you may know, the original concern about Glass-Steagall was actually about conflicts, not about credit risk. And if we had supported a full Glass-Steagall, we would have said at the time that we believed in Glass-Steagall, not a 21st century Glass-Steagall. We were very clear in differentiating it.

Now, I now realize that I had not——

Senator WARREN. Could I ask you to answer——

Mr. Mnuchin.——realized that your bill was named “The 21st Century Glass-Steagall,’’ so——

Senator WARREN. Yes, and has been for 3 years now.

Mr. Mnuchin. I apologize that I was not aware of that, so we were——

Senator WARREN. But I still have not heard the answer to my question. What do you think Glass-Steagall was if it was not separating commercial banking from investment banking—from ordinary banking?

Mr. Mnuchin. Again, the fundamental part of Glass-Steagall was, as you have just outlined, the separation of investment banking from commercial banking, because people were concerned about conflicts in issuing securities.

Senator WARREN. And how do you separate without breaking up the big banks that have integrated these two things?

Mr. Mnuchin. Again, the integration of commercial banking and investment banks has gone on for a long period of time. That is not what caused the problems during the financial crisis. And if we did go back to a full separation, you would have an enormous impact——

Senator WARREN. So——

Mr. Mnuchin.——on liquidity and lending to——

Senator WARREN. So let me——

Mr. Mnuchin.——small- and medium-sized businesses.

Senator WARREN. So let me get—let me get this straight. Let me get this straight. You are saying that you are in favor of Glass-Steagall, which breaks apart the two arms of banking——

Mr. Mnuchin. No, I said——

Senator WARREN.——regular banking and commercial banking, except you do not want to break apart the two parts of banking. This is like something straight out of George Orwell. You are saying simultaneously you are in favor of breaking up the banks—that is what Glass-Steagall is.

Mr. Mnuchin. I have never said we are in favor of breaking up the banks and separating. If we had, it would have been very simple——

Senator WARREN. OK. Let me try it one more time——

Mr. Mnuchin. We would not have——

Senator WARREN. We are going to run out of time here, but I have to try this one more time. What does it mean to be in favor
of 21st century Glass-Steagall if it does not mean breaking apart these two functions in banking?

Mr. MNUCHIN. You know what? I would be more than happy to come see you——

Senator WARREN. No, I——

Mr. MNUCHIN.—and follow up and talk about this.

Senator WARREN. Just tell me what it means.

Mr. MNUCHIN. Had we—we never came out and——

Senator WARREN. Just tell me what it means——

Mr. MNUCHIN.—said we should separate banks——

Senator WARREN. Tell me what——

Mr. MNUCHIN.—from investment banks——

Senator WARREN.—21st century Glass-Steagall means if it does not mean breaking apart those two functions. It is an easy question—or an impossible question.

Mr. MNUCHIN. It is actually a complicated question——

Senator WARREN. This is just bizarre, the idea that you can say, “We are in favor of Glass-Steagall, but not breaking up the”——

Mr. MNUCHIN. We never said we were in favor of Glass-Steagall. We said we were in favor of a 21st century Glass-Steagall. It could not be clearer.

Senator WARREN. “We are in favor of a bill that is called ‘Breaking up the banks, only do not break up the banks.’ ”

Thank you, Mr. Chairman. This is crazy.

Chairman CRAPO. Senator Tillis.

Senator TILLIS. Well, the good news is you are going to be able to finish your answers because I am going to drill down on this. I have some other questions that, if time allows, I will get to. But isn’t it kind of fair to say that the 2008 financial crisis demonstrates that nondiversified companies like Lehman, AIG, Washington Mutual had the most significant economic failings?

Mr. MNUCHIN. Yeah, well, I mean, in the case of AIG, they were diversified. They just took a massive amount of risk that they never should have taken, and the same with Lehman and others. So I think I agree with you.

Senator TILLIS. Would you just go back? And you were saying that breaking up of the banks would have an enormous impact. Can you give me an idea of what that would look like?

Mr. MNUCHIN. Again, when we are talking about breaking up the banks, I think what you—one, there are people who just think banks are too big and that they should be broken up into smaller banks. I would say our view is that what we should be doing is supporting and making sure that community banks and regional banks can grow so we do not just end up with big banks.
I think if you are talking about separating investment banking from commercial banking, that is completely different than the concept of breaking up big banks.

Senator Tillis. I agree, and that is what I am referring to. You touched on community banks, and I know in your opening statement that you referred to community banks. I did hear you refer to regional banks earlier. And I know in the CLEAR Act that I believe is cosponsored by Senators Tester and Moran, a concern that I have there is whether or not we are hitting the right target for where we are talking about regulatory relief based on institution size.

Do you have any thoughts on when you are providing regulatory relief what that would look like, how you would actually structure it so you could provide that targeted relief to, I think, banks or financial institutions that may be a little bit larger than is targeted in the CLEAR Act?

Mr. Mnuchin. I agree with that completely, and when we come out with the report, that will be one of the recommendations.

Senator Tillis. Do you have any sense and rough order of magnitude what that would look like?

Mr. Mnuchin. I think that generally there are people who believe that we should raise the $50 billion limit considerably, and as you have said, there are people who believe that we should raise the $10 billion limit. So we are looking at both of those. But we believe that there should be a greater differentiation. Banks that have $50 billion do not play the same risk as a bank that has $750 billion or $2 trillion.

Senator Tillis. What other regulations or provisions of Dodd-Frank do you feel should be revisited beyond what we have just talked about for mid-sized and regional banks? And, specifically, I think it was Senator Menendez that was talking about trying to get to the folks that need access to loans to be able to invest, the mid-sized and smaller businesses I guess primarily. But what other areas should we be looking at or what other areas are you going to give us as feedback for where we should be prioritizing any other provisions of Dodd-Frank?

Mr. Mnuchin. Well, I look forward—in the next couple of weeks, we will be delivering the extensive report, and we will be more than happy to come and sit down with the Committee and go through the recommendations. It will be quite detailed.

Senator Tillis. Good. We are looking for that because I think we need leadership from the Administration to focus our efforts so that we can get to bipartisan reforms. I do not think—I mean, there are a lot of singles and doubles that we can hit if we get a very clear indication from the Administration what will be well received and what we can get bipartisan support for regulatory relief. But I think that we have to have explicit recommendations. I am looking forward to getting those detailed recommendations as quickly as possible so that the Chair can continue his good work trying to get bipartisan support.

I only have about 35 seconds remaining. In 35 seconds—or I guess you can go over a little bit—can you tell me what direction we should take or what the Administration thinks we should take on GSE reform?
Mr. MNUCHIN. Yeah, I mean, I think——

Senator TILLIS. And not waiting for us to come up with something, but giving us an outline?

Mr. MNUCHIN. Yeah. So this is something that, you know, we will come back in the second half of the year and make recommendations to you.

Senator TILLIS. Will it be as extensive as the report we are expecting on the——

Mr. MNUCHIN. I think we would like to kind of give a clear outline as to what our recommendation would be, and, obviously, we need to work with Congress. And I do view this as something that needs to be done on a bipartisan basis. But, yes, just like we are doing on the core principles, we will be reaching out to many different groups, specifically consumers, specifically realtors, people who need access to capital, mortgage bankers, and we will come back with a specific suggestion.

Senator TILLIS. Thank you, Mr. Secretary.

Mr. MNUCHIN. Thank you.

Chairman CRAPO. Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you, Mr. Chair.

Secretary Mnuchin, I represent Nevada and for 8 years there was the Attorney General, and I have to say I have been sitting here listening to your comments, and I have some concerns. And let me just start off by saying I give everybody the benefit of the doubt. Even as Attorney General, it was about working for the betterment of people in our community, making sure everybody was coming together to work together. And I am concerned about how—what I have seen, some of the responses and the dancing around that you have done here to some of the questions. And the only other time I had that opportunity to hear that was from some bankers and Wall Street executives who were in my conference room as Attorney General during the worst foreclosure crisis we have ever seen. And the one thing they said to me was, “Well, we are all doing it, and if you are going to come after me, you are going to have to come after all of us.” And you know what I did? I went after them. And this is my concern: I am still hearing the same kind of dance, looking for the betterment of people instead of businesses and big corporations, instead of looking out for homeowners and consumers and seniors and servicemembers. So let me start off with this question because this is why I am concerned.

You recently spoke at a conference of executives where the cheapest ticket to attend cost $12,000, and you joked, and I quote, you said, “You should all thank me for your bank stocks doing better.” I am sure you do not feel that way today. But this remark came during a discussion of your efforts to roll back Wall Street reform, including under an Executive order signed by President Trump, before a roomful of powerful Wall Street executives.

Well, let me just tell you this: While you are working to undo those financial protections, I am still hearing from constituents in my State who are suffering. And let me just quote you some of what I am hearing from them based on your actions and what we are seeing from this Administration.
Ruby from Reno said, “This bill needs to stay in effect. The regulations are needed now more than ever as you cannot depend on the big banks to just be honest.”

We have Susan from Elko: “Please do not weaken the financial regulations that were meant to prevent a repeat of the financial collapse that led to the Great Recession. It will only hurt the middle class.”

Katherine from Sparks said: “Appalling that the regulations monitoring banks would be lowered. Stand against the Executive order and rolling back Wall Street reform.”

Why doesn’t President Trump’s Executive order that rolls back the Wall Street reform mention consumer or investor protection even once? Why doesn’t it direct you to consider the financial needs of borrowers, students, servicemembers, seniors, homeowners? What are you doing to ensure that you are looking out for those best interests? And who are you surrounding yourself with so that you just do not hear from executives but you also get the perspective of homeowners and victims of that 2008 collapse? Because I have not heard today anything that you have said that is looking out for the interests of the people that I just talked about.

Mr. Mnuchin. Well, I can assure you we are interested in looking out for all those people, and this is not about——

Senator Cortez Masto. And what are you doing specifically——

Mr. Mnuchin.——rolling back reform. On homeowners, on the mortgage side, we are absolutely looking at people who do not have proper access to mortgage credit. We are looking at all different aspects, and this is not about rolling back regulation for big banks. This is about making sure that small- and medium-sized businesses, homeowners, have access to proper credit. That is what we are focused on to grow this economy.

Senator Cortez Masto. Well, let me tell you my concerns. First of all, I am troubled by the people you are bringing into the Treasury. Press reports suggest that you are advocating for the appointment of another OneWest executive to head the Office of the Comptroller of the Currency, our regulator entrusted with overseeing more than 2,000 national banks. And your senior counsel, whom you hired to run housing finance policy, was instrumental in managing the line of credit for Morgan Stanley to New Century, a toxic subprime lender that went bankrupt in 2007. As Attorney General, I sued for this very conduct, and this conduct was the subject of a $2.6 billion Justice Department settlement in 2016.

Do you have anyone on your leadership team that has advocated for borrowers or worked on behalf of homeowners?

Mr. Mnuchin. Absolutely. First of all, we absolutely are very interested in protecting borrowers and homeowners. It is very critical to everything that we are doing. And this is something that is going to be a big focus of the Treasurer when she starts, who has lots of experience, having worked at the Small Business Administration and also having come up the ranks through UPS and managed a big part of their business. And a big part of her focus will be on community outreach and making sure—and I am sorry you feel that way about our appointments at the Treasury. I think we have an enormously incredible staff. We have an incredible career staff. We have lots of people inside the Treasury who have been
with us that have tremendous experience. And I think as you may know, I started loan modifications at IndyMac, and that is something that we were very proud of.

Senator CORTEZ MASTO. I do not have enough time, and I do not want to go through that, because I think we are going to disagree on what you did to help homeowners in Nevada with OneWest. But let me just say this: I hope I am wrong. I hope that you prove me wrong and you are out there advocating and the people around you are going to be advocating for the very constituency that I just talked about. Because I will tell you what: Right now I have not heard any specifics with middle-class tax breaks; I have not heard any specifics on how you are going to address the very people that I just talked about. Talking in absolutes and without bringing specifics into the conversation concerns me.

And so I am looking for very specific information, so I hope that you have that and we will have the ability to work together.

Mr. MNUCHIN. OK. Well, I will contact your office, and I look forward to getting together with you and your staff, and we will come over and talk about how we appreciate the issues in Nevada and the housing issues. And I will follow-up in the next couple of weeks to come and see you.

Senator CORTEZ MASTO. Thank you.

Chairman CRAPO. Senator Schatz.

Senator SCHATZ. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here. I have some questions about your tax proposals, and the first is a process question. There are basically two paths for the Administration and for the Congress in terms of tax policy, whether or not you are going to move through reconciliation, which requires 51 votes, or whether you are going to move through the regular order for legislation, which would require 60 votes and, of course, would result in a bipartisan product.

So the first question is: Do you intend to work through reconciliation or through the regular order?

Mr. MNUCHIN. Well, I mean, that is a decision for the Senate. What I would say is I hope that we can get bipartisan support for tax reform. As we have outlined, middle-income tax cuts, making businesses competitive, creating jobs——

Senator SCHATZ. So I have a——

Mr. MNUCHIN.——and I hope the Democrats support that.

Senator SCHATZ. Mr. Secretary, I have a lot of questions, so I just—and they are mostly about process, so yes or no or a quick sentence would be great. Do you have any more details since this piece of paper was released on April 26th?

Mr. MNUCHIN. We have a large team of people that is working. Yesterday I met with the Finance Committee. We are having outreach to lots of different people, and we expect in the near term to have something with a lot more details.

Senator SCHATZ. So is it fair to say—I mean, I am looking at your proposal and media reporting around it. Yes or no, is it accurate to say that the plan cuts the corporate tax rate, cuts the pass-through rate, reduces the top marginal tax rate for individuals, eliminates the AMT, and eliminates the estate tax?

Mr. MNUCHIN. That is correct.
Senator SCHATZ. OK. So I think it was 2 days ago or maybe 3, Leader McConnell made a statement that tax reform must be paid for. Is that the view of the Administration?

Mr. MNUCHIN. Again, it will be paid for through growth, so yes.

Senator SCHATZ. I just—sorry, my colleague got a chuckle out of that. I am trying not to. But I guess the question I have—and let us just be really blunt here. I understand your position, which is essentially tax cuts pay for themselves. But I think what I am hearing is that you are not concerned with the sort of formal processes that determine whether or not, at least in the context of the legislative branch, something is paid for. You are basically asserting not just through dynamic scoring, which is a new technique of measuring the impact of legislation that the Congress adopted over the last 4 or 5 years. But you are saying: You know what? We are just going to ignore CBO and just hope, allege, assert that tax cuts always generate more revenue and pay for themselves. And that is——

Mr. MNUCHIN. No, that is——

Senator SCHATZ. But that is a change in the way the tax policy is being made.

Mr. MNUCHIN. Again, let me just comment, that this is math. So, you know, you can create models. As we have seen during the financial crisis, sometimes models work, and sometimes models do not work.

Senator SCHATZ. But are you going to rely on the math of CBO or are you going to generate your own arithmetic?

Mr. MNUCHIN. Again, what I have said, OK—and let me just be clear. The tax reform is something that obviously the Administration is driving forward but needs the support of the House and Senate. I believe that we will have three scores: a static score, a dynamic score per the process with Joint Tax, and we will——

Senator SCHATZ. And then your score?

Mr. MNUCHIN. We will likely have developed out of Treasury—we have over 100 people—a different view of growth and show those numbers. And when it is voted on——

Senator SCHATZ. You are going to have, as you say, a static score, a dynamic score, and then a Treasury score?

Mr. MNUCHIN. Again, what I would say is there will be a Joint Tax score, and there will be a score that shows what we believe the impact is. That is correct.

Senator SCHATZ. So Senator McConnell also said that a border adjustment tax would not pass the Senate. My view is that the same is true for a value-added tax. And I guess as I am looking at the so-called loopholes that you are looking at closing, without a VAT or a BAT, you are just not going to be able to generate the revenue to do tax reform. So my concern is that either you are going to try to jam a VAT or a BAT through, or you are basically not doing tax reform, you are doing tax cuts unpaid for with sort of a little bit of spin on the ball.

So could you just allay my concerns that you actually—I understand we may have a different view of the revenue impacts of tax cuts. That is an interesting and legitimate conversation to have. But you cannot possibly believe that we do not need to generate
some revenue to make up for the holes that we are creating in the Tax Code.

Mr. Mnuchin. First of all, we absolutely believe that we have to generate revenue, and that is why, again, we are trying to create——

Senator Schatz. So if not a VAT and a BAT, then where?
Mr. Mnuchin. Can I just answer?
Senator Schatz. Sure.
Mr. Mnuchin. So we absolutely believe we need to generate revenue. We are very concerned about the debt, OK? And we will go through the math and show you. Clearly, in the case of business taxes, there are many, many companies that pay much less than the 35-percent rate. And there are many companies that leave foreign profits offshore. This is all about broadening the base.

And in regards to the BAT, we have said to Chairman Brady in its current format that it does not work, although we will look at something else if they want to present——

Senator Schatz. I am over time. I would just like to make one final comment with the permission of the Chairman.
Chairman Crapo. Briefly.
Senator Schatz. And I apologize. What concerns me is that it seems to me that you are very sure about where you want to cut taxes and you are very vague about how you want to generate the revenue to make up for those tax cuts, and that is a dangerous position to be in, because all the things that you are sure you want to do mostly benefit the wealthiest among us, and all the things that are very vague and may be done in secret and in private are the things that may be harming most of our constituents. And that is my deep and abiding concern about this process.

Thank you.
Mr. Mnuchin. Well, there is nothing that will be done in deep and secret. When the tax bill is generated, it will have all the specifics, and it will have the distribution, and there will be complete transparency in the process.

Chairman Crapo. Senator Donnelly.
Senator Donnelly. Thank you, Mr. Chairman. I just want to follow up and support the comments of my colleague Mr. Schatz that what is actually happening is the appearance that we will be making those working-class families, the ones who are struggling the most are going to be the ones whose funds go away from to help the richest among us.

We find ourselves with $20 trillion now, $20 trillion in debt, and we were going to dynamically score our way out of $20 trillion in debt for the last 30 years, and we just find that the pile gets bigger and bigger and bigger. And I laughed one time when somebody said to me about the dynamic scoring, I said, “Well, then theoretically, if we go to zero, we should have more money than we ever dreamed of in history,” because as the tax rates go lower and lower and lower, we theoretically have more income coming in.

And so one of my greatest fears as I look at the tax reform, as I look at where we are going, as I look at the budget that goes forward, we have budgets that dramatically increase spending in areas and tax reform that has huge cuts. And I think all you are
doing is just adding to the deficit, which is incredibly irresponsible to the children of this country.

Mr. Mnuchin. Well, I can assure you we have no interest in doing that, and the fact that the deficits and the national debt went from $10 trillion to $20 trillion is something we are very concerned about. And, again, as I have said before, if we make cuts, this is going to be about broadening the base and paying for it.

Senator Donnelly. But we have heard that before, and you have seen in various times where the deficit just increased when we——

Mr. Mnuchin. Well, actually, the time we had a surplus under Clinton and Secretary Rubin was where the economy grew incredibly, which nobody expected. They never thought they were going to and they could not have predicted that type of revenue. This is all about how we need to create economic growth, and I hope that is something that everybody in this room——

Senator Donnelly. And then we had the follow-on tax cuts after that——

Mr. Mnuchin.——will work with us on it.

Senator Donnelly.——that blew up the deficit as well. So, you know, there were specific tax cuts that occurred after that that increased the deficit. But I also want to talk about outsourcing, and the President has talked about how this is one of his biggest priorities, is stopping outsourcing. My State, Indiana, is where Carrier is. It is where Rexnord is. It is where these workers who did an amazing job creating the best products in the world were summarily fired for no reason other than $3-an-hour wages in Mexico. And I was disappointed to see that the recent tax proposal did not have any provisions that addressed outsourcing in regards to things such as clawing back tax breaks for companies that moved jobs overseas or incentivizing companies to invest in our communities.

And when I met with President Trump—I met with him at the White House and told him about an end-outsourcing bill I have—he was very, very supportive of this. And so what I would like to get is any specific policies that you are working on now in a tax reform package to address this outsourcing; to incentivize that, keeping jobs here; to claw back any tax breaks that go to companies that are moving jobs overseas. I would love the details of that.

Mr. Mnuchin. OK. Well, first of all, let me say I would be happy to get together with you and go over your ideas on outsourcing. I can assure you that the President is——

Senator Donnelly. And the good part is I laid them out to the President, and he told me he was 100 percent behind them.

Mr. Mnuchin. I will get together with you, and we will go through them. I can assure you the President is very concerned about jobs leaving this country. I think that you know one of the main reasons why he wants to renegotiate NAFTA in the case of Carrier and others, you know, he personally picked up the phone and made calls. And we are very concerned about that and——

Senator Donnelly. And we have supported all of those efforts.

Mr. Mnuchin. In all of my trips overseas, I have told my counterparts we expect free and fair trade and better trade deals, and that for too long American workers have been hurt by jobs leaving this country, whether it is because we have an uncompetitive tax
system or whether we have had trade deals. And the President has talked about the concept of reciprocal deals and reciprocal taxes.

Senator DONELLY. I am about out of time, but I want to ask you about one more subject: currency manipulation. For a long time, we have suffered in Indiana. We have seen products dumped on our shores. We have seen steel dumped in our State and around our country, and currency manipulation has been a big part of that.

The President promised to label China a “currency manipulator.” China has been able to rack up a huge trade surplus because of artificially keeping their currency low over the years at the expense of our companies. And in your testimony, you state that the Treasury Department found no major trading partner currently meets the criteria to be considered a currency manipulator, including China.

I guess the question is: What happened?

Mr. MNUCHIN. Again, first of all, thank you, because we did a lot of work. I brought the report——

Senator DONELLY. I am very impressed, and it has very attractive graphics.

Mr. MNUCHIN. Page 13——

Senator DONELLY. But the President told us that he said China was a currency manipulator. What happened?

Mr. MNUCHIN. Page 13, we specifically reference, OK, China’s intervention for roughly a decade, OK? And there is no question that they did. This is for a very specific period of time. We went through a very specific test. If anything, during this period of time China has used their currency reserves to go the other direction, which is actually good for American workers. And I have had very specific conversations with my counterparts that we will continue to monitor this behavior very carefully.

I am glad you like the graphs.

Senator DONELLY. Very attractive. I am a lot more concerned about the currency manipulation, though.

Thank you, Mr. Chairman.

Mr. MNUCHIN. So are we, I can assure you.

Chairman CROPO. Thank you, Senator.

And, Secretary Mnuchin, a vote has been called. The questioning has concluded. Senator Shelby wants to make one brief statement, and then actually Senator Brown wants to make I guess a statement and a couple of real quick questions, and then we will be wrapped up.

Senator Shelby.

Senator SHELBY. Mr. Secretary, we appreciate your appearance and your candor here today. You are a breath of fresh air. We want you to stay that way.

I want to pick up on the Export-Import Bank and the question by the Senator. I believe that the two nominees by the President, former Congressmen Garrett and Bachus, are good appointments. I do have some fundamental differences with the role of the Bank. A lot of us do. I had 2 days of hearing when I was Chairman of the Committee to try to reform the Bank because, if my numbers are about right, what I have been told—you would know offhand—about $2 trillion of our exports each year, a little more than that, and only about 1 percent or 1.5 percent or something used the
Export-Import Bank, and that we all know that the Bank is used primarily, as far as the numbers, by one or two big companies.

A lot of us believe that is corporate welfare. You know, that bothers us. I would hope that the Administration—and the President talked about this at one time—would look at ways to reform the Bank. I know that is separate legislation than just the nominees themselves. I hope you will not close your eyes to that because you know a lot about the private market.

Mr. Mnuchin. Not only would I not close my eyes, I would welcome working with you and the Committee. But we do support re-opening the Bank for more than $10 million loans. But we also have a team at Treasury who has worked and will work with you on making sure that it is not just for two large companies.

Senator Shelby. But the majority of the Republicans in the Senate a year or so ago voted against reauthorizing the Bank because we could not get real meaningful reform. So that would be a priority, I think, for a lot of us. Maybe not all of us.

Mr. Mnuchin. We are willing to work with you on that.

Senator Shelby. Thank you.

Chairman Crapo. Senator Brown.

Senator Brown. Thank you, and I wanted 30 seconds to address what Senator Shelby just said. The blemish on this Committee and this Committee’s stonewalling last year affected economic growth because we did not have a functioning Export-Import Bank, as you just said, Mr. Secretary, for over $10 million.

A couple of real quick questions. I know there is a vote called on the floor. Are you aware, Mr. Secretary, of any White House—these are really housekeeping measures that the Chairman and I sometimes do. Are you aware of any White House guidance, formal or informal, urging Administration officials not to respond to or to delay in responding to Democratic Senators?

Mr. Mnuchin. I am not.

Senator Brown. OK. Thank you for that.

You committed to Chairman Hatch you would respond to Finance Committee members’ questions. Will you commit to responding to Members in both parties of this Committee in a timely manner to all requests for information?

Mr. Mnuchin. Yes, I will.


And the last question is a little longer, but I hope you can do it quickly. Are Treasury and FHFA working together to prevent another draw on Treasury by the GSEs? If so, how are you doing that?

Mr. Mnuchin. I am sorry. What was the question?

Senator Brown. I am sorry. Are Treasury and FHFA, Mel Watt and you, working together to prevent another draw on the Treasury by the GSEs? And if so, how are you going to do that?

Mr. Mnuchin. No, my conversations with Mel Watt have been specifically, one, around the dividend, and that we believe the dividend payment should be paid; and, two, that we are willing to work with him and with Congress on housing reform. Those are the conversations we have had.

Senator Brown. OK. Thank you for that.

Thank you, Mr. Chairman.
Chairman CRAPO. OK. Thank you.

Senator Warren has come back, and she wants to briefly ask a few questions. We will do that, and then we will be done.

Senator WARREN. OK, and I will not ask about Glass-Steagall. I will ask about something else.

I want to ask about the tax proposal that the Administration released a few weeks ago. It proposed slashing the rate on all pass-through entities—partnerships, LLCs, S corporations—to 15 percent. So I just want to take a look for a minute at who that benefits.

Seventy percent of all income from pass-through entities goes to the top 1 percent of taxpayers. That is households making more than $450,000 a year. And according to an analysis this week from the nonpartisan Tax Policy Center, this pass-through change would put over $1 trillion in the pockets of the top 1 percent of households while 95 percent of middle-income households would receive zero in tax benefits from it.

So other than creating new tax deductions for yachts, it is hard to come up with a more targeted tax cut that goes to the rich other than this cut on the rate on pass-throughs.

So, Secretary Mnuchin, with working families struggling to make ends meet, why is this Administration giving the ultra-wealthy this massive tax cut?

Mr. MNUCHIN. So I can assure you—and I have said this repeatedly—we are not going to allow all pass-throughs to get that rate. We are going to make sure that small- and medium-sized businesses have the benefit. But we will put procedures in place—and I specifically said this—to make sure that people who should be paying higher taxes do not use pass-throughs to arbitrage the system.

Senator WARREN. If I can just understand, there are two parts to your answer that I just want to make sure I am understanding what you are saying. Are you saying people who currently receive pass-through under your proposals may not receive pass-through in the future?

Mr. MNUCHIN. Again, the concept is that there will be a box that you have to check that says, “I am eligible for the business tax,” which is——

Senator WARREN. OK, and are you——

Mr. MNUCHIN.——15 percent, and there will be qualifications around that. So, no, it is not——

Senator WARREN. Will that shrink up the number of people who receive it now? Because right now—I am not talking about new people coming in—it is $1 trillion in tax breaks to the top 1 percent.

Mr. MNUCHIN. Trust me, we have run the numbers, OK? And despite the fact that lots of people have asked me these questions, we are sensitive to the deficit and everything else. And you are correct, if we let every single pass-through holder, that would be purely arbitraging the system——

Senator WARREN. It is currently a pass—I am not changing it. Currently a pass-through——

Mr. MNUCHIN. Yes, that is correct. We are not——

Senator WARREN. You are not going to do that.
Mr. Mnuchin—going to allow every single pass-through, and specifically, people who are making lots of money will not be able to use pass-throughs. There will be criteria as to whether you are eligible for the business tax if you are a pass-through. It will not be available for everyone.

Senator Warren. And you are going to limit this to small businesses?

Mr. Mnuchin. Small and medium-sized businesses, yes.

Senator Warren. OK, limited to that. That is what I wanted to understand.

Thank you very much for the indulgence, Mr. Chairman. Thank you.

Chairman Crapo. Thank you very much.

And now the questioning has concluded, and, Secretary Mnuchin, the hearing is concluded. Before I hit the gavel, though, I just want to thank you for your openness and your work with the Committee. I mirror what Senator Toomey said. You have been very willing to give us your time, both in formal hearings as well as in private meetings with the Senators of this Committee and of other committees, and I appreciate your outreach to us.

Thank you very much for being here.

Mr. Mnuchin. Thank you. A pleasure.

Chairman Crapo. The hearing is adjourned.

[Whereupon, at 12:14 p.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]
Chairman Crapo, Ranking Member Brown, and Members of the Committee, it is an honor to appear before you today for the first time as Treasury Secretary. During my confirmation hearing I promised to work with Congress to create and maintain prosperity for all Americans. I want to reaffirm that commitment to you today.

Let me begin by discussing the Treasury’s recent report on the foreign exchange policies of our major trading partners. Ensuring that American businesses, consumers, and workers face a level playing field is one of the essential components of this Administration’s agenda. When foreign governments engage in currency manipulation, it makes the playing field uneven, which is why we regularly monitor these practices.

After careful study, the Treasury Department has found that no major trading partner met the criteria for currency manipulator during the current reporting period. We will continue to follow this important issue and have established a “Monitoring List” of economies that warrant close attention. This list comprises: China, Germany, Japan, Korea, Switzerland, and Taiwan.

Additionally, we are committed to rethinking our foreign agreements and trading practices to ensure that they are both free and fair to American businesses and workers. In my discussions with the IMF and the finance ministers of the G–20 I have emphasized this goal and will continue to do so.

Turning to our domestic economic agenda, it has been more than 30 years since we have had comprehensive tax reform in this country. Combined with often imprudent regulations crafted in the midst of crisis, the engine of American prosperity has slowed. I believe that a goal of 3 percent GDP or higher economic growth is achievable if we make historic reforms to both taxes and regulation.

There are about 100 people working at the Treasury on the issue of tax reform. It is our goal to bring meaningful relief to middle-income Americans and make American businesses competitive again. We will do this all while simplifying the system.

On regulatory reform, Treasury is preparing its initial report in response to the President’s Executive Order on “Core Principles for Regulating the United States Financial System.” These Principles provide a roadmap for the Administration’s approach to financial services regulation. We have taken a systematic approach in our work by meeting with a variety of stakeholder groups to hear what works, what does not work, and what can be improved. Our initial report will contain recommendations to provide relief for community banks and make regulations more efficient, effective, and appropriately tailored.

Housing finance reform is another priority of mine. This has been an unresolved issue for far too long and one we are committed to fixing. We will ensure that there is both ample credit for housing and that we do not put taxpayers at risk. This Committee has done extensive work on this along with your work on community financial institution regulatory relief. My hope is that we can partner on both of these issues. I look forward to working with the Congress to develop a solution.

Finally, another area that is crucially important to Treasury is our commitment to combating terrorist activities and financing. We have announced a number of sanction actions against individuals and entities associated with destabilizing regimes like Syria, Iran, and North Korea. This work is essential to the Administration’s efforts to continue to keep Americans safe.

The first few months of this Administration have been significant. We have been working hard at the Treasury to develop and implement policy that will allow the economy to grow. This will make the dream of prosperity once again a reality for all Americans.

Thank you and I look forward to answering your questions.
RESPONSE TO WRITTEN QUESTIONS OF SENATOR BROWN FROM STEVEN T. MNUCHIN

Q.1. As requested at the hearing, please provide me a complete list of all meetings you have had with stakeholders, including industry, financial regulatory agencies, advocates, and others about the Core Principals Executive Order and Housing Financing Reform. Please indicate which meetings you attended and which meetings were only attended by Treasury staff.

A.1. I participated in the meetings with large banks and community banks. I planned to participate in the consumer advocate meeting but was unable to due to a scheduling conflict. While not specifically related to the Executive order, I have met with advocate groups where the Core Principles were discussed. I have chaired two Financial Stability Oversight Council (FSOC) meetings and have met with almost all of the heads of financial regulatory agencies at least once, both within the context of the FSOC meetings and outside of those meetings. All of these groups are outlined below. A complete list of all stakeholder engagements lead by Treasury staff was sent to your office on June 2.

Consumer Advocates
Advancing the Seed
Archimedes Institute
California Association for Micro Enterprise Opportunity
Centro de Vida Church
Christ Our Redeemer Church
Connect Authentically
Impact Southern California Community Development Corporation
Instituto de Avance Latino Community Development Corporation
Latino Coalition for Community Leadership
Los Angeles Latino Chamber of Commerce
Macedonia Community Development Corporation
National Asian American Coalition
National Diversity Coalition
OASIS Center International
Operation HOPE
Orange County Interdenominational Ecumenical Council
Templo Calvario Community Development Corporation
US-Sino Friendship Association

Industry Groups
Banc of California
Bank of America Corporation
Bank of Bennington
Barclays US LLC
Bank of New York Mellon Corporation
Cape Cod Five Mutual Company
Capital One Financial Corporation
Cardinal Bank
Cedar Rapids Bank and Trust Company
Centric Financial Corporation
Century Bank and Trust Company
Citigroup Inc.
Citizens Financial Group, Inc.
Credit Suisse Group AG
Deutsche Bank AG
EagleBank
First National Bank of Elkhart
FirstCapital Bank of Texas
German American Bancorp
Goldman Sachs Group, Inc.
Grand Rapids State Bank
HSBC North American Holdings
JPMorgan Chase & Co.
MainStreet Bancshares, Inc.
Morgan Stanley
Northwest Bancshares, Inc.
PNC Financial Services Group, Inc.
Royal Business Bank
Santander
Security Bancorp, MHC.
State Street Corporation
TD Group US Holdings
First State Bank
The Peoples Bank Co.
Union State Bank of Everest
U.S. Bancorp
UBS Group AG
Wells Fargo & Company
Windsor Federal Savings Bank

**Regulators**

Commodity Futures Trading Commission
Consumer Financial Protection Bureau
Federal Reserve Board of Governors
Federal Deposit Insurance Corporation
Federal Housing Finance Agency
FSOC Independent Member with Insurance Expertise
National Credit Union Administration
Office of the Comptroller of the Currency
Securities and Exchange Commission

Q.2. At the hearing, you stated that the OneWest management team flagged problems at Financial Freedom for HUD. However, the Department of Justice credited Sandra Jolley for bringing the problems to the attention of Federal officials, and even gave her a whistleblower award. Can you clarify whether you or OneWest management self-reported the problems before Ms. Jolley raised them? Please provide the Committee with supporting documentation.

A.2. I no longer have any affiliation with CIT or OneWest Bank. Specific questions regarding this matter are best directed to CIT, which acquired OneWest in August 2015.

Q.3. During your confirmation process, I asked you about solutions for housing finance reform. At the time, you said that the GSES need capital. Has that changed and if not, how do you propose they build capital given the terms of the preferred stock purchase agreement?

A.3. The $258 billion of undrawn capacity under the Senior Preferred Stock Purchase Agreements (PSPAs) gives the marketplace confidence that the GSEs will remain solvent and continue to provide liquidity and stability to the mortgage market. However, the GSEs’ prolonged conservatorship has been an unresolved issue for
far too long and one we are committed to fixing. I look forward to working with the Congress to develop a solution.

Q.4. At the time Mr. Noreika’s appointment as Acting Comptroller of the Currency, he was representing Ant Financial, a Chinese company that is currently under review by CFIUS. What, if any, conversations did you or your staff have with Mr. Noreika about his representation of Ant Financial while you were vetting him to serve as Acting Comptroller? Separately, have you or your staff spoken with him as part of the CFIUS review? Do you believe that there are any conflicts of interests by having conversations about a job position, as the same person is representing a foreign company that is being reviewed by you as part of the CFIUS process?

A.4. In line with its statutory confidentiality restrictions, Treasury does not discuss cases before the Committee on Foreign Investment in the United States (CFIUS), including whether or not any case has been filed with CFIUS. Treasury would not engage with OCC on CFIUS matters that do not involve a company subject to OCC regulation or that provides goods or services to the OCC. Although Mr. Noreika identified the clients he represented in the last 2 years during his ethics vetting process, we are not aware of any conversations with Mr. Noreika specific to Ant Financial during any part of this process. As a Government employee, Mr. Noreika must recuse from participating in any particular matter involving specific parties in which a recent former client or employer is or represents a party.

Q.5. In a world where cyberattacks against U.S. companies and Government agencies to acquire Americans’ personal identifiable information (PII) are a frequent occurrence, what steps is the Treasury taking to protect Americans against these risks? Are you concerned about acquisitions of U.S. companies by foreign companies that may make it easier for the foreign governments to gather personal data on American citizens, including servicemembers? Do you consider foreign access to Americans’ PII a national security threat? How will CFIUS consider these types of potential risks?

A.5. Treasury has identified cyber threats as one of the most pressing economic, financial stability, and national security risks and made financial sector cybersecurity and resiliency a top policy and operational priority. Effectively executing Treasury’s mission and responsibilities to improve the security and resilience of the U.S. financial system requires a “whole-of-Treasury” approach.

As it relates to the protection of PII within Treasury’s internal systems, Treasury has established a Cybersecurity Enhancement Account (CEA) that has specific line items dedicated to enterprise-wide operational cybersecurity improvements. This includes enhancing capabilities such as data loss/leakage protection (DLP) and encryption of data in transit/at-rest for our high value assets, many of which process large amounts of personally identifiable information. Treasury collaborates with other agencies to help ensure our cybersecurity protections are properly calibrated and effective against today’s cyber threats.

With limited exceptions, the private sector owns and operates the critical financial services sector infrastructure that Treasury seeks to help protect as a part of its cybersecurity mission. Thus, Treas-
ury’s work depends on partnerships with various stakeholders, including private sector institutions and representatives, and other Government partners to enhance the security and resilience of the U.S. financial services sector.

Treasury’s Investment Security Office is responsible for the implementation of Treasury’s responsibilities as Chair of CFIUS. CFIUS has, for many years, considered the collection of sensitive personal data of American citizens—including data specific to servicemembers and other Government employees, as well as more general bulk customer data—as a factor in its national security reviews. New commercial innovations in recent years have increased the ease with which data can be collected, stored, aggregated, and accessed, presenting new national security considerations. CFIUS will continue to consider potential foreign access to sensitive personal data in its analysis of the threats, vulnerabilities, and national security consequences of the transactions under its review. And where such considerations constitute a national security risk, CFIUS will continue to either mitigate such risk, or—when the risk cannot be sufficiently mitigated—recommend to the President that he block or suspend the transaction.

Q.6. You said during the hearing that you take your responsibility as Chair of the Financial Stability Oversight Council (FSOC) very seriously. In that role, you said that you are focused on cybersecurity. What other risks to the financial system concern you and what steps are you taking, as the Chair of FSOC, to address these risks?

A.6. The FSOC will fulfill its responsibilities to monitor risks to U.S. financial stability, including by focusing on areas such as cybersecurity, market liquidity, housing finance reform, and global economic and financial developments, among other areas. We are happy to work with you and your staff to discuss areas of particular interest in more detail.

Q.7. Under section 4 of the Bank Holding Company Act, the Secretary of the Treasury has some authority to participate in establishing restrictions upon merchant banking. At your confirmation hearing you committed to looking into financial holding companies’ involvement in merchant banking activities and that you would work on it. What are you doing to address this issue?

A.7. In February, the President signed an Executive order that tasks Treasury with reporting on the extent to which existing laws, regulations, and other Government policies promote or inhibit the Core Principles for financial regulation set forth in the Executive order. As part of this process, we are considering a broad set of financial regulations that affect banks’ investments and other activities. In its initial report under the Executive order, addressing the regulation of depository institutions, Treasury did not propose new restrictions on the merchant banking activities of financial holding companies, but will continue to assess whether regulations are consistent with the Core Principles described in the Executive order. Financial holding companies are permitted by statute to engage in merchant banking activity. The Treasury Secretary and the Federal Reserve Board have authority to issue joint rules
implementing this authority, and they jointly issued merchant banking rules in 2001.

Q.8. Last week, you told Senator Toomey that you want to work with Congress to appropriate funds for the CFPB. Supporters of CFPB oppose this change because it would be used to starve the agency of resources, resulting in less protection for consumers. The President’s budget appears to confirm this strategy. It shows $6.8 billion in savings from reducing funding for CFPB. Is it possible to have $6.8 billion in savings without zeroing out the CFPB’s entire budget? If it is possible, please explain. If it is not possible, why did you testify that you wanted to appropriate funds for the CFPB when the Administration’s position is that the agency should receive no funding?

A.8. The Budget proposes to restructure the Consumer Financial Protection Bureau (CFPB), limit the CFPB’s mandatory funding in 2018, and provide discretionary appropriations to fund the CFPB beginning in 2019. This would yield $6.8 billion in mandatory savings over the budget window. Subjecting the reformed CFPB to the appropriations process would provide the oversight necessary to impose financial discipline and prevent future overreach by the CFPB. Under this proposal, the President’s Budget for fiscal year 2019 and each subsequent year would include a request for appropriations to fund the reformed agency within the discretionary totals.

RESPONSE TO WRITTEN QUESTION OF SENATOR TOOMEY FROM STEVEN T. MNUCHIN

Q.1. I was pleased to see President Trump announce his intention to nominate a reform-minded individual to head the Export-Import Bank. Under former Congressman Scott Garrett’s leadership, I expect that the Export-Import Bank will better protect taxpayer dollars and give greater consideration to the potentially disruptive impact of its activities on domestic companies and American consumers. I look forward to learning more about Congressman Garrett’s plans at his confirmation hearing.

Prior to providing the bank’s board with a quorum, the Administration should also share with the Committee what reforms it would like to see implemented at the Export-Import Bank. Please describe what, if any, reforms you view as appropriate. In particular, what steps can the bank take to better protect taxpayers, understand its impact on domestic competition, and better quantify subsidies that it provides to customers? Finally, how does the Administration plan to engage with our major trading partners to negotiate an end to trade-distorting export credit financing as required by Sec. 55002 of the FAST Act (P.L. 114–94)?

A.1. The Administration is focusing its current efforts on restoring EXIM’s board quorum so that EXIM has a leadership team in place to continue implementing reforms in the Export-Import Bank Reform and Reauthorization Act of 2015. Treasury looks forward to working with the White House and Congressman Garrett following his confirmation to discuss future additional reforms to ensure EXIM is better protecting taxpayer dollars.
The Administration is negotiating the reduction of export credits among our major trading partners through the International Working Group on Export Credits (IWG). The IWG, comprising major OECD and non-OECD providers of Government-backed export credit support, aims to establish a set of disciplines on official export financing in order to reduce subsidies and market distortions, and promote a level playing field for exporters.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SASSE
FROM STEVEN T. Mnuchin

Q.1. I’d like to discuss the Trump administration’s trade policy, given the Treasury Department’s policy and advisory role in this area.

Q.1.a. How does the Treasury Department estimate a 45 percent tariff on Chinese goods would impact the U.S. economy?

A.1.a. My top priority is to boost U.S. economic growth and our trade policy should support that effort.

We are engaging the Chinese intensively through our 100-day action plan and have established the Comprehensive Economic Dialogue to remove unfair trade barriers. We are making important progress and wish to continue to engage China constructively.

We have not made any decisions about possible tariff measures, but we reserve the right to protect the U.S. economy against trading partners that maintain unfair trade practices.

Q.1.b. How does the Treasury Department estimate a 20 percent tariff on Mexican goods would impact the U.S. economy?

A.1.b. My top priority is to boost U.S. economic growth and our trade policy should support that effort.

We look forward to modernizing NAFTA and engaging constructively with our Canadian and Mexican counterparts to maintain the existing benefits of the agreement while addressing outdated aspects and improving the agreement overall to the benefit of U.S. workers, farmers, ranchers, and firms.

Q.1.c. The Treasury Department recently declined to label any major U.S. trading partner a currency manipulator. Is the Treasury Department concerned that labeling a major U.S. trading partner a currency manipulator would spark a trade war?

A.1.c. There has been a trend in the last 2 years toward reduced currency intervention by key trading partners.

However, it is critical that this not represent merely an opportunistic response to shifting global macroeconomic conditions—in particular changes in capital flows which have created depreciation pressures on many emerging market currencies—but a durable policy shift away from foreign exchange policies that facilitate unfair competitive advantage.

Treasury is committed to aggressively and vigilantly monitoring and combating unfair currency practices.

Q.1.d. How does the Treasury Department expect a trade war with China to impact the U.S. economy?

A.1.d. We are not planning a trade war with China.
Q.1.e. How does the Treasury Department expect a trade war with Mexico to impact the U.S. economy?
A.1.e. We are not planning a trade war with Mexico.

Q.1.f. Mexico has reportedly been exploring ways to reduce corn imports from the United States, including by opening up trade with Brazil or Argentina. Is there a risk that the Administration’s rhetoric on trade will drive other countries to explore other import markets?
A.1.f. We seek to maintain the benefits of NAFTA while it is modernized. This includes the benefits that have accrued to U.S. farmers and ranchers. We expect that Mexico will continue to see the United States as an important source.

Q.1.g. Should the United States always adhere to its WTO obligations?
A.1.g. The Administration is in the process of reviewing our trade agreements, including the WTO agreements. As part of our trade agreement review, the United States is examining how we can make the WTO more effective and hold trading partners accountable.

Q.1.h. Under what circumstances should the United States ignore its WTO obligations?
A.1.h. The Administration is in the process of reviewing our trade agreements, including the WTO agreements. As part of our trade agreement review, the United States is examining how we can make the WTO more effective and hold trading partners accountable.

Q.1.i. The Trump administration is reportedly taking steps to begin the process to renegotiate NAFTA. What steps should be taken to ensure that these negotiations result in a successful new agreement, instead of the dissolution of NAFTA?
A.1.i. We are just beginning the process of NAFTA modernization, including through the congressional notification and consultation process. The Administration is focused on getting a better deal for American workers, farmers, ranchers, and firms. We believe this is possible to achieve with these important trading partners.

Q.1.j. Would dissolving NAFTA be preferable to maintaining the current version of NAFTA?
A.1.j. Our relationships with Mexico and Canada are strong and we believe that we can work together to get a fair deal while maintaining the existing benefits.

Q.1.k. How would the dissolution of NAFTA impact the U.S. economy?
A.1.k. We are working toward a modernization of NAFTA that will benefit the U.S. economy.

Q.1.l. What trade agreements are the Trump administration considering renegotiating? How would the Administration rank the importance of each renegotiation?
A.1.l. President Trump signed an Executive order tasking the Department of Commerce and the United States Trade
Representative (USTR) with conducting a performance review of all our existing international trade agreements.

**Q.1.m.** What trade agreements are the Trump administration considering pursuing during its first term? How would the Administration rank the importance of each potential agreement?

**A.1.m.** The President has already made clear some of his top trade priorities including modernization of NAFTA. We are seeking to negotiate a number of bilateral deals with key trading partners, and we look forward to consulting Congress on trade priorities.

**Q.2.** I’d like to explore the Treasury Department’s views on China.

**Q.2.a.** To what extent is China’s currency convertible into currency from other countries?

**A.2.a.** Your question identifies a statutory factor that the Department of Commerce must consider under Section 771(18)(B) of the Tariff Act of 1930 as part of its review of a country’s designation as a nonmarket economy.

As you know, in March 2017, the Department of Commerce initiated a new inquiry to review China’s designation as a nonmarket economy, and that review is ongoing.

**Q.2.b.** To what extent are wages in China set by the free market?

**A.2.b.** Your question identifies a statutory factor that the Department of Commerce must consider under Section 771(18)(B) of the Tariff Act of 1930 as part of its review of a country’s designation as a nonmarket economy.

As you know, in March 2017, the Department of Commerce initiated a new inquiry to review China’s designation as a nonmarket economy, and that review is ongoing.

**Q.2.c.** To what extent are foreign companies and investors allowed to freely invest in China?

**A.2.c.** U.S. investors have noted significant obstacles to investing in China, due to regulatory hurdles and restrictions that China places on foreign investment. The Administration is engaging with China to promote fair and open access to Chinese markets for American companies.

**Q.2.d.** To what extent does the Chinese government own or control the means of production within the country?

**A.2.d.** Your question identifies a statutory factor that the Department of Commerce must consider under Section 771(18)(B) of the Tariff Act of 1930 as part of its review of a country’s designation as a nonmarket economy.

As you know, in March 2017, the Department of Commerce initiated a new inquiry to review China’s designation as a nonmarket economy, and that review is ongoing.

**Q.2.e.** To what extent does the Chinese government control the allocation of resources and firm decisions over prices and outputs within the country?

**A.2.e.** Your question identifies a statutory factor that the Department of Commerce must consider under Section 771(18)(B) of the Tariff Act of 1930 as part of its review of a country’s designation as a nonmarket economy.
As you know, in March 2017, the Department of Commerce initiated a new inquiry to review China’s designation as a nonmarket economy, and that review is ongoing.

Q.2.f. China continues to advance the Regional Comprehensive Economic Partnership (RCEP), a regional multilateral trade agreement in the Pacific that includes our current free trade agreement (FTA) partners, South Korea and Australia, as well as Japan, a potential FTA partner. According to the Congressional Research Service, should the RCEP move forward in its current form, the “United States would face higher tariffs in RCEP markets.”

Has the Administration expressed concern that many of our trading partners could run to RCEP markets under trade rules set by China? What actions is the Administration taking to secure our trade interests in the Pacific after the withdrawal from TPP?

A.2.f. Trade, including with countries in the Pacific region, is a very high priority for the Administration, and we are actively considering next steps on reviewing ways to improve our trade relations with key partners. While we have withdrawn from TPP, we remain fully committed to strengthening our economic relationships across the Asia-Pacific region.

Q.2.g. The Administration announced that the United States will soon have access to China’s $2 billion beef market. Nebraska has one of the largest and most innovative beef industries in the Nation and welcomes the opportunity to compete in China. When does the Administration expect negotiations to be finalized?

A.2.g. We sent the first shipment of beef to China on June 19th. The 100-day period runs through July 16, 100 days after the conclusion of the Presidential Summit in April.

Q.3. I’d like to discuss the current state of the economy.

Q.3.a. What portion of currently unemployed, underemployed and discouraged workers will have to retool their skill set to enter a new sector of the economy to become fully employed?

A.3.a. The Administration is committed to making sure that the American economy continues to generate jobs. One factor that helps bring people back into the labor force and particularly into more highly skilled jobs is the availability of education and training opportunities.

A 2016 study conducted by the Pew Research Center concluded that since 1980, employment has been expanding at a faster pace in jobs that require higher levels of education, training, and experience. The study also reported on views about training and education among the employed and unemployed. It found:

- Employment in occupations requiring average to above-average education has risen by about two-thirds since 1980, while employment in jobs requiring below-average education and training has increased by only one-third since that year.

- Among those who are unemployed but looking for work, about one-quarter have reported that they took a class or received extra training in the past year to help them obtain a job.

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• Of those who did not obtain additional training, two-thirds reported that they could not afford to do so, while one-third did not know this type of training was available.

• Among those who are unemployed but looking for work, only about half feel that they have the education and training needed to obtain the kind of job they want.

The Administration believes that some of the jobs that have moved overseas can be brought back to the United States. In the manufacturing sector, where employment has fallen by nearly one-third since 2000, workers may need to retool to fill those jobs. In a 2015 report from the Manufacturing Institute, seven out of 10 manufacturing executives reported shortages of workers with adequate technological skills.

Annual BLS data for 2016 show that 94.4 million persons were counted as “not in the labor force.” Only 224,000 of that total number, or 0.2 percent, indicated that they were outside the labor force specifically because they were in school or obtaining training.

Q.3.b. Will this percentage of unemployed, underemployed, and discouraged workers that must enter a new sector increase in the future?

A.3.b. The U.S. labor market is considered one of the most dynamic in the world, constantly adapting to changing economic conditions. The U.S. economy has created an average of 162,000 jobs monthly since the start of 2017 and solid jobs growth is expected to continue. Tight labor market conditions are likely to pull more workers from the sidelines and into the economy.

That said, it is difficult to project precisely how employment among prime-age workers will evolve and to which sectors such workers will gravitate. The fact that job growth is fastest in sectors requiring higher levels of education implies that unemployed, underemployed, or discouraged workers will likely need the right education and training in order to enter a new sector.

Q.3.c. What is the average age of an unemployed or underemployed worker that decides to leave the workforce altogether instead of seeking to retool their skill set and enter a new sector?

A.3.c. Annual data from the Bureau of Labor Statistics show that in 2016, among those not in the labor force who also indicated that they “do not want a job now,” 58.8 percent of the group was 55 years and older, 23.8 percent was 25 to 54 years, and 17.5 percent was 16 to 24 years.

It is difficult to say definitely whether, or in what numbers, persons from any of these groups might elect to re-enter the workforce, whether in the same sector or a new one. Presumably, the decision to leave the workforce altogether, versus obtaining additional skills, would depend upon the cost of required training. For example, of the three occupations with the highest projected changes in employment through 2024 (personal care aides, registered nurses, and home health aides), training requirements vary widely. To become a registered nurse would require extensive and expensive training for a period of years, whereas the other two occupations would require only short-term training and licensing, all at much less cost.
Q.4. I’d like to explore your views on artificial intelligence and automation. This March you were asked about artificial intelligence at an event hosted by Axios. You said, “I think that [it] is so far in the future—in terms of artificial intelligence taking over American jobs—I think we’re, like, so far away from that.” You then went on to say that this issue was “[n]ot even on [your] radar screen.” As recently as 6 months ago, the Obama White House published a report by Jason Furman of the President’s Council of Economic Advisors on “Artificial Intelligence, Automation, and the Economy.” According to the report, “[a]ccelerating artificial intelligence capabilities will enable automation of some tasks that have long required human labor. These transformations will open up new opportunities for individuals, the economy, and society, but they have the potential to disrupt the current livelihoods of millions of Americans.”

• Can you elaborate on what positive and negative impacts, if any, the increasing artificial intelligence and automation of routine work tasks will pose to the economy over the long-term, particularly for wages and employment?
• How long will it take for these risks to come to significant fruition?
• What sectors of the economy will benefit the most from automation?
• What sectors of the economy will benefit the least from automation?
• What—if any—policy solutions are the Treasury Department exploring in order to respond to intelligence and automation?

A.4. I was specifically referring to artificial intelligence not the impact of technology and robotics on the economy. In general, technological innovations allow the economy to better use its existing resources, allowing us to produce more output with the same inputs. While higher output is desirable, there is no guarantee that the economic gains from adopting new technology are widely shared, which means that some, maybe most, workers are worse off even though the economic “pie” has gotten bigger. Technology brings labor market disruptions that are both good and bad, and the policy challenge will be addressing those distributional consequences.

Given the difficulty in predicting how jobs will change and who will ultimately be helped and harmed by technology, prudent public policy should try to position the labor force as a whole to make the best use of technology while addressing any distributional problems that arise from the adoption of new technologies. Humans will likely still have a relative advantage in tasks that involve, for example, social interactions, physical dexterity, or human judgment, so the jobs that adapt to new technologies will have humans emphasize those types of tasks while technology complements them. However, employment in jobs that do not include such tasks may decline significantly, and then it falls to policymakers to determine whether and how to help displaced workers. Human capital development, for both future workers and those who are displaced by technology, would help mitigate some job losses by allowing workers to adapt to the newly demanded jobs.
Q.5. I'd like to explore your views on deficits and the debt.

Q.5.a. During Federal Reserve Chair Yellen’s February 14, 2017, Senate Banking Testimony, Chair Yellen told Senator Corker that “fiscal sustainability has been a long-standing problem . . . and the U.S. fiscal course, as our population ages and healthcare costs increase, is already not sustainable.” Do you agree?

Q.5.b. In correspondence with me last year, Chair Yellen told me that “fiscal policymakers should soon put in place a credible plan for reducing deficits to sustainable levels over time.” Do you agree?

Q.5.c. What level of deficits and debt would the Treasury Department consider sustainable over the long-run?

Q.5.d. What metrics would the Treasury Department consult in order to evaluate the impact of the U.S.’s debt and deficit levels? What levels must these metrics reach in order for the U.S. debt and deficit to be sustainable?

A.5.a–d. Chair Yellen’s testimony is consistent with analysis and conclusions presented in the annual Financial Report of the U.S. Government (FRUSG). Since the introduction in the fiscal year 2010 FRUSG of reporting on long-term fiscal projections (i.e., fiscal sustainability reporting), the reported conclusion in each successive year’s report has remained unchanged—that “the projected continuous rise in the debt-to-GDP ratio indicates that current policy is unsustainable.” This conclusion is consistent with the Congressional Budget Office’s (CBO’s) and Government Accountability Office’s (GAO’s) projections.

The fiscal sustainability analysis presented in the FRUSG is prepared by OMB and Treasury in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 36, Comprehensive Long-Term Projections for the U.S. Government. The analysis considers projected deficits and debt as a percentage of gross domestic product (GDP) assuming current law and policy continue unchanged over the projection period. As such, the analysis is considered to be based on projections, not predictions, and is intended to assist readers of the FRUSG in assessing whether future budgetary resources of the U.S. Government will likely be sufficient to sustain public services and to meet obligations as they come due.

Reducing the deficit to levels that are sustainable over time is critical. SFFAS 36 states, “While many experts agree that some level of public debt is reasonable and acceptable, there is no universally agreed upon ‘sustainable’ percentage of debt to GDP. However, all experts agree that a continually increasing level of debt to GDP is not sustainable.”

In accordance with SFFAS 36, the FRUSG discussion of long-term fiscal projections or fiscal sustainability focuses on trends in deficits and debt as a percentage of GDP. Chart E from the fiscal year 2016 FRUSG presents the trend in Public Debt as a percentage of GDP (debt to GDP ratio) from 1940 through 2016. As can be seen from Chart E, the debt-to-GDP ratio has varied widely over time. While the FY-end 2016 debt-to-GDP ratio was reported as 77 percent, that ratio was as high as 106 percent in 1946, shortly following the end of World War II.
Q.5.e. Assuming current policy and current demographic trends, how will population aging impact the U.S. fiscal situation over the next 10 years?

A.5.e. As the population ages, a larger share of individuals will retire and exit the labor market. As a result, tax receipts and payments will be lower. In addition, as the population ages, more individuals will become eligible to receive Social Security and Medicare benefits, which will result in increases in Government spending.

Q.5.f. Assuming current policy and current demographic trends, how large does the Treasury Department expect the shortfall to be between retiring workers and new entrants into the workforce, over the next 10 years?

A.5.f. The 2016 Annual Report of the Social Security Trustees projected that by 2022, there will be 2.6 workers per Old-Age, Survivors, and Disability Insurance (OASDI) beneficiary. By 2027, the 2016 Annual Report of the Social Security Trustees projected that there will be 2.4 workers per OASDI beneficiary, approximately 17 percent lower than the 2015 number of covered workers to OASDI beneficiaries (2.8) and approximately 28 percent lower than the 2007 number of covered workers to OASDI beneficiaries (3.3). While the definition of “covered workers” and “OASDI beneficiaries” are not exactly equivalent to “new entrants” and “retiring workers,” these projections of a declining number of covered workers to OASDI beneficiaries suggest that the gap between the number of new entrants and retiring workers will increase. (see https://www.ssa.gov/oact/tr/2016/lr4b3.html).

CBO projects that the labor force participation rate will decline from 62.8 percent in 2017 to 61.0 percent in 2027 and to 59.3 percent in 2047. CBO, however, notes that without the effects of the aging of the population, the labor force participation rate would remain roughly constant over the next 30 years. (see https://www.cbo.gov/sites/default/files/52480-appendixa.pdf.)

Q.5.g. What policy changes are the Treasury Department considering to address the impact of population aging on our fiscal situation?

A.5.g. The Administration’s budget proposal identifies potential policy solutions to many of these issues. Treasury is also investigating policies to increase labor force participation and increase savings. Treasury looks forward to working with the Congress to address these issues.

Q.5.h. How would the Treasury Department evaluate the economic impact of an unfunded $1 trillion infrastructure spending package?

A.5.h. The Administration continues to work and develop policy proposals relating to infrastructure. The impacts of these policy proposals will depend on a number of details regarding the state of the economy and the proposal itself. Examples include: how close the economy is to full employment, monetary policy, the types of projects undertaken and the efficiency of public investment, and the extent of private sector participation. Treasury looks forward to working with the Congress on infrastructure policy proposals.

Q.6. Australia has created a Standard Business Reporting regime (SBR) that allows a firm to complete one filing to comply with
multiple regulatory disclosure requirements. This has extensively reduced the amount of required data fields, saving the Australian economy more than a $1.1 billion annually by one estimate.\(^2\) Is a similar SBR system possible in the United States? (DF)

Q.7.a. According to research from the Economic Innovation Group, the new startup rate is near record lows, dropping by “half since the late 1970s” and the total number of firms in the U.S. dropped by around 182,000 from 2007–2014.\(^3\)

Is the Treasury Department concerned about this decline in new starts and broader economic consolidation?

A.7.a. The number and age of firms in the economy are not systematically monitored by the Treasury Department. However, Treasury is interested in the forces that contribute to productivity growth because it links closely to higher standards of living and well-being in the United States. In this context, the decline in the rate of startup firms may be noteworthy because they are essential to the firm churning process that helps to reallocate labor and capital to more productive uses, and contributes to innovation and productivity growth. There is evidence that new firms are more physically productive than either incumbent or exiting firms, on average.\(^4\) Young firms also have higher innovation intensities than mature firms (larger ratio of R&D spending to sales).\(^5\)

The declining number of aggregate firms is not necessarily cause for concern from an economic perspective. Consolidation often reflects the growth of more efficient firms which gain market shares in part by replacing less productive firms. When capital flows toward high productivity investment opportunities and results in consolidation, this consolidation contributes to economic dynamism and productivity growth.

Q.7.b. What—if any—policy solutions are the Treasury Department exploring in order to respond to these challenges?

A.7.b. Treasury continues to examine ways to ensure that young, innovative firms have access to capital to support their growth and sustainability. Over the years, Treasury has administered a number of programs that provided capital to financial intermediaries that support new and existing small businesses across the country. For example, two Treasury Department programs established by the Small Business Jobs Act of 2010 have helped to boost small businesses’ access to capital. The Small Business Lending Fund

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\(^2\)See https://www.xbrl.org/sbr-savings-in-australia-soar/.


provided $4 billion to community banks to enable them to increase small business lending at a time when credit markets were severely constrained. The State Small Business Credit Initiative injected nearly $1.5 billion in a range of State financing programs (including venture capital for innovative startups) to help small businesses to enter and compete in their local markets.

In addition, as Treasury reviews the regulatory landscape, we will assess the general approach to regulation and supervision of the primary sources of small business credit. Regulatory requirements and compliance relevant to small business lending should not have an adverse impact on small businesses and the communities they serve. Reducing regulatory burden, particularly for community banks, which provide nearly half of all small business loans, would help promote capital access for small businesses and, more broadly, support economic growth and job creation in the United States.

Q.8. I’d like to inquire about the Treasury Department’s various sanctions efforts:

Q.8.a. Secondary sanctions are theoretically effective because they force a firm to choose between accessing the U.S. financial system and engaging in prohibited activities. Is the U.S. financial system dominant enough for this strategy to work?

A.8.a. Yes.

Q.8.b. Does Treasury have the capabilities to track or fight against ransomware that uses cryptocurrency, and if not, is it in the process of developing said capabilities?

A.8.b. Treasury leverages its regulatory tools and technical expertise to help protect our financial system from illicit cyber activity, including ransomware. Under the Bank Secrecy Act (BSA), FinCEN regulates as money transmitters, virtual currency exchanger, administrators, mixers and other individuals or entities engaged in virtual currency money transmission, subjecting them to anti-money laundering and countering the financing of terrorism (AML/CFT) obligations, including registration, compliance, recordkeeping, and reporting requirements. The information required, together with FinCEN’s analysis of suspicious activity reports (SARs) relating to virtual currency activities, helps support law enforcement investigations targeting ransomware attacks and other cybercrimes and track their illicit proceeds. In addition, to address the transnational nature of virtual currency transactions, the Office of Terrorist Financing and Financial Crimes (TFFC) has led global efforts to encourage other countries to regulate virtual currency exchangers, administrators, and other virtual currency businesses, pursuant to international AML/CFT standards. However, a new generation of privacy-enhancing cryptocurrencies and more sophisticated mixers provides significantly greater anonymity in virtual currency transactions and is not amenable to currently available network analytic tools, presenting a potential challenge to future sanctions implementation.

I will ensure Treasury has the capabilities to address cybercrime and the abuse of virtual currencies, including by appropriate regulatory responses and by working with interagency and private sector partners to develop and implement more powerful analytic
tools, and will strengthen those capabilities where needed. Treasury will also actively support similar efforts by foreign counterparts.

Q.8.c. What challenge does blockchain pose to future sanctions, and does Treasury have the capabilities to meet those challenges?
A.8.c. Blockchain technology and other financial technology offer numerous potential innovations that could provide many benefits to the financial sector, its customers, and the broader economy. In implementing these new technologies, we expect all relevant parties to continue to follow all appropriate regulations, including those related to sanctions.

Q.8.d. What challenge does bitcoin pose to future sanctions, and does Treasury have the capabilities to meet those challenges?
A.8.d. A new generation of privacy-enhancing cryptocurrencies and more sophisticated mixers provides significantly greater anonymity in virtual currency transactions and is not amenable to currently available network analytic tools, presenting a potential challenge to future sanctions implementation. Treasury is actively working to improve its capabilities to address new challenges, including in the sanctions context. We will continue addressing this issue, including by appropriate regulatory responses and by working with interagency and private sector partners to develop and implement more powerful analytic tools.

Q.8.e. Does Treasury have the necessary resources and capabilities to conduct a North Korean leadership asset hunt, as the North Koreans are adept at developing shell companies and other methods of hiding money?
A.8.e. North Korea is a top priority, and I am ensuring Treasury uses all its tools and authorities to fully implement the President’s objective of a denuclearized Korean peninsula. Additionally, Treasury continues to use its strong relationships with allies and partner countries to achieve this Administration goal.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM STEVEN T. Mnuchin

Q.1. Student Loan Servicing: In April, Secretary DeVos rescinded guidance for student loan servicers that was based on joint principles developed in consultation with the Department of Treasury and the Consumer Financial Protection Bureau. Was the Department of Treasury consulted before this decision was made? Given the Department of Treasury’s involvement with administrative wage garnishment, tax refund offsets, and other collection tools for defaulted student loans, what role should the Department of Treasury play in setting standards for student loan servicing?
A.1. Treasury was not consulted regarding the recently revised servicing requirements for the Federal student loan servicing contract or the rescission of the July 2016 servicing guidance. Treasury has worked with the Department of Education and an interagency group on standards for Federal student loan servicing, including the Federal student loan servicing guidance issued by Education in July 2016. Treasury continues to monitor Federal
student loan servicing issues and provides expertise where appropriate.

Q.2. Tax Loophole: The Administration’s one-page tax plan promises to “eliminate tax breaks for special interests.” Each year, corporations accused of illegal behavior settle out of court with the Federal Government and then take advantage of a tax loophole to deduct millions of dollars in settlement costs from their tax bills. My bipartisan bill with Senator Grassley, the Government Settlement Transparency and Reform Act, would close this loophole and ensure these settlement costs in the future aren’t tax deductible. Would you support this bipartisan proposal as a part of overall tax reform?

A.2. The Government Settlement Transparency and Reform Act largely codifies current law under I.R.C. § 162(f) and creates a new mandatory reporting and disclosure requirement for certain Government settlements. The Treasury Department and IRS would welcome these types of proposals and other changes to reduce complexity and disputes related to the deductibility of Government settlement costs.

Q.3. Tax Reform: The Administration’s stated goals for tax reform are to primarily provide tax relief for the middle class and to balance tax cuts for the wealthiest Americans by eliminating most itemized deductions in favor of a larger standard deduction. Yet many middle-class families, particularly first-time home buyers with children, rely on a combination of exemptions and deductions in order to manage their finances and provide for their families. Will the Administration commit that it will not, under any circumstances, endorse an overall tax reform package that increases the overall tax bill for any taxpayer making under $250,000 per year?

A.3. The President’s stated goal in tax reform is to provide a tax cut to the middle class. I fully support that goal and am working with the Congress to achieve that goal. Until an agreement is reached, I cannot pledge specific outcomes on select taxpayer groups.

Q.4. IRS Data Retrieval Tool: The removal of the IRS data retrieval tools has made completing the FAFSA more difficult, putting the neediest students at risk of not successfully completing the form or any additional verification process, and therefore, losing access to student financial aid. For borrowers, it could mean losing access to income-driven repayment plans, increasing the likelihood of default. What is the Department of Treasury doing to get this vital tool back online? What steps are being taken to ensure that security enhancements do not create new barriers for low-income students or struggling student loan borrowers to access the assistance they are entitled to? How are the Departments of Education and Treasury sharing the responsibility and costs for a solution to the data retrieval tool problem?

A.4. Treasury and Education are working together to make changes to the FAFSA frontend and Data Retrieval Tool (DRT) backend such that a secure, fully functional system can be reactivated by October 2017. While at one point Treasury and
Education considered an interim technical solution that would allow the system to be reactivated sooner, it came with the potential that low-income students or struggling student loan borrowers might be unable to access the assistance to which they are entitled. Treasury and Education continue to work to determine the cost allocation for the changes required, noting technical solutions will be implemented on each Department's respective information systems.

Q.5. Office of Financial Research: The Office of Financial Research (OFR) was established to support the work of the Financial Stability Oversight Council, and in particular, to help FSOC and its member agencies identify risks before they snowballed into another financial crisis, like the last one, that hit working class families particularly hard. The OFR is intended to be a data driven, deeply analytical, and apolitical research organization that speaks truth to power, and like the proverbial canary in the coal mine, serves as an early warning system while there is still time to avert disastrous consequences. Mr. Secretary, do you see value in keeping such an early warning system?

A.5. Treasury is reviewing the OFR’s structure and authorities pursuant to Executive Order 13772 ("Core Principles for Regulating the United States Financial System") and Executive Order 13781 ("Comprehensive Plan for Reorganizing the executive branch"). As part of these reviews, Treasury is taking a close look at the OFR's role.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR ROUNDS FROM STEVEN T. MnUCHIN

Secretary Mnuchin, Section 4(h)(ii) of the Covered Agreement seems to set forth prescriptive criteria for a group capital assessment that the United States must adopt in order for the European Union to live up to its side of the agreement. In calling for “preventive” and “corrective” measures to be a part of the group capital assessment, I fear the European Union is attempting to export EU-style group-level regulation, which is at odds with our legal entity regulatory system in the United States.

Q.1. Is it Treasury’s position that the European Union intends to accept the final version of the NAIC’s group capital calculation in whatever form ultimately adopted by the NAIC?

A.1. In March, I directed that before the United States makes any decisions regarding the U.S.–EU covered agreement, Treasury should hear from interested parties. Treasury has undertaken a series of meetings with interested stakeholders and Members of Congress to gather feedback on the agreement and provide updates regarding the Administration’s decisionmaking process. Treasury is currently considering next steps in consultation with USTR. Treasury welcomes your input on this matter.

Q.2. Without reopening negotiations on the agreement itself, will Treasury commit to seeking a formal exchange of letters with the European Union to accompany the ratification of the Covered Agreement, explicitly clarifying that Section 4(h)(ii) does not commit the United States to creating a new group capital requirement?
Short of an exchange of letters with the European Union, are there assurances that Treasury can give to Congress that Section 4(h)(ii) does not commit the United States to creating a new group capital requirement?

A.2. In March, I directed that before the United States makes any decisions regarding the U.S.–EU covered agreement, Treasury should hear from interested parties. Treasury has undertaken a series of meetings with interested stakeholders and Members of Congress to gather feedback on the agreement and provide updates regarding the Administration’s decisionmaking process. Treasury is currently considering next steps in consultation with USTR. Treasury welcomes your input on this matter.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MENENDEZ FROM STEVEN T. MNUCHIN

Q.1. Two weeks ago, in testimony before this Committee, FHFA Director Watt warned that if either of the Enterprises experience losses next year, be it operational or the result of accounting adjustments, they will likely need to draw on their lines of credit at the Treasury due to the capital buffers being drawn down to zero at the end of this year. Director Watt warned that the impacts of such a draw could be significant, impacting liquidity in the secondary market and ultimately making it more expensive for families to purchase homes. As Director Watt explained, his preferred method to address this issue is to work with you to amend the agreements between Treasury and the Enterprises to allow them to keep a small capital buffer to ensure small losses do not require a draw. Director Watt told us he has had that conversation with you.

• In your opinion, what would be the potential market impacts, both to the secondary market and for borrowers, if either of the Enterprises are in a position that requires a draw on the Treasury next year?
• Do you agree with Director Watt’s assessment that an Enterprise draw on the Treasury could have significant market impacts, both to the secondary market and ultimately for borrowers?
• During the hearing last week, you said your “conversations with Mel Watt have been specifically, one, around the dividend, and that we [the Administration] believe the dividend payment should be paid; and two, that we are willing to work with him and with Congress on housing reform.” What assurances can you provide that the Administration is committed to avoiding a draw?

A.1. Currently $258 billion of undrawn capacity remains available to the GSEs under the Senior Preferred Stock Purchase Agreements (PSPAs), which serves as a backstop against future GSE losses. This support gives the marketplace confidence that the GSEs will remain solvent and continue to provide liquidity and stability to the mortgage market. As long as taxpayers are at risk for losses at one or both of the GSEs, they should be fully compensated for their extraordinary support that they have provided and
continue to provide. The Administration is committed to housing finance reform more broadly and supports Congressional efforts to this end.

Q.2. The Administration’s budget relies on a savings of $6.8 billion over 10 years from “restructuring the Consumer Financial Protection Bureau.” Given the fact that the CFPB’s fiscal year 2017 budget is $636 million—essentially one-tenth of the proposed savings—these so-called savings would effectively reduce the Bureau’s annual budget to zero. This is less of a “restructuring” and more of a full-throttled obliteration of the Bureau.

• How does the Administration plan to ensure fair markets for consumer financial products and to enforce Federal laws that protect hard-working families from unfair and predatory practices in the mortgage industry, by credit card issuers, by student loan companies, and so forth, if the CFPB has no funding?

A.2. I strongly support robust consumer financial protection. I also believe that the CFPB should be funded through the annual Congressional appropriations process like most Federal agencies. Congress’ power of the purse serves as an important check to ensure that Federal agencies exercise their power responsibly and spend taxpayer dollars wisely.

Q.3. In January 2016, the U.S. Patent and Trademark Office granted a license to allow Cubaexport to renew an expired trademark registration for Havana Club rum. Cubaexport is an entity wholly owned by the Cuban government, and this decision reverses a longstanding policy that had denied Havana Club rights to Bacardi LLC in the United States. Despite repeated inquiries, the Office of Foreign Assets Control has yet to provide a satisfactory and legally sound answer for this decision which in effect rewards the Castro government that continues to oppress its people and deny them basic human rights.

Previously, when making licensing decisions, OFAC has relied upon Section 211, which determines “whether the applicant has obtained the consent of the original owner of the stolen mark or the latter’s bona fide successor-in-interest to register or renew that mark.” Since Havana Club was illegally confiscated from the Jose Arechabala Company (JASA), this decision to award the trademark to Cuba raises serious concerns about intellectual property policy implications.

• Are you planning to uphold OFAC’s decision to award the trademark to the Cuban government? Or will you commit to reviewing and clarifying why OFAC departed from precedent and declined to apply Section 211?

A.3. Neither Treasury’s OFAC nor the Department of State has taken any position on ownership of the Havana Club trademark, which we understand is the subject of ongoing litigation before the U.S. District Court for the District of Columbia in the case captioned Bacardi & Co. Limited v. Empresa Cubana Exportadora de Alimentos y Productos Varios. Instead, OFAC issued a specific license authorizing Cubaexport to engage in all transactions necessary to renew and maintain the Havana Club trademark at the USPTO. OFAC took this action after consulting with the
Department of State, as it often does when processing license requests with foreign policy implications. The Department of State evaluated the referral in light of a number of factors, including U.S. policy with regard to trademark rights associated with confiscated property, and recommended that OFAC issue the requested specific license.

With respect to Section 211 of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, OFAC agrees that it limited the applicability of a general license in its regulations that had broadly authorized the registration and renewal of trademarks in which Cuba or a Cuban national has an interest. Section 211 does not address OFAC’s specific licensing authority, however. Finally, as you are aware, the Trump administration is continuing its review of our Nation’s foreign policy with respect to Cuba.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR TILLIS FROM STEVEN T. MNUCHIN

Q.1. Can you outline for me and for the Banking Committee what your agenda is for housing finance and GSE reform? Do you think there should be an explicit Government backstop? Do you believe we should create a new entity as we consider how to move out of the conservatorship for Fannie and Freddie? If so, what does this new entity look like? Does having two GSEs make sense—is that anachronistic? Do they presently compete against each other? Does consolidation make sense? Can you outline how you and the Treasury Department envision housing finance reform and the core principles that you would like to see? What role do you think FHFA should have in crafting policy objectives for GSE reform?

A.1. Housing finance reform is a priority of the Treasury and of the Administration. We are working across the Administration on developing housing principles and engaging with stakeholders inside and outside the Government in advance of providing recommendations.

Q.2. You have stated publicly that a top priority of yours in the housing space is taxpayer protection. Private capital is essential to safety and soundness and, in the end, taxpayer protection. What are you going to do to raise all available forms of capital in the housing system to protect taxpayers? How much capital do Fannie and Freddie need to protect taxpayers from bailouts over the full housing cycle?

A.2. The GSEs remain in Federal Housing Finance Agency (FHFA) conservatorship, leaving taxpayers at risk for any capital shortfalls per the commitments provided through the Preferred Stock Purchase Agreements. Our housing finance policy should be clear and should be designed to provide financing for homeowners and owners of multi-family units. Additionally, it should increase private sector participation and protect taxpayers. Treasury continues to study this issue and engage with stakeholders inside and outside the Government in advance of providing recommendations.

Q.3. The HERA statute that governs the GSE Conservatorship specifically mandates that they be “placed into a sound and solvent
condition.” There has been a lot of debate over whether or not FHFA should suspend the dividend payments to Treasury and whether or not this prohibits the GSEs from building enough capital. Hypothetically, if FHFA suspended the dividend payments, is there a level that the GSEs could reach in terms of sufficient capital to prevent a future draw from Treasury?

A.3. Currently, $258 billion of undrawn capacity remains available to the GSEs under the Senior Preferred Stock Purchase Agreements (PSPAs), which serves as a backstop against future GSE losses. This support gives the marketplace confidence that the GSEs will remain solvent and continue to provide liquidity and stability to the mortgage market. As long as taxpayers are at risk for losses at one or both of the GSEs, they should be fully compensated for their extraordinary support that they have provided and continue to provide.

Q.4. The AIG re-capitalization was structured in a way that protected taxpayers and brought risk capital in to purchase the Government shares. Is this not a successful model for the GSEs?

A.4. Housing finance reform is a priority of the Treasury and of the Administration. We are working across the Administration on developing housing principles. Treasury continues to study this issue and engage with stakeholders inside and outside the Government in advance of providing recommendations.

Q.5. A recent academic paper estimated that Treasury’s warrants for stock of Fannie and Freddie were worth $80 to $90 billion dollars if the GSEs build capital? Do you think they should build capital? How do you attract different sources of capital for the GSEs? How will this help the taxpayer?

A.5. Currently, $258 billion of undrawn capacity remains available to the GSEs under the Senior Preferred Stock Purchase Agreements (PSPAs), which serves as a backstop against future GSE losses. This support gives the marketplace confidence that the GSEs will remain solvent and continue to provide liquidity and stability to the mortgage market. Our housing finance policy should be clear and should be designed to increase private sector participation and protect taxpayers. Treasury continues to study this issue and engage with stakeholders inside and outside the Government in advance of providing more detailed recommendations. As long as taxpayers are at risk for losses at one or both of the GSEs, they should be fully compensated for their extraordinary support that they have provided and continue to provide.

Q.6. The HERA statute passed in 2008 strengthened regulation of the mortgage space and gave FHFA the same strong safety and soundness powers that other Federal financial regulators have and its predecessor OFHEO lacked. What new safety and soundness powers do we need to ensure no more bailouts in the mortgage space? What additional powers should Congress bestow upon FHFA?

A.6. We support FHFA’s efforts to reduce risk to taxpayers during the GSEs’ conservatorship, including efforts to transfer part of the credit risk from the GSEs to the private market as well as oversee the reduction of the GSEs’ investment portfolios. Treasury
continues to study this issue and engage with stakeholders inside and outside the Government in advance of providing recommendations.

Q.7. The $5 trillion dollar GSE bond market is the second most liquid in the world after U.S. Treasuries. Several GSE reform proposals redo the “plumbing” for this market by having new entities do the mortgage securitization and guarantee functions. Does this pose a risk to the secondary mortgage market, and how will this impact the consumer’s ability to get a mortgage?

A.7. We are working across the Administration on developing housing principles and engaging with stakeholders inside and outside the Government in advance of providing recommendations.

Q.8. Some GSE reform plans take parts or functions of Fannie and Freddie and give them to the Government to operate. Given our recent disastrous experience with the Federal student loan program, why should we trust the Government to run mortgages?

A.8. Treasury continues to study this issue and engage with stakeholders inside and outside the Government in advance of providing recommendations.

Q.9. Beyond the housing system, what are you doing to attract global capital into the United States? If we are going to have economic growth in our country beyond the 2 percent, don’t we need additional investment in the United States? How is Treasury and the White House incentivizing global investment in the United States, and how does the lack of action on health care, tax reform, immigration reform, and the like implicate the consideration of global investors when evaluating how they are going to invest in the United States? Can you discuss how U.S. economic growth implicates the growth of other foreign sovereigns and the consequences to our future generations if we do not address the aforementioned issues?

A.9. The Administration is putting in place plans to reach 3 percent economic growth to ensure the United States becomes an even more attractive place to invest. These plans include regulatory reform, trade reform, and tax reform. Failure to increase the rate of U.S. economic growth through such policies would imperil the economic prospects of future generations and may lead to a loss of competitive advantages currently enjoyed by the United States.

Q.10. Can you discuss the underlying assumptions in the recent budget proposal from the White House? The budget assumes that we are going to have economic growth at 3 percent or greater over a 7-year period and that tax reform will be deficit neutral—can you discuss both of these and how you envision Congress working toward those goals?

A.10. The President’s 2018 Budget follows from the central assumption that all of the President’s policy proposals will be enacted. The Administration’s proposals for simplifying taxes, cutting regulation, building infrastructure, reforming health care, and boosting domestic energy production are expected to improve the supply side of the U.S. economy and spur faster growth.

The Administration’s economic growth assumptions are optimistic but not unprecedented. The Obama administration’s initial
policy-based forecast for its first 5 years in office was 0.5 percentage point higher than the comparable CBO forecast at the time; the Reagan administration’s policy forecast was 1.4 percentage points higher. The Trump administration’s policy forecast for first 5 years is 0.8 percentage point above CBO’s.

The rate of GDP growth is expected to increase gradually to 3.0 percent by 2020 and then remain at that level for the duration of the forecast window. The Administration projects a permanently higher trend growth rate as a result of its productivity-enhancing policies and a greatly improved fiscal outlook.

Although demographic headwinds are playing a role in slower growth, the main culprit is weak productivity growth. Over the years 1948 to 2007, average annual productivity growth was 2.3 percent. From 2011–2016, it was 0.5 percent annually (real output per labor hour in nonfarm business sector). A return to the productivity growth seen from 1995 through 2005—when it averaged 2.8 percent annually—would bring U.S. economic growth very close to rates reflected in the Budget.

The 2018 Budget shows what robust, sustained economic growth combined with significant fiscal consolidation could achieve by 2027.

I have stated that the 2018 Budget should be looked at as a “preliminary document” when it comes to tax reform because it would be “premature” to provide detailed fiscal projections based on initial policy principles and before a full-blown legislative effort. I have noted that “ultimately the numbers will be completely transparent.”

The White House has committed to making the Federal Government “lean and accountable to the people” while ensuring that national security and public safety are paramount. The 2018 Budget offers one possible course of action for fulfilling those promises. It presents a set of major initiatives that would reduce Federal expenditures by more than $3.5 trillion over the next 10 years. If all of these cuts were pursued and if the tax reform were deficit neutral without accounting for feedback effects, then the Federal Government would run a surplus by 2027 and the debt-to-GDP ratio would decline from 77.4 percent this year to 59.8 percent in 2027. The Budget incorporated the growth benefits of the tax reform as one element of the $2.1 trillion “effect of economic feedback” and made the assumption that the overall tax reform would be revenue-neutral before accounting for economic feedback. As the specifics of tax reform become more available, we may wish to revisit the revenue projections.

We look forward to working with Congress on reforms that will foster faster growth and improve the country’s fiscal outlook.

Q.11. I know the Administration is in the process of issuing multiple reports on a host of issues. One issue that I repeatedly hear about is the Volker Rule and Leveraged Lending Guidance. Are both of those issues going to be addressed in the Treasury’s reports and can you commit to giving explicit recommendations to Congress on how we should address these issues?
A.11. Treasury’s response to the President’s Executive Order on Core Principles for Regulating the United States Financial System includes recommendations on these issues.

Q.12. Can you give me your opinion on Whistleblowers and Whistleblower protections?

- Federal law requires the Government to provide a reward to a Whistleblower of a percentage of all collected revenues in a successful prosecution. However, and potentially to the detriment of this program, the IRS has continued to limit rewards to a percentage of the back taxes collected. Can you explain to me why the IRS’ actions have not comported to that of the statute?

A.12. The Department of the Treasury and the Internal Revenue Service (IRS) are committed to administering the Whistleblower Program in a manner that is both fair for potential whistleblowers and effective for the IRS in detecting underpayments of tax and violations of the internal revenue laws. The Treasury Department and the IRS recognize the risks faced by whistleblowers and support legislation to provide legal protections to whistleblowers from retaliation by employers, much like those protections accorded under other whistleblower award programs.

Section 7623(b) requires the IRS to pay whistleblower awards if the whistleblower meets certain statutory requirements. These mandatory awards are equal to a percentage of the “collected proceeds (including penalties, interest, additions to tax, and additional amounts).” I.R.C. § 7623(b)(1). The scope of the term “collected proceeds” is not limited to just “back taxes” because the statute clarifies that “collected proceeds” “includes penalties, interest, additions to tax, and additional amounts.” The legal interpretation of the full scope of the phrase “collected proceeds” is currently the subject of litigation, and therefore, we cannot provide any additional comment on this matter. The Treasury Department and IRS would, however, welcome any discussion with your office aimed at supporting the effectiveness of the Whistleblower Program.

Q.13. In a speech you delivered on March 24th, you identified cybersecurity as a primary concern with respect to financial markets. A concern from some market participants is that financial regulators are issuing rules or guidance that is not harmonized and that is so prescriptive that it limits an entity’s ability to respond to dynamic cyber threats. What are your plans to promote regulatory harmonization and principle-based cybersecurity regulations?

- How will the Treasury use FSOC to coordinate and harmonize cybersecurity roles among financial regulators?

A.13. In response to the increasing threat posed by malicious cyber activity, Federal and State financial regulators have undertaken significant steps to develop regulatory guidance and examination tools related to cybersecurity. Effectively coordinating regulatory approaches to defining, regulating, and evaluating cybersecurity risk management practices among agencies will bolster the common goal of mitigating cyber risk within the sector and enhancing the sector’s resiliency. Treasury believes cybersecurity risk
management is an important topic and is actively working on several efforts related to regulatory harmonization.

The FSOC has highlighted the importance of cybersecurity across the financial services sector, as well as the potential risk to financial stability posed by cybersecurity failures. The 2016 FSOC Annual Report recommended that as financial regulators adopt approaches to cybersecurity supervision, they endeavor to establish a common risk-based approach to assess the cybersecurity and resiliency of the firms they regulate. The FSOC noted that, informed by their regulatory and supervisory process, individual regulators could leverage that common risk-based approach to address any unique statutory and regulatory requirements, as well as any distinct cybersecurity risks presented by the segments of the financial sector they oversee.

To further the recommendations outlined by FSOC, Treasury has supported regulatory coordination on several fronts. The Financial and Banking Information Infrastructure Committee (FBIIC) serves as a useful venue for coordinating approaches among agencies with different statutory authorities and Treasury believes the FBIIC should be the focal point to drive domestic regulatory harmonization efforts. Within the FBIIC, Treasury has supported efforts to promote the National Institute of Standards and Technology (NIST) Cybersecurity Framework as a common lexicon for regulatory agencies to incorporate into their supervisory efforts; expand and complete efforts to map existing regulatory guidance to reflect and incorporate appropriate elements of the NIST Framework; and advance work as to whether cybersecurity examinations could be further coordinated. Internationally, Treasury has also encouraged further collaboration and partnership through the G–7 Cyber Experts Group in the financial area.

Q.14. What is the Treasury Department’s plan for providing meaningful regulatory relief for mid-sized and regional banks to help them deploy capital and make loans to help grow business and infrastructure?

A.14. Treasury agrees that mid-sized and regional banks are key to the financial system. Treasury supports efforts to right-size regulations to address actual risks posed to the financial system rather than the current one-size-fits-all regulatory model. Treasury’s response to the President’s Executive Order on Core Principles for Regulating the United States Financial System makes recommendations to reduce regulations that are inappropriately applied to the business model of these financial institutions.

Q.15. In your testimony, you indicated that you reject the notion that some banks are too-big-to-fail, and instead suggested that some might be “too-big-to-succeed,” can you elaborate on what you mean by that? You also suggested that large financial institutions have sufficient capital but that capital buffers have prevented banks from lending. In my view, using arbitrary asset thresholds to determine if a bank is risky or should be designated a SIFI ignores the actual risk a bank may pose to the financial system. Do you believe we should have thresholds, or should regulators consider the types of assets held, the interconnectedness of a bank, its substitutability and its global reach when determining risk?
I share your goal of trying to spur economic growth through the elimination of regulations that hinder lending. If you do not believe that thresholds are proper at any size, can you outline for me how you plan on right-sizing regulations and putting into place a mechanism so that prudential regulators and institutions have clear rules-of-the-road with regard to how they will be regulated and how regulations will be tailored based on the risk-profile of the institution?

A.15. We believe in appropriate regulation and in ensuring that taxpayers will not be at risk. At the same time we have to ensure that banks can lend and provide liquidity. Treasury’s recent response to the President’s Executive Order on Core Principles for Regulating the United States Financial System includes recommendations to more appropriately tailor regulations for mid-sized and regional banks so that such firms can help promote economic growth.

Q.16. As we in Congress continue to work on a specific way forward on reforming the bank SIFI designation process, and we think there is quite a bit of agreement on this, what is the Administration doing to use your existing authority to tailor the rules that mid-sized and regional banks operate under? As you know from your time on the board at CIT, the resources these companies put into the annual capital planning and stress testing processes, as well as resolution planning, do not seem to be commensurate with their business models and risk. These resources could be better used to fuel lending in the economy.

A.16. As noted above, Treasury’s recent response to the President’s Executive Order on Core Principles for Regulating the United States Financial System includes a number of recommendations designed to improve how regulations apply to mid-sized and regional banks.

Q.17. Another area in need of significant financial regulatory reform is within the retirement space. Do you believe that mutual funds are SIFIs? Such designation would impose significant regulatory risks to these entities, such as a host of banking regulations, even though they are already heavily regulated by the SEC. Is this an area that your financial regulatory report will address, and will you put forth a recommendation to Congress to advance a statutory change to remove mutual funds from the scope of SIFI designation?

A.17. Pursuant to a Presidential memorandum issued on April 21, Treasury is currently reviewing the FSOC’s processes for designating nonbank financial companies and financial market utilities. Treasury’s goal is to ensure that the FSOC’s processes are transparent, efficient, and effective. Further, the Presidential memorandum calls for a pause in the FSOC’s designations while we complete our review.

Q.18. What other regulations and provisions of Dodd-Frank do you feel should be revisited to help mid-sized and regional banks grow loans and economic activity in communities across the country?

A.18. Treasury’s recent response to the President’s Executive Order on Core Principles for Regulating the United States Financial
System includes a number of recommendations designed to improve how regulations apply to mid-sized and regional banks.

Q.19. Have you been briefed on MiFID II and are you aware of the standards set forth in MiFID II? Are you concerned about how MiFID II's research rules might affect money managers in the United States? Data and research suggests that the implications of MiFID II will be significant among domestic asset managers, global asset managers, brokers, and the like, and I am concerned that unless the United States acts there will be drastic affects for the U.S. research. Can you commit to working with the SEC in finding a solution to this problem?

A.19. The MiFID II legislative package is very broad and covers a number of areas, including regulation of trading venues, market transparency, investor protections, research fees, and other areas.

Under the terms of MiFID II, research fees and commission fees must be unbundled. Investment firms must either pay for research out of their own resources or from a Research Payment Account controlled by the firm and funded by specific research charges to clients. MiFID II rules do not apply to U.S. firms per se, but the limitations they impose on EU-registered financial services providers could spill over and impact the ability of U.S. firms to continue to provide research services to their European clients.

As the effective date of January 3, 2018, approaches, Treasury remains engaged with our European counterparts to ensure that the playing field remains level and open to fair competition. At the same time, Treasury continues to work domestically with the regulatory agencies, including the SEC, all of whom are involved in regular dialogue with the European authorities.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR WARNER FROM STEVEN T. MNUCHIN

Q.1. In the past, market participants and regulators have expressed concerns about the lack of transparency into treasury securities trading. In fact, FINRA recently passed, and the SEC approved, a rule requiring the reporting of certain treasury securities transactions for the purpose of collecting additional detail about the market. Are there other policies that you are considering that could promote transparency into these markets? For example, are there potential systemic benefits to policies that permit broader market participant access to the clearing of treasury securities?

A.1. Central clearing for cash Treasury transactions has existed since the mid-1980s, through the Fixed Income Clearing Corporation (FICC). FICC's largest member firms are all SEC-registered brokers and dealers subject to a comprehensive regulatory regime. Many principal trading firms are not members of FICC, so their trades are not directly cleared by FICC. FINRA reporting is expected to capture roughly 90 percent of Treasury market transactions, covering trades of FINRA members with non-FINRA members, as is common in the dealer-to-client market, and trading on major dealer-to-dealer platforms, such as BrokerTec and eSpeed.

Q.2. In October 2016, the Federal Reserve Bank of New York hosted a conference on the evolving structure of the U.S. treasury
market. It appeared there was broad consensus that central clearing of treasury securities activity would have several benefits: increased transparency, decreased settlement and operational risk, and more efficient management of collateral because a CCP would have a more accurate view of the total exposure of each market participant.

- Are you reviewing this issue as part of your response to the President’s Executive order on financial regulation?
- Do you believe that increased centralized clearing of treasury securities would reduce aggregate counterparty and credit risk in the system?

A.2. Treasury is continuing to study U.S. Treasury market structure issues, including the potential effects of increased centralized clearing of Treasury securities. Increased clearing could reduce counterparty and credit risk. The cost of central clearing could result in higher auction yields for Treasury securities, decrease incentives to provide secondary market liquidity, and increase operational risk due to the creation of a central point of failure.

Q.3. The longest dated bond Treasury currently floats is the 30-year. The United Kingdom and Canada have floated 50-year debt, while Japan and Mexico have been able to float 100-year bonds. Even Princeton University and Goldman Sachs float 50-year debt. I understand Treasury is currently studying the issuance of “ultra-long” bonds. In light of that, do you believe that there is adequate appetite for the U.S. to float 50-year Treasury bonds, especially while interest rates are near historic lows and the United States continues to be a haven for global investors?

A.3. Treasury regularly issues securities in a wide range of maturities, from the 1-month bill to the 30-year bond and studies additional security types in order to achieve the lowest cost of financing to taxpayers over time. A number of other sovereign issuers (including Canada, France, Japan, and the United Kingdom) have sold ultra-long bonds over the past several years and I believe that we should evaluate whether issuing at longer-dated tenors would help us to achieve the lowest cost of financing over time. Benefits of ultra-long issuance can include: reducing the potential volatility in Treasury’s debt service costs, and lowering Treasury’s exposure to higher interest rate environments as it refines its debt portfolio. Treasury has a nearly $14 trillion marketable debt portfolio. Treasury is assessing the size and depth of the market and the impact to 30-year issuance in order to evaluate whether the ultra-long security makes sense for Treasury.

Q.4. I strongly agree with you that we should examine this issue and see if the United States can lock in lower rates over a longer period of time. But there is significant pushback from some market participants, who worry about one-time issuances or a lack of “regular and predictable” issuances. What is your take on that concern? Could you address it by announcing quarterly issuances to ensure sufficient demand and a predictable schedule?

A.4. We continue to study ultra-long bonds and assess market demand. As part of the May 2017 quarterly refunding process, Treasury asked the primary dealer community to estimate the potential
volume of demand for ultra-long sovereign issuance and at what price, relative to our 30-year bond offering, we could reasonably expect an ultra-long to price. Treasury posed similar questions to the Treasury Borrowing Advisory Committee, or TBAC, and analysis from that Committee was posted to the Treasury website in May. In addition, Treasury has been reaching out to traditional long-duration institutional buy-side market participants (pension funds and life insurance companies) to assess demand for such a product.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR WARREN FROM STEVEN T. MNUCHIN

Tax Administration

Q.1. The Higher Education Act allows the Department of Education to forgive Federal student loans for borrowers with total and permanent disabilities. In 2016, the Social Security Administration identified 387,000 Social Security beneficiaries with Federal student loans who were eligible for such a discharge due to their “medical improvement not expected” diagnosis. The Treasury Department, however, has failed to issue any guidance on how these Social Security beneficiaries who are totally and permanently disabled, many of whom are also veterans, would be taxed on these discharges.

• Do you believe Treasury should exercise the full scope of its authority to ensure that Social Security beneficiaries who are totally and permanently disabled should not be unduly taxed on these student loan discharges?
• Will you issue guidance clarifying that the General Welfare Doctrine applies to student loan discharges for total and permanent disability, consistent with Rev. Rul. 57–102? Alternatively, will you exercise your authority under the insolvency exception under 26 USC 108(a)(1)(B) to issue guidance that excludes from income the student loan discharges for totally and permanently disabled Social Security beneficiaries?
• Will Treasury instruct the Department of Education not to issue 1099–Cs to the IRS for these student loan discharges in order to avoid an extraordinary and avoidable compliance burden on borrowers who are totally and permanently disabled and an expensive and unnecessary compliance burden on the IRS?

A.1. The Treasury Department is reviewing student loan issues generally, and staff from our Office of Tax Policy and our General Counsel’s office recently had a conversation with your staff regarding these specific student loan discharge issues. As you know, student loan discharges are subject to income tax as a result of the Tax Code, which also provides certain limited exceptions but not any that could provide a blanket exception for this category of borrower. While it is too early to commit to any particular approach.

that the Treasury Department may undertake, we want to continue working with you on this important issue.

**Q.2.a.** In the President’s FY2018 Budget released on May 24, 2017, the Administration proposes to increase oversight of paid tax return preparers, projecting this to raise $439 million over 10 years. What prompted the Administration’s concerns about paid tax return preparers?

**A.2.a.** In 2009, recognizing the growing reliance by taxpayers on paid tax return preparers and the concurrent impact on tax administration, the IRS launched a comprehensive review of tax return preparation. Under 31 U.S.C. § 330, the Secretary has the authority to regulate practice before the IRS. Regulations under that section, referred to as “Circular 230,” regulate the practice of licensed attorneys, certified public accountants, and enrolled agents and actuaries. In 2009, IRS conducted a formal review of its regulation of paid tax return preparers. After significant consideration and input from taxpayers, tax professionals, and other stakeholders, Treasury and the IRS amended Circular 230 to regulate practice of all paid tax return preparers, including individuals who are unlicensed and unenrolled. Paid tax return preparers challenged these regulations in *Loving v. Commissioner.* The Court of Appeals for the District of Columbia Circuit determined that these regulations exceeded the IRS’ authority.

**Q.2.b.** What risks do you see as a result of lax oversight of these paid preparers?

**A.2.b.** Paid tax return preparers have an important role in tax administration because they assist taxpayers in complying with their obligations under the tax laws. Incompetent and dishonest tax return preparers increase collection costs, reduce revenues, disadvantage taxpayers by potentially subjecting them to penalties and interest as a result of incorrect returns, and undermine confidence in the tax system.

**Q.2.c.** Does the Administration already have empirical documentation of this risk? If so, can you share it with me?

**A.2.c.** A few studies exist that document the relationship between paid return preparers and tax return errors and examine the effect of preparer regulation. A 2006 report by GAO\(^2\) finds that errors are common among returns prepared by commercial tax return preparation chains, with some errors resulting in an over claim of tax refunds of nearly $2,000. We also direct the Committee to the report that the IRS submitted to the Committee on Appropriations on the accuracy of returns prepared by participants in the IRS voluntary program for the 2015 tax season compared to accuracy of returns prepared by the same population of preparers prior to the 2015 tax season.

**Q.2.d.** What additional oversight of paid preparers does the Administration envision? Will this oversight include increased transparency of pricing so that taxpayers may compare costs across paid preparers?

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A.2.d. The proposal would explicitly provide that the Secretary of the Treasury has the authority to regulate all paid tax return preparers. This proposal would be effective as of the date of enactment.

Q.2.e. What agencies will you work with to implement this oversight of paid preparers?

A.2.e. The Internal Revenue Service works closely with the Department of Justice to enjoin unscrupulous individuals and entities from preparing tax returns and to prosecute those who engage in criminal activity.

Q.2.f. What timeline can we expect for this commitment to increase oversight of paid preparers?

A.2.f. If legislation providing authority to regulate all paid tax return preparers is enacted, the Treasury Department will implement such legislation promptly. Until then, the IRS has an interim program, the Annual Filing Season Program, to encourage tax return preparers to voluntarily demonstrate that they meet the minimum standards of competency. To complement the Annual Filing Season Program, the IRS also has a public education campaign to encourage taxpayers to make informed decisions when choosing a paid tax return preparer.

Q.3. In 2015, Congress required that no EITC or ACTC refunds be issued until after February 15th, even though tax returns are accepted in January. This new delay spurred a significant uptick in “tax-time financial products”—short-term loans to taxpayers that use the tax refund as collateral and often conceal the full price of tax-preparation fees that are directly withdrawn from the tax refund. One survey of storefront tax preparation chains found that EITC recipients were charged an average of $400 per return.3

• Do you believe taxpayers should lose portions of their EITC and or ACTC refunds to paid preparers or tax-time financial products, rather than receiving the full value of their refunds?
• Will you commit to assessing the full dollar value of EITC and ACTC refunds that go to the tax preparation industry rather than to taxpayers?
• Who have you assigned at the OCC to review the tax-time financial products offered by the tax preparation industry?
• Will you, or your delegate, commit to briefing the Financial Institutions and Consumer Protection Subcommittee of the Senate Banking Committee on the Treasury Department’s oversight of tax-time financial products?

A.3. Beginning with refunds paid in 2017, the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) changed the law to prohibit payment of refunds with respect to tax returns claiming the EITC or ACTC until February 15.

In conjunction with faithfully carrying out the laws enacted by Congress, I am committed to making our tax system as efficient as possible, while also protecting the integrity of the system.

In 2015, the Office of the Comptroller of the Currency (OCC) updated 2010 guidance to outline safety and soundness measures that national banks and Federal savings associations (collectively, banks) should follow if they offer tax refund-related products. Those measures include but are not limited to, the following: ensuring that the bank maintains sound risk management policies, procedures, and practices; implementing effective internal controls and review standards for advertising and solicitations; and, providing appropriate disclosures that explain material aspects of the products to consumers. The Senior Deputy Comptroller for Compliance and Community Affairs is monitoring the implementation of this guidance in regard to banks that they supervise; the OCC indicates that one national bank is currently providing such products.

I understand that you have requested the Government Accountability Office examine the use and impact of tax-time financial products. The Treasury Department will certainly work with GAO in their research and we would look forward to their findings.

Q.4. In 1998, the IRS Restructuring and Reform Act directed the Secretary of the Treasury to develop procedures to implement a “return-free” filing system by 2006.\(^4\) Despite this generous timeline, the Treasury Department has yet to fulfill this mandate.

\begin{itemize}
  \item Will you use the full scope of your authority as Secretary to make tax filing faster, easier, and cheaper for working families?
  \item Will you fulfill your obligations under the IRS Restructuring and Reform Act to “develop procedures for the implementation of a return-free tax system under which appropriate individuals would be permitted to comply with the Internal Revenue Code of 1986 without making the return required under section 6012?”
\end{itemize}

A.4. A simpler, fairer, and more efficient tax system is critical to growing the economy and creating jobs. Our outdated, overly complex, and burdensome tax system must be reformed to unleash America's economy, and create millions of new, better-paying jobs that enable American workers to meet their families' needs. Going forward, we are committed to continue working with Congress and other stakeholders to carefully and deliberatively build on these principles to create a tax system that is fair, simple, and efficient—one that puts Americans back to work and puts America first.

Q.5. In 2015, Congress directed the Internal Revenue Service to contract with private debt collection companies for certain uncollected tax receivables. Although the IRS oversees these contracts, the Federal Trade Commission is tasked with overseeing enforcement of the Fair Debt Collections Practices Act, which also applies to these debt collectors.

\begin{itemize}
  \item Has Treasury already been in contact with the FTC about IRS contractor compliance with the FDCPA? Will you commit to working with the FTC to ensure ongoing compliance with the
\end{itemize}

FDCPA by these private debt collection IRS contractors in order to protect taxpayer rights?

A.5. Section 6306(g) of the Internal Revenue Code provides that the Fair Debt Collection Practices Act (FDCPA) applies to private debt collection agencies. As a result, the IRS requires that, as a condition of receiving a contract with the IRS, private debt collection agencies must respect taxpayer rights including, among other things, abiding by the consumer protection provisions of FDCPA. The IRS and FTC have been in contact regarding contractor compliance with the FDCPA, and the IRS has confirmed for the FTC that private debt collection agencies will not be using robocalls or prerecorded messages as part of their collection activities. In addition, the Treasury Inspector General for Tax Administration maintains a hotline for consumer complaints about private debt collection agencies or to report misconduct by its employees. The Treasury Department and IRS take all complaints about private debt collection agencies seriously and will work with the FTC and any other relevant agency in the interest of protecting taxpayer rights.

Q.6.a. In 2016, the Treasury Department issued tough rules to stop multinational corporations from a whole range of cross-border tax dodging. These new regulations focused on “earnings stripping,” when foreign companies load up their U.S. subsidiaries with debt from the foreign parent in order to zero out U.S. taxes with interest deductions. The rules also cracked down on “corporate inversions,” when U.S. companies merge with a smaller foreign company in order to claim a foreign tax residence. On May 15, 2017, the Chamber of Commerce asked you to withdraw these rules.5

• Do you believe the Treasury Department should increase tax preferences for foreign owned multinational corporations by rolling back section 385 regulations?

A.6.a. In April 2016, the Treasury Department and the IRS issued proposed regulations (REG–108060–15) under section 385 of the Code that primarily (i) established threshold documentation requirements that ordinarily must be satisfied in order for certain related-party interests in a corporation to be treated as indebtedness for Federal tax purposes (documentation rules), and (ii) treated as stock certain purported debt instruments that are issued to a controlling shareholder in a distribution or in another transaction that achieves an economically similar result (transaction rules). On October 21, 2016, the Treasury Department and the IRS issued final and temporary regulations that substantially revised the proposed regulations (81 Fed. Reg. 72858). In particular, the final and temporary regulations were limited to apply to U.S. borrowers only and provided additional rules to exempt certain transactions and types of U.S. borrowers from application of the regulations.

Earnings stripping through related-party borrowing generally refers to a borrower that borrows from an affiliate and thereby incurs deductible interest expense. U.S. subsidiaries of foreign-parented multinational groups may engage in earnings stripping by borrowing from related foreign lenders to arbitrage the tax rate.

The transaction rules in the section 385 regulations also apply to other related party transactions that are described as economically similar to a distribution and not financing new investment in the operations of the borrower.

The transaction rules in the section 385 regulations do not directly address excessive related-party interest expense in a manner similar to section 163(j). Rather, the transaction rules in the section 385 regulations address specific issuances of new related-party debt that is issued by the purported borrower to a related party in a corporate distribution (sometimes referred to as a “dividend note”).\(^6\) Also, unlike the section 163(j) earnings stripping limitations, the transaction rules in the section 385 regulations recharacterize an issuance of a purported debt instrument as stock rather than limiting the amount of deductible interest expense associated with the purported debt instrument. In other words, the transaction rules in the section 385 regulations characterize a purported related-party debt instrument as debt or stock for tax purposes under certain prescribed circumstances without regard to whether or not the borrower has excessive related-party interest expense under the current section 163(j) interest expense limit.

On April 21, 2017, President Trump signed E.O. 13789, which orders the Secretary to immediately review all significant tax regulations issued by the Department of the Treasury on or after January 1, 2016, and, in consultation with the Administrator of the Office of Information and Regulatory Affairs, Office of Management and Budget, identify in an interim report to the President all such regulations that: (i) impose an undue financial burden on United States taxpayers; (ii) add undue complexity to the Federal tax laws; or (iii) exceed the statutory authority of the Internal Revenue Service. The Treasury Department in Notice 2017–38 identified the section 385 regulations as meeting the criteria of the President’s order. A final report will be issued at a later time recommending specific actions to mitigate the burden imposed by the regulations identified in the interim report. No decision has currently been made on what action will be taken with respect to the section 385 regulations or the other regulations identified. In addition, the Trump administration and the Treasury Department are actively engaged with Congress on tax reform. As such, the Treasury Department is carefully considering the section 385 regulations in connection with E.O. 13789, and the statutory earnings-stripping limits under section 163(j) in connection with formulating its recommendations for tax reform.

**Q.6.b.** You have described anecdotal concerns by U.S. companies of foreign takeovers. Do you have empirical documentation of an uptick in foreign acquisitions of U.S. targets relative to U.S. acquisitions of foreign targets?

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\(^6\)The transaction rules in the section 385 regulations also apply to other related party transactions that are described as economically similar to a distribution and not financing new investment in the operations of the borrower.
A.6.b. United Nations Conference on Trade and Development (UNCTAD) data on flows of foreign direct investment (FDI) into and out of the United States are quite variable from year to year. Outward flows exceeded inward flows each year from 2007 through 2014, though inward flows were larger in 2015. The widely acknowledged U.S. tax advantages for inbound and outbound investment compared to U.S. domestic investment by U.S. persons and nontax reasons for cross-border investment suggests that this comparison is not definitive on this issue.

Q.6.c. Do you believe relaxing rules on corporate inversions, so that U.S. companies can merge with foreign companies to claim a foreign tax residence, helps create American jobs?

A.6.c. Most U.S. public corporate inversions do not involve top executives moving from the United States to the new country of corporate residence, but some do. Beyond that, it is not clear that corporate inversions reduce U.S. jobs in the short run, but we know of no convincing evidence that corporate inversions tend to increase U.S. employment.

Tax Reform

Q.7. As you know, 70 percent of all income from pass-through entities goes to the top 1 percent of taxpayers. In your testimony before the Banking Committee, you stated that not all pass-throughs would receive the preferential business tax rate proposed by the Administration and that you would propose eligibility requirements for the preferred tax rate.

- How will you limit eligibility for the business tax rate to middle-class taxpayers who receive income from pass-throughs? Will there be a specific tax bracket for claiming the preferred rate?
- How will you limit eligibility for this business tax rate to small- and medium-size businesses?

A.7. There are a number of approaches to limit the preferential pass-through rate to certain taxpayers and businesses. We are confident that we can develop effective measures to appropriately target income that should be eligible for the preferential rate, and we look forward to working with Congress to further develop these proposals.

Q.8. The Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC) are some of our Nation’s most effective anti-poverty programs for working families. Many struggling families, however, have their refundable tax credits swallowed up by bankruptcy trustees, undermining the very purpose of these refundable tax credits. In a survey of consumer Chapter 7 bankruptcy asset cases, bankruptcy trustees took some form of tax refunds in 65 percent of the asset cases, with an average capture of $3,404 per asset case.

- In your tax reform proposals, will you ensure that the EITC and CTC are protected from creditor attachment, just like

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Social Security benefits and certain retirement benefits under ERISA.

A.8. The current treatment of the EITC and CTC is a function of the Bankruptcy Code, not the tax code. Nevertheless, as a general matter, we are open to considering all proposals that meet the Administration’s core principles of tax reform.

ISIS

Q.9. Is the Treasury Department taking additional steps to shut off ISIS from the international financial system and from other financial networks like money remittance channels and currency auctions? Does the Department believe that additional authority from Congress would be helpful in this effort, and if so, what authority would the Department seek?

A.9. Treasury is leading global efforts to prevent ISIS from accessing the international financial system. It is sanctioning ISIS senior leaders, financiers, facilitators, recruiters, and money services businesses, and has worked closely with Iraqi authorities to ensure that bank branches within ISIS-controlled territory in Iraq were completely cut-off from the Iraqi and international financial systems. Treasury has also helped to put in place safeguards at the Central Bank of Iraq to deny ISIS access to U.S. dollar currency auctions and to strengthen oversight of exchange houses and money transfer companies, key channels through which ISIS moves funds. Further, Treasury has worked multilaterally, through bodies like the Counter-ISIS Finance Group—an integrated part of the broader Defeat ISIS Coalition—and the Egmont Group of Financial Intelligence Units and the Financial Action Task Force to share information on ISIS’s finances and its cross-border financial networks, and to identify opportunities for disruption.

Treasury believes it has sufficient authority from Congress to counter ISIS’s finances.

Iran

Q.10. Iran is still on the Financial Action Task Force (FATF) blacklist of countries that are a high risk of money laundering and terrorist financing. Last year Iran made commitments to FATF to make structural reforms in these areas. Will you work with FATF to compel Iran to address its money laundering and terrorist financing problems?

A.10. Yes. Treasury will continue to work within the FATF and ICRG to hold Iran accountable for AML/CFT deficiencies and pressure Iran to address those deficiencies.

RESPONSE TO WRITTEN QUESTION OF SENATOR KENNEDY FROM STEVEN T. MNUCHIN

Q.1. Mr. Secretary, as you know, I was a part of a group of Senators who wrote to you in March urging you to end FSOC’s “too-big-to-fail” policies by addressing the designation of—bank “systemically important financial institutions” (or “SIFIs”). There are a

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number of banks that have been designated by FSOC as SIFI. There are serious economic consequences to these decisions, starting with a dramatically higher level of regulatory burden on the bank that is accompanied with significantly higher compliance costs. An annual reevaluation could allow designated financial institutions an opportunity to submit a plan with any additional materials necessary to contest the determination that material financial distress at the bank, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the nonbank financial company, could pose a threat to the financial stability of the United States.

As you and your staff begin FSOC reform, have you given consideration to building an annual reevaluation process of the designation decisions for banks, to determine how to best tailor which of the enhanced supervision provisions should apply to each bank?

**A.1.** In February, the President signed an Executive order that tasks Treasury with reporting on the extent to which existing laws, regulations, and other Government policies promote or inhibit the Core Principles for financial regulation set forth in the Executive order. As part of this process, we are considering a broad set of financial regulations that affect banks and other institutions. In its initial report under the Executive order, addressing the regulation of depository institutions, Treasury recommended that Congress amend the $50 billion threshold under Section 165 of the Dodd-Frank Act for the application of enhanced prudential standards to more appropriately tailor these standards to the risk profile of bank holding companies.

Additionally, pursuant to a Presidential Memorandum issued on April 21, Treasury is currently reviewing the FSOC’s processes for its designations of nonbank financial companies and financial market utilities to evaluate, among other things, whether the existing processes provide for sufficient transparency and provide entities with adequate due process.

The FSOC remains subject to its statutory requirement to reevaluate its previous designations of nonbank financial companies, and we will continue to do so. As part of each annual reevaluation of a nonbank financial company’s designation, the FSOC invites the company to meet with staff and to submit information relevant to the FSOC’s analysis. For companies that have contested their designation during the FSOC’s annual reevaluation process, the FSOC has voted on whether to rescind the designation and provided the company with a notice explaining the primary basis for its decision.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR VAN HOLLEN FROM STEVEN T. MnUCHIN

**Low Income Housing Tax Credit**

**Q.1.** Mr. Mnuchin, the President’s Budget proposes over $7 billion in cuts to affordable housing programs. At the same time, the proposed reduction on corporate taxes will decrease the amount of LIHTC equity that can be raised and that will decrease the number...
of affordable rental apartments that can be built or preserved. The LIHTC helps in the financing of the majority of affordable housing development. In Maryland, the LIHTC program has produced 58,910 units of affordable housing and has generated $6.34 billion in local income to the economy. The combination of decreased funding for affordable housing programs and decreased utilization of the LIHTC could have disastrous impacts on the production and rehabilitation of affordable housing.

Since the budget dramatically reduces funding for affordable housing programs, is Treasury considering modifying the LIHTC program in order to help fill some gaps in these cuts? Has Treasury studied possible impacts of tax reform on the LIHTC? Is Treasury planning on making any changes to the program should these corporate tax reductions go into law?

A.1. Created in the 1986 Tax Reform Act and codified in 26 U.S.C. § 42, the Low Income Housing Tax Credit (LIHTC) subsidizes the construction or substantial rehabilitation of affordable housing units. We look forward to examining the LIHTC program as part of the Administration’s work with Congress on comprehensive tax reform, including the broader issue of the tax code’s impact on affordable housing.

Office of the Comptroller of the Currency (OCC)

Q.2. Regarding the appointment of Keith Noreika as Acting Comptroller of the Currency, please respond to the following questions:

- Why were you willing to install him as head of the OCC before his ethics pre-vetting was certified so that the American public can know whether or not conflicts exist?
- Mr. Noreika’s special temporary 130-day status allows him to avoid President Trump’s ethics pledge if he leaves the OCC in 130 days or less. Does that allow him to lobby or work on behalf of financial institutions regulated by the OCC?
- Additionally please respond to the following questions related to Mr. Noreika’s appointment:

Legal Authority

- Can you describe the authorities of a First Deputy Comptroller and enumerate the differences between a First Deputy Comptroller appointed to the position of Comptroller as opposed to a Comptroller who has been confirmed by the Senate? Will there be any limits on his duties and authorities as Acting Comptroller of the Currency?
- Will Mr. Noreika be serving as Acting Comptroller or as a counselor from the Department of Treasury?
- As a “special Government employee,” will he be limited in any capacity from undertaking the duties to run the agency?
- Will Mr. Noreika have the authority to sign enforcement orders in his new capacity? If he does not have this authority, how does the OCC plan on executing enforcement orders during his tenure?
- Will Mr. Noreika have the authority to close financial institutions regulated by the OCC? If he does not have this authority,
how does the OCC plan on closing undercapitalized financial institutions during his tenure?

• Will Mr. Noreika have the authority to authorize mergers and approve new charters? If he does not have this authority, how does the OCC plan on approving mergers and new bank charters during his tenure?

• Will Mr. Noreika be a voting member of the Financial Stability and Oversight Council (FSOC)? If he does not have this authority, how does the OCC plan to have a voice at the FSOC?

Independence

• Mr. Noreika has represented numerous clients in the financial services industry, including companies with substantial pending or potential matters before the OCC. In order to avoid any potential impropriety (or the appearance of it), is Mr. Noreika required to recuse himself from any matters which may result in a conflict or the appearance of a conflict?

• Please provide a detailed list of any such recusals that will be required of Mr. Noreika, based upon his disclosure of financial interests or prior representation.

• Has Mr. Noreika been granted any exemptions or waivers related to matters involving his work for previous clients?

• Is it your understanding that Mr. Noreika will continue to serve as First Deputy Comptroller following the nomination and confirmation of Mr. Curry’s successor? Does Mr. Noreika plan to return to his legal practice after his time at the OCC?

Circumventing Confirmation

• When was the last time a Treasury Secretary appointed someone from outside the OCC to lead the agency? Please describe the process for installing that person at the OCC.

• Why wasn’t Mr. Noreika simply nominated for the position of Comptroller?

• What are the Administration’s plans for nominating a new Comptroller of the Currency, and when will the Senate Banking Committee receive nomination papers for the nominee?

• Why didn’t the Administration choose an individual already within the OCC as Acting Comptroller during this period of transition?

A.2. On May 5, 2017, I appointed Mr. Noreika as a Deputy Comptroller and further designated him as First Deputy Comptroller. Mr. Noreika is a leading expert in the regulation and supervision of national banks and Federal savings associations. He has deep experience in helping banks operate in a safe and sound manner, provide fair access to financial services, and provide credit needed for business expansion and job growth.

In appointing Mr. Noreika, I exercised my authority, granted by statute, to ensure continued leadership at the Office of the Comptroller of the Currency. Specifically, the National Bank Act authorizes the Secretary of the Treasury to appoint up to four Deputy Comptrollers of the Currency and to designate one as First Deputy Comptroller (12 U.S.C. § 4). The Secretary’s statutory authority
does not limit the pool of candidates from which the Secretary may make such an appointment.

By law, the First Deputy Comptroller acts as Comptroller in the event of a vacancy or absence or disability of the Comptroller. Specifically, the National Bank Act provides that “[d]uring a vacancy in the office or during the absence or disability of the Comptroller,” the First Deputy Comptroller, succeeded by the other Deputy Comptrollers, “shall possess the power and perform the duties attached by law to the office of the Comptroller.” *Id.* The primary duties of the office of the Comptroller are set forth in the National Bank Act. *(See 12 U.S.C. §§ 1–16, §§ 481–86.*) The First Deputy Comptroller is authorized to perform all duties of the office in the absence of a Comptroller.

Prior to his appointment, Mr. Noreika underwent a thorough ethics pre-vetting by the career ethics staff of the Treasury Department. While serving as Acting Comptroller, Mr. Noreika will adhere to the same comprehensive ethics and conflict of interest rules as all OCC employees. He has resigned from his former law firm and will not engage in any outside employment activities while serving. He has filed a public financial disclosure report which will be available upon request once certified, and he has divested all assets that could pose a conflict of interest. Mr. Noreika is recused from any particular matters involving specific parties in which his former law firm, or a client for whom he provided services in the last year, is, or represents, a party. This recusal obligation applies regardless of whether Mr. Noreika was previously involved in the particular matter at issue. He has not been granted any ethics waivers or exemptions related to matters involving his work for previous clients.

The Office of Government Ethics (OGE) has made clear that the current Administration’s ethics pledge, like the previous Administration’s ethics pledge, does not apply to appointees such as Mr. Noreika who are expected to serve on an interim basis. Specifically, pursuant to OGE guidance, the Obama administration and Trump administration pledges do not cover “special Government employees,” defined as employees or officers who are expected to perform duties on fewer than 130 days within a 365-day period. This interim status does not affect Mr. Noreika’s responsibilities as Acting Comptroller. Mr. Noreika intends to serve until a permanent Comptroller is confirmed.

The Comptroller of the Currency is appointed by the President, by and with the advice and consent of the Senate. On June 6, 2017, the President nominated Joseph M. Otting to serve in this position. We look forward to working with Members of the U.S. Senate Committee on Banking, Housing, and Urban Affairs in its consideration of Mr. Otting’s nomination.