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NOMINATIONS OF JOSEPH OTTING AND RANDAL QUARLES

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

ON

THE NOMINATIONS OF:

JOSEPH OTTING, OF NEVADA, TO BE COMPTROLLER OF THE CURRENCY, OFFICE OF THE COMPTROLLER OF THE CURRENCY

RANDAL QUARLES, OF COLORADO, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AND VICE CHAIRMAN FOR SUPERVISION, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

JULY 27, 2017

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NOMINATIONS OF JOSEPH OTTING AND RANDAL QUARLES

THURSDAY, JULY 27, 2017

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

The Committee met at 9:59 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Michael Crapo, Chairman of the Committee, presiding.

Chairman CRAPO. And would the witnesses for our hearing please come and take their seats, and while they are doing that, Senator Shelby cannot be here for his questioning time, and so he has asked for just like a minute to make a quick statement.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Mr. Chairman, I will be real quick today.

I just want to say I will not be here. I have got to preside over an appropriations hearing, but I believe that the President has sent us two good nominees. One, we have waited a long time on the Vice Chairman of Supervision for the Fed—Mr. Quarles, Mr. Otting—and I think they are outstanding nominees. I hope that you—the hearing goes well and we can expedite these nominees and get them in place.

Thank you.

Chairman CRAPO. Thank you, Senator Shelby.

All right. The hearing will come to order.

OPENING STATEMENT OF CHAIRMAN MIKE CRAPO

This morning we will consider the nominations of Mr. Joseph Otting to be Comptroller of the Currency and the Honorable Randal Quarles to be a Member of the Board of Governors of the Federal Reserve System and Vice Chairman for Supervision of the Board of Governors of the Federal Reserve System.

Welcome to both of you.

Mr. OTTING. Thank you.

Chairman CRAPO. And congratulations to you on your nominations to these important offices.

I see that you have friends and family sitting with you, and I welcome them here today as well.

These two positions are critically important to ensuring a safe, sound, and vibrant financial system, and we are fortunate to have two highly qualified individuals to consider for these posts.

Mr. Otting brings a particular expertise and understanding of our banking system from a long career in financial services. As

head of the OCC, Mr. Otting would oversee supervision of all national banks and Federal savings associations as well as Federal branches and agencies of foreign banks. Having served in leadership positions at various financial institutions in the past, I am confident that Mr. Otting will bring strong leadership to the OCC.

Mr. Quarles has a wealth of government and private-sector experience as well dealing with both domestic and international financial markets. He is no stranger to public service, having previously served in multiple top posts in the Treasury Department. As Vice Chairman for Supervision, Mr. Quarles would play a key role in developing regulatory and supervisory policy for the Federal Reserve System.

President Obama never designated anyone for this role. Instead, former Fed Governor Dan Tarullo acted as the de facto Vice Chairman for Supervision in various ways, including by chairing the Federal Reserve Board's Committee on Supervision and Regulation, overseeing the Large Institution Supervision Coordinating Committee, and representing the Fed at the Financial Stability Board and in Basel, among other functions.

In February, Chair Yellen committed in a hearing that she expected President Trump's nominee for Vice Chairman for Supervision will have the same responsibilities that Governor Tarullo had, including heading the Federal

Reserve's Committee on Supervision and Regulation and representing the Fed at the Financial Stability Board and in Basel. I look forward to working with Mr. Quarles in this effort.

Congratulations again on your nominations, and thank you and your families for your willingness to serve.

Senator Brown.

STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman, and welcome to the witnesses.

I appreciate holding today's hearing. I thank the witnesses for their willingness to enter public service.

This Committee under the previous Chairman, not the gentleman whom I respect sitting next to me, waited 2 years and never did hearings on two Federal Reserve nominees. I am glad that this Chairman and the Democrats are willing to move forward on a nominee of the President, of the party that is not ours, unlike what this body, this Committee failed to do for 2 long years.

You are seeking, all of you—the two of you are seeking to follow in the footstep of two people, each in the Fed and OCC, who are dedicated public servants and did a great deal to make our financial system safer.

Mr. Quarles served as Treasury's Under Secretary for Domestic Finance in the years leading up to the 2008 financial crisis. His job was to coordinate oversight of the financial industry and ensure Government watchdogs were looking out for the best interest of American taxpayers. However, many of his statements leading up to the crisis lead me to wonder whether he was asleep at the switch or willfully turning a blind eye to Wall Street abuses and excesses.

Contrary to Mr. Quarles' predictions in 2006, the economy was—quote, was not, as he said, "strong"; the financial sector was not, as he said, "healthy"; and our future was not, as he said, "bright." The banks were not, in fact, as he said at the time, "well capitalized," and as a result, taxpayers paid billions to bail these banks out, while Mr. Quarles and his company turned a profit off of the crisis.

Exotic mortgage products were not confined to, as he said, quote, "upper-income individuals that can manage a sizable increase in their monthly mortgage payment," unquote. Shady loans were pitched to sheet metal workers in Parma, Ohio; school teachers in Cleveland, Ohio; servicemembers from Wright-Patterson Air Force Base in Dayton, Ohio.

The financial crisis devastated the Ohio families that lost their jobs and their homes and their savings, but for wealthy bank executives, for private equity investors, the crisis was hardly life-changing. It was an opportunity to profit by flipping failing banks bought at rock-bottom prices and foreclosing on working families, all while raking in taxpayer dollars.

I have said this in Committee before. My wife and I live in ZIP Code 44105 in Cleveland. In 2007, the first half of that year, more homes were foreclosed on than any ZIP Code in the United States of America. So I see—I see the aftermath of that every day I am in Ohio, which is 4 or 5 days almost every week.

Mr. Otting's bank made money by kicking seniors out of their homes and then turned around and said the Government made them do it. Mr. Quarles bemoaned the role of the Government as a player in the financial sector rather than a referee. These sentiments would ring a little less hollow had their banks not accepted $2.5 billion from the FDIC to protect them from losses. Apparently, they believe in Government help for Wall Street, just not families in ZIP Code 44105.

In the wake of the crisis, the FDIC was forced to step in to share losses at failed banks, banks like IndyMac and BankUnited, to prevent a bigger hit on the insurance fund. Mr. Quarles and Mr. Otting then stepped in and made good money after those banks had been propped up by taxpayers.

According to the Columbus Dispatch, Ohio's most conservative newspaper, 2,000 Ohioans were foreclosed on by OneWest in our six largest counties alone from 2009 to 2015 while Mr. Otting served as its CEO. In fact, he was held accountable for robo-signings by the Office of Thrift Supervision, the predecessor to the agency he now hopes to run.

My concern is not whether today's nominees have a great—have a wealth of experience—they do—running, working for banks. My concern is whether they will work for American taxpayers and working families.

We have made a lot of progress in the 7 years since we passed Wall Street reform. One-fifth of the rules, however, remain unfinished. Instead of finishing the job, Wall Street's allies in this town try to take us backward, weakening or eliminating important safeguards.

We already see this at some of the agencies that have removed Wall Street reform from their agendas and attacked other

agendas—other agencies—excuse me—for doing their jobs. This collective amnesia reminds me all too well of 2006. Big banks make record profits, yet they claim they are besieged by their overseers, the regulators.

The banks' refrain is to be expected. What is not acceptable is for the referees to join the chorus.

I look forward to hearing from our witnesses.

Chairman CRAPO. Thank you.

We will now—will the nominees please rise now and raise your right hands, and we will administer the oath. This constitutes two questions. First, do you swear or affirm that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. OTTING. I do.

Mr. QUARLES. I do.

Chairman CRAPO. And then, second, do you agree to appear and testify before any duly constituted Committee of the Senate?

Mr. OTTING. I do.

Mr. QUARLES. I do.

Chairman CRAPO. Thank you. Take your seats.

Your written statements will be made a part of the record in its entirety. I think you have already been advised we allocate you 5 minutes for an introductory oral statement.

I again remind my colleagues on the Committee that the time for questioning is 5 minutes and ask cooperation of all to try to maintain those timeframes.

Before you begin your statement, I invite you, if you would like to do so, to introduce any of your family members who are in attendance, and, Mr. Otting, you may proceed.

Mr. OTTING. OK. Thank you very much, Chairman Crapo.

First of all, I would like to introduce my wife and best friend, Bonnie Otting, who is sitting behind me. Sometimes you get lucky in life, and I am forever grateful the day that we had the opportunity to meet. She has always been my compass in life, and for that, I love you.

In addition, I would like to recognize Bonnie's father, Herman Espinoza, who could not be with us today due to his health and age of 94. Herman is a first-generation immigrant who came to the United States to pursue the American dream so his family could live a better life. One of his proudest moments was when he was granted his U.S. citizenship.

My mother, Grace Ann McQuillen Otting, is with us today also. She has been my guiding light in life, instilling in me a strong moral compass and helping me appreciate the values of sound family life. She taught school for 35 years and was an inspiration to many students.

I would also like to acknowledge my late father, James Otting, and mother-in-law Jessie Espinoza. My father taught me very many valuable lessons in life, not the least of which were his business acumen, focus on family, and his commitment to serving his community. From Bonnie's mother, I learned the value of kindness to others and that love can solve many things.

Last, I would like to introduce my sister, Julie Ardell Otting, and my brother, James Otting, who are also with us today. Over the

years, we have learned the value of love, companionship, and the ability to be dependent on each other.

Thank you very much.

Chairman CRAPO. Thank you, and, again, welcome to your family.

Mr. OTTING. Thank you.

Chairman CRAPO. You may begin your statement.

STATEMENT OF JOSEPH OTTING, OF NEVADA, TO BE COMPTROLLER OF THE CURRENCY, OFFICE OF THE COMPTROLLER OF THE CURRENCY

Mr. OTTING. Chairman Crapo, Ranking Member Brown, and Members of the Committee, it is an honor to appear before you today.

I am grateful to be nominated by President Trump to be the Comptroller of the Currency, and if confirmed for this role, I would be honored to serve the citizens of the United States of America.

Thank you to all the Committee Members I had an opportunity to meet. I enjoyed the opportunity to meet some of you for the first time and to get reacquainted with others, but most importantly, I appreciated the opportunity to learn more about the issues you feel are important to the people of America. For those who I did not get to meet, if confirmed, I look forward to meeting and working with you in the future.

I grew up in a Midwestern family where my father was an entrepreneurial businessperson and my mother, as I indicated, was a school teacher. At the young age of 10, I learned the value of business, client relationships, and leadership from my father while working at his businesses, often doing the jobs at that age that nobody else wanted to do. I also observed how my father—how hard work, willingness to take risk, and family support led to success. I learned from my mother, who taught school during the day, raised three children and went to college at night, that hard work and dedication can make a difference.

I studied at the University of Northern Iowa, following a family tradition of my mother, sister, and ultimately my brother to the university. During the summer and holiday breaks, my father would have me work at his businesses and arranged other roles, which included working at an electrical dam for a regional utility, commercial construction, and at a bakery, all great roles for building character, an appreciation for people and their individuality, and how leadership can make a difference.

After college, I was fortunate to be chosen to be part of Bank of America's training program in California. It was an experience that forever changed my life. I gained insight into the banking system from the other side of the table and discovered how banks can help consumers and businesses with services, deposits, and loans. It is in this industry that I spent the next 34 years of my life and learned the importance of serving employees, the community, customers, and shareholders.

My banking experience has allowed me to work for one of the largest banks in the United States, two well-respected regional banks, and a community bank. I have touched virtually every segment of the industry, including serving consumers, businesses,

trust functions, private banking, investment services, human resources, compliance, audit, treasury, financial management, and operations. This experience provides a broad base of knowledge that would be helpful and insightful if I was chosen to be the Comptroller.

In 2010 I decided to leave an executive position at an established financial institution because I felt Southern California was in need of a hometown bank. When approached about the idea, I knew it would be challenging and a tremendous amount of work but ultimately an achievement for myself and the company. With the assistance of many dedicated men and women of OneWest Bank, we were able to create the largest hometown bank in Southern California. It was able to grow beyond just being a mortgage company and being able to serve the needs of local businesses, families, and consumers. Hopefully, helping build this company is something that I will and will remain proud of.

After a successful merger in 2015, I left the organization and became an entrepreneurial person returning to me roots in real estate and small business.

The mission of the OCC is to ensure that national banks, Federal savings and loans, and foreign operations of international banks operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. If confirmed as Comptroller of the Currency and given the opportunity to lead the men and women of the agency, I pledge to honor the OCC's mission and cooperate and work with this Committee and all Members of Congress.

Thank you for your time today. I look forward to answering any questions the Committee may have, and I am honored to share this hearing with Mr. Quarles.

Chairman CRAPO. Thank you, Mr. Otting.

And, Mr. Quarles, you may begin.

Mr. QUARLES. Thank you, Mr. Chairman.

I would like to introduce my wife, Hope Eccles, who is with me here today; my parents, Ralph and Beverly Quarles; and our niece, Liza Burnett, who is interning here on the Hill and can be with us today.

Chairman CRAPO. Well, thank you, and, again, we welcome your family.

Mr. QUARLES. My statement?

Chairman CRAPO. Yes. Please go forward.

STATEMENT OF RANDAL QUARLES, OF COLORADO, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM AND VICE CHAIRMAN FOR SUPERVISION, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. QUARLES. Chairman Crapo, Ranking Member Brown, Members of the Committee, thank you for this opportunity to appear before you today.

I am honored that the President has nominated me to serve as a Member of the Board of Governors of the Federal Reserve System and as the Board's Vice Chairman for Supervision, and I am grateful for the privilege of your consideration. And I am also very grateful for the support not only of my wife and family who are

here, but of our three children, Randy, Spencer, and Hope Jr., who have put up with a lot in their lives from their father's public service.

The Federal Reserve System occupies a central position in our country's policy infrastructure for promoting a strong economy and the stability of the financial system and supporting robust job growth in a context of price stability. I can assure the Committee that were I to be confirmed as a Governor of the Federal Reserve, I would be strongly committed to all these objectives.

The specific position for which I have been nominated, Vice Chairman for Supervision, has a particular role in ensuring the safety, soundness, and efficient operation of the financial system. As recognized by the Treasury's recent report, regulatory policies that have been enacted since the financial crisis have improved the safety and soundness of the system, but as with any complex undertaking, after the first wave of reform, with the benefit of experience and reflection, some refinements will undoubtedly be in order.

Former Governor Dan Tarullo, who was one of the principal architects of many of these reforms, said as much himself in a valedictory speech that he gave in April on the occasion of his leaving the board, stating that there are clearly some changes that can be made without endangering financial stability. The key question will be ensuring that as we continue to refine the system over time, we do so while maintaining the robust resilience of the system to shocks.

I believe that I am well qualified to undertake that role. As this Committee knows, I have had experience over my career with the financial sector from many different points of view. I have been a practicing lawyer versed in the granular technicalities of the most complex aspects of the regulatory system. At the other end of the spectrum, I have been an investor in small community banks. I am familiar with the particular benefits and challenges that those institutions face.

And I have been a financial regulatory policymaker under two different Presidents in two different decades. In fact, my first tour of duty in public service was during a similar period of response after a financial crisis, arriving in 1991 during the clean-up phase of the savings and loan crisis and facing the insolvency of the FDIC's insurance fund.

While this experience has given me substantive insight into the issues that the Federal Reserve's Vice Chairman for Supervision will face, it has also reinforced my commitment to what I think is the single most important characteristic of a good policymaker, that he be humble, humble about the constraints on our understanding of complex systems, humble about the fallibility of our judgments, and humble about how our assumptions and views influence even what we believe to be our most data-driven and analytical conclusions.

As a consequence, were I to be confirmed for this position, I would approach this undertaking as I try to approach every task, with a continual openness to input from every source. In particular, I would look forward to working with the Members of this Committee on both sides of the aisle and their staffs to understand the challenges that face the financial system as they evolve over time.

Thank you for the honor of this hearing, and I look forward to answering your questions.

Chairman CRAPO. Thank you, Mr. Quarles.

And, Mr. Quarles, I will start and will start with you first.

Immediately prior to leaving the Fed, former Governor Tarullo gave a speech highlighting areas where regulatory relief could be appropriate, in his opinion. Former Governor Tarullo said, one, the $50 billion SIFI threshold should be changed; two, the Volcker rule is too complicated and may be having a deleterious effect on market making, particularly for some less liquid issues; three, community banks should have a much simpler capital regime; four, the supplementary leverage ratio should be revisited; five, the $10 billion asset threshold for company-run stress test is too low; and six, the Federal Reserve should consider eliminating the qualitative portion of CCAR for all banks.

Mr. Quarles, do you agree with all of these recommendations?

Mr. QUARLES. I actually do agree with all of those recommendations. I think they are very much in line with how I would approach regulation.

Chairman CRAPO. Well, thank you.

And this second part of this question may be something you want to take a little bit of time and think about and respond later, but if you have any ideas right now, are there any additional areas of regulatory relief that you think it would be appropriate for us to look at?

Mr. QUARLES. I think that one important area that was not mentioned in that list is transparency. I would want that to be a theme of the Federal Reserve's regulatory activities, were I confirmed for this position.

I think that both as an appropriate relationship between the regulator and the regulated and also as a matter of improving the content of regulation, it is important for regulators to be very clear about the principles that are driving their decisions and about the expectations they have for the regulated system.

I think an example of that, although it is only one example, is the lack of transparency that has surrounded the CCAR stress test up to now. So I do think that the Federal Reserve can look at being more transparent about those activities and can do it in a way that does not in any way reduce the effectiveness of those tests.

Chairman CRAPO. Well, thank you. I appreciate that, and as you have further observations, I welcome you relaying them to us.

Mr. Otting, I enjoyed meeting with you last week, and at our meeting, we spent some time discussing your time as an executive at OneWest. There has been some controversy about OneWest, and would you like to take a little minute or two here to respond to some of the questions that have already been raised and, frankly, to describe for the Committee your tenure at OneWest?

Mr. OTTING. Thank you, Chairman Crapo.

First of all, in 2008 was when IndyMac failed. It was taken over by the FDIC, and it operated until March of 2009. In March of 2009, an investment group led by Steven Mnuchin acquired the bank and renamed the entity OneWest Bank. As we all know, this was a very difficult time in America in the middle of the financial crisis.

The investment group bought IndyMac because they believed in an American recovery, that they could rebuild and create a regional bank and save thousands of jobs. Going into IndyMac can only be described as what a fireman feels when he gets to the front door of a five-alarm fire. The bank had almost 200,000 loans in default. The men and women of OneWest Bank were working diligently to save the homes of thousands of Americans.

While some of those who focus on the homes that were lost—and this was clearly a tragedy—we like to focus on the 80 percent, roughly, of the 160,000 homes that were able to be saved, and those Americans are in those homes today.

We did this by having some very creative initiatives. We were the first to offer principal forgiveness. We lowered interest rates, and we modified payments and moved principal to the back so people could afford their homes.

Another area the bank received attention was the servicing of mortgages. The bank through the acquisition of IndyMac assumed a large portfolio of non-owned servicing of mortgages. We were doing them as a third-party servicer. These portfolios often had restrictive agreements on what both the bank—actions they could take regarding those agreements.

In April of 2011, OneWest Bank and all the large mortgage servicers in America signed a consent order to review and improve servicing practice and standards. A significant part of this order was the review of foreclosures and modifications completed in 2009 and 2010. For OneWest Bank, this involved reviewing 175,000 borrowers that were in foreclosure.

Ultimately, OneWest Bank was the only bank, 1 out of 14, that actually completed that look-back of the foreclosures. This was completed by an independent third party under the engagement and supervision of the OCC. The results prove that OneWest Bank had a very low error rate, and independent Government reviews routinely demonstrated that we had the most effective loan modification of any program. These are facts that are available in the public arena.

We also took litigation efforts against some of the holders of the mortgages to allow us to have similar actions against their portfolios. For any errors that were identified—and there were errors, but they were small and in the small basis points—the bank made full restitution to the borrowers to the tune of almost $9 million.

If it were not for the hardworking employees of OneWest Bank, I believe that many more foreclosures would have happened, numerous job losses would have occurred, and Southern California consumers and businesses would have been left without an additional bank that could provide loans and products and services.

Thank you, Chairman Crapo, for allowing me to address that.

Chairman CRAPO. Thank you.

Senator Brown.

Senator BROWN. Thank you.

Mr. Otting, I will start with you, and thank you for that explanation. I want to pursue that further.

The Columbus Dispatch article I mentioned, one, the most conservative newspaper in Ohio, OneWest denied loan modifications or gave the runaround to homeowners like Carla Duncan, a social

worker from Cleveland Heights who was current on her mortgage. As CEO of OneWest, you signed the consent order that I mentioned in my opening statement for shoddy services and improper foreclosures related to the practice of robo-signing, which you did not mention in your robo-signing, I do not believe you mentioned in your answer to Chairman Crapo. In other words, you permitted your bank to break the rules while in the process making life harder for homeowners like Ms. Duncan across the country trying to stay in their homes. How do we trust that you will not allow banks to skirt the rules and harm their customers as their regulator?

Mr. OTTING. Thank you, Senator Brown, for the question.

First of all, just for a correction, I did sign the consent order, but we did not confirm or deny the accusations in the consent order. The follow-up review reviewed 175,000 borrowers. In the area of did we not provide modifications, I believe the number—I could be wrong—was roughly 35 out of 29,000 modifications that were reviewed.

We did make 29 mistakes, and I apologize to the American people for that. But the error rate was incredibly low, and so my viewpoint is if you look at the actual facts, there is a false narrative out there about the OneWest Bank servicing operation. I think you would walk away feeling very good about our operations.

Senator BROWN. Well, it is a false narrative to you, not to those that lost their homes. More on that in a moment.

Mr. Quarles, year before the beginning of the financial crisis while in charge of the Office of Treasury, responsible financial regulation, you downplayed the risks emerging in the financial sector. You touted its resiliency. You said, "I can assure you that my colleagues and I at Treasury are doing everything in our power to make our financial system even more resilient in the future."

In retrospects—in retrospect, do you believe you and your colleagues at Treasury did everything you could have and should have to prevent the crisis, and what more—if not, what more should have been done? And be as precise as you can.

Mr. QUARLES. Thank you, Senator. I appreciate that question because I have, obviously, reflected since the crisis on the measures that were taken leading up to the crisis.

We were aware—I guess the right way to put it is that we believed that even given the information that we had from the regulatory system that the risks that were building up in the system were manageable, we did believe that there were measures that could be taken to improve the resiliency of the regulatory system and the ability of the regulatory system to understand risk, and we were beginning a process of presenting a program for change that would have improved the regulatory system.

With the benefit of hindsight, we could have been more aggressive in pushing that program forward and in putting those ideas forward.

As I think you can appreciate and all the Members of this Committee can appreciate, in advance of the financial crisis, the political obstacles to the changes that we thought would be appropriate to improve regulation would have been formidable, and so we were proceeding cautiously. With the benefit of hindsight, I would say it was probably too cautious to putting forward——

Senator BROWN. Right. But implicit and political obstacles are the power of—and the influence of Wall Street on this Committee?

Mr. QUARLES. I would not say it was so much the power and influence of Wall Street on this Committee. I think, you know, one of the ways in which I think that on a clean slate, financial regulation could be improved would be to have a much simpler, clearer, less kaleidoscopic construction of the regulatory system that would make it easier for the regulators to understand where risk is and where it is not.

The political obstacles to that were less those of the industry versus the Committee and more those of people of goodwill having differing views in a time that was not a crisis as to what the right answers were. It had been a longstanding question that changing those rules was going to be difficult.

I do think it is a very fair question to ask what could we have done differently, and I think my answer would be we could have moved more quickly. We could have been more aggressive in pushing some of these regulatory changes that we wanted to push but believed would be politically difficult.

Senator BROWN. And last, back to you, Mr. Otting. Treasury released its report recently on financial regulation as required by the President's Executive order. Much of that report focused on rolling back rules for the Nation's largest banks, including decreasing capital requirements. Do you agree we should roll those rules back for the Nation's largest banks?

Mr. OTTING. I believe there were a lot of recommendations in that report, and I do support a number of those specifically as they deal with community banks and small banks across America.

Senator BROWN. Yeah, but that was not my question. Specifically, I knew—I knew from our individual conversation that was the case, but——

Mr. OTTING. I think the capital structure that we have in place today is highly complex, and I think it needs to be examined. And I would be—welcome to sit down and have dialogue with you on that.

Senator BROWN. Well, you said in our conversation on Tuesday that you think the rules for the largest banks are appropriate and should not be weakened.

Mr. OTTING. Well, I said I—overall, I think that the regulatory system we have in place today has resulted in banks understanding their risks much better than they ever have, and we have better capital levels.

I do think that we have created—you know, in 150 years, we have had many provisions and laws that have come through the banking system. Seven years ago when Dodd-Frank was put in place, I think it has opened up to look at some of the characteristics, but I am a believer of a well-capitalized banking system and a banking system that understands its risk.

Senator BROWN. Well, I am concerned that a President who says we should drain the swamp, as he surrounds himself with him almost looking like a Wall Street executive retreat in his President's Cabinet, I am concerned about a report coming from Treasury suggesting decreasing capital requirements.

I will just close with this. I just hope that you are not part of any effort to weaken capital requirements. That clearly is the wrong direction for a stable banking system.

Chairman CRAPO. Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman, and thank you, gentlemen, for joining us today.

Let me start with Mr. Quarles. Thanks for visiting with me recently in my office. I enjoyed our discussion, and I want to follow up a little bit on one aspect of that which relates to the resolution authority of Dodd-Frank.

As you know, I made it clear, among the many very serious flaws in Dodd-Frank, one that has bothered me from the beginning is the resolution authority that grants very disturbing discretion to regulators in the case of a failing institution and puts taxpayers at risk for having to bail out a failing financial institution.

It has always been my view that the right way to resolve the failure of a big financial institution is to do it in bankruptcy, where the losses would be taken by shareholders and unsecured creditors, where creditors could know with complete transparency how they will be treated, because it is a matter of precedent and law, and where similarly situated creditors would be treated the same way. These are fundamental principles of bankruptcy, and yet it seems to me as long as we have this resolution authority and a bankruptcy code that needs to be modified, there is a danger that in the event that a big financial institution gets into trouble, we would have—we would use this flawed authority.

So I have legislation that would amend the bankruptcy code. It is designed to enable bankruptcy to work for even a very large, very complex financial institution, and I would just like to get your thoughts on whether, A, you believe it is necessary and appropriate to amend the bankruptcy code for this purpose and whether you would work with me and this Committee to try to get to that goal so that we would never have to worry about taxpayers having to bail out a financial institution again.

Mr. QUARLES. Well, thank you, Senator.

I think a theme throughout my career of my approach to policymaking and particularly to regulation has been that the discretion of policymakers and regulators—particularly regulators—should be as constrained as possible, and where discretion remains, those regulators should be as clear as possible about how they will exercise it in the future so that their actions are predictable and there is less uncertainty as to what their policy will be.

In connection with that, I do think that it is a very valuable effort. Indeed, the right way to approach continuing to improve the environment for the resolution of financial institutions is to improve the operation of the bankruptcy code so that a financial institution could fail in the same way that any other institution fails, and the rules surrounding that would be understood as they are for any other institution with as little exercise of discretion as is possible.

I think that, as you have noted, there is more work that needs to be done to improve the bankruptcy code, a lot of questions that surround how one can do that, but I believe that is achievable, and I would be happy to work with you and your staff on that effort.

Senator TOOMEY. Great. Thank you.

I am going to run out of time, so I just want to be quickly—I want to touch on CCARs. And, Mr. Quarles, you mentioned earlier, if I understood you correctly, that you think there should be more transparency in the methodology.

I just want to mention for the Committee's benefit a reminder of the GAO report on CCARs. In addition to—we know how incredibly costly it is to comply with this regime, but the models and testing procedures are not transparent according to GAO. But not only that, the Fed has not done enough to assess whether CCAR is inadvertently pro-cyclical, and, of course, if it is, there is a danger that it actually could contribute to systemic risk through the dynamic of the crowded trades that you have alluded to.

So I would just urge you to seriously consider that possibility and the extent to which really CCAR is even necessary anymore, especially given the DFAS mechanism.

Very quickly, Mr. Otting, if I could just ask you a question. One of the other things about Dodd-Frank that I find very problematic is the SIFI designations. I object to the concept, but I acknowledge that it is the law.

Nevertheless, the process by which the FSOC has made the designations has been so badly flawed that, as you know, a court has ruled that it is impermissible in at least one case.

You would be a member of the committee making designations. I think it is irrefutable that the process has been opaque. That institutions subject to the designation do not know the criteria by which they are designated. That there is no well-defined process by which a firm could choose to discontinue the activity that would cause a designation. There is no well-defined process for a de-designation.

Given all of these fundamental flaws, which at least one court has agreed, do you think it is appropriate that there would not be any additional nonbank SIFI designations until at least this process is changed?

Mr. OTTING. Senator Toomey, first of all, I agree with all the points that you made, and I think it—both of us, as a Committee, to sit down and bring greater definitions to those before we would designate another SIFI. So I do agree with you.

Senator TOOMEY. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

So after the 2008 crisis, Congress put the Fed in charge of supervising the biggest banks and created a new position, this Vice Chair for Supervision that was supposed to lead that effort. That means if you are confirmed to this position, Mr. Quarles, you will have more influence than any other person over the regulation of the big banks.

Now, given that enormous power, the number one thing we need from the Fed's Vice Chair for Supervision is a demonstrated willingness to stand up to the interests of the big banks that threaten the financial institutions, but when I look at your 30-year career spinning through the revolving door of the private sector, Mr.

Quarles, I just do not see it. You have got 15 years representing big banks at a New York law firm working on some of the mergers that created the too-big-to-fail banks that we have today. You have two stints at the Treasury Department, including shortly before the 2008 crisis, where you insisted that the banks were well capitalized enough to survive a housing downturn—it turns out they were not—and more than a decade in private equity and investment management, where you have argued repeatedly for weaker rules for the biggest banks. So that is not a track record that should give Americans a whole lot of confidence in you.

But what I want to do is try to look ahead on this. The big banks and financial firms have a lobbying organization called the Financial Services Roundtable, or FSR, and it has no community bank members. It is purely the big guys. FSR recently submitted a 124-page wish list of financial rule rollbacks for the Treasury Department.

So I want to go through some of these and see how your views line up with the views of the big banks. So first one here, FSR would like to see the stress test relaxed for the Fed and give it stress test models to the banks before the actual test. They want to see the test ahead of time. Do you support those changes?

Mr. QUARLES. Well, not having read the FSR's report, I do not know all of the details about the——

Senator WARREN. Wait, wait. Let me get this straight. You have been nominated to be the head of Fed Supervision, and you have not read this from the FSR?

Mr. QUARLES. I have not read that report.

Senator WARREN. OK. So we will ask the question, then, more generally: Do you think that stress test standards need to be relaxed and the banks need to see them in advance?

Mr. QUARLES. I think that transparency around the content of the test with the public in general, which would include the regulated entities, is a benefit.

Senator WARREN. So they ought to be able to see the test in advance?

Mr. QUARLES. I believe that that would——

Senator WARREN. And you think they ought to be relaxed?

Mr. QUARLES.——improve the conduct of regulation.

I do not have a view as to whether they ought to be relaxed——

Senator WARREN. All right.

Mr. QUARLES.——in part because I am not—because of the lack of transparency, I am not perfectly familiar with all of the content of the test.

Senator WARREN. OK. So you think they ought to see the test in advance, which is what they are asking for, and you do not have an opinion on whether or not they ought to be weakened.

How about capital? FSR would like a bunch of changes to the calculation of how capital and leverage requirements that would have the effect of lowering—all of which would have the effect of lowering these standards. Do you believe that capital and leverage standards should be lowered?

Mr. QUARLES. I do not have a view as to whether they should be higher or lower.

I do think that more can be done to ensure that in setting the capital for the full range of institutions in the system that we can be more sensitive to the character of each institution in determining the appropriate——

Senator WARREN. So you think it should be lowered for some but raised for others?

Mr. QUARLES. Again, in advance of the analysis, I could not tell you——

Senator WARREN. So you do not have an opinion on that.

What about the Volcker rule, which prohibits the banks from making risky bets with their own money? FSR wants to cut the rule back so that the banks can make more of those kinds of investments. Do you agree with FSR that the Volcker rule should be cut back so that it should place fewer restrictions on the banks?

Mr. QUARLES. I agree with former Governor Tarullo that the complexity of the rulemakes it very difficult to apply, and that we should work to try to simplify the application of the rule.

Senator WARREN. Well, now, that is easy. If you just want to simplify it, you would support Glass-Steagall. Right? Do you support Glass-Steagall?

Mr. QUARLES. Well, as you know, Senator, the key provisions of Glass-Steagall are still in force——

Senator WARREN. Well——

Mr. QUARLES.——which are Sections 16 and 21 of the Banking Act——

Senator WARREN. No, no.

Mr. QUARLES.——of 1933.

Senator WARREN. The key provisions of Glass-Steagall are not enforced any more. They have been repealed.

Mr. QUARLES. No. The ancillary provisions, which are Section 20 and 32——

Senator WARREN. Which are the ones which permit the big banks——

Mr. QUARLES.——of the Banking Act of 1933——

Senator WARREN.——to be able to engage in these combined activities that Glass-Steagall were supposed to separate. That is what is now permitted.

Mr. QUARLES. Well, the core provisions actually prevent the bank from engaging in that, so Section 16 and 21——

Senator WARREN. So you think we are perfectly protected if we took away Volcker? Is that what you are saying, and we do not need Glass-Steagall?

Mr. QUARLES. I am sorry. I did not catch the first part of the question, ma'am.

Senator WARREN. You are saying we are protected if we took away Volcker and did not put Glass-Steagall in its place? That is why nothing went wrong in 2008?

Mr. QUARLES. Well, I do not think that the re-imposition of those—of the ancillary provisions governing affiliates, which are Sections 20 and 32, would, in fact, have made a difference in the financial crisis. But, usually, when people are talking about today about the re-imposition of Glass-Steagall, they are talking about ensuring that the depository institution is protected from risks in another part of a large financial institution.

Senator WARREN. You know——

Mr. QUARLES. I think that is a very worthy goal.

Senator WARREN. I am over my time, and so I want to be respectful here.

But I am just looking for any area where you disagree with the major financial institutions, and I am not hearing it. The primary purpose of this job is to be able to stand up to the largest financial institutions in this country. You have no history of having done that, and sitting here right now, all you can say is, gee, I have not thought about that.

We just went through a devastating financial crisis less than a decade ago because powerful people in Government let powerful financial institutions call the shots. We cannot go down that road again. We need people in Government who are willing to stand up to large financial institutions, and we need people who have a demonstrated history of that. And you simply do not, Mr. Quarles.

Thank you. I apologize for running over, Mr. Chair.

Chairman CRAPO. Thank you.

Senator Rounds.

Senators Rounds. Mr. Quarles, I am just curious, and I will give you a chance to kind of respond on the comments here. Do you believe that a strong regulatory process is appropriate?

Mr. QUARLES. Absolutely, Senator.

Senator ROUNDS. Do you believe that a regulatory process which clearly defines what the rules are is appropriate?

Mr. QUARLES. That, I also agree with.

Senator ROUNDS. Do you believe that the regulations should be such that the—that there is an understanding of what the expectations are of any bank, regardless of its size, should be in place?

Mr. QUARLES. I think that that is not only appropriate; it is necessary for the regulations to be effective.

Senator ROUNDS. Do you think that there are regulations in place today that make it difficult for financial institutions to understand the direction that the regulators expect them to go without going back in and asking for additional information time and time again?

Mr. QUARLES. I think that is true in many areas of the current system.

Senator ROUNDS. I have been aware of concerns that certain bank risk exposure regulations have inadvertently impacted liquidity in the listed options market. The regulations fail to account for the risk-mitigating nature of options and are impeding access to central clearing and hampering market liquidity by artificially constraining clearing members and their customers who make markets. It is concerning when markets that effectively provide portfolio insurance to investors are—well, let us just say adversely impacted by banking regulations because the regulations are not sufficiently precise to account for the offsetting characteristics of options.

Are you committed to exploring ways to remedy this unforced error, including via interpretive relief from the Board of Governors?

Mr. QUARLES. I think that would be a very appropriate area for us to look into. I do not have all of the details around that

question, but I think that question and questions like it are important areas for the board to examine.

Senator ROUNDS. Post-crisis, our Nation's banks, especially the largest, hold significant levels of capital. Governor Powell and Secretary Mnuchin have echoed this in the past while testifying before Congress. Additionally, you recently noted that you do not believe that we will likely—that you believe that we will likely not see another financial crisis in our lifetimes due to post-crisis reforms.

In June, the Fed announced that all banks had enough capital to pass a stress test, including both the quantitative and the qualitative elements of CCAR, and you did not object to a single bank's capital plan.

I have heard discussion of potential Fed proposal incorporating G–SIB surcharge into CCAR as the new post-stress minimum capital requirements. Would you support the inclusion of the G–SIB surcharge in CCAR?

Mr. QUARLES. I would have to look at that question in more depth, but at this point, I think that is something that is definitely worthy of looking at.

Senator ROUNDS. Would you drop us a note back on that as a take-it-for-the-record, please? Would you?

Mr. QUARLES. Yes, I would be very happy to.

Senator ROUNDS. Thank you.

I would like to—for both of you, I would like to discuss questions that I recently had the chance to ask Federal Reserve Governor Powell at another recent hearing. I had the opportunity to ask Governor Powell about the supplemental leverage ratio, or SLR. As I told Governor Powell, it is a blunt instrument that fails to account for very safe investments like cash deposited at central banks.

In particular, institutions that provide custodial services have raised concerns that the SLR fails to account for very safe investments like cash deposited within the central banks.

In response to one of my colleagues on the House side, Chairman Yellen acknowledged that these concerns, in a question for the record, and said that the Federal Reserve Board is actively considering these suggestions and other suggestions about how to improve the cost-benefit balance for our leverage ratio requirements.

Can both of you discuss any suggestions you would have to improving the ESLR and—or the SLR and the ESLR? My concern is this. Mutual funds right now—if we want mutual fund investors to have the least expensive approach, then one of the ways we do that is by considering whether or not investments in a central bank, like these do—they invest back in, in treasuries, in a custodial nature—should we include or should we take that out of the denominator in determining what the ESLR is or the SLR is? Is that something that should be fairly considered, just to bring down the price to investors in mutual funds?

Mr. QUARLES. Well, I think that the practical consequences of those regulations, of any regulations and particularly with respect to the leverage ratio regulations, should definitely be taken into account in determining the character of the regulation.

So in looking at that proposal as well as a whole range of proposals about how to address the leverage ratio, I think that that is something that we ought to be looking at. Yeah.

Senator ROUNDS. Sir?

Mr. OTTING. Senator Rounds, thank you much for the question.

I too think it should be examined, as we discussed in your office. I think the complexity that we built via Dodd-Frank and the capital structure makes it incredibly difficult for banks to bounce around between all the categories—risk base, leverage—and I do think that when you look at some of the assets that are held on the balance sheet, they really have limited to no risk. And I do think it is impairing certain segments of the industry, as you described.

Senator ROUNDS. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you. Thank you, Mr. Chairman.

Gentlemen, welcome. Thank you for your willingness to serve. Welcome to your family members as well. I appreciate the opportunity to meet with you in person. Sorry our meeting had to be rescheduled, and so always look forward to that opportunity.

But, Mr. Quarles, I would like to start with you, and let me just say I think your actions in the past are important for us to figure out how you are going to pursue your roles currently that you have been nominated for. So some of the questions are going to be some of the past actions and the work that you have done in the past.

So, Mr. Quarles, one of the things I want to understand, that you have been a member of the board of directors at FINRA since 2015. Correct?

Mr. QUARLES. Yes, ma'am.

Senator CORTEZ MASTO. OK. And FINRA is the organization that is supposed to serve as a watchdog for Wall Street. You qualify as the, quote, "public Governor" on FINRA's board, which is the slot that is meant to represent the investing public when it comes to how FINRA operates. Correct?

Mr. QUARLES. That is correct, ma'am.

Senator CORTEZ MASTO. OK. And as the qualified—as a public interest representative, you qualified even though you have investments in lines of credit from many firms regulated by FINRA, and you also serve, currently on the board of directors for the U.S. Chamber of Commerce, during that time. Is that correct?

Mr. QUARLES. Yes, ma'am.

Senator CORTEZ MASTO. OK. And the Chamber of Commerce has repeatedly sued regulatory agencies to overturn investor protections on behalf of its Wall Street members. If confirmed to the position at the Fed, how can we trust you to balance the public interest against the interests of Wall Street, given the obvious conflicts in your current role? Can you explain that to me?

Mr. QUARLES. In the same way that in representing the public on the FINRA board, I have done that without any influence from or even discussion with the Chamber of Commerce. I think that it is possible to exercise responsibilities, given the nature of the duties that a person has.

Senator CORTEZ MASTO. So when the Chamber of Commerce, which includes Wall Street, some of the Wall Street's biggest banks and accepts their contributions, sues to overturn rules on their

behalf, you are—are you in a role of supporting those actions by the Chamber of Commerce, even though you sit on the opposite side as a public interest representative with FINRA?

Mr. QUARLES. If there were any specific decision that involved a matter of which the Chamber of Commerce was a party, I would recuse myself. That has not arisen while I have been on the board.

Senator CORTEZ MASTO. So you have never recused yourself while you are on the board of the U.S. Chamber and/or FINRA in relationship to your interactions on both?

Mr. QUARLES. No matters have arisen that would have required that.

Senator CORTEZ MASTO. OK. And if confirmed to the Fed, will you use your position to try and stop the CFPB's arbitration rule?

Mr. QUARLES. I do not believe I have a role with respect to that.

Senator CORTEZ MASTO. So that is a no?

Mr. QUARLES. I have not given any thought as to how I would affect that. The CFPB is an independent regulator and appropriately so. With regard to it, I think that the robust enforcement of the consumer rules is an important policy matter, and I certainly support that.

Senator CORTEZ MASTO. Thank you.

Did you ever use your slot on FINRA's board to advocate for the Chamber's position on arbitration?

Mr. QUARLES. No, ma'am.

Senator CORTEZ MASTO. OK. Thank you.

My time is running low. So, Mr. Otting, let me jump back to some questions in a follow-up to the conversation you were having with Senator Brown.

If I understand this correctly, you said that 160,000 homes were saved, and when you say 160,000 homes were saved, they were actually modified? People were able to stay in their homes. Is that correct?

Mr. OTTING. They did not go through foreclosure. That is correct.

Senator CORTEZ MASTO. OK. And then 175,000 nonbanked—non—I guess homes that were not in your portfolio were the subject of a separate modifications, or can you explain that $175,000 figure you cited?

Mr. OTTING. There were 175 loans that went through the consent order look-back, which was done by an independent consultant under the guise of the OCC.

Senator CORTEZ MASTO. OK. And it is true that OneWest is the only bank that did not settle the independent foreclosure review. Correct?

Mr. OTTING. That is correct.

Senator CORTEZ MASTO. OK. And so can you——

Mr. OTTING. Well, can I——

Senator CORTEZ MASTO. Sure, go ahead.

Mr. OTTING. The other bank settled. OneWest Bank was the only one who completed the look-back that had the actual results associated with the consent order.

Senator CORTEZ MASTO. OK. Thank you.

And can you tell me how many actual loan modifications did OneWest provide to Nevadans during your tenure while you were there? Do you know?

Mr. OTTING. I do not have that number.

Senator CORTEZ MASTO. OK. I appreciate that.

Can you—let me just say this. As the Comptroller of the Currency, you are going to be entrusted with tremendous responsibility. The decisions the Comptroller makes impact whether borrowers can keep their homes or whether we have another economic crisis, as you well know, and we have talked about this when we were together.

Can you point to a single area where you think additional consumer protection is needed?

Mr. OTTING. I think there is a lot of discussion today about small-ticket dollar amounts for lending activities, and what came out of Dodd-Frank was a fairly, highly complicated product that almost requires you to underwrite a $2,500 loan, like a mortgage. And I think that is one area that would require a lot of input and discussion to be able to make those products available. We have kind of pushed those out of the banking sector, and I think they should be actually back into the banking sector, where oversight and regulation can allow those to be offered in a fair and economic manner.

Senator CORTEZ MASTO. To the exclusion of the CFPB?

Mr. OTTING. No, not to the exclusion. In participation.

Senator CORTEZ MASTO. OK. Thank you.

I notice my time is up. Thank you very much.

Mr. OTTING. You are welcome.

Chairman CRAPO. Thank you.

Senator Scott.

Senator SCOTT. Thank you, Mr. Chairman, for holding this hearing today, and thank you to the nominees for joining us today.

At their core, both the Federal Reserve and the OCC are bank regulators, yet due to nonbank SIFI designations from FSOC, they now oversee a huge chunk of the insurance industry. Having sold insurance for more than 20 years and being well versed in the business, I think it is time to reconsider the designation process. The President agrees per his executive order earlier this year.

Insurance has primarily been regulated on the State level, and nonbank SIFI designations are a deviation from a system that has worked well for about 150 years.

FSOC and its Federal regulators lack an understanding of the differences in business models between banks and insurance companies. Insurance firms simply do not pose the same systemic risk, but the added costs associated with a council's designations have an outsized impact on the economy at large.

For example, life insurers are the largest investors in corporate bonds in the United States, the same bonds that fund business growth in South Carolina. They also manage 20 percent of all defined contribution plan assets and 14 percent of IRA assets. Many Americans have entrusted life insurers with their savings.

I will ask Mr. Quarles first and then Mr. Otting: Does the business of insurance pose the same systemic risk as banking?

Mr. QUARLES. Well, I think that it would be difficult to say that the business of insurance posed the same systemic risks as banking. I mean, principally, as is also obvious, systemic risk is created when you have organizations that have liabilities that can run,

short-term liabilities that can all be called very quickly, that are funding activities that are very interconnected with the rest of the system and usually of a size that the disruption of that interconnectedness would result in severe problems for the system.

Insurance companies—and particularly life insurance companies—I guess in some theoretical way could have a run if all of the policyholders showed up and asked for the cash surrender of the value of their policies at the same time, but that is such a remote and historically unprecedented possibility that I do not think it is a practical one to consider.

So I think that the risks that are posed by insurance companies are quite different.

Senator SCOTT. Thank you.

Mr. Otting?

Mr. OTTING. Senator Scott, thank you for the question.

I agree with Mr. Quarles. I do think the funding source—and as long as the core business is in line with the mission of an insurance company, I do not agree that it poses the same risk as a financial institution.

Senator SCOTT. Thank you.

Do you support legislative efforts to ensure there is always a voting member on FSOC with insurance expertise?

Mr. OTTING. Absolutely.

Mr. QUARLES. I think that would be wise.

Senator SCOTT. Thank you.

I am looking forward to our Chairman and our Ranking Member continuing their efforts to make this a reality.

For regulatory purposes, the Federal Reserve often uses arbitrary asset thresholds like $250 billion or $50 billion or $10 billion. These levels seems to come with very little rhyme or reason. At the same time, multiple regulations, which utilize these thresholds, including Basel framework, include waiver language that allows the Fed to exercise discretion on a case-by-case basis. In other words, you can tailor regulations as you see fit.

Mr. Quarles, would you use this discretionary power under the law, and if so, under what circumstances?

Mr. QUARLES. Well, I think that one of the important general themes of regulation is ensuring that the character of the regulation is adapted to the character of the institution being regulated, what has become the word "tailoring." I fully support that, and I think that it is not only appropriate to recognize the different levels of risk and types of risk that different institutions in the system pose, but then it also makes for better and more efficient regulation. And efficient regulation allows the financial system to more efficiently support the real economy.

So I do think that we should look very carefully—and will certainly be an advocate for that were I confirmed—at tailoring capital regulation and other types of regulation to the particular character of the institutions that are regulated, and that includes their size, and it includes other aspects of their character.

Senator SCOTT. Thank you very much.

Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Tester.

Senator TESTER. Thank you, Mr. Chairman, and a special thank-you to the Honorable Senator from Indiana for letting me go ahead of him. Thank you very much. I appreciate that.

First of all, Mr. Otting, Mr. Quarles, thanks for both being here today. I very much appreciate it.

Mr. Otting, when you were in my office earlier this week—and thank you for coming in—we talked a little bit about NeighborWorks, and at that moment in time, you were not up to speed on it. I told you I was going to ask you some questions on NeighborWorks at this hearing, and hopefully, you have gotten up to speed. Have you had a chance to take a look at it?

Mr. OTTING. I have. I went to graduate school over the last 24 hours.

Senator TESTER. Oh, good for you.

[Laughter.]

Senator TESTER. Well, the question is, is that, What is your view on NeighborWorks? You are going on—you are going to be a director of that program. It is an affordable housing program. What is your view of it?

Mr. OTTING. Senator Tester, we—there is a representative from the OCC. It is not currently the acting nor was Mr. Curry in that role when he left, but it is one of the more senior persons that does sit on the board and actually is the chairman——

Senator TESTER. Yeah.

Mr. OTTING.——of the NeighborWorks.

I would say, you know, I have spent a lot of time. I have noticed—you know, I went and looked at the budget.

Senator TESTER. Yeah.

Mr. OTTING. It was $200 million last year. One-hundred-eighty of it came from appropriations. About 20 of it came from really foundation gifts.

I also went out and spoke with people in Nevada last night at a very late time on the east coast here and learned about the organizations——

Senator TESTER. Yeah.

Mr. OTTING.——what they do about going back to the communities really across the United States and offering consultative and——

Senator TESTER. Yeah.

Mr. OTTING.——data of how you do that.

Senator TESTER. Yeah.

Mr. OTTING. And I think, you know, you know my perspective on affordable housing.

Senator TESTER. Yeah.

Mr. OTTING. It is a critical element of our economy, and I also think we have to find a way for an organization like NeighborWorks to be able to maintain their place in America.

Senator TESTER. OK. And so I assume by your previous statement that you do not intend to be the rep on the NeighborWorks?

Mr. OTTING. I did not say that. I was just clarifying when you said——

Senator TESTER. OK.

Mr. OTTING.——that I was on that.

Senator TESTER. Oh, yeah. I am sorry. I meant to say your position.

Mr. OTTING. Yes.

Senator TESTER. Do you intend to fill that, or do you intend to appoint?

Mr. OTTING. It is a role I have historically played in the communities that I lived in.

Senator TESTER. Good.

Mr. OTTING. And so I would be honored to be considered for that.

Senator TESTER. Good.

As you well know, the President slashed the budget of NeighborWorks from $140 to $27 million, also cut a lot of other affordable housing programs.

I asked you this in the office, and I will ask you this. If these are programs you believe in, are you willing to push back and talk about the positive impacts of these programs and potentially help us get to a point where the funding is at a reasonable level?

Mr. OTTING. I would be happy to.

Senator TESTER. I appreciate that, and I appreciate that answer too, by the way, because oftentimes we do not get that straight-up kind of stuff. I appreciate that.

The next line of questioning is something we also took in my office that is critically important for my support of you. I will just tell you this, because when we talked about robo-signing in my office, your exact words were "This is a false narrative."

And I went back and I looked at the consent orders with the Office of Thrift Supervision, which no longer exists, but which part of that job is going to be in the OCC and the other regulators. And here is what it said about OneWest, of which you were a big part of. It says that, "Numerous affidavits or other mortgage-related documents were not properly notarized." That is a quote, and this is quote too:

> Litigated foreclosure proceedings without always ensuring that a promissory note or mortgage document were properly endorsed or assigned, and that OneWest failed to devote sufficient financial staffing and managerial resources to ensuring proper administration of its foreclosure processes.

Can you tell me what that is if that is not robo-signing?

Mr. OTTING. Well, I do not believe that is robo-signing. First of all, when we signed the consent order, we did not confirm or deny the accusations in the consent order. That was a fairly generic consent order that all banks were asked to sign and really did not have a choice.

The issue—I think the issue of documentation and robo-sign are two separate things. There was an organization called MERS where most of notes and deeds of trust were electronically stored, and there was a provision at that time where you could use the MERS system to be able to do foreclosures. And when the OCC came in and the OTS, they found that there were lots of errors in that system, and they forced upon the banks to clean that up, which we did.

Senator TESTER. I got it. I got it, and I appreciate——

Mr. OTTING. But if I could comment on the robo-signing——

Senator TESTER. Yes.

Mr. OTTING.——for you, I would be happy to do that.

Senator TESTER. Yes, go ahead.

Mr. OTTING. So, in my mind, there are a lot of definitions to robo-signing. I think if—like I told you in your office, if we all wrote it down, my guess is we would have different descriptions of it. There are four key ways that I would answer did OneWest Bank robo-sign. The first is, did we have a process and controls to review the affidavits and complete those at OneWest Bank? We did. Were there errors from time to time? I could—I do not have that statistic, but I would tell you there were.

Second of all, in some accusations of robo-signing, it was that people signed other people's names. I can tell you that was never done at OneWest Bank, that Bill Jones signed for Sally Smith.

The third, the third issue was—was that were they properly notarized, and we had all our notarization activity occurred in one location. People sat next to each other. They knew those people. They were not doing it remotely.

And, last, the critical component of a foreclosure is that the affidavit is the person who is signing that affidavit validated principal past due and amount due, and quite frankly, we found no errors when that person was doing that work.

Senator TESTER. And I would just say this—and I am way over time, Mr. Chairman, and just bear with me just for a second. But if, in fact, you were to sign off on an agreement that was not accurate—I do not know why you would do that being in business and especially in the banking business.

Mr. OTTING. I would agree with you.

Senator TESTER. And this is pretty darn clear when it says litigated foreclosure proceedings without always ensuring that the promissory note or mortgage document were properly endorsed or assigned.

Now, I would imagine that if the Office of Thrift Supervision found that happened once or twice, this would not be in there. It happened—it had to happen with some regularity, and I got it. I am not saying that, but it does say properly endorsed or assigned.

Mr. OTTING. I would appreciate the opportunity to have a follow-up discussion with you.

Senator TESTER. We can do that.

Mr. OTTING. So we can—I can try to gather data and bring it in——

Senator TESTER. OK.

Mr. OTTING.——from public sources.

Senator TESTER. Well——

Mr. OTTING. But I can tell you, similar to Secretary Mnuchin, we have kicked this thing five ways to Sunday.

Senator TESTER. I know, but——

Mr. OTTING. But there were errors. I do not want you to think that we never made errors——

Senator TESTER. No, I——

Mr. OTTING.——because that—we did make errors.

Senator TESTER. I am going to close it out real quick, and we will talk. But the issue is you are going to be ahead of the OCC.

Mr. OTTING. That is correct.

Senator TESTER. You are going to be supervising people who potentially did the same thing that was claimed on OneWest.

Mr. OTTING. That is correct.

Senator TESTER. All right. Thank you.

Chairman CRAPO. Senator Tillis.

Senator TILLIS. Thank you, Mr. Chair.

Thank you, gentlemen, for being here, and congratulations to you and your family on your nominations.

Someone earlier said, Mr. Quarles, that they were concerned with you doing the revolving door between regulatory roles and out in the private sector. I actually find that refreshing versus bureaucrats that just ride this escalator to learn how to regulate, regulate, regulate more, so I think that is a good thing, not a bad thing. And I am impressed with your past experience in both, in both settings.

First, to either one of you, do you think Glass-Steagall caused the 2008 financial crisis?

Mr. QUARLES. Well, as I had mentioned in the context of the previous——

Senator TILLIS. Give me a real quick yes or no or maybe, because I have got a couple other ones.

Mr. QUARLES. Oh, you have got a couple other ones.

I do not believe so. I think that keeping the depository institutions safe from other activities in a larger organization is important.

Senator TILLIS. I am going to get back to that in a follow-up.

How about you, Mr. Otting?

Mr. OTTING. I do not.

Senator TILLIS. Now, the Fed Chair Volcker has said that he actually thinks that the rule should be simplified. Do you all agree with the former Fed Chair?

Mr. QUARLES. I do.

Senator TILLIS. Yeah. I have tried to give somebody that, you know, is watching this and does not understand what we are talking about in terms of the regulatory overreach a kind of visual, and, Mr. Quarles, you and I talked about this briefly. I have done the math since our meeting the other day.

Mr. Otting, I have not had the pleasure to meet with you, but I will look forward to it.

But there are some—some of the larger, more complex banks will submit as many as 80 to 100,000 pages—80 to 100,000 pages—annually to be compliant with the CCAR, the stress test submission. That is seven—if you line up those pieces of paper, long end, that is 17 miles, yet it is 81 volumes of "War and Peace." It is close to 20 or 30 feet of shelf space.

Now after they submit it, we hear regulators going into these agencies a week or so later. I do not know if anybody in here can read 81 volumes of "War and Peace" in a week and digest it, but my guess is no regulator can.

So it raises a question about how valuable that information is, and one thing that I think we have to look at is, of course, we would—many of these larger banks, many of the smaller banks regulatory do stress tests. Can you talk about why you think the transparency is not—I think some people are suggesting it is kind of giving somebody the answer key before they take the exam. Can you—can you tell me why you think that transparency is important and still provide you with that—the regulatory—I mean, having

the lens into that, that it is not an issue to be actually transparent, and let the institutions kind of know what they have got to be up against?

Mr. QUARLES. Well, I think there——

Senator TILLIS. And, Mr. Otting, I am happy to have you opine as well.

Mr. OTTING. OK.

Mr. QUARLES. I think there are a number of aspects of that. It is not giving the entity the answer key; it is giving them the questions. It is giving them the test. So it is a little difficult.

I mean, if the situation we are in now——

Senator TILLIS. Yeah. But the suggestion is that if they get it, then they can game the system, but I just do not—I do not get that, particularly for these institutions who are regularly doing stress tests anyway.

Mr. QUARLES. I think that, certainly, the benefits of transparency outweigh any of the theoretical costs, because if you are clear about what it is that you expect, you will inevitably get more compliance. Plus, you will get feedback—and not only from the banks, but from the public—as to how the test can be improved.

Senator TILLIS. And who ultimately pays for the cost of this? At the end of the day, if we keep on ratcheting up the cost, who ultimately pays for this?

Mr. QUARLES. The consumer.

Senator TILLIS. Yeah. The little guy.

Mr. QUARLES. Exactly.

Senator TILLIS. I wanted to ask a question about—and, Mr. Otting, I will start with you. How many tips are there on a spear, a classical spear?

Mr. OTTING. Two.

Senator TILLIS. Two.

So we have got five—or four or five on the regulatory spear for the financial services industry. Right?

Mr. OTTING. Yes.

Senator TILLIS. We have people—and let us get away from the big banks for a minute. Let us deal with the community banks or the midsize banks. We have got four or five regulatory agencies on any given day going into a bank, pretending to be at the tip of the spear. Does that make sense? Is there some way that we can actually get to a point where we have certainty and responsibility around the regulators so that the financial services industry, whether you are a small community bank or a super bank, actually knows who they should be answering to for a given set of regulatory regimens?

Mr. OTTING. Well, I would say for the record, I misspoke. It should be one tip, not two.

Senator TILLIS. Yeah, I know.

Mr. OTTING. But——

Senator TILLIS. I gave you a pass. I was going to look it up on the Internet later on, but——

[Laughter.]

Mr. OTTING. But I will say one of the complexities——

Senator TILLIS. There are two ends.

Mr. OTTING. Yes.

Complexities of the regulatory body when you talk to a financial institution is often similar entities are asking for same information. One is coming in the door when the other is going out, and the lack of coordination makes it very difficult on the industry.

Senator TILLIS. And this is an area where I will ask you all to commit to not being territorial and deciding that you are right, there is only one tip of the spear, and you are the tip. I think there are logical—assignments are a rational basis for one to take the lead and the other to follow and provide that clarity to the financial services industry.

If you really do want to help the little guy, you better stop passing the regulatory costs down to them by adding a regulatory burden.

I worked at Pricewaterhouse. Regulations were good for us, put my kids through college, but I think we have to simplify these things so that we get to right-size regulations. Otherwise that money goes down to that individual depositor, that individual small business, the people who are using these financial institutions, and I hope that you all will get in there, right-size the regulations. Regulations exist for a reason, but do it in a way that actually is responsible, predictable, and as lean as possible, because I think it will have an enormously positive impact on the movement of capital in this country and getting growth where we need it to be.

Thank you. I look forward to supporting your nominations.

Oh, and, Mr. Quarles, I hope you do not have an opportunity to deal with the arbitration rule, because I hope we repeal that long before you ever get there.

Chairman CRAPO. Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman. Thank you both for being here.

I would just like to let you know real—obviously, these are positions of incredible importance and that the American people are counting on you.

I just want to quickly let you know the results of what happened in 2008 in my congressional district that I represented at the time. Elkhart County, 20 percent-plus unemployment. The Chrysler transmission plant, that was in my district. Over 5,000 people worked there; a little bit later, less than 100. So that is 4,900 people who are wondering how they are going to pay their mortgage, how they are going to feed their family, how they are going to be able to make ends meet.

Small businesses in my district, I met with one after another that had lines of credit that were all called, and these lines of credit that were called, these are small businessmen who had worked all their lives, small businessmen and—women who then at that point had to have a fire sale of assets in order to cover the line of credit. Twenty percent unemployment, lines of credit being called, people losing jobs because we had a financial collapse caused by Wall Street, but it was not—it was not Wall Street who at the end of the day got the pain. It was—it was the folks I live with in Indiana.

And so when you miss it, the real result is people losing their houses who did nothing wrong other than show up for work every day and work nonstop to take care of their family, and that is the

obligation and the responsibility of these jobs that you are walking into.

And I just wanted to ask a couple questions. Mr. Quarles, one of the things I saw was that the ratings agencies basically were selling ratings. Were you aware that they were taking B and BB, stuffing them together, and then having that be rated AAA by the agencies at the time?

Mr. QUARLES. The exact mechanics of some of that rating agency practice, I was not aware of, but I was—we were looking at the rating agencies and their practices is something that we were in the process of doing when I was there.

Senator DONNELLY. Did you see anything that caused you to—caused concern for you back then when you looked at their practices? Because you could see the products that they were putting together.

Mr. QUARLES. I would say that while we did not appreciate the depth of the problem, it was something that we were looking at. I think that was an issue that was evident and should have been more evident to us.

Senator DONNELLY. Synthetic CDOs, pure gambling is what it struck me as. Do those kind of things concern you? Do you think they are appropriate?

Mr. QUARLES. I spoke at the time against excessively complex derivative products, so yes, they did concern me. And I do not believe that they are appropriate. Yes.

Senator DONNELLY. Mr. Otting, what lessons did you take from the crisis that you would bring to this job? I mean, we were looking at basically the Wild West, synthetic CDOs, rating agencies that would take B's and C's, and you put enough of them together, and all of a sudden, you have a AAA. And, as I said, the people that suffer live in Indiana and lose their jobs.

Mr. OTTING. Senator Donnelly, thank you for the question.

I too have experienced pain of people who I have personally met with who went through the foreclosure process. It is a life-changing event for those people, especially when, as you said, they are hard-working Americans.

At the time of the crisis, I worked at U.S. Bank, and we never participated in any of the subprime——

Senator DONNELLY. Right.

Mr. OTTING.——activities. We always felt that people, you know, needed to have the proper credit, proper underwriting.

Senator DONNELLY. When you were working with the other people there, did you ever look at some of this and say this is crazy?

Mr. OTTING. We did. We did. In fact, I—there was a point in time where there used to be kind of a matrix with high-to-low—to loan value and high/low FICO, and if somebody had a really good FICO, maybe they justified a higher loan-to-value, or if they had a bad FICO, they better be less loan-to-value. When the boxes flipped where you could have low FICO and high loan-to-value, we knew this was——

Senator DONNELLY. I am almost out of time, so I want to ask one more question, which is as you look ahead, you know, obviously, I want to make sure that it does not happen again. Everybody does.

What concerns you the most? Student loans, or is there anything on the horizon that you look at and go, "This could be a problem"?

Mr. OTTING. I think—I think student loans are an issue if you really look at it from an underwriting perspective, and I think the auto loan market, it got a little overcooked. It has, I think, pulled back a little bit now, where terms were getting aggressive, loan-to-values were getting aggressive, and now I think with the insight of the OCC examining, they have pulled back some of the auto-lending activities.

Senator DONNELLY. Mr. Quarles?

Mr. QUARLES. I would agree with both of those points.

Senator DONNELLY. Anything else that concerns you as you look?

Mr. QUARLES. You know, I continue to be concerned about the—some of the level of complexity in the system I do not think that we have given enough thought, and that we can give more thought as to how various parts of it relate to each other.

Senator DONNELLY. Thank you, Mr. Chairman.

Mr. OTTING. Could I add one thing, Chairman?

Chairman CRAPO. Briefly.

Mr. OTTING. You asked me about what concerns me about America today. My big concern is that a lot of people at the lower end or echelon of the banking are not qualifying for banking products and services. You have branches going away. You have people concerned when they walk into branches, the kind of questions people are asking about opening up accounts, and I think there needs to be a real focus of how do we make banking available for the lower economic and ethnic people across America.

I think there are some tools to do that with automation. We did that at OneWest Bank, where we really focused on bringing people in and making banks available to them when they were not in their neighborhood, so——

Chairman CRAPO. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Mr. Quarles, you left the Treasury Department in 2006 and joined The Carlyle Group, a private equity firm in 2007. After you left the Administration, you publicly advocated to change the rules limiting private equity investment in banks. Is that correct?

Mr. QUARLES. That is correct, Senator.

Senator MENENDEZ. Now, in September of 2008, the Federal Reserve announced a policy shift allowing for private equity firms to take larger ownership stakes in banks. In May of 2009, The Carlyle Group acquired, along with two other firms—$12.8 billion—BankUnited. Is that correct?

Mr. QUARLES. That is also correct.

Senator MENENDEZ. As part of that deal, the FDIC agreed to cover most of the losses, and in total, the FDIC made $1.6 billion in payments, more than any other loss-sharing agreement during the financial crisis.

Ultimately, BankUnited failure cost the FDIC $5.7 billion, and The Carlyle Group and other private equity investors walked away with more than $2 billion. That sounds pretty much to me like IndyMac and OneWest.

So it seems, Mr. Quarles, that you used your remaining influence in the Administration to change the rules to make it easier for your

new employer, a private equity titan, to turn America's struggling community and regional banks into cash cows, and in so doing, you gave little regard for the communities served by these banks.

And I hope my colleagues are acutely aware of the consolidation of community banks, that they understand what we are talking about here. Mr. Quarles lobbied the Government so that his employer could invest in deals where the FDIC would take on all the risk. The private equity investors would reap all the benefits, and the future of the community banks involved was merely an afterthought. And that worries me in the context of some of the comments that you and I discussed yesterday about your views on regulatory oversight, changes in that regulatory reform, changes in the Wall Street reform that came in the aftermath of the world's worst financial—or the Nation's worst financial crisis, where we were told by Ben Bernanke we were going to have a global financial meltdown. And so I worry about that.

Mr. Otting, I heard the answers you gave to Senator Tester on robo-signing, and I think—just like Secretary Mnuchin, I think there is a misstatement of the facts here, but I think Senator Tester did a good job on focusing on that.

Let me ask you something else. Did OneWest engage in the practice of dual tracking, offering a struggling homeowner the hope of a modification while simultaneously pursuing a foreclosure?

Mr. OTTING. Mr. Menendez, that was an industry practice.

Senator MENENDEZ. I did not ask you that.

Mr. OTTING. And so——

Senator MENENDEZ. I asked you did OneWest engage in it. Yes or no?

Mr. OTTING. The answer to that is yes. We did, and it was an industry practice that we discontinued once it was identified in the consent order as not to be an acceptable practice.

Senator MENENDEZ. Will you commit to provide the total number of foreclosures and loan modifications completed in each of the States represented by Members of this Committee prior to the Committee's vote on your nomination?

Mr. OTTING. I do not have access to that data. It is the—and it is owned by CIT Bank, and we could—you can request that information from them, but I would not have any influence over that.

Senator MENENDEZ. You do not have the wherewithal to ask them to provide that?

Mr. OTTING. I do not.

Senator MENENDEZ. Well——

Mr. OTTING. Will ask, but I do not know if they would comply.

Senator MENENDEZ. I understand that while you may not have direct access to the information, you certainly can be helpful in requesting CIT provide this information prior to the Committee voting on your nomination. I hope you would do that.

Mr. OTTING. Are you asking for me to request that information?

Senator MENENDEZ. Yes.

Mr. OTTING. I do not think that that is my position, Senator, to request that information from CIT.

Senator MENENDEZ. Well, let me just say New Jersey was particularly hard hit by the 2008 financial crisis, and it continues to have the highest foreclosure rate in the Nation. So as long as

homeowners in New Jersey continue to struggle with foreclosure, I am not going to forget OneWest's practices and expect you will take seriously my request for this information, and you are going to a position for which this information is critical.

I cannot understand nominees who must understand that based upon the positions they have been nominated to and positions they have taken in the past that one does not come prepared to reconcile—or try to reconcile those views. So I have a problem with that.

Finally, Mr. Quarles, you and I spoke about a rules-based approach to monetary policy, and you told me you do support a rules-based approach to monetary policy. Do you accept the analysis that suggests that following a strict Taylor rule would undermine the Fed's ability to achieve its full employment mandate? And talk to me about the full employment mandate as part of your dual obligation. We talked a lot about the one side of that obligation. We did not talk very much about the full employment side and your views on that.

Mr. QUARLES. Certainly, Senator. I think that the Taylor rule is merely one example of a rule. I am not advocating the adoption of the Taylor Rule to guide Fed policy.

With respect to the employment mandate as part of the dual mandate that faces the Federal Reserve, I think that is an important element of the Federal Reserve's obligations. I would take it very seriously.

Senator MENENDEZ. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you, Senator.

That concludes the questioning, except that Senator Brown has asked to ask two more questions. So we will do that, and then the hearing will conclude.

Senator BROWN. Before Senator Menendez leaves, I was a little—perhaps the collective amnesia has spread to me personally from this, but my understanding in my office when I pointed out the information that Senator Menendez just asked you for, I had asked Secretary Mnuchin in six different letters. Senator Menendez and I sit on the Finance Committee together. I believe he signed a couple of those letters asking for the information he just asked you about. I thought you said in my office that you would be willing to make that request to get that information for us, so I would like to reiterate that you——

Mr. OTTING. I do not believe I—if I led that impression, I did not say I would seek that information.

Senator BROWN. Well, I would like to ask you——

Mr. OTTING. I said I would help participate, but it is solely at CIT's decision whether they will release that.

Senator BROWN. I understand that, but I think a request from the designee for the—to be the Comptroller might get their attention, and it did not get their attention through the whole process. When Secretary Mnuchin was nominated, we all—a number of us asked him repeatedly. He would not disclose that, and he would not try to disclose that information. We went a number of letters and could not get it. So I would ask you to help us with that, to commit to help us try to get that information.

Mr. OTTING. Yes. As I said, I would be happy to help support, but I do not feel it is my position to request that information.

Senator BROWN. I am sorry to hear that.

Thank you, Senator Menendez, for that.

My two questions about this, one—one is, Mr. Otting—and earlier you had talked about the 38 people, I guess, you just apologized to in my question earlier, and I want to follow up on that.

The OCC's April 2014 report on the consent orders we discussed found that OneWest did not comply with rules to protect active duty servicemembers, borrowers not in default, modification requests, and others. The report, the consent order said that there were 10,700, not the 38, I believe, number that you cited an hour or so ago. Why not apologize to the 10,700?

Mr. OTTING. Yeah. The 10,000 number was—there was an accepted practice. If you had a *de minimis* dollar amount at the close of escrow—when an escrow would close, you would get a bid for a title policy, an appraisal policy, for other activities, and often these would be 2 cents. And so the thought was that between relatively small-dollar amounts, we did not ask for nor give refunds.

When the OCC came in and said we had to be 100 percent accurate on those transactions—and so anybody—99 cents or less on those—we gave them the actual dollar amount. In certain circumstances, it was 10 cents plus $25, and we scaled that up. But we ended up reimbursing every one of those dollar amounts.

Senator BROWN. OK. I want to know more about that.

Mr. Quarles, last question for you. You earlier—you had said, quote, "Markets are always ahead of the regulators. Frankly, that is how it should be. It is analogous to the advice that my father provided me," that, quote, "If you do not miss at least two or three planes a year, you are spending too little time at the airport"—I am sorry—"you are spending too much time in airports"—sorry about that—unquote. If the regulators are not—you went on to say, "If the regulators are not a little behind the market in a few areas at any given time, they would be stifling innovation and evolution," unquote.

We have all been guilty of using unfortunate analogies, but what concerns me that this—is that this world view contradicts the ideas that you were—the idea that you were doing everything in your power to prevent a crisis. It concerns me even more that you believe that oversight agencies, like the one you hope to run, should, in fact, miss risks, miss a plane here and there, should miss risks in the system. The last time you missed those risks, it cost my ZIP Code and my State and our country, lots of people, their homes, their jobs, their retirement savings. You claim it is in the name of innovation, but the question is at what price.

So do you stand by your statement that regulators should be, quote/unquote, "behind the market"?

Mr. QUARLES. That is probably the most unfortunate use of language that I have ever made, and I do not stand behind that statement.

Senator BROWN. Thank you. Thank you. And thank you for what you said in your earlier statement about humility. Those are two things we do not always see in this Committee.

My last—just last thing I would like to say is when Chair Yellen was nominated and confirmed, I asked her to come to Cleveland and see what—see what the real economy looked like and learn a little more about manufacturing and what decision she would make as Chair of the Federal Reserve, the impact, and she did that, went to Alcoa, got to operate—sort of, kind of operate a 50,000-ton press. And considering what Mr. Otting's bank, the impact it had on my neighborhood and beyond, considering what some of the statements from Mr. Quarles—and I so much appreciate your comments a minute ago—I would like to invite both of you, once confirmed, to come to my State.

President Lincoln once said that while his staff wanted to keep him in the White House to win the war and free the slaves and preserve the union, he said, "I have to get my public opinion bath and go out among people," and I would like to invite each of you, if confirmed, to Ohio to join me in learning more about an economy in the Midwest.

Mr. QUARLES. I would be delighted to do that.

Senator BROWN. Thank you both.

Mr. OTTING. Back to Cleveland for me.

Senator BROWN. Back to Cleveland for a Midwestern guy. Thank you.

Chairman CRAPO. Thank you.

And I understand Senator Cortez Masto has one brief question, I hope.

Senator CORTEZ MASTO. I do. Just a clarification. Thank you, Mr. Chair.

So, Mr. Otting, in your answers to Senator Tester, did I hear right that you said that OneWest did not engage in robo-signing?

Mr. OTTING. I said when I answered the question that there could have been errors, they were not identified in the robo-signing, but our process is in place. And, again, what I would comment on is that I think a lot of people have different definitions of robo-signing. Mine is, did we have a process for the affidavits? Second of all, did anybody sign any affidavits of another person's name? Third was the data check before somebody signed the affidavit, and last, was a notarization process done? And I would respond that we did do those at OneWest Bank accurately. There may have been exceptions. I am not aware of those exceptions, and they were not identified as any issues in the interim OCC report that reported our results.

Senator CORTEZ MASTO. OK. Here is my concern, and very briefly. I have in front of me the consent order between the Office of Thrift Supervision and OneWest.

Mr. OTTING. Right.

Senator CORTEZ MASTO. And, specifically, it states that OneWest Bank engaged in unsafe or unsound banking practices relating to mortgage servicing and the initiation and handling of foreclosure proceedings. Specifically, those unsound practices included filed or caused to be filed in State and Federal courts or in local land records, offices—and this is—and it happened in Nevada—numerous affidavits or other mortgage-related documents that were not properly notarized, specifically that were not signed or affirmed in the presence of a notary, litigated foreclosure and bankruptcy

proceedings, and initiating nonjudicial foreclosure proceedings without always ensuring that the promissory note and mortgage document were properly endorsed or signed and, if necessary, in the possession of the appropriate party. That is robo-signing. That is what is in this consent order that says that you have done.

Mr. OTTING. The things that were made, if you will know, we did not confirm or deny. You have to look at the results that came from the——

Senator CORTEZ MASTO. Then why did you sign the consent order? If you did not agree with the decision——

Mr. OTTING. Have you ever had to sign a consent order?

Senator CORTEZ MASTO. Actually, I was Attorney General of the State of Nevada.

Mr. OTTING. You basically do not have a choice. When the——

Senator CORTEZ MASTO. So you are telling me that your company——

Mr. OTTING. You do not have a choice.

Senator CORTEZ MASTO.——did not engage in this, but you were forced under duress to sign this consent order?

Mr. OTTING. I hope you are never in the position that I was. I had great pride. I had been at that company a little less than a year, and I was—I would argue I had to, for the benefit of our employees, sign that consent order, when I did not agree with what was described. The words that were inserted in there were "do not confirm or deny." I think I would encourage you to look at the results that were produced in 2014. I would be happy to get those over to your office. I think it paints a different story of OneWest Bank.

Senator CORTEZ MASTO. If you did not engage in the practices, then you should not have signed the consent order, Mr. Otting, but——

Mr. OTTING. I wish—I wish it was that easy.

Senator CORTEZ MASTO.——I appreciate your comments.

Mr. OTTING. I wish it was that easy.

Senator CORTEZ MASTO. Thank you very much. It was very instructive.

Chairman CRAPO. Thank you.

And that does conclude the questioning and the hearing, with the exception of a few final announcements.

Before I do that, though, I want to again thank you both for coming in and participating today at the hearing, and I thank you for your willingness to serve the country.

Mr. OTTING. Thank you.

Chairman CRAPO. For Senators, all follow-on questions need to be submitted by Tuesday, August 1st, and for our witnesses, response to those questions are due by the following Monday morning, August 7th. So please respond quickly to the questions as you receive them.

With that, the hearing is adjourned.

Mr. OTTING. Thank you.

Mr. QUARLES. Thank you.

[Whereupon, at 11:35 a.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF JOSEPH OTTING

TO BE COMPTROLLER OF THE CURRENCY, OFFICE OF THE COMPTROLLER OF THE CURRENCY

JULY 27, 2017

Chairman Crapo, Ranking Member Brown, and Members of the Committee, it is an honor to appear before you to today. I am grateful to be nominated by President Trump to be the Comptroller of the Currency, and if confirmed for this role, I would be honored to serve the citizens of the United States of America.

Thank you to all of the Members of the Committee I had an opportunity to meet. I enjoyed the opportunity to meet some of you for the first time, and to get re-acquainted with others, but most importantly, I appreciated the opportunity to learn more about the issues you feel are important to the people of America. For those I did not get to meet, if confirmed, I look forward to meeting and working with you in the future.

I would like to introduce my wife and best friend of 27 years, Bonnie Otting. Sometimes you get lucky in life and I am forever grateful for the day we met. You have always been my compass in life and for that I love you. In addition, I would like to recognize Bonnie's father, Herman Espinoza, who could not be with us today due to his health and age of 94. He is a first generation immigrant who came to the United States to pursue the American dream, so his family could live a better life. One of his proudest moments was when he was granted his U.S. citizenship.

My mother, Grace Ann McQuillen Otting, is with us today. She has always been my guiding light in life, instilling in me a strong moral compass and helping me appreciate the values of a sound family life. She taught school for 35 years and was an inspiration to so many students.

I would also like to acknowledge my late father, James Otting, and mother-in-law, Jesse Espinoza. My father taught me many valuable lessons in life, not the least of which were his business acumen, focus on family and his commitment to serving his community. From Bonnie's mother, I learned the value of kindness to others and that love can cure many things.

Lastly, I would like to introduce my sister Julia Ardell and my brother James Otting. Over the years we have learned the value of love, companionship and dependence on each other.

I grew up in a Midwestern family where my father was an entrepreneurial business person and my mother, as I indicated, was a school teacher. At the young age of 10, I learned the value of business, client relationships and leadership from my father while working at his businesses. Often doing the jobs no one else wanted to do! I also observed from my father how hard work, willingness to take risks and family support led to success. I learned from my mother, who taught school during the day, raised three children and went to college at night, that hard work and dedication can make a difference.

I studied at the University of Northern Iowa, following a family tradition of my mother, sister and ultimately my brother to the University. During the summers and holiday breaks my father would have me work at his businesses and arranged other roles which included working at an electrical dam for a regional utility, a commercial construction site and at a bakery. All great roles for building character, an appreciation for people and their individuality, and how leadership can make a difference.

After college, I was fortunate to be chosen to be a part of a management training program for a leading national financial institution. It was an experience that forever changed my life. I gained insight into the banking system from the "other side" of the table and discovered how banks help consumers and businesses with services, deposits, products and loans. It is in this industry I spent the next 34 years of my life and learned the importance of serving employees, the community, customers, and shareholders.

My banking experience has allowed me to work for one of the largest banks in the Nation, two well respected regional banks, and a community bank. I have touched virtually every segment of the industry including serving consumers, businesses, trust functions, private banking, investment services, legal, human resources, compliance, audit, treasury, financial management, operations and technology. This experience provides a broad base of knowledge that will be helpful and insightful in the role as Comptroller.

In 2010 I decided to leave an executive position at an established financial institution because I felt that Southern California was in need of a "hometown bank." When approached about the idea, I knew it would be challenging and a tremendous amount of work, but ultimately an achievement for myself, the company, and the

region. With the assistance of the many dedicated women and men of OneWest Bank, we were able to create the largest hometown bank headquartered in Southern California. It was able to grow beyond primarily mortgage originations to a bank with a full suite of products and services for local businesses, families and consumers. Helping build this company is something I am and will remain proud of. After a successful merger, I left the organization in late 2015 and became an entrepreneur focusing my efforts on real estate and small businesses.

The mission of the OCC is to ensure that national banks, Federal savings and loans and foreign operations of international banks operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

If confirmed as Comptroller of the Currency and given the opportunity to lead the women and men of the agency, I pledge to honor the OCC's mission and cooperate and work with this Committee and all members of Congress.

Thank you for your time today. I look forward to answering any questions the Committee may have.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: **Otting** **Joseph** **Michael**

(Last) (First) (Other)

Position to which nominated: Comptroller of the Currency

Date of nomination: 06-06-2017

Date of birth: **27** **11** **1957** **Place of birth: Maquoketa, IA**

(Day) (Month) (Year)

Marital Status: Married **Full name of spouse: Yvonne Rita Otting**

Name and ages of children: N/A

Education:

Institution	Dates attended	Degrees received	Dates of
Maquoketa High School	9/73 - 5/76	HS Diploma	5/76
University of Northern. Iowa	9/76 - 5/81	BA	5/81
Graduate School of Credit and Financial Management	7/90 - 7/92	N/A	Certificate of completion received 7/92

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

- Killebrew Thompson Memorial recognition for Service and Dedication as Chairman of the Board
- CalChamber recognition for Devoted and Dedicated Leadership as Chair of the Board
- University of Northern Iowa President's Club
- Have received numerous other community and civic recognitions

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

Organization	Office held (if any)	Dates
California Chamber of Commerce	Prior Chairman of the Board, Current Executive Committee and Board Member	2009 - Present
Killebrew Thompson Memorial	Prior Chairman of the Board, Current Board Member	2007 - Present
Southern Highlands Golf Club	Co-Chairman & Board Member	2016 - Present
National Rifle Association	Member	2017 - Present
Jonathan Club	Prior Board Member and Treasurer and current member	1997 - Present
Wilshire CC	Member	1996 - Present
California Bankers Association	Board Member	2009 - 2013
100 Club of Los Angeles	Member	2013 - 2015
Financial Services Roundtable	Member	2014 - 2015
Minnesota Chamber of Commerce	Board Member	2004 - 2006
Minneapolis Club	Member	2006 - 2003
Oregon Business Council	Board Member	2002 - 2003
Portland Business Alliance	Board Member	2002 - 2003
Associated Oregon Industries	Board Member	2002 - 2003
Waverley CC	Member	2003 - 2010
Arlington Club	Member	2003 - 2009
Oregon CC	Member	2002 - 2003
Oregon Bankers Association	Board Member	2002 - 2003
SOLV Founders Circle	Member	2003 - 2003
Los Angeles Chamber of Commerce	Board Member	* - 1996
LA Economic Development Corp	Board Member & Executive Committee	* - 1996

* Nominee does not have accurate date data (Am working with each respective organization to provide the data)

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

Bank of America N.A. 11/81 - 5/86
Bakersfield, CA
Positions held: Management Trainee Program, Consumer Banking Officer, Small Business and a Middle Market Lender, Preferred Banking Officer and Ass't Branch Manager

Union Bank Of California 5/86 - 12/01
Los Angeles, CA and San Diego, CA
Positions held: Middle Market Relationship Manager, Team Leader of Relationship Managers, Regional Manager and Group Head

US Bancorp 12/01 - 2/10
Portland, OR, Minneapolis, MN and Los Angeles, CA
Positions held: Portland Market President, Eastern Regional Executive and Vice Chairman of Commercial Banking

OneWest Bank and IMB HoldCo 2/10 - 8/15
Pasadena, CA
Positions held: President and CEO of One West Bank, President of IMB HoldCo and Board member of OneWest Bank. Responsible for the transition of a thrift chartered mortgage company into a full service National Banking chartered financial institution offering a suite of

banking products and services to business and consumers. Successfully merged OneWest and IMB HoldCo into the CIT organization and negotiated and implemented a comprehensive CRA plan with community based organizations

CIT Group Inc. and CIT Bank 8/15 - 12/15
Pasadena, CA
Positions held: President and CEO of CIT Bank N.A. and Co-President of CIT Group, Inc.

Ocean Blvd LLC 1/16 - Present
Las Vegas, NV
Position held: Managing Member
Entity is a holding company LLC that owns 25% of SHGC LLC as its sole asset

SHGC, LLC 2/16 - Present
Las Vegas, NV
Position held: Co-Managing Partner and member of the advisory board

Lake Blvd LLC 2/16 - Present
Position held: Managing Member

The Otting Family Trust 3/10 - Present
Position held: Co-Trustee

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

- While acting as Market President for US Bank in Portland, OR in the 2001 - 2003 time frame I participated in a task force sponsored by a State Senator to review options to close budget deficits

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

- None

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

- Registered Republican
- Trump transition team volunteer

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

DATE	AMOUNT	RECIPIENT

11/08/16	<$2,700>	Joe Heck via Friends of Joe Heck for US Senate
10/24/16	$35,000	Trump Victory
10/19/17	$3,000	CalChamber PAC
10/17/16	<$2,700>	Jason Chaffetz via Friends of Jason Chaffetz
09/30/16	$2,700	Trey Gowdy for Congress
09/30/16	$2,700	Darrell Issa for Congress
09/30/16	$10,000	Trump Make America Great
09/15/16	$2,700	Joe Heck via Friends of Joe Heck for US Senate
09/13/16	$2,700	Jason Chaffetz via Friends of Jason Chaffetz
09/22/15	$1,000	Richard Bloom for California State Assembly
06/04/14	$4,100	Richard Bloom for California State Assembly
11/04/14	$2,500	Richard Bloom for California State Assembly
09/30/14	$2,000	Senate Conservatives Fund
07/18/13	$1,000	Darrell Issa for Congress
06/24/13	$2,500	CalChamber PAC
01/11/13	$200	CA Bankers Association Federal PAC
10/23/12	$2,500	M Romney/P Ryan via Romney For President, Inc
01/20/12	$800	CA Bankers Association Federal PAC
12/08/11	$2,500	M Romney/P Ryan via Romney For President, Inc.
09/22/11	$1,000	CalChamber PAC
08/04/11	$1,000	Tim Pawlenty via Pawlenty For President
07/14/11	$1,250	Tim Pawlenty via Pawlenty For President
01/20/11	$250	CA Bankers Association Federal PAC
01/14/11	$200	CA Bankers Association Federal PAC

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

See attached Exhibit A

Future employment relationships:

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

   - As described in the Ethics Agreement that I have entered into with the U.S. Department of the Treasury Assistant General Counsel of Law, Ethics and Regulations, which has been provided to the Committee, if confirmed by the Senate, I will sever all such connections and participation in business affairs. As part of my prior employment with US Bancorp, I am eligible to receive a defined benefit plan and supplemental plan benefits. If confirmed by the Senate, I will not receive these benefits during my tenure as Comptroller.

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

   - After completing government service, I would plan on returning to managing and leading family real estate and small business investments.

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

- No

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

- Yes

Potential conflicts of interest:

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

- None

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

- In connection with the nomination process, I have begun consulting the Office of Government Ethics and the Department of the Treasury's designated agency ethics officials to identify any potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I will enter into with the department's designated agency ethics official and that will be provided to this committee.

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

- In connection with the nomination process, I have begun consulting with the Office of Government Ethics and the Department of the Treasury's designated agency

ethics officials to identify any potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I will enter into with the department designated agency ethics official and that will be provided to this committee.

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

- None

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

N/A

Civil, criminal and investigatory actions:

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

I have not been a defendant in any criminal proceeding or the subject of a governmental inquiry or investigation to the best of knowledge. I have not been a defendant in any civil proceedings other than those where I was named as a co-defendant in my official capacity as President and CEO of OneWest Bank N.A. and President of IMB Holdco. A search for these on Bloomberg Law and LexisNexis, resulted in the following cases, which to the best of my knowledge represents all cases.

Cases	Role	Status
- Calderon v. Otting	D	Dismissed 3/24/14
- Moon v. Moynihan	Co-D	Dismissed 4/21/11
- Kuzner v. OneWest Bank	Co-D	Dismissed 10/16/14
- Lucero v. Freddie Mac Equity Plus I-ESIC Ltd P'ship	Co-D	Dismissed 7/28/15
- Arlen Paul Odegard v. Joseph Otting	D	Dismissed with prejudice 2/18/11
- Hernandez v. OneWest Bank	Co-D	Dismissed 2/7/14

- Clark v. Keys	Co-D	Dismissed 5/26/16
- Guevara v. FDIC	Co-D	Filed 10/6/14
- Clark v. Boyle	Co-D	Dismissed 10/1/2014
- Metcalfe v. Williams	Co-D	Dismissed 6/6/2011
- Larson v. OneWest Bank	Co-D	Filed 2/21/14
- Diaz v. Dimon	Co-D	Filed 4/27/15
- New Jersey v. Financial Freedom	Co-D	Dismissed 9/15/15
- Colebrook v. App	Co-D	Dismissed 8/14/15
- New Jersey v. Otting	D	Dismissed 8/13/15
- Colebrook v. Otting	Co-D	Dismissed 5/28/15
- New Jersey v. Otting	D	Dismissed 4/16/2015
- Phayer v. OneWest Bank	Co-D	Dismissed 3/25/15
- Parson-Janrhett v. Karl	Co-D	Dismissed 1/27/14
- City of Macon v. Otting	D	Expunged 1/9/2014
- St. Claire v. OneWest Bank	Co-D	Dismissed 10/15/13
- Texas v. Otting	D	Dismissed 10/22/13
- Ganz v. Otting	D	Closed 2/28/2013
- St. Clair v. OneWest Bank	Co-D	No complaint served; Closed 11/15/12
- English v. Otting	Co-D	Closed 9/21/12
- Carson v. Indymac Mortgage	Co-D	Dismissed 9/20/11
- Anthony v. Otting	Co-D	Judgment for Defendants 3/30/15

D = Defendant
Co-D = Co-Defendant

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

- Not Applicable

Exhibit A

Joseph M. Otting
Statement of Qualifications to Serve as the
Comptroller of the Currency

It is a great honor to be nominated to serve our country as the Comptroller of the Currency. I share the goals and values of the Office of the Comptroller of the Currency which are to operate the national banking system in a safe and sound manner. In addition, I am committed that the OCC should promote competition amongst the National Banks and ensure that all Americans have fair and equal access to financial services.

As a young man growing up in a Midwestern family, I was able to witness the importance and essence of our banking system. I saw how local bankers provided needed capital to small business owners, including my father, as well as consumer and residential loans to families, including my own. I also saw the support and commitment banks make to their communities by supporting hometown venues, nonprofits that provide valuable services, little league teams, and other children's activities and programs.

During the course of my 30 plus years as a banker, I have seen how a healthy and safe banking system can change people's lives. I have observed dreams turn into success as families are able to buy their first car, purchase a new home, start a new business, send their children to college and save for retirement - all with the assistance of the banking system. I have also observed when the banking system does not work, including banks being starved for capital, which results in job losses, reduction of services for clients and bank failures.

My banking career has spanned the segments of consumer, small business, middle market, corporate lending, private banking, personal trust and investing activities, regulatory compliance, legal, technology and operations and audit. I have been regulated by the Office of the Comptroller for the majority of my career. The institutions I worked for and the areas under my leadership were held in high regard and in compliance with laws and regulations. When issues were identified or cited, we worked tirelessly to improve, correct and comply with the regulations. As a leader of personnel, I always emphasized to our teams the importance of having a professional and respected relationship with our regulators.

In addition to my work as a banker, I have worked hard to support local communities by development and oversight of Community Reinvestment Act plans and programs and my personal participation in local nonprofits. A hallmark of my life and career has been to provide access to community based organizations to tell their story and assist in their mission to allow all Americans to gain access to financial services, housing, education, and employment.

If confirmed as Comptroller of the Currency, it would be my great honor to join the talented women and men of the OCC, and blend their knowledge and experience with my banking industry and community experience, to ensure that we execute the mission of the organization and fulfill our obligation to the America people.

PREPARED STATEMENT OF RANDAL QUARLES

TO BE A MEMBER AND VICE CHAIRMAN FOR SUPERVISION, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

JULY 27, 2017

Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for this opportunity to appear before you today. I am honored that the President has nominated me to serve as a Member of the Board of Governors of the Federal Reserve System and as the Board's Vice Chairman for Supervision, and I am grateful to have the privilege of your consideration. I am also very grateful for the support of my family—my wife, Hope Eccles, our three teenage children, Randy, Spencer, and Hope, Jr., and my parents, Ralph and Beverly Quarles.

The Federal Reserve System occupies a central position in our country's policy infrastructure for promoting a strong economy and the stability of the financial system, and supporting robust job growth in a context of price stability. I can assure this Committee that, were I to be confirmed as a Governor of the Federal Reserve Board, I would be strongly committed to these objectives.

The specific position for which I have been nominated—Vice Chairman for Supervision—has a particular role in ensuring the safety, soundness, and efficient operation of our financial system. As recognized by the Treasury report, regulatory policies enacted since the financial crisis have improved the safety and soundness of the financial system. But as with any complex undertaking, after the first wave of reform, and with the benefit of experience and reflection, some refinements will undoubtedly be in order. Former Governor Daniel Tarullo, who was one of the principal architects of many of these reforms, indicated as much himself in a valedictory speech that he gave in April on the occasion of his leaving the Board, stating that "there are clearly some changes that can be made without endangering financial stability." The key question will be ensuring that, as we continue to refine the system over time, we do so while maintaining the robust resilience of the system to shocks.

I believe that I am well qualified to undertake this role. As this Committee knows, I have had experience over my career with the financial sector from many different points of view. I have been a practicing lawyer versed in the granular technicalities of the most complex aspects of the regulatory system; at the other end of the spectrum, I have been an investor in small, community banks, and am familiar with the particular benefits of those institutions and the challenges they face; and I have been a financial regulatory policymaker under two different presidents in two different decades. In fact, my first tour of duty in public service was during a similar period of response after a financial crisis—arriving in 1991 during the clean-up phase of the savings and loan crisis and facing the insolvency of the FDIC's Bank Insurance Fund.

While this long experience has given me substantive insight into the issues that the Federal Reserve's Vice Chairman for Supervision will face, it has also reinforced my commitment to what I think is the single most important characteristic of a good policymaker: the need to be humble—humble about the constraints on our understanding of complex systems, humble about the fallibility of our judgments, and humble about how our own assumptions and views influence even what we believe to be our most data-driven and analytical conclusions. As a consequence, were I to be confirmed for this position, I would approach this undertaking—as I try to approach every task—with a continual openness to input from every source. In particular, I would look forward to working with the Members of this Committee on both sides of the aisle, and your staffs, to understand the challenges that face the financial system as they evolve over time.

Thank you again for the honor of this hearing, and I look forward to responding to your questions.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name:

Quarles Randal Keith

Position to which nominated: Member and Vice Chairman for Supervision
Board of Governors of the Federal Reserve System

Date of nomination: July 11, 2017

Date of birth: 05 September 1957

Place of birth: San Francisco, California

Marital Status: Married

Full name of spouse: Clista Hope Eccles

Name and ages of children: Randal Eccles Quarles (18)
Spencer Robert Eccles Quarles (16)
Emily Hope Eccles Quarles (13)

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Yale Law School	9/81 – 6/84	J.D.	1984
Columbia University	9/76 – 6/77 1/80 – 6/81	A.B.	1981
Brigham Young University	8/75 – 4/76	None	N/A

Honors List below all scholarships, fellowships, honorary degrees, military medals, honorary

and Awards: society memberships and any other special recognitions for outstanding service or achievement.

Alexander Hamilton Award (Treasury Department's highest honor)
Treasury Department's Meritorious Service Award
A.B. degree awarded *summa cum laude*
Phi Beta Kappa
National Merit Scholar
Sterling Scholar (Utah)

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

Organization Office held (if any) Dates

Organization	Position	Dates of Affiliation
Church of Jesus Christ of Latter-day Saints	Sunday School Teacher (9/14 – present)	From birth
U.S. Chamber of Commerce	Member, Board of Directors (3/09 – present)	3/09 - present
Baltic American Freedom Foundation	Board Member (6/11 – present)	6/11 - present
Association of the Bar of the City of New York	Member, Committee on Banking Law (4/95 – 9/98)	4/95 – 2016
American Bar Association	None	1/94 – 2016
Center for Financial Stability	Member, Board of Directors (9/11 – present)	9/11 – present
Financial Services Volunteer Corps	Member, Board of Directors (7/16 – present)	7/16 – present
Metropolitan Club (Washington, DC)	None	6/06 – present
Alta Club (Salt Lake City)	None	3/15 – present
Valley Club (Hailey, Idaho)	None	7/07 – present
Yale Club of New York City	None	5/95 – present
Salt Lake Country Club	None	9/97 – present

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

Employer	Title	Location	Dates
The Cynosure Group	Managing Director	79 S. Main Street, Salt Lake City, Utah	1/14 – present
Financial Industry Regulatory Authority (FINRA)	Member, Board of Directors	1735 K Street, NW, Washington, D.C.	7/15 – present
The Carlyle Group	Managing Director	1001 Pennsylvania Avenue, NW, Washington, D.C.	8/07 – 12/13
U.S. Department of Treasury	Under Secretary for Domestic Finance	1500 Pennsylvania Avenue, NW, Washington, D.C.	8/05 – 10/06
U.S. Department of Treasury	Assistant Secretary for International Affairs	1500 Pennsylvania Avenue, NW, Washington, D.C.	4/02 – 8/05
International Monetary Fund	U.S. Executive Director	700 19th Street, N.W. Washington, D.C.	8/01 – 4/02
Davis Polk & Wardwell	Partner	450 Lexington Avenue, New York, New York	6/94 – 7/01
Davis Polk & Wardwell	Associate	450 Lexington Avenue, New York, New York	1/93 - 6/94
U.S. Department of Treasury	Deputy Assistant Secretary for Financial Institutions Policy	1500 Pennsylvania Avenue, NW, Washington, D.C.	2/92 - 1/93
U.S. Department of Treasury	Special Assistant to the Secretary of the Treasury	1500 Pennsylvania Avenue, NW, Washington, D.C.	5/91 - 2/92
Davis Polk & Wardwell	Associate	1 Chase Manhattan Plaza, New York, New York	8/84 - 5/91
Davis Polk & Wardwell	Summer Associate	1 Chase Manhattan Plaza, New York, New York	5/83 - 9/83
Milbank, Tweed, Hadley & McCloy	Summer Associate	1 Chase Manhattan Plaza, New York, New York	5/82 - 9/82
Milbank, Tweed, Hadley & McCloy	Paralegal	1 Chase Manhattan Plaza, New York, New York	5/81 - 9/81

Government

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

Under Secretary for Domestic Finance, Department of Treasury (2005–2006)
Member, Air Transport Stabilization Board (2005–2006)
Assistant Secretary for International Affairs, Department of Treasury (2002–2005)
Member, Board of Directors, Overseas Private Investment Corporation (2003–2005)
U.S. Executive Director, International Monetary Fund (2001–2002)
U.S. Executive Director, European Bank for Reconstruction and Development (2002)
Deputy Assistant Secretary for Financial Institutions Policy, Department of Treasury (1992–1993)
Special Assistant for Banking Legislation, Department of Treasury (1990 – 1992)

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

Title	Publisher	Date
"Focusing on Bank Size, Missing the Real Problem"	Wall Street Journal	March 31, 2016
"Herding Cats: Collective Action Clauses in Sovereign Debt – The Genesis of the Project to Change Market Practice in 2001 through 2003"	Duke Journal of Law and Contemporary Problems	Fall 2010
"Let Private Equity Help the Banks"	Wall Street Journal	June 30, 2009
"Private Equity Can Save the Banks"	Wall Street Journal	May 31, 2008
Testimony before the Senate Banking Committee on Modernization of Insurance Regulation	Congressional Record	July 18, 2006
Comment on "The Euro and The Dollar: Toward a Finance G-2?" in *The Euro at Five: Ready for a Global Role*	Institute for International Economics	April 2005
Testimony before the House Committee on Financial Services on the US-EU Financial Markets Dialogue	Congressional Record	May 13, 2004
Testimony before the Senate Banking Committee on US	Congressional Record	March 10, 2004

Economic and Financial Policy Toward Argentina		
Testimony before the House Financial Services Committee on US-EU Financial Markets Dialogue	Congressional Record	April 22, 2002
"U.S. Law Considerations in Foreign Bank Acquisitions of U.S. Banking Institutions" in *Regulation of Foreign Banks*	Lexis Publishing	2000
"Door Opens Wider to E-Commerce for Financial Holding Companies"	International Financial Law Review	October 2000
"US Banking Law Developments"	International Tax Review	July 2000
"Financial Services Reform in the United States – An Analysis of the Gramm-Leach- Bliley Act"	Davis Polk & Wardwell	March 2000
"International Banking Activities"	International Financial Law Review	October 1989
"A Religion of Clerks"	Sunstone Magazine	originally written August 1980, republished May 1985

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

Delegate, Salt Lake County Convention, Utah Republican Party – 2014

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

Candidate / PAC / Organization	Amount	Year
Free and Strong America PAC Inc.	$ 5,000	2009
Free and Strong America PAC Inc.	$ 2,000	2010
Majority Committee PAC	$ 5,000	2010
National Republican Senatorial Committee	$ 2,500	2010
Portman for Senate Committee	$ 2,400	2010
Bennett Election Committee Inc.	$ 2,400	2010
Free and Strong America PAC Inc.	$ 3,000	2010
Romney for President Inc.	$ 5,000	2011
Hatch Election Committee Inc.	$ 5,000	2011
Restore Our Future, Inc.	$ 7,500	2012
Freedom Fund	$ 5,000	2012
Wendy Long for New York	$ 5,000	2012
Romney Victory Inc.	$ 40,000	2012
Romney for President Inc.	$ 2,500	2012
Republican National Committee	$ 30,800	2012
National Republican Congressional Committee	$ 3,350	2012
Kevin McCarthy for Congress	$ 2,500	2012
Hatch Election Committee Inc.	$ 5,000	2012
Ryan Prosperity Action, Inc.	$ 1,000	2013
Taylor Griffin for Congress	$ 2,600	2013
Mooney for Congress	$ 2,000	2014
National Republican Senatorial Committee	$ 32,400	2014
Marco Rubio for President	$ 2,700	2015
Kirk for Senate	$ 500	2016
Friends of Mike Lee Inc.	$ 2,700	2016
Cruz for President	$ 2,700	2016
Portman for Senate Committee	$ 2,700	2016
Wendy Long 2016 Inc.	$ 5,400	2016

Mike Crapo for U.S. Senate	$ 5,400	2016
National Republican Senatorial Committee	$ 35,000	2016

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

See Attached Rider A

Future employment relationships:

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

   Yes.

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

   No.

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

   No.

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

   Yes.

Potential conflicts of interest:

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

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

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

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

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

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

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

None. As listed above, I have testified before Congress several times, most recently in 2006.

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

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

Civil, criminal and

investigatory actions:

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

   None.

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

   None.

Randal Quarles
Nomination Questionnaire
Senate Committee on Banking,
Housing, and Urban Affairs

RIDER A

The Vice Chairman for Supervision of the Board of Governors of the Federal Reserve System requires someone with a range of diverse qualifications. He should have:

- deep technical expertise in financial services regulation;
- a clear vision for financial services regulation that is based on the rule of law;
- extensive experience with both the Federal Reserve and the larger financial services bureaucracy;
- practical exposure to and understanding of the full range of financial services firms, large and small;
- a clear vision for monetary policy for the Federal Reserve to promote a strong economy and price stability;
- the leadership to advance the policy objectives of the United States in such international forums as the Basel Committee, Financial Stability Board, Financial Markets Regulatory Dialogue, and other international organizations affecting financial regulation.

My career has prepared me in each of these areas.

- ***Technical Expertise:*** In addition to my extensive government experience, I have been the co-head of the financial institutions group at Davis Polk & Wardwell, one of the leading financial services law firms in the country (and the youngest head of the group in the firm's history). There, I advised many of the most sophisticated financial institutions in the world on a wide range of regulatory matters.
- ***Vision for Regulation:*** I have participated in or led comprehensive reviews of the financial regulatory structure in two different presidential administrations, which has given me a clear view of the sensible objectives of financial regulation and the means of achieving them.
- ***Bureaucratic Experience:*** As the Under Secretary of the Treasury for Domestic Finance, I coordinated financial regulatory policy with all the various regulatory agencies of the President's Working Group on Financial Markets (the Fed, the OCC, the FDIC, the SEC, and others).

- ***Full Range of Financial Services Firms:*** My experience at Davis Polk and the Treasury was focused on large, complex institutions and questions of systemic vulnerability. At the Carlyle Group, by contrast, I focused on small and mid-sized financial institutions, where I gained valuable insight into the issues facing such institutions and their customers.

- ***Monetary Policy:*** As the Assistant Secretary of the Treasury for International Affairs, I helped lead the area of the Treasury that coordinates dollar policy for the US. In this capacity, I worked closely with both members and staff of the Federal Reserve Board on monetary policy and financial stability issues. This collaboration gave me a keen appreciation of the range of policies that are likely to foster a strong economy in a context of price stability. I will bring a valuable perspective to FOMC deliberations based on my comprehensive work in both government and the private sector.

- ***International:*** As U.S. Executive Director of the IMF and as Assistant Secretary of the Treasury for International Affairs, I was the lead US representative in a wide range of international discussions on financial structure and stability and cross-border financial regulation, leading the U.S./E.U. financial regulatory dialogue and the U.S. delegations to the Financial Stability Forum throughout this period. In the execution of these responsibilities, I represented the Treasury on over 120 different international missions to nearly 50 different countries and regularly worked with ministers, central bank governors, and the most senior officials of the finance ministries and central banks of the G-7, G-8, G-10, and G-20.

SOURCES OF INCOME LAST 3YEARS

1. List sources and amounts of all income received during the last 3 years, including all salaries, fees, dividends, interest, gifts, rents, royalties, patents, honoraria, and other items exceeding $500 or more. (if you prefer to do so, copies of U.S. income tax returns for these years may be substituted here, but their submission is not required.)

	Year:	Year:	Year:
Salary			
Fees, royalties			
Dividends			
Interest			
Gifts			
Rents			
Other-exceeding $500			
Total			

(Add schedule itemizing each individual source of income which exceeds $500. If you are an attorney, accountant, or other professional, attach schedule listing all clients and customers whose billings exceeded three quarters of one percent of your gross billings during each of the last 3 years.)

List sources, amounts and dates of all anticipated receipts from deferred income arrangements, stock options, uncompleted contracts and other future benefits which you expect to derive from previous business relationships, professional services and firm memberships or from former employers, clients, and customers.

The undersigned certifies that the information contained herein is true and correct.

Signed: _____ Date: July 18, 2017

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BROWN FROM JOSEPH OTTING

Q.1. If confirmed, will you commit to reply to every oversight or other letter and request for information from all Members of the Banking Committee in a timely manner?

A.1. I am committed to furthering a constructive relationship between Congress and the OCC, and responsiveness to congressional requests for information is a critical element of that relationship. I believe that the OCC should provide appropriate, useful responses to all members of Congress. If confirmed, I will act accordingly.

Q.2. In June, the Treasury put out a report suggesting many changes to the regulatory structure, and we know the impact of deregulatory policies advocated by Treasury in past Administrations.

If confirmed, you will represent an independent agency. Do you commit to being independent from the Administration, including Treasury Secretary Mnuchin, and to speak out if you think a legislative or regulatory recommendation threatens the financial stability of our economy, consumer protection, or safety and soundness of our banking system?

A.2. Yes. Treasury has put out a thoughtful and practical document in response to the President's Executive order to guide the efforts to implement much needed change to the current financial regulatory system. The OCC has shared responsibility with the other banking and financial regulators on a significant portion of the Report's recommendations. I understand that many of these are focused on the capital and liquidity rules and the Volcker rule. If confirmed, I look forward to carefully studying each recommendation and working with my fellow regulators and members of Congress.

OneWest/CIT

Q.3. As you know, despite numerous requests by many members of the Senate to Mr. Mnuchin, we have still not received State-by-State data regarding OneWest's foreclosures. Will you reach out to your former employer CIT and request that they provide this data to me and other Senators who have requested it?

A.3. I am no longer employed by OneWest/CIT and do not have access to its internal records, including the information you are requesting.

Q.4. Under the terms of the Independent Foreclosure Review that OneWest completed as part of consent orders issued by your regulator, how much did OneWest pay to service men and women for violations of the Servicemember Civil Relief Act? How many mortgages were recommended by the consultant for remediation?

A.4. I am no longer employed by OneWest/CIT and do not have access to its internal records. In April 2014, the OCC reported that the independent foreclosure review undertaken by OneWest had recommended 54 mortgages for remediation related to this issue. To the best of my recollection, a number of these errors were the result of inaccurate information we received when utilizing the Defense Manpower Data Center, or DMDC, which we later discovered routinely misstated active duty status, and OneWest paid restitution of $2,946,986 as recommended by the review. More information is available at the following link: *https://www.occ.gov/news-issuances/news-releases/2014/nr-occ-2014-65a.pdf.*

Q.5. How many borrowers were not in default when OneWest initiated the foreclosure process, and how much did OneWest provide in compensation?

A.5. In April 2014, the OCC reported that the independent foreclosure review had recommended 23 mortgages for remediation relating to this issue out of 178,886 mortgages tested. The review recommended compensation of $730,719 which, to the best of my recollection, OneWest paid. More information is available at the link above.

Q.6. How many mortgage modifications were denied in error?

A.6. In its April 2014 report, the OCC stated that the independent foreclosure review had recommended 43 mortgages for remediation relating to this issue out of 29,964 mortgages tested. More information is available at the link above.

Q.7. According to the Form 8–K filed by CIT Group in July 2014, following its merger with OneWest, you would join CIT as Co-President, and CEO of CIT Bank. This remained true in subsequent 8–K filings, including one made in July 2015. The CIT–OneWest merger was completed in August 2015. CIT then announced that it was terminating your employment in another 8–K filing in December 2015. Please describe the reason(s) for your sudden termination from CIT.

A.7. The Board and CEO determined they wanted to consolidate the bank management and holding company structure and thus eliminated my position.

Q.8. The redlining complaint against OneWest filed with HUD suggests redlining had been a problem since at least 2011. While you were CEO, were you aware of the bank's low lending levels to African Americans, Latinos, and Asians, and low number of branches outside of majority white communities? If not, why not? If so, why didn't you take steps to address the problem?

A.8. This document was filed with HUD well after my departure from CIT. During my time at OneWest/CIT, I was not aware of any violations of the Fair Housing Act.

Q.9. When you testified before the Federal Reserve during the consideration of the application for the merger between OneWest and CIT, you blamed current regulations for OneWest's high foreclosure numbers. If confirmed, what regulatory changes will you propose to make it easier to modify mortgages? Do you support servicing reforms?

A.9. In my testimony, I was referring to a Department of Housing and Urban Development (HUD) policy under Mortgagee Letter 2015–11, which required mortgagees to initiate foreclosure on reverse mortgages when borrowers were past due on certain property charges by *de minimis* amounts. I understand that HUD modified certain aspects of this policy when, on March 30, 2016, it issued Mortgagee Letter 2016–07. If confirmed, I look forward to working with the OCC's career staff to ensure that institutions supervised by the OCC operate in a safe and sound manner and that consumers have fair access to financial services.

Q.10. 2014 Steven Mnuchin joined the Board of Relatively Media, a customer of OneWest Bank. Jim Wiatt was also on the Boards of OneWest Bank and Relatively Media. In the spring of 2015, Mr. Mnuchin resigned from the Relatively Media board, OneWest bank swept $50 million from Relativity Media accounts, and Relatively Media filed for bankruptcy. In bankruptcy proceedings OneWest was listed as an owed creditor, and CIT stated in its September filing that it was owed $38.5 million by OneWest.

Did OneWest's regulators ever raise concerns about the relationship between OneWest and Relatively Media, or the roles of Steven Mnuchin and Jim Wiatt on the Relatively Media Board? Where any concerns by the regulators raised since Mr. Mnuchin was also an investor in Relatively Media? Did the OneWest Board of Directors, which you were a member, ever discuss any of the transactions involving Relatively Media? If so, what was discussed?

A.10. Relativity Media maintained a lending relationship through a syndicated bank facility that comprised a number of banks, including OneWest Bank. The lending relationship was reported as required under Regulation O to the OCC.

To the best of my recollection, the OneWest Bank lending relationship with Relativity Media was approved at the Board level, all amendments or changes were also approved by the Board, and Secretary Mnuchin and Jim Wiatt recused themselves from any action at the bank as it related to Relativity Media.

Wells Fargo

Q.11. A little over a year ago, the OCC and CFPB took enforcement actions against Wells Fargo for creating over 1 million fraudulent accounts for their customers possibly going back as far as 2007. We know now that the OCC had taken many steps prior to the enforcement action to get Wells Fargo to address these issues, yet somehow the former CEO and the Board of Directors were allegedly unaware of the issues at the national bank until late 2014 or early 2015 when the *LA Times* wrote a story about the practices.

If confirmed, as Comptroller what will you do to ensure that situations like the one at Wells Fargo which harmed consumers for over a decade don't happen at other banks? Do you think that the OCC is aggressive enough in enforcing the law?

A.11. The OCC and CFPB have taken enforcement action against Wells Fargo for the creation of the fraudulent accounts. Clearly, the creation of fraudulent accounts has no place in our banks. If I am confirmed as Comptroller, I will review the OCC's internal

documentation concerning the Wells Fargo case and take any actions necessary going forward.

Q.12. The enforcement action against Wells Fargo related to the fraudulent accounts is not the only OCC enforcement action against Wells Fargo. The OCC has taken 11 actions against Wells Fargo since 2005. And some of the misconduct that occurred at this bank took place while they were under consent orders issued by the OCC and other regulators for other misconduct, including violations of the Servicemembers Civil Relief Act.

Unfortunately, this level of recidivism is not unique to Wells Fargo. This isn't just about strong regulatory supervision and enforcement but also about the culture at banks where violations of the law are just one of the costs to do business.

If confirmed, what will the OCC do to prevent the largest banks from engaging in repeated misconduct?

A.12. If confirmed, I will use every available means to prevent banks from engaging in repeated misconduct. The OCC has a variety of tools that it can use, ranging from guidance to onsite supervision and examination to enforcement action, when warranted.

I believe the OCC's greatest resource is its staff of highly trained, professional bank supervisors and support personnel (including lawyers, analysts, policy experts, and economists). The OCC staff are very effective in conducting their examinations, identifying and communicating risks to bank management and boards of directors, and holding banks accountable for actions necessary to correct identified deficiencies. For examiners to succeed, as Comptroller, I will work to ensure they are empowered to make the important judgment calls necessary to ensure banks operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. Further, I will ensure that they have the leadership, support, resources, guidance and policy, and world-class training necessary to ensure that the banks they supervise adhere to all appropriate laws and regulations.

To help prevent banks from engaging in repeated misconduct, the Federal banking system also needs clear rules and standards. The OCC has implemented enforceable heightened standards for bank management and boards of directors. The standards require an effective risk governance framework, established guidelines for board responsibilities, and are enforceable under part 30 of the OCC's regulations.

When banks fail to comply with applicable laws and regulations or engage in unsafe or unsound banking practices, the OCC also has a variety of enforcement tools which it can use to hold banks accountable for their actions.

At the same time, if the responsibilities of regulators and law enforcement agencies overlap, as Comptroller I would ensure the OCC maintains collaborative working relationship with other regulatory and law enforcement agencies who play an important role in ensuring our financial system operates as it should and benefits the consumers, businesses, and communities it serves.

Q.13. Do you think that the OCC is doing enough to hold the Board of Directors of the largest national banks accountable for misconduct?

A.13. As mentioned above, the OCC established enforceable heightened standards that describe the responsibilities of Boards of the largest national banks and Federal savings associations. These standards include ensuring an effective risk governance framework, providing active oversight of management, and exercising independent judgment. If confirmed, I would ensure that OCC examiners continue to apply these standards to the largest banks and look for opportunities to improve these standards.

Regulation and Supervision

Q.14. You've been in the banking industry for nearly 40 years, but have no experience as a financial regulator. Why do you want the job as the top regulator of national banks?

A.14. The U.S. banking system is the best in the world. I think we can make it even better to support economic growth, innovation and accessibility for all Americans while maintaining safety and soundness. I want to lead an effort to help make this happen.

Q.15. You have only worked at banks regulated by the Office of the Comptroller of the Currency, the agency you are nominated to lead. Do you think the OCC is a fair regulator? What do you think it does well? What will you try to improve or change?

A.15. The staff of the OCC have consistently been identified as one of the most talented, thorough, and advanced regulatory groups in Government. In my view, examiners in charge of the safety and soundness of the banking industry must constantly ask themselves and banks what risk they believe there is in the system and ensure that these risks do not impair the U.S. economy. If confirmed, I hope to harness technology to monitor and oversee the industry while minimizing the impact to banks.

Q.16. One of the most significant accomplishments of the OCC after the 2008 financial crisis was its heightened supervision program for the Nation's largest banks. If confirmed, will you continue and strengthen this program? How?

A.16. To be clear, I support strong and effective regulation of our banking system. I would not support changes that would harm the safety and soundness of our banking system. It is important to keep in mind that the U.S. banking system today is dramatically better capitalized than it was before the financial crisis and that it is subject to a more rigorous set of regulations. If confirmed, I will engage in a continuous review of our regulatory framework to ensure our system is safe and sound and that regulations are efficient, effective, and appropriately tailored so that the financial sector can continue to foster economic growth.

Q.17. Acting Comptroller Noreika has proposed that the OCC be given the authority to both charter and grant deposit insurance to national banks. The lesson from the 1980s on this is problematic. Do you support this proposal? What is the rationale for combining the deposit insurance and chartering decision in one agency?

A.17. The referenced proposal raises significant issues related to the relationship of chartering banks and insuring deposits, as well as interagency responsibilities. If confirmed, I will carefully review this matter and related issues.

Q.18. The OCC has proposed issuing national bank charters to nonbank fintech firms. This proposal is controversial and is currently the subject of a lawsuit initiated by State regulators. Supporters believe this will encourage innovation. Critics of this effort have raised questions about its effect on the marketplace, the payment system, and potential consequences for small community institutions, as well as the tax payer. What do you think about a national charter for fintech firms? How do you propose to address concerns raised?

A.18. I am supportive of initiatives that encourage economic growth and innovation, and believe this is an area that requires input and discussion amongst industry and Federal and State regulatory bodies to determine the appropriate path forward.

Q.19. The OCC has a history of working to undermine strong State-based consumer protections through preemption—effectively making State mortgage and usury caps moot. This happened in Cleveland leading up to the financial crisis. Do you think the OCC should respect States' authority to protect consumers from predatory bank products offered within their borders? Instead of attacking State consumer protections, should the OCC set minimum standards and allow States to improve upon them?

A.19. I support appropriate preemption for national banks. States play a very important role in consumer protection when not preempted by Federal laws and should continue to do so.

Q.20. Do you think that if a regulatory agency that is being consulted by another regulatory agency for a rulemaking had safety and soundness concerns about the rule under consideration that they would raise that concern as soon as possible? Does it make sense that an agency would wait 2 years into the rulemaking to raise these concerns?

A.20. I believe the banking regulators can improve their coordination in the rulewriting process. During that process, issues should be raised within a reasonable period of time.

Q.21. Will you commit to making policy based on fair and transparent analysis of data, and to make that analysis available to Committee Members for scrutiny? Specifically, will you share any and all analysis OCC staff or leadership has prepared on the safety and soundness impacts of the CFPB's arbitration rule?

A.21. If confirmed, I will work to make sure that the OCC continues to conduct rigorous analyses of data, and to share data where appropriate.

Q.22. Will you provide community banks with the resources and technical assistance necessary to keep up with quickly changing cybersecurity threats? How do you plan to reduce the burdens that the threat of breaches poses to small institutions?

A.22. Yes. Community banks are a vital part of our Nation's banking system and as their regulator, we should continually seek ways

to support these banks in serving the consumers, businesses, and communities that depend on them. One significant challenge is cybersecurity. Supporting the Nation's community banks with this and other issues would be a priority of mine.

If confirmed, I would continue the OCC's commitment to provide community banks with the informational resources and technical assistance necessary to keep up with cybersecurity threats. The OCC also has made it a priority to continually review and consider ways to reduce burdens on community banks that relate to regulatory or business requirements.

Finally, while not exclusively focused on cybersecurity, one of the primary purposes of the OCC's Office of Innovation is to support community banks to understand and take advantage of innovation in a safe and sound way to enhance the banking products and services available throughout our Nation.

Q.23. At your nomination hearing, you said you agree with the June Treasury Report's recommendations to provide regulatory relief to small banks and credit unions. What changes to law would do the most to lower compliance costs and other regulatory burdens for small banks and credit unions with assets under $10 billion without jeopardizing safety and soundness?

A.23. I support the Treasury's recommendations and am personally committed to improving the financial regulatory framework. I believe that regulations must be appropriately tailored to the risk posed by community banks and other banks to consumers, businesses, and the financial system. If confirmed, I will seek to improve the current regulatory system to avoid a one-size-fits-all approach to banking regulation, which will help reduce burdens and costs on small banks that pose very limited risk to the safety and soundness of the banking and financial system.

More specifically, if confirmed, I will work with my fellow regulators to continue their current efforts to reduce the burden on small banks from being required to obtain appraisals for relatively small commercial real estate and other loans in rural areas and other areas suffering a shortage of certified appraisers. I also believe that the frequency of examinations should be better tailored to banks' CAMELS ratings and capital levels. If confirmed, I will also continue the ongoing work of the OCC and other banking agencies to reduce the size and content of quarterly Call Reports based on the size, complexity, and systemic riskiness of banks. Finally, the application of the Volcker rule to community banks should be reconsidered to exempt small banks with *de minimis* trading activities.

Q.24. After the financial crisis, and the failure of the Office of Thrift Supervision to appropriately regulate thrifts, the agency was merged with the OCC. Are there any specific priorities you have regarding the regulation of thrift banks?

A.24. Federal Savings Associations continue to play an important role in meeting the financial services needs of people across the country. There are 368 Federal savings associations with more than $760 billion in assets.

The supervision of Federal savings associations is now fully integrated into the OCC, and the agency regulates all national banks

and Federal savings associations consistent with its mission. If confirmed, I would seek to continue to ensure the safety and soundness of both national banks and Federal thrifts.

Q.25. If confirmed, you will be a voting member of the Financial Stability Oversight Council. What emerging financial stability risks would you want to focus on?

A.25. If confirmed, I look forward to serving as a voting member of the Financial Stability Oversight Council and would collaborate with other Council members to identify potential emerging threats and vulnerabilities in the U.S. financial system. The Council has focused on several areas that are critical to OCC-supervised institutions, including, for example, cybersecurity and the critical role of central counterparties.

Q.26. If confirmed, you will also be a member of the FDIC's Board of Directors. What do you think about the FDIC's Orderly Liquidation Authority?

A.26. The financial crisis showed us how necessary it is to have an effective resolution regime for failing banks. As for the OLA specifically, I understand that Treasury is working on a response to an April 2017 Presidential Memorandum that requires it to thoroughly review OLA and provide a report to the President on its findings. I would like to review that report fully before discussing the future of OLA.

Miscellaneous

Q.27. In your ethics disclosures you list your ownership of many residential properties in California and Nevada. Did you own these properties before the financial crisis? If not, when did you purchase each property, did you receive financing for any of these purchases, what bank(s) originated those loans? Were these arm's length transactions?

A.27. The Nevada properties were purchased between 2013–2016 and the California properties were purchased in the timeframe of 2006–2016. One of the Nevada investment purchases had a short-term loan provided by UBS, which since has been paid off. My primary residence is the only Nevada property that has a loan against the property and that is with UBS. Three of the California properties have mortgages as identified in my financial disclosure, two from UBS and one from the Otting Family Trust. To the best of my knowledge and belief, these transactions were concluded on commercially reasonable terms.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SASSE FROM JOSEPH OTTING

Q.1. My constituents tell me that the EGRPRA report inadequately highlighted concrete ways to reduce the regulatory paperwork burden. What more can the OCC do to reduce the regulatory burden on community banks?

A.1. The EGRPRA report provided to Congress in March 2017, describes ongoing steps the agencies plan to pursue jointly, and actions the OCC has taken independently to reduce the regulatory paperwork burden on supervised entities. I believe this report is a

good first step toward meaningful burden reduction, and work already has been accomplished to reduce burdens in certain areas.

As Comptroller, I would continue to look for additional ways to reduce unnecessary burden and promote economic opportunity while ensuring that the Federal banking system continues to operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

Q.2. Our financial system has become increasingly consolidated as community banks and credit unions either close their doors or merge with larger institutions.

Q.2.a. Are you concerned about this pattern? Why?

A.2.a. I am concerned about the increasing consolidation of community banks and if confirmed I will examine this trend to ascertain if regulatory burden is a cause. These institutions play an outsized role in the economy, lending to small and mid-size businesses that fuel economic growth.

Q.2.b. What services can these smaller institutions provide that larger institutions cannot provide?

A.2.b. Community banks, due to their unique insight into the credit needs of their communities and close relationships with their customers, are able to deliver financial services in ways larger institutions cannot and thus play a vital role supporting economic growth in cities and towns around the country. Community banks serve as essential engines of "relationship" lending to small and mid-size businesses, farms, and consumers in individual communities.

Q.3. Multiple anecdotes from my constituents make it clear that there are several Nebraska counties where mortgages are not originated because of over-regulation. What is the best way to address this problem from a regulatory standpoint?

A.3. While I cannot comment on the particular challenges of the counties in Nebraska, I support Treasury's findings from its June report to the President on how to better align our financial regulatory system with the needs of consumers and businesses. I understand that Treasury's report made several recommendations to modify regulations that are negatively affecting the ability of creditworthy American families to gain access to affordable mortgages.

Q.4. My understanding is that only two banks have opened since the passage of Dodd-Frank, including Bird in Hand Bank in Pennsylvania, which has a customer base that is around half Amish.

Q.4.a. Why do you believe this is the case? The dearth of *de novo* banks is an important issue and adversely affects the availability of banking services.

A.4.a. As Comptroller, I would work to identify opportunities to eliminate barriers to *de novo* banks, including looking for ways to make the chartering and deposit insurance approval process more efficient.

There are a variety of factors contributing to the low number of *de novo* banks since 2008, including slow economic growth, a sustained period of historically low interest rates, industry

consolidation, competition from nonbank financial service providers, and challenges with obtaining deposit insurance.

In his June 22 testimony, the Acting Comptroller discussed possible ways to make deposit insurance approvals more efficient by leveraging the chartering approval process conducted by the primary prudential authority. As Comptroller, this would be a subject that I would continue to explore.

Q.4.b. What potential impacts does this have on our financial system?

A.4.b. Consolidation of banks and the lack of *de novo* activity can reduce the availability of banking services where they are needed most and contribute to stagnation within the industry. A healthy, diverse Federal banking system requires an efficient process for new companies seeking to engage in the business of banking to become national banks.

Q.4.c. Is there anything more the OCC can do to encourage the opening of new banks?

A.4.c. In his June 22 testimony, the Acting Comptroller discussed possible ways to make deposit insurance approvals more efficient by leveraging the chartering approval process conducted by the primary prudential authority. As Comptroller, this would be a subject that I would continue to explore. I am hopeful that making the *de novo* process more efficient will result in more interest by new entrants into the national banking system.

In addition, if confirmed, I would continue to be receptive to more innovative approaches to banking. *De novo* banks can be a source of responsible innovation and taking an affirmative stance toward innovation that enhances banking services, products, and operations can encourage more companies to explore opportunities to become banks.

Q.5. As you know, in December of 2016 the OCC released a whitepaper discussing the possibility of a fintech charter, entitled, "Exploring Special Purpose National Bank Charters for Fintech Companies."

Q.5.a. Do you intend to move the OCC forward on finalizing a fintech charter? Why or why not? If so, please provide a timeline on these efforts.

A.5.a. If confirmed, I look forward to evaluating the merits and value of the OCC's proposed approach to chartering financial technology companies engaged in the business of banking. As financial technology accelerates, it is important to ensure that companies engaged in the business of banking have the appropriate oversight and regulatory structure in place.

Companies engaged in the business of banking should have the option of pursuing their businesses as a federally chartered bank, if they meet the standards and criteria for becoming a national bank. Any company that earns a national bank charter should be held to the same high standards, laws, and regulations applicable to other national banks.

Q.5.b. Does the OCC have sufficient statutory authorization to implement a fintech charter? Why or why not?

A.5.b. The authority to grant national bank charters and Federal thrift charters is well established and includes the authority to charter limited purpose national banks.

The authority to grant special purpose national bank charters is described in 12 CFR 5.20 Section 520.(e)(1). I support the OCC in defending its authority against the challenge being brought by the Conference of State Bank Supervisors (CSBS) and the New York Department of Financial Services (NYDFS).

While CSBS and NYDFS are challenging the OCC's authority articulated in 12 CFR 5.20(e)(1) to grant special purpose national bank charters to uninsured, nondepository fintech companies engaged in the business of banking, the OCC has other authorities to charter full service national banks as well as trust banks, banker's banks, and credit card banks, which may be chartered using the OCC's broad authority under 12 U.S.C. § 27(a) and (b); 12 U.S.C. § 1841(c)(2)(D) and (F).

Q.5.c. Under what legal circumstances is the OCC allowed to regulate fintech companies?

A.5.c. The OCC can only regulate those fintech companies that choose to become a national bank or that provide services to a national bank as a third-party service provider. The OCC would have authority to regulate any fintech company that becomes a national bank under the same laws and regulations that grant the OCC authority to administer the Federal banking system. And the OCC would have authority to regulate fintech companies to the extent that the agency has authority to oversee third-party service providers to national banks, Federal savings associations, or Federal branches of foreign banks. The vast majority of fintech companies operate under State authorities and are likely to continue to do so.

Q.5.d. What concerns, if any, do you have with the OCC's fintech charter, as outlined in the previously mentioned December 2016 whitepaper?

A.5.d. The proposal by the OCC is a thorough and thoughtful proposal. It is important to ensure we have a Federal banking system that can adapt to the changing needs of the market and its customers. If confirmed, I will take the opportunity to carefully consider the proposal, its potential impact on products and services offered to customers of the Federal banking system, and the possible effects on other institutions that make up the Federal banking system.

Q.6. As you know, the OCC recently released a bulletin entitled, "Frequently Asked Questions to Supplement OCC Bulletin 2013–29," which provided some regulatory guidance for banks that partner with fintech companies. However, I am told there is still confusion about such partnerships, including when fintech companies will be treated as third-party service providers, as well as the regulatory implications of this arrangement.

Q.6.a. Should the OCC provide further guidance to banks about their partnership with fintech companies, including when fintech companies will be treated as third-party service providers, and the corresponding regulatory implications for banks? If so, please provide a timeline for such efforts.

A.6.a. This is a very important question, particularly as banks rely more upon third-party service providers and explore other partnerships to serve their customers better and enhance their operations. If confirmed, I will look for opportunities to enhance OCC guidance in this area.

Communication is key to successful supervisory relationships. Banks with questions about partnering with fintech companies can always discuss their concerns with assigned supervisory staff or with staff within the OCC's Office of Innovation.

Q.6.b. Under what conditions have onsite bank examiners treated fintech companies as third-party service providers?

A.6.b. In my experience as a bank executive, bank regulators treat a company as a third-party service provider when a bank contracts with the company to engage its services. OCC Risk Management Guidance defines a third-party relationship as any business arrangement between a bank and another entity, by contract or otherwise. The OCC expects a bank to practice effective risk management regardless of whether the bank performs the activity internally or through a third party. A bank's use of third parties does not diminish the responsibility of its board of directors and senior management to ensure that the activity is performed in a safe and sound manner and in compliance with applicable laws.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM JOSEPH OTTING

Q.1. The Federal Reserve, OCC, and FDIC in 2016 published a joint advance notice of proposed rulemaking (ANPR) on cybersecurity, asking for comment, among other things, on whether boards of directors should have adequate expertise in cybersecurity. Citing the ANPR: "a cyber incident or failure at one interconnected entity may not only impact the safety and soundness of the entity, but also other financial entities with potentially systemic consequences." Other than the solicitation of comments, we are not aware of any material progress on this ANPR. If confirmed, may I have a personal commitment from each of you that you will work with the FDIC and each other on advancing this cybersecurity ANPR?

A.1. I support the fact that this Administration has made the security and resiliency of the U.S. financial system a key priority. Effective coordination and dialogue is vital to further promoting effective cybersecurity. If confirmed, you have my commitment that I will work with staff at the OCC to continue to pursue appropriate and productive work to help promote effective cybersecurity.

Q.2. The OCC and the Federal Reserve are each authorized to enforce the Military Lending Act (MLA), which is a bipartisan law enacted in 2006 that sets a hard cap of 36 percent interest for most loans to the military. On July 22, 2015, the Department of Defense finalized MLA rules that closed prior loopholes that allowed unscrupulous lenders to prey upon servicemembers and their families. Do you support these stronger MLA rules? If confirmed, will you support and enforce these strong MLA rules to the fullest extent possible?

A.2. If confirmed, I would support and enforce strong MLA rules.

Q.3. As part of its duties, the OCC is also expected to enforce the Servicemembers Civil Relief Act (SCRA), but SCRA enforcement of the 6 percent interest cap on loans incurred prior to active duty or the SCRA's foreclosure protections has been inconsistent and subject to the discretion of our financial regulators. If confirmed, can you tell me how you will prioritize SCRA enforcement?

A.3. If confirmed, I would be supportive of SCRA being part of the regulatory exam process and would endorse a horizontal review in the industry.

Q.4. The Comptroller is supposed to be independent from the Administration and while it is part of the Treasury Department, it is an independent bureau. In the financial regulatory space, can you point to anything where you do not agree with the position taken by either the Trump administration or Secretary Mnuchin?

A.4. If confirmed, I will carry out my duties consistent with applicable law, in a manner free from undue influence.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MENENDEZ FROM JOSEPH OTTING

Q.1. Please provide State-by-State numbers of the total number of foreclosures and loan modifications completed by OneWest. While you may not currently have direct access to this information, you can request that CIT provide this information prior the Banking Committee's consideration of your nomination.

A.1. I am no longer employed by OneWest/CIT and do not have access to its internal records, including the information you are requesting.

Q.2. In the wake of the financial crisis, Congress enacted a provision, section 956 of Dodd-Frank, to require financial regulators to jointly issue rules to ban incentive pay practices at large financial institutions that encourage inappropriate risk-taking. In May of 2016, the financial regulators including the Federal Reserve Board and the OCC proposed a rule to implement section 956. More than a year later, the rulemaking still has not been finalized. The Wells Fargo fraudulent account scandal uncovered last year, where senior executives were given bonuses for "successes in cross-selling," underscores the need for rules regarding incentive-based compensation agreements. Last month, the Office of Management and Budget published updated regulatory agendas, and the rulemaking was removed from the OCC's agenda.[1]

Q.2.a. Will you commit to prioritizing the section 956 rulemaking and ensuring that it is part of the OCC's regulatory agenda?

A.2.a. Section 956 of the Dodd-Frank Act requires financial regulators to jointly issue rules relating to enhanced compensation structure reporting. The OCC, together with the other designated Federal regulators, published a proposed joint rule on this matter

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[1] *https://www.reginfo.gov/public/do/eAgendaMain?operation=OPERATION_GET_AGENCY_RULE_LIST&currentPub=true&agencyCode=&showStage=active&agencyCd=1500&Image58.x=56&Image58.y=6&Image58=Submit.*

in June 2016. If confirmed, I would urge all the regulators to work together to finalize the rule as required by statute.

Q.2.b. Will you commit to implementing section 956 of Dodd-Frank?

A.2.b. As Comptroller, I would work to fulfill all of the statutory obligations of the office.

Q.2.c. Will you commit to implementing all congressionally mandated rulemakings?

A.2.c. As Comptroller, I would work to fulfill all of the statutory obligations of the office.

Q.3. In 2015, while you were Chair of the California Chamber of Commerce, the organization placed a State bill, AB 244, on its "jobs killer" list and urged State legislators to oppose it. The bill would have protected from foreclosure surviving spouses who have a legal interest in a home but who were not listed on the mortgage. In the same year, you said at the public hearing regarding the merger of OneWest and CIT Group, "Let me be clear, we urge and fully support a moratorium on foreclosure of nonborrowing spouses." When you were publicly representing OneWest, you took a sympathetic tone toward borrowers, but when you were making policy decisions for your association, you staked out a position that would harm the very borrowers you claimed to want to help. How do you reconcile these two positions?

A.3. I had no direct involvement in the decision by the Chamber regarding AB 244.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEITKAMP FROM JOSEPH OTTING

Q.1. Your testimony raised a lot of important issues related to consumer rights and the proper balance of regulations in our economy. I think it's important to remember that you are nominated for a position of public trust and with that comes a different set of priorities and obligations than what you might have experienced in the private sector. Your decisions will greatly impact not only the bottom line of the financial institutions that you regulate, but as we saw all too tragically during the financial crisis, regulatory decisions can have a dramatic impact on the well-being of individuals and their families.

If confirmed, how do you intend to separate yourself from past conflicts and carry out your duties independently so that you can serve the public's best interest?

A.1. If confirmed, I will adhere to all applicable ethics laws, rules, and policies. Should I have a question concerning my ethical obligations, I will seek the counsel of appropriate ethics staff.

Q.2. As you're well aware Wells Fargo was fined $180 million last year by regulators, including the OCC, for setting up fraudulent accounts for its customers.

I'm curious to know your views on the role the OCC should play in preventing these types of scandals? Do you believe more should be done in the future to avoid this type of systemic fraud, and if so, what would you recommend?

A.2. As a former bank executive, I can tell you the primary responsibility for preventing such abuse and ensuring incentives are properly aligned to motivate appropriate behavior and achieve business goals rests with the bank leadership and boards. As Comptroller, I would look for additional opportunities to ensure bank boards and management fully understand their roles and responsibilities in preventing this behavior.

If confirmed, I believe it is critical to empower OCC's cadre of professional community, midsize, and large bank examiners and ensure that they have the support, resources, and training necessary to exercise their responsibilities to ensure that the banks they supervise adhere to all appropriate laws, regulations and other issuances. Ongoing supervision is the most effective tool the agency has to affect change.

Consumer fraud has no place in the Federal banking system and I believe in providing examiners authority to consider appropriate remediation activities, up to and including formal enforcement actions, when the circumstances warrant.

The OCC conducted an internal review of its supervision of Wells Fargo, which included several recommendations. As Comptroller I will look to ensure these recommendations have been implemented effectively and continue to look for opportunities to enhance our supervision of large, complex banks.

The OCC is also conducting a horizontal review of the sales practices among large and midsize national banks. I look forward to discussing the findings when that review is complete and working with staff to correct any deficiencies they identify.

Q.3. During our one-on-one yesterday we covered some important ground as it relates to regulatory relief for community banks. I appreciate your comments on the need for relief in mortgage lending and rural appraisals. Another area that I believe is ripe for regulatory overhaul is small dollar lending. In North Dakota, we have several community banks that are trying to help extend small dollar credit to customers, but can't because of regulatory uncertainty and onerous compliance standards. There's analysis that shows banks and credit unions could offer safe loan alternatives at prices six times lower than payday lenders. I believe it's far better to have these loans made by well-regulated community banks that know their customers and have their long-term financial interests in mind.

- Will you commit to working with banks to enable them to offer new reasonable and safe installment loans to their customers that can be a true alternative to payday loans?

A.3. Access to a diverse set of credit products is essential for consumers across America. I support adjustments to our regulatory approach designed to decrease our population of unbanked and underbanked consumers and bring more of these consumers into the financial mainstream. I also support innovation in banking and a marketplace with a level playing field for all financial institutions that will increase competition, which is ultimately beneficial to consumers. You have my commitment to work with your office on these matters.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SCHATZ FROM JOSEPH OTTING

Q.1. Mr. Otting, in our one-on-one meeting, you and I had a chance to talk about the Wells Fargo scandal. I was encouraged to hear your view that their behavior was totally unacceptable. I also agree with your assessment that the corporate culture, with its drive to cross-sell and an obsession with sales targets, was at the heart of the problem. Since that conversation, we have learned of yet another Wells Fargo scandal. This one involved charging consumers for high priced auto insurance that they did not need, without their knowledge. The high cost of the auto insurance pushed roughly 274,000 Wells Fargo customers into delinquency and resulted in almost 25,000 wrongful vehicle repossessions.

Q.1.a. What will you do to prevent these types of scandals from happening again?

A.1.a. I understand that following the OCC's enforcement action against Wells Fargo last September, the agency undertook a thorough review of its supervisory activities to determine any lessons learned that it could utilize going forward. The OCC made its lessons learned findings public on April 19, 2017. I believe that the OCC is in the process of institutionalizing the recommendations included in this report, which is intended to correct supervisory deficiencies identified. As Comptroller I will look to ensure these recommendations have been implemented effectively and continue to look for opportunities to enhance our supervision of large, complex banks.

The OCC is also conducting a horizontal review of the sales practices among large and midsize national banks. I look forward to discussing the findings when that review is complete, working to correct any deficiencies staff identify, and determining what additional steps can be considered to prevent such practices from recurring.

Consumer fraud has no place in the national banking system and I believe in providing examiners authority to consider appropriate remediation activities, up to and including formal enforcement actions, when the circumstances warrant. OCC examiners will have my strong backing to exercise their supervisory judgment, and take enforcement or other remedial actions to ensure banks operate in compliance with appropriate law and regulations.

Q.1.b. At what point do these kinds of violations become a safety and soundness concern for the banks the OCC supervises?

A.1.b. I do not have first-hand knowledge of the sales practices at Wells Fargo, but treating customers unfairly and failure to implement effective controls against fraud are safety and soundness issues. No bank can operate in a safe and sound manner for long if it abuses its customers and allows misaligned incentives to motivate improper behaviors.

The OCC's enforcement action against the bank (September 8, 2016) states clearly that the agency found the bank's sales practices to be unsafe or unsound. See *https://www.occ.gov/news-issuances/news-releases/2016/nr-occ-2016-106a.pdf* and *https://www.occ.gov/news-issuances/news-releases/2016/nr-occ-2016-106.html.*

Q.1.c. Do you think banks' compensation practices are contributing to the problem of banks harming their consumers in order to increase profits?

A.1.c. In the case of the OCC's enforcement action against Wells Fargo for its sales practices violations, the OCC identified unsafe or unsound practices in the bank's risk management and oversight of its sales practices and noted that the bank's incentive compensation program and plans were not aligned properly and fostered unsafe and unsound practices. Based on my personal experience, it is critical that a bank's sales culture and compensation be properly aligned to avoid any actual or perceived inappropriate incentives.

Q.1.d. In the auto insurance scandal, consumers who fell behind in paying their auto loan or had their car repossessed likely have negative trade lines on their credit report that will haunt them for years. These errors on their credit report will lower their credit score, prevent them from getting loans in the future or increase the cost of borrowing, and make it harder for them to get hired or rent an apartment.

What will you do as Comptroller of the Currency to ensure that (1) Wells Fargo works with credit reporting agencies to remove the negative trade lines on consumer credit reports as a result of the scandal, and (2) Wells Fargo helps impacted consumers verify that their credit reports no longer contain negative information related to this scandal?

A.1.d. If confirmed, I will carefully review the OCC's supervisory record and findings relating to Wells Fargo auto loan practices and ensure that appropriate action—up to and including formal enforcement action if necessary—is taken to ensure that any adverse impacts to consumers of such practices are fully addressed.

Q.2. It does not require too much imagination to understand why the financial industry is lobbying against the CFPB's new rule banning mandatory arbitration. They have been able to avoid all kinds of lawsuits by taking away consumers' right to go to court.

But it is very troubling that one of the most vocal opponents to the new rule was the Acting Comptroller of the Currency. He claims that the rule poses a safety and soundness risk to banks. However, he has not provided any evidence to support that claim. In fact, several of the largest banks do not use them. And those institutions that have chosen to stop using mandatory arbitration—Bank of America, Capital One, JPMorgan Chase—are no less safe or sound as a result.

Q.2.a. What should the OCC's role be when it comes to weighing in on rules issued by other financial regulators, like the CFPB's arbitration rule?

A.2.a. By statute, the CFPB has exclusive authority to prescribe regulations administering certain consumer protection laws, and is required to consult with the prudential regulators prior to proposing a rule and during the rulemaking process. If during the consultation process, a prudential regulator provides a written objection to all or any part of a proposed rule, the CFPB must describe the objection and how it is addressed. This process is critical to ensure meaningful input by the OCC into CFPB regulations and to

avoid any unintended consequences of a CFPB rule on the national banking sector and to ensure consistent application of the rules by multiple regulators.

The statute also provides for the review and stay of rules for safety and soundness reasons under the Financial Stability Oversight Council. As member of the council and the primary prudential regulator of the Federal banking system, the Comptroller of the Currency has an important role to play ensuring rules do not adversely affect the safety and soundness of the Federal banking system. It is important for the agencies to maintain a positive collaborative relationship to ensure such concerns are addressed early and relevant data and information are shared so that each agency has the opportunity to fully consider such matters in exercising their independent authorities.

Q.2.b. How would you evaluate whether the CFPB rule presents safety and soundness concerns?

A.2.b. To evaluate whether the CFPB rule regarding arbitration agreements presents safety and soundness concerns, one would look at its potential effects on the Federal banking system as a whole as well as the institutions within that system. One would seek to ascertain the rules' impact on the banks' ability to mitigate risk and limit liability, on reserves, and on the availability and cost of the products and services it offers. The effects need to be evaluated in context to determine the cumulative impact, rather than in isolation.

In general, as part of the OCC's statutory consultative role, it is crucial that CFPB provide the OCC with adequate information, findings, and data that OCC economists, policy experts, and examiners may review in order to determine any safety and soundness or other potential implications of proposed rules. If confirmed, I will expect that the CFPB will engage with the OCC early and often as it develops regulations to ensure that the consultation process is meaningful, and that we have the information we need to provide feedback and recommendations to the bureau to accommodate any safety and soundness concerns that may arise.

Q.3. If there is a lack of evidence that the CFPB rule undermines banks' safety and soundness, will you retract Acting Comptroller Noreika's opposition to the rule?

A.3. I believe this is a complicated matter—one which I will give serious attention to if I am confirmed. If confirmed, I commit to work faithfully to help ensure the safety and soundness of national banks and Federal savings associations, and will work closely with the members of the FSOC to help assure U.S. financial stability.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM JOSEPH OTTING

Q.1. How many foreclosure completions did OneWest (the Bank) engage in during your employment at the Bank? How many foreclosure completions were in Nevada?

A.1. As I am no longer employed by OneWest/CIT and do not have access to its internal records, I do not have sufficient information to answer this question.

Q.2. An April 2014 report from the OCC indicated that OneWest improperly foreclosed on 54 servicemembers in contravention of the Service Member Civil Relief Act.[1] How many of those servicemembers resided in the State of Nevada?

A.2. As I am no longer employed by OneWest/CIT and do not have access to its internal records, I do not have sufficient information to answer this question.

Q.3.a. Secretary Mnuchin in his questions for the record to the Senate Finance Committee following his confirmation hearing suggested that OneWest modified the loans of approximately 2,150 Nevadans. But his answer conflated modification offers with actual modifications. Everyone who has worked with homeowners understands that an offer from a bank to modify a loan is not the same thing as a modification. How many completed loan modifications did OneWest provide to Nevadans during your tenure?[2] How many of those completed loan modifications included a reduction in the borrower's principal amount?

A.3.a. As I am no longer employed by OneWest/CIT and do not have access to its internal records, I do not have sufficient information to answer this question.

Q.3.b. In your response to my question at your confirmation hearing, you said, "a lot of people have different definitions of 'robo-signing.'" What is your definition of what's colloquially referred to as "robo-signing?" Do any of the Office of Thrift Supervision's findings on pages 2 and 3 of OneWest's 2011 consent order constitute what is colloquially known as robo-signing?[3]

A.3.b. I do not believe that OneWest Bank engaged in practices that are commonly associated with this term. I am also not aware of any legal definition of this term.

Q.4. In response to one of my questions at your confirmation hearing, you seemed to suggest that because OneWest had a "process" in place to handle residential real estate mortgage foreclosures, that it was evidence that the Bank did not, in fact, "robo-sign" or engage in unsafe or unsound banking practices. Would you concede that a bank merely having a process in place is insufficient to guard against unsafe or unsound banking practices, and that such processes must actually be followed by employees of the bank? For example, a OneWest employee testified in a 2009 deposition that she signed 6,000 documents per week, mostly affidavits, and that she did not check the figures outlined in the affidavits.[4] Does the behavior described in this deposition constitute "robo-signing?" Did OneWest's "processes" prove sufficient to guard against this misconduct?

A.4. Banks should take appropriate steps to comply with all applicable laws, rules, and policies, including those relating to safety and soundness. Often, this counsels in favor of adopting internal processes as well as implementing and, as necessary, updating,

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[1] *https://www.occ.gov/news-issuances/news-releases/2014/nr-occ-2014-65a.pdf.*

[2] *http://static.politico.com/bc/9e/81e33aa74b5980daa9ffdeb7cba9/steven-mnuchin-responses-to-senate-finance-committee.pdf.*

[3] *https://www.occ.gov/static/ots/misc-docs/consent-orders-97665.pdf.*

[4] *http://4closurefraud.org/2009/11/15/full-deposition-of-the-infamous-erica-johnson-seck-re-indymac-federal-bank-fsb-plaintiff-vs-israel-a-machado-50-2008-ca-037322xxxx-mb/.*

reasonable controls to provide for adherence to those processes. As demonstrated by the independent foreclosure review, under the policies and procedures in place at OneWest, the bank experienced relatively low rates of irregularities associated with its mortgage activities. Additionally, it is my understanding based on the testimony you cite that the employee was not describing her individual workload but rather the activity of multiple employees.

Q.5. Please elaborate on the answer you provided to me during your oral testimony and indicate why you signed the 2011 consent order between OneWest and the Office of Thrift Supervision if you believed that the findings in the consent order did not accurately reflect the practices of the Bank at that time.

A.5. After due consideration, we believed that this was the most appropriate course of action at the time.

Q.6. In your oral response to my questions at the hearing, you seemed to indicate that consent orders which do not require admissions of guilt are somehow invalid or coercive on the part of the Government. Given these views, if confirmed, will the OCC require admissions of guilt when entering into a consent order with a regulated institution?

A.6. If confirmed, I look forward to considering this issue in consultation with career staff at the OCC. I believe that the OCC should take appropriate action to vigorously enforce the laws within its jurisdiction.

Q.7. When asked about "dual tracking" at your confirmation hearing, you responded that OneWest's behavior was not significant because it was "industry practice," insinuating that it was permissible because it was common. Please elaborate on your views on the practice commonly known as "dual tracking." Also please describe the relevance of whether or not it was industry practice in your answer.

A.7. I did not testify that OneWest's activities regarding these issues were "not significant" because they were "industry practice." I believe that a bank's actions regarding mortgage modifications and foreclosures must be undertaken consistent with applicable law. Thus, I do not believe that "industry practice" should necessarily be dispositive with respect to any determination by a bank regarding these issues. To the best of my recollection, OneWest initially implemented policies and procedures consistent with guidance set by Treasury and the Government-Sponsored Enterprises; Treasury performed regular audits of OneWest, which received industry-leading quality scores; and OneWest modified its policies and procedures over time based on new regulatory feedback and guidance. As a general matter, I believe that loss mitigation efforts—including loan modifications—as an alternative to foreclosure can be beneficial for both borrowers and financial institutions.

Q.8. In 2015, the California State house considered legislation (AB 244) that would've clarified that widowed homeowners were protected by the State's Homeowner Bill of Rights. The purpose of the legislation was to protect surviving spouses living in a home that went to foreclosure after their spouse died. At that time, you were

Chairman of the California Chamber of Commerce.[5] The Chamber lobbied against that bill, putting it on a list of "jobs killers."[6] What was your role in placing this legislation on the "jobs killers" list?

A.8. I had no direct involvement in this decision.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BROWN FROM RANDAL QUARLES

Q.1. While at the Treasury Department you negotiated the financial services provisions of six free trade agreements and described "liberalization of financial services" as "vital" to U.S. trade policy. Wall Street has sought to include financial regulation in trade agreements, most recently in the Transatlantic Trade and Investment Partnership (TTIP), as a backdoor way of weakening Wall Street reform. Secretary Lew, Governor Tarullo, and others pushed back on those efforts and argued that financial regulation should be addressed outside of trade policy. Do you agree that financial regulation should be negotiated outside of broader trade agreements?

A.1. I continue to believe that liberalization of financial services through increased market access and national treatment for U.S. financial firms in foreign markets is vital to U.S. trade policy. Traditionally, the financial services provisions of our trade agreements have been negotiated separately from the other provisions. Rather than being led by the Office of the United States Trade Representative (USTR), the negotiation of these provisions has been led by Treasury (which coordinates input from all the U.S. financial regulators), and the provisions are placed in separate chapters reflecting a recognition of all parties that the prudent and efficient operation of the financial sector has a foundational role for all other sectors of the economy and therefore should not be subject to compromises and tradeoffs with those other sectors. This insulation of the financial services provisions during the negotiating process also recognizes that discussions regarding financial regulation already occur regularly in various international bodies with financial services expertise, such as the Basel Committee, the Financial Stability Board, and the International Association of Insurance Supervisors.

The process I have described above was true of all the trade agreements for which I negotiated the financial services provisions, and this separation was scrupulously respected by USTR throughout the negotiating process. I support this bifurcation and believe it is well designed to ensure that the financial services provisions of trade agreements are calibrated to preserve financial stability while also providing a broader and fairer playing field for U.S. firms.

Q.2. In September 2016, Governor Tarullo announced that the Board of Governors would be incorporating some modified form of the GSIB capital surcharge into the CCAR's minimum common equity ratio that apply to the U.S. GSIBs. When Senator Rounds asked you about your position on this change, you responded that

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[5] *http://advocacy.calchamber.com/2014/12/16/calchamber-elects-2015-board-officers/.*
[6] *http://advocacy.calchamber.com/policy/bill-tracking/job-killers/2015-job-killers/.*

you would want to look at the question in more depth, but that it is definitely worth looking at. Having had more time to consider the question, do you support this change for the 2018 CCAR process?

A.2. I understand that the Federal Reserve has previously committed that any change to incorporate the globally systemically important bank (GSIB) surcharge into the Comprehensive Capital Analysis and Review stress testing would have to go through the normal notice and public comment process of rulemaking. If I were to be confirmed, I look forward to studying the issue more in-depth and working with members of the Federal Reserve Board (Board) to further evaluate the benefits and costs associated with adoption of such a measure.

Q.3. In your 2016 *Wall Street Journal* op-ed you said:

> But the consequence of a dramatic increase in bank capital is an increase in the cost of bank credit, meaning higher interest rates across the board. Those who favor much higher bank capital argue this would not happen, because investors would accept lower returns if the banks they put their money in were safer. In the real world of capital markets, however, there are not enough natural investors in bank equity seeking utility-like returns.

Q.3.a. Please provide all of the relevant literature upon which you are basing your assertion that a "dramatic increase in bank capital is an increase in the cost of bank credit[.]"

Q.3.b. Do the prospective increased costs outweigh the associated benefits to increased financial stability, particularly when accounting for the cost of the recent financial crisis?

Q.3.c. Please provide supporting evidence for your assertion that "there are not enough natural investors in bank equity" should capital requirements be increased substantially. What is a "natural" investor, and what distinguishes them from other types of investors?

A.3.a.–c. The stability of the U.S. financial system is supported by the safe and sound operation of banking institutions. One of the most important prudential measures for ensuring that stability is bank capital. Of course, there is a tradeoff between higher bank capital levels that increase the resiliency of individual institutions and the system as a whole, and the cost of that capital. A goal of regulation should be to balance to protection of financial stability in a way that promotes economic growth and business opportunity.

Equity investors hold an institution's riskiest securities and as a consequence demand a return for that risk that is higher than the institution's debt holders in any given capital structure. Although in ideal conditions the return demanded on the equity should fall in proportion to increases in the firm's equity and reductions in its debt, actual capital markets differ from ideal conditions in a variety of ways: there is a tax preference for debt; there are higher direct and indirect transaction costs for issuing equity; a material portion of a bank's debt is insured (its deposits) and the insurance premium is not fully related to the risk covered; and both real and perceived asymmetries in information between an institution and its investors result in an underpricing of the riskiest securities and an overpricing of the less risky. As a result, equity financing is materially more expensive for a financial institution than debt

financing, and there is persuasive literature that relates this higher cost of financing to a higher cost of credit provided by banks (*e.g.,* Cosimano and Hakura 2011; ECB 2015; de Ramon, *et al.* (2012); Francis and Osborne (2009)).[1]

Relatedly, there is a growing body of literature that analyzes the effect of bank capital levels on the quantity as well as the cost of credit. For example, Board Governors have cited the following studies. Furfine[2] analyzes data on large U.S. commercial banks between 1989 and 1997 and concludes that a 1-percentage point increase in capital standards reduces loan growth by 5.5 percent. Berrospide and Edge[3] find a more modest impact. Using U.S. bank holding company data from 1992 to 2009, the authors conclude that a 1-percentage point increase in capital requirements reduces loan growth by roughly 0.7 to 1.2 percentage points. Other studies tell a similar story using non-U.S. data. For instance, Francis and Osborne[4] find, using U.K. data, that a 1-percentage point increase in capital requirements reduces bank lending by approximately 1.2 percent. Finally, Martynova's[5] survey of the literature—mostly of studies using non-U.S. data—shows that an increase in capital requirements by 1 percentage point reduces loan growth by 1.2 to 4.6 percentage points.

As your question notes, however, whether the costs outweigh the benefits of higher capital is a separate issue. There is a growing body of research regarding the costs and benefits of bank capital that addresses the impact of capital standards on economic growth. A number of studies, also cited by Board Governors, including the Basel Committee on Banking Supervision,[6] the Bank of England,[7] the Federal Reserve Bank of Minneapolis,[8] and Firestone *et al.*[9] suggest that higher bank capital requirements (up to a point) are good for long-term credit availability and economic growth, but that with levels of capital beyond that point, social welfare is decreased. While the optimal level of capital varies between studies, the basic framework is the same.

Q.4. In the same op-ed, you said:

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[1] Cosimano, Thomas F. and Dalia S. Hakura (2009). "Bank Behavior in Response to Basel III: A Cross-country Analysis." IMF Working Paper WP/11/119; "Euro Area Bank Lending Survey" (January 2015); de Ramon, Sebastian J.A., *et al.* (2012). "Measuring the Impact of Prudential Policy on the Macroeconomy: A Practical Application to Basel III and Other Responses to the Financial Crisis," Financial Services Authority Occasional Paper Series, No. 42; Santos, Andre Oliveira and Douglas Elliott (2012). "Estimating the Costs of Financial Regulation." IMF Staff Discussion Note SDN/12/11; Martin-Oliver, Alfredo *et al.* (2013). "Banks' Equity Capital Frictions, Capital Ratios, and Interest Rates." International Journal of Central Banking, Vol. 9, No. 1, p.183.

[2] Furfine, Craig (2000). "Evidence on the Response of U.S. Banks to Changes in Capital Requirements." BIS Working Papers No. 88.

[3] Berrospide, Jose M. and Rochelle M. Edge (2010). "The Effects of Bank Capital on Lending: What Do We Know, and What Does It Mean?" Federal Reserve Board Finance and Economics Discussion Series 2010–44.

[4] Francis, William B. and Matthew Osborne (2012). "Capital Requirements and Bank Behavior in the U.K.: Are There Lessons for International Capital Standards?" Journal of Banking and Finance, 36, 803–816.

[5] Martynova, Natalya (2015). "Effect of Bank Capital Requirements on Economic Growth: A Survey." DNB Working Paper No. 467.

[6] Basel Committee on Banking Supervision (2010). "An Assessment of the Long-Term Economic Impact of Stronger Capital and Liquidity Requirements."

[7] Brooke, Martin *et al.* (2015). "Measuring the Macroeconomic Costs and Benefits of Higher U.K. Bank Capital Requirements." Bank of England Financial Stability Paper No. 35.

[8] Federal Reserve Bank of Minneapolis (2016). "The Minneapolis Plan to End Too Big To Fail."

[9] Firestone, Simon, Amy Lorenc, and Ben Ranish (2017). "An Empirical Economic Assessment of the Costs and Benefits of Bank Capital in the U.S." Federal Reserve Board Finance and Economics Discussion Series 2017–034.

> Focusing on bank size is politically appealing but diverts attention from the major source of systemic risk in the financial sector: a shortage of stable deposits. Banks are but one part of an interconnected financial sector providing over $40 trillion of credit to the economy, but that credit is supported by only about $11 trillion of bank deposits.
>
> The gap must be closed largely with professionally managed, 'wholesale' funding, such as short-term repurchase agreements. Wholesale funders are quick to pull their support by not rolling over short-term credit if they perceive those funds are at risk. This leads to periodic runs on financial institutions and the resulting demand for Government intervention to prevent the failure of those institutions. Substantial wholesale funding is necessary to sustain the current level of financial-sector credit that supports the economy.
>
> Whether there are 10 big banks in the country or 10,000 small ones, there will still be insufficient stable financing from deposits, and a resulting reliance on wholesale funds.

In 2013, Governor Tarullo told this Committee that the "issue of short term, nondeposit, runnable funding" is "the one I think we should be debating in the context of too-big-to-fail, and in the context of our financial system more generally."

Q.4.a. Do you agree with Governor Tarullo that more needs to be done to address the issue of short-term wholesale funding?

A.4.a. Since the time of Governor Tarullo's testimony, the Board has undertaken several efforts to address banking organizations' use of short-term wholesale funding. For example, the Board has implemented the liquidity coverage ratio and has proposed the net stable funding ratio to increase large banking organizations' resilience to disruptions in short-term wholesale funding. In addition, the Board adopted the GSIB surcharge rule, which takes U.S. GSIBs' reliance on short-term wholesale funding into account in the calibration of each GSIB's capital surcharge, and adopted a long-term debt requirement for U.S. GSIBs. If confirmed, I look forward to further evaluating the benefits and costs associated with adoption of such measures.

Q.4.b. In 2013, the GAO found that "the use of programs by institutions of various sizes were driven in part by differences in how institutions funded themselves," and that large banks holding companies received a higher ratio of support relative to their total assets because they "relied less on deposits as a source of funding and more on short-term credit markets and participated more in programs created to stabilize these markets."

Do you agree that "focusing on size" may be an appropriate approach, to the extent that larger financial institutions (particularly bank holding companies) rely on more wholesale funding?

A.4.b. Large banking firms tend to have more complex risk and funding profiles relative to smaller firms. Accordingly, for some regulations it may be appropriate to use size-based thresholds to determine their scope of application. For other regulations, it may be appropriate to consider factors in addition to size in setting their scope of application, given the considerable variation in risk and funding profiles and systemic footprints across large firms.

Q.4.c. Do you support the following measures that have been proposed to mitigate the risks posed by short-term wholesale funding:

i. The supplementary leverage ratio?

ii. The liquidity coverage ratio?

iii. The net stable funding ratio? If so, will you making finalizing the net stable funding ratio rule a priority?

iv. Uniform margin requirements for securities financing transactions? If so, will you make proposing a rule for uniform margin requirements for securities financing transactions a priority?

A.4.c. As noted in the above response, the Board has undertaken several measures aimed at mitigating the risks of over-reliance on short-term wholesale funding, including the liquidity coverage ratio and the GSIB risk-based capital surcharges. The supplementary leverage ratio, while not specifically targeted toward short-term wholesale funding, also impacts firms' funding decisions. The net stable funding ratio and margin requirements for securities financing transactions could further mitigate potential risks to financial stability associated with different types of short-term wholesale funding. I have not had the benefit of the extensive review and analysis conducted by the Federal Reserve in the course of developing these measures, and thus, if confirmed, I look forward to further evaluating the benefits and costs associated with adoption of such measures.

Q.5. In January 2014, the Board announced an Advanced Notice of Proposed Rulemaking on financial holding companies' commodities activities. In September 2016, the report released by the Board, the OCC, and the FDIC pursuant to section 620 of Wall Street Reform, on banks' securities activities recommended that Congress rescind two authorities under the Bank Holding Company Act—the merchant banking authority under section 4(k) and the grandfathered authority under section 4(o). Later that month, the Board released a proposed rule to limit some of the financial holding companies' commodities activities.

Q.5.a. While at the Treasury Department, did you have any involvement in the 2003 joint report with the Board of Governors on Financial Holding Companies under the Gramm-Leach-Bliley Act or the 2005 Treasury Department report on the Impact of the Gramm-Leach-Bliley Act on Credit to Small Businesses and Farms?

A.5.a. These reports were prepared by the Office of Domestic Finance of the Treasury. During the periods of their preparation, I was serving in the Office of International Affairs (as Assistant Secretary in 2003, and as Assistant Secretary and Acting Under Secretary during the first part of 2005). The Office of International Affairs has no policy responsibility for the matters discussed in these reports, and I was not involved in their preparation.

Q.5.b. Do you support the Board's recommendations in the section 620 report?

A.5.b. The Board's recommendations in the 620 report were the result of an extended review of the history and operation of the provisions under consideration. Having not had the benefit of that review, my views on the 620 report are not yet formed. If confirmed, I would look forward to understanding and exploring these issues with the other Board members.

Q.5.c. Do you support the Board's proposed rule, and will you make finalizing the rule a priority?

A.5.c. The proposed rule invited public comment on additional prudential requirements and limitations on the physical commodities activities of financial holding companies (FHCs) to address the risks the activities may pose to FHCs and their subsidiary insured depository institutions. I understand that the Board received a wide range of comments from a variety of interested parties, including Members of Congress, academics, physical commodity end users and producers, public interest groups, and FHCs. I think it would be inappropriate for me to express a view in advance of reviewing all of these comments, and thus, if I am confirmed, I will review the proposal and comments to consider what future action may be appropriate.

Q.6. In 2008, you editorialized in the *Wall Street Journal* against the restrictions on bank ownership imposed by the Board and the FDIC, and in 2009 you editorialized against aspects of the FDIC's proposed rule imposing additional restrictions on bank ownership by private equity funds. Did you have any contact with the Board concerning rules governing bank ownership? If so, please provide such contacts.

A.6. I spoke informally with Governor Randall S. Kroszner, at his request, in the fall of 2008 about potential safeguards to allow the safe expansion of the pool of bank capital given the need for such capital during the financial crisis, and had one formal meeting to discuss the issue with Governor Daniel Tarullo in March 2009.

Q.7. As I mentioned during your hearing, in 2015 Bloomberg Television interview, you said:

> The Government should not be a player in the financial sector. It should be a referee. And both the practice and the policy and the legislation that resulted from the financial crisis tended to make the Government a player. It put it on the field as opposed to simply reffing the game.

Please explain your views as to what distinguishes being a "player" from being a "referee," as it relates to financial regulation.

A.7. My approach to policymaking, and particularly to regulation, has been that the discretion of policymakers, and particularly of regulators, should be as constrained as possible. Where discretion remains, regulators should be as clear as possible about how they will exercise it in the future so that their actions are predictable and there is less uncertainty as to what the policy will be.

Q.8. In 2011, at an Atlantic Council event, you said:

> I have come to believe that there is a fundamental problem with resolution mechanisms that allow substantial discretion for Governments to act in particular cases, which Dodd-Frank . . . does. The consequence of that is that it multiplies uncertainty in a time of crisis because you're not going to act until you know what the Government is going to do . . . I think ultimately the only really workable solution, which is to sort of have something that is like a bankruptcy regime—a rules-based approach as opposed to something that says, 'and then 'Mr. Wizard' will decide what to do.'

Q.8.a. Do you believe that Title II Orderly Liquidation Authority, as implemented by the FDIC's Single Point of Entry approach, allows "substantial discretion" to regulators in the event of an orderly liquidation?

A.8.a. The Department of the Treasury is reviewing the authorities of the Federal Deposit Insurance Corporation (FDIC) under the Orderly Liquidation Authority (OLA), and I will review the Treasury report on OLA. Where the law provides regulators with discretion, regulators should be as clear as possible about how they will exercise their discretion. Since my 2011 statement, the FDIC has provided additional clarity regarding the single point of entry (SPOE) strategy it may employ under OLA. In addition, the Board has issued rulemakings to facilitate the resolution of global systemically important banking organizations, including an SPOE resolution under OLA. Regulators should continue their efforts to provide as much clarity as possible regarding the resolution of systemically important financial institutions.

Q.8.b. Do you believe that some sort of bankruptcy regime for large, complex financial institutions is the only "rules-based approach" to the failure of such an institution?

A.8.b. Conceptually, there could be many ways to constrain the discretion of Government actors to improve the certainty and predictability of their actions in the event of a financial institution's distress, of which bankruptcy is one but not the only one. An advantage of the bankruptcy process is that there is a long history of practice and interpretation that provides further clarity about how the system will operate in specific cases in the future. This is among the reasons it would be beneficial if the Bankruptcy Code could be amended so that a financial institution could fail in the same way that any other institution fails, and the rules surrounding that would be understood as they are for any other institution.

Q.8.c. Do you believe that imposing different national bankruptcy regimes on the respective subsidiaries of a large, international financial institution multiplies uncertainty?

A.8.c. Whether the entry of a subsidiary of a large, international banking organization into a separate insolvency proceeding impedes the orderly resolution of the organization depends on a number of factors, including the structure of the organization, the functions of the subsidiary, and the circumstances that cause the failure. The Board and the FDIC (agencies) are responsible for reviewing the plans of many large, international banking organizations for their orderly resolution under the U.S. Bankruptcy Code. The agencies have provided guidance to the internationally active firms that the firms should take steps to address resolvability obstacles related to their foreign subsidiaries. To further reduce uncertainty, large, international banking organizations and their domestic and foreign regulators should continue their efforts to plan for and coordinate the potential resolution of these organizations and should be as clear as possible as to how such resolutions may occur.

Q.8.d. In your hypothetical scenario, is "Mr. Wizard" always a financial regulatory agency, or could such person also include a bankruptcy judge or trustee?

A.8.d. In my view, a critical issue in the resolution of financial firms is to improve the predictability and certainty of the course of

resolution, and limiting the discretion of Government actors is an important element of that process. Accordingly, improving the speed and certainty of outcomes in the bankruptcy process, including the predictability of decisions made by judges in that process, is central to the improvements that should be made to the Bankruptcy Code for the resolution of financial institutions. The Board and FDIC have made progress through the resolution planning, or "living will," review process to make the largest banking organizations easier to resolve under the current Bankruptcy Code. I support improving the Bankruptcy Code so that the rules surrounding the bankruptcy of a large financial company would be understood as they are for any other company with as little exercise of discretion as possible.

Q.9. Related to monetary policy, do you agree with the "unconventional" steps taken by Federal Reserve Chairman Bernanke during the crisis? Since the crisis, do you think the Federal Open Market Committee has been on the right course of gradually increasing interest rates, and taking steps to begin to unwind their balance sheet later this year?

A.9. The financial panic and associated steep economic downturn in 2008/2009 was the most severe financial and economic crisis faced by the United States and the world since the Great Depression. In those circumstances, Congress, the Administration, and many Federal agencies including the Federal Reserve took extraordinary steps to address the crisis. I am not in a position to judge the merits of every single action taken by the Federal Reserve over this period, but it is clear that the economy was in very serious trouble at the end of 2008.

Regarding the current trajectory of monetary policy, if confirmed, I expect to benefit from interactions with colleagues on the Federal Open Market Committee (FOMC) in assessing the appropriate course of policy. Broadly though, it does appear that the FOMC's approach to date in gradually raising the Federal funds rate and preparing to reduce the size of its balance sheet in a gradual and predictable fashion has been effective in fostering the goals of maximum employment and stable prices while at the same time returning the stance of monetary policy to a more normal setting.

Q.10. If confirmed, you will be a member of the Federal Open Market Committee. What experience will you bring to this role? Are there any changes in how monetary policy is currently conducted that you will advocate for?

A.10. Over the course of my career, I have gained broad experience in economic and financial issues, both from a private sector perspective in working with both large and small financial firms and from a policy perspective in serving in senior policy positions in two previous Administrations. Based on this experience, I have developed a mature understanding of the key monetary policy issues confronting the FOMC. Of course, if confirmed, I expect to add to this experience from interactions with colleagues on the FOMC.

I support the basic framework for the conduct of monetary policy established by the Congress. The Congress has directed the Federal Reserve to promote two basic goals—maximum employment and stable prices. The Federal Reserve has an important degree of

operational independence in how it conducts policy to achieve these goals—but that operational independence comes with an obligation to be accountable and transparent to the public and the Congress.

The Federal Reserve has taken many steps over recent years to enhance transparency and accountability in the conduct of monetary policy. I would certainly support any additional steps in this area that would both enhance Federal Reserve transparency and support the effective conduct of monetary policy.

Q.11. You have said in the past that Federal Reserve should adopt a monetary policy rule, like the Taylor rule. As you know, the Federal Reserve currently uses a variety of monetary policy rules, including the Taylor rule, in its analysis and monetary policy decisionmaking, but does not rely solely on rules to determine interest rate adjustments. Do you agree with the Federal Reserve's current approach, or are you advocating that the Fed use a single rule?

A.11. The Federal Reserve has made substantial progress over the last 25 years in becoming both clearer and more consistent in explaining its monetary policy decisions. I believe, though, that there is still room for the Federal Reserve to do more in developing and explaining a clearly delineated and broadly measurable strategy that would improve current understanding and reduce future uncertainty concerning the expected course of monetary policy. My commitment to a greater focus on rules in the conduct of policy is not inconsistent with the Federal Reserve's progress in improving its transparency, nor a dramatic change in direction, but a recognition that the Federal Reserve can and should continue to improve the clarity and consistency of the framework in which it conducts monetary policy. This discipline can improve the policy itself, and improve the understanding of that policy by markets and by the public.

Q.12. How important is it for the U.S. central bank to be independent?

A.12. I support the basic framework for the conduct of monetary policy established by the Congress. The Congress has assigned to the Federal Reserve the goals of monetary policy, and the Federal Reserve has an important degree of operational independence in how it conducts policy to achieve these goals. Independence of the central bank is critical in insulating the conduct of monetary policy from political pressures that can lead to ineffective policy and poor macroeconomic outcomes. Research has demonstrated that central banks that are subject to political pressures are generally less effective in achieving their macroeconomic objectives; for example, some historians have suggested that political pressures on the Federal Reserve may have contributed to policy mistakes and the "Great Inflation" of the late 1960s and 1970s.

While I am a strong supporter of the independence of the Federal Reserve, the Federal Reserve is a public institution and its independence comes with an obligation to be transparent and accountable to the Congress and the public in the conduct of monetary policy. Over time, the FOMC has made considerable strides in enhancing transparency. For example, it now issues statements following every meeting, the Chair holds a press conference four times each year, FOMC participants prepare quarterly economic

projections, detailed minutes of FOMC meetings are published 3 weeks following each meeting, and full transcripts of meetings and supporting documents are released to the public with a 5-year lag. These steps have significantly enhanced Federal Reserve transparency and have also supported the effectiveness of monetary policy by allowing the public to better understand and anticipate the Federal Reserve's policy decisions. If confirmed, I would support any additional steps that the Federal Reserve could take that would enhance both Federal Reserve transparency and the effective conduct of monetary policy.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SASSE FROM RANDAL QUARLES

Q.1. Our financial system has become increasingly consolidated as community banks and credit unions either close their doors or merge with larger institutions.

Q.1.a. Are you concerned about this pattern? Why?

Q.1.b. What services can these smaller institutions provide that larger institutions cannot provide?

A.1.a.–b. Community banks play a critical role in our financial system and economy. While the consolidation trend in the industry has continued over the past 30 years, I believe that a number of factors in the post financial crisis environment have exacerbated the challenges facing these institutions, including the substantially increased cost of regulatory compliance. Despite this trend, community banks continue to support local economies and serve as a key source of financing to households and small businesses.

Research conducted over many years has concluded that community banks provide several distinct advantages to their customers compared to larger banks. For example, given their smaller size and less complex organizational structure, community banks are often able to respond with greater agility to lending requests. In addition, reflecting their close ties to the communities they serve and their detailed knowledge of their customers, community banks are able to provide customization and flexibility to meet the needs of their local communities and small businesses. Community banks are particularly important for rural communities, where the closing of a bank can be associated with a material decline in local economic activity.

Recognizing the important role of community banks in our diversified banking industry, if confirmed, I will work with my colleagues at the Federal Reserve to supervise and regulate community banks in a way that fosters safe and sound operation without limiting their capacity to support the financial needs of their communities.

Q.2. Constituents in my State tell me that the EGRPRA report inadequately highlighted concrete ways to reduce the regulatory paperwork burden. What more can the Federal Reserve do to reduce the regulatory burden on community banks?

A.2. As noted in my previous answer, community banks play a critical role in our financial system and economy. If confirmed, I will work with my colleagues at the Federal Reserve to supervise and

regulate community banks in a way that fosters safe and sound operation without limiting their capacity to support the financial needs of their communities. I believe more can be done to better tailor regulation and supervision for community banks in a manner that is appropriate to their small size and simplicity. I look forward to working with Congress and others at the Federal Reserve to identify further ways to effectively reduce burden.

Q.3. Multiple anecdotes from my constituents suggest that there are several Nebraska counties where mortgages are not originated because of over-regulation. What is the best way to address this problem from a regulatory standpoint?

A.3. I believe that we should make efforts to right-size regulations to reduce burden for community banks consistent with safety and soundness and consumer protection, so they can properly serve their communities. I understand that the financial regulators discuss compliance and supervisory issues related to the mortgage regulations on a regular basis. If confirmed, I look forward to participating in these interagency communications to seek ways to reduce burden and improve access to safe and appropriate mortgage loan products.

Q.4. My understanding is that only two banks have opened since the passage of Dodd-Frank, including Bird in Hand Bank in Pennsylvania, which has a customer base that is around half Amish.

Q.4.a. Why do you believe this is the case?

Q.4.b. What potential impacts does this have on our financial system?

Q.4.c. Is there anything more the Federal Reserve can do to encourage the opening of new banks?

A.4.a.–c. Historically, new bank formations have been cyclical and have fallen after the financial crises in the 1980s and 1990s before recovering as economic conditions improved.[1] Recent research has supported this and has shown that a portion of the decline in new charters since the crisis can be explained by factors such as a weak economy, low interest rates, and weak demand for banking services.[2] Nonetheless, from my experience as an investor in community banks since the crisis, I know that the widely recognized increased cost of regulatory compliance is an important factor deterring many investors who might potentially contemplate the formation of a new institution.

Potential impacts of fewer de novo bank entrants include lack of innovation, reduced competition, lack of local lending, and reduced availability of credit.

The Federal Reserve does not have chartering authority for insured depository institutions, which is the responsibility of the States and the Office of the Comptroller of the Currency, nor does the Federal Reserve grant deposit insurance. If confirmed, however, I would expect to work with the other U.S. Federal and State banking agencies to prudently explore ways to increase new bank formation.

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[1] *https://www.fdic.gov/regulations/examinations/supervisory/insights/sisum16/SI_Summer16.pdf.*

[2] *https://www.federalreserve.gov/econresdata/feds/2014/files/2014113pap.pdf.*

Q.5. I'm concerned that our Federal banking regulatory regime relies upon arbitrary asset thresholds to impose prudential regulations, instead of relying on an analysis of a financial institution's unique risk profile.

Q.5.a. Should a bank's asset size be dispositive in evaluating its risk profile in order to impose appropriate prudential regulations?

A.5.a. One of the important general themes of regulation is ensuring that the character of the regulation is adapted to the character of the institution being regulated, what has become referred to as tailoring. I fully support tailoring, and I think that it is not only appropriate to recognize the different levels of risk and types of risk that different institutions in the system pose, but that it also makes for better and more efficient regulation. Efficient regulation allows the financial system to more efficiently support the real economy.

I believe a variety of approaches could be taken to determine which prudential regulations should apply to which banks in the U.S. banking system. For some regulations or for some bank populations, a simple fixed-asset threshold may work. For other regulations or bank populations, a more complex, multi-factor approach may be appropriate. If I were to be confirmed, I would stand ready to work with Congress and my colleagues at the Federal Reserve on appropriate tailoring thresholds.

Q.5.b. If not, what replacement test should regulators follow?

A.5.b. Broadly speaking, I support tailoring regulations in such a way that reduces the risk that financial distress in the banking industry would cause substantial harm to the U.S. economy, without imposing undue burden on smaller community and regional banking organizations whose failure would not cause notable harm to the U.S. economy. I understand that Congress is currently considering whether and how to raise existing statutory thresholds in the Dodd-Frank Wall Street Reform and Consumer Protection Act, and that the Federal Reserve has expressed support for increasing these thresholds. I, too, would support these efforts. As noted above, I believe a variety of approaches could be taken, and I would stand ready to work with Congress and my colleagues at the Federal Reserve on the design of such an approach, if I were to be confirmed.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM RANDAL QUARLES

Q.1. The Federal Reserve, OCC, and FDIC in 2016 published a joint advance notice of proposed rulemaking (ANPR) on cybersecurity, asking for comment, among other things, on whether boards of directors should have adequate expertise in cybersecurity. Citing the ANPR: "a cyber incident or failure at one interconnected entity may not only impact the safety and soundness of the entity, but also other financial entities with potentially systemicconsequences." Other than the solicitation of comments, we are not aware of any material progress on this ANPR. If confirmed, may I have a personal commitment from each of you that you will work with the FDIC and each other on advancing this cybersecurity ANPR?

A.1. Cybersecurity continues to be a major concern for the financial sector. If I were to be confirmed, I would be committed to finding ways to strengthen the resiliency of the financial sector against cyber risks.

One of my priorities would be to harmonize our supervisory expectations with those of other regulators in the financial sector as much as is practical. Therefore, an important step would be to reach a consensus on as many of the core elements of the advance notice of proposed rulemaking as possible.

Q.2. The OCC and the Federal Reserve are each authorized to enforce the Military Lending Act (MLA), which is a bipartisan law enacted in 2006 that sets a hard cap of 36 percent interest for most loans to the military. On July 22, 2015, the Department of Defense finalized MLA rules that closed prior loopholes that allowed unscrupulous lenders to prey upon servicemembers and their families. Do you support these stronger MLA rules? If confirmed, will you support and enforce these strong MLA rules to the fullest extent possible?

A.2. The Military Lending Act (MLA) provides special consumer protections for servicemembers and their dependents. In enacting the MLA, the Congress directed the Department of Defense to issue implementing regulations after consulting with the Federal Reserve and other agencies. I understand the Federal Reserve staff has worked with Defense Department staff to carry out that mandate and, if confirmed, I will support that effort and the Federal Reserve's full enforcement of the MLA at the institutions it supervises.

Q.3. Half of the Federal Reserve's dual mandate is to achieve maximum employment. How would you support this part of the dual mandate to ensure that Rhode Islanders have more jobs?

A.3. The Federal Reserve System occupies a central position in our country's policy infrastructure for promoting a strong economy and the stability of the financial system, and supporting robust job growth in the context of price stability. I can assure you that if I were to be confirmed, I would be strongly committed to all these objectives. With respect to the employment mandate, I believe it is an important element of the Federal Reserve's obligation, and I would take it very seriously.

If I were to be confirmed, in my capacity as a Federal Reserve Board member and as Vice Chair for Supervision, I would work to refine and enhance regulations in ways that promote a safe and sound financial system and that support the flow of credit to households and businesses. As I have noted on previous occasions, I believe there are opportunities to simplify and streamline regulations, particularly for smaller financial institutions, which have a particular role in supporting the small businesses that are the engines of job creation. Easing regulatory burdens can help to foster improved access to credit, as well as more business and employment opportunities, without sacrificing the gains of recent years in strengthening the financial system.

If confirmed, I look forward to engaging with Federal Reserve Board members and staff to gain an accurate and complete picture as possible on overall and specific labor market conditions.

Q.4. The White House has asked the Treasury Department to review the orderly liquidation authority (OLA) established by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The statutory purpose of 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 in a manner that mitigates such risk and minimizes moral hazard." I would like to highlight some existing OLA provisions and ask you whether you support them.

In the case of a failure of a megabank, do you support the:

- mandatory removal of the megabank's executives and board members responsible for the failure?
- FDIC's authority to claw back compensation from executives or directors substantially responsible for the failure?
- statutory mandate that "taxpayers shall bear no losses from the exercise of any authority" under OLA?

A.4. Avoiding taxpayer loss and reducing moral hazard, which these provisions of Orderly Liquidation Authority (OLA) address, are important goals for the resolution of a large, systemically important financial company, and thus I fully support the objectives of these provisions. The Department of the Treasury is reviewing OLA, and if I am confirmed, I will give the resulting report serious review.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MENENDEZ FROM RANDAL QUARLES

Q.1. In January, the Minneapolis Federal Reserve published a report estimating that if the Federal Open Market Committee had been required to follow the Taylor Rule for the last 5 years, 2.5 million more Americans would be out of work today.

Q.1.a. Do you accept the analysis that suggests strictly following the Taylor Rule would undermine the Federal Reserve's ability to achieve its full employment mandate?

Q.1.b. Assuming this analysis is correct, and adhering to a strict Taylor Rule or other monetary policy rule would result in the loss of a large number of jobs, would you still argue in favor of following such a rule?

A.1.a.–b. Of course, in general, it is difficult to say how the economy would have behaved in the past if the Federal Reserve or any other part of the Government had followed a different set of policies. That basic difficulty is compounded many times over when examining the possible effects of alternative polices during a period that includes the aftermath of the most severe financial crisis since the Great Depression.

My commitment to a greater focus on rules in the conduct of policy, however, is not a back-door effort to reduce the Federal Reserve's commitment to its dual mandate. Rather, it is to acknowledge that there is still room for the Federal Reserve to do more in developing and explaining a clearly delineated and broadly measurable strategy that would improve current understanding and reduce future uncertainty concerning the expected course of

monetary policy. In determining whether a particular policy rule or strategy is effective, an important element of that assessment is whether it supports the Federal Reserve's congressional mandates, including the full employment mandate. Thus, if the best analysis of a monetary policy rule's projected effects were that it would be inconsistent with the dual mandate, the Federal Reserve should not adopt that rule. And if experience over time demonstrated that the practical application of a rule was leading to outcomes that were inconsistent with the dual mandate, the rule should be refined or replaced.

The Federal Reserve has made substantial progress over the last 25 years in becoming both clearer and more consistent in explaining its monetary policy decisions. My commitment to a greater focus on rules in the conduct of monetary policy is neither inconsistent with that progress, nor a dramatic change in direction, nor a prioritization of one element of the dual mandate over another, but rather a recognition that the Federal Reserve can and should continue to improve the clarity and consistency of the framework in which it conducts monetary policy. This discipline can improve the policy itself, and improve the understanding of that policy by markets and by the public.

Q.2. In the wake of the financial crisis, Congress enacted a provision, section 956 of Dodd-Frank, to require financial regulators to jointly issue rules to ban incentive pay practices at large financial institutions that encourage inappropriate risk-taking. In May of 2016, the financial regulators including the Federal Reserve Board and the OCC proposed a rule to implement section 956. More than a year later, the rulemaking still has not been finalized. The Wells Fargo fraudulent account scandal uncovered last year, where senior executives were given bonuses for "successes in cross-selling," underscores the need for rules regarding incentive-based compensation agreements.

Q.2.a. Will you commit to implementing section 956 of Dodd-Frank?

A.2.a. Incentive compensation is important to attract qualified employees and executives to financial institutions. It is also important that compensation programs do not distort incentives for employees to act in the long-term interest of the institution.

If confirmed, I would look forward to working with the other agencies to understand the issues raised in this rulemaking and fulfilling the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Q.2.b. Will you commit to implementing all congressionally mandated rulemakings?

A.2.b. If confirmed, I am committed to fulfilling the requirements of all laws to which the Federal Reserve has been given authority by the Congress.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEITKAMP FROM RANDAL QUARLES

Q.1. Looking through your past statements, it's clear that you believe we need to have a financial system that takes on risk in order

to get innovation and growth in our economy. However, as we saw during the financial crisis, too much risky behavior can lead to outright fraud and manipulation of markets, which ultimately led to widespread systemic harm. I strongly believe that criminal penalties for executives can deter the type of fraud and market manipulation that led to the 2008 crisis. If an executive acts recklessly and that recklessness results in substantial economic harm to the economy, he should be held criminally liable. Do you believe thoughtful changes to our white collar criminal standards and penalties would be an effective tool for protecting our financial system?

A.1. As the Federal Reserve has publicly stated, no individual and no institution should be exempt from prosecution when they commit a crime. The Justice Department has the sole authority to indict or seek Federal criminal fines or other sanctions and to criminally prosecute individuals for their actions. The Federal Reserve may bring enforcement actions against and remove an institution-affiliated party in certain circumstances if they have violated a law or regulation or engaged in unsafe and unsound practices. When warranted, the Federal Reserve also has the authority to impose fines. I believe the Federal Reserve should take whatever action is appropriate to ensure individuals subject to the Federal Reserve Board's (Board) jurisdiction comply with the law and act consistently with safety and soundness principles.

Q.2. As I'm sure you're aware the economy in North Dakota and rural America more generally is facing headwinds from a variety of factors including a strong dollar, potential trade restrictions and low commodity prices.

Q.2.a. To take just the issue of trade, I'm interested to know how you would factor the Administration's trade policies into your monetary policy decisions and efforts to achieve economic growth at the Fed?

A.2.a. Monetary policy decisions should be based on an assessment of realized and expected progress toward the Federal Reserve's employment and price stability objectives. International trade is an important part of the U.S. economy, so trade developments should be an important aspect of that assessment. In addition to the current state of trade and trade policy, monetary policy should also consider several factors that could affect the outlook for trade, including movements incurrency and commodity markets as well as prospects for economic growth abroad.

Q.2.b. Do you believe that we can achieve economic growth at rates of 3 percent with a restrictive policy on trade?

A.2.b. With the economy now close to full employment, a step-up from recent growth rates of around 2 percent to a sustained 3 percent growth rate would require some combination of a sustained increase in productivity growth from its recent weak trend or an improvement in the trend in labor force growth despite the downward pressures being exerted by the aging baby-boom cohorts. An assessment of a trade policy's effect on growth would need to involve an assessment of its effect on these two factors.

Q.2.c. Beyond regulatory changes and taxes, what steps should we be taking to increase productivity and achieve more robust GDP growth?

A.2.c. In my view, a combination of more encouragement for private investment, more-effective regulation, better education, and improved public infrastructure would contribute positively toward increasing productivity and improving GDP growth. I do not believe there is a single, unalterable combination of these proposals that would have to be followed to have a positive effect, and Congress could choose from a variety of specific policies addressing these issues in order to further this objective.

Q.3. As part of the EGRPRA process, regulators identified access to timely appraisals—especially in rural America—as a major challenge for small lenders. Yet the report itself did little to address residential appraisal requirements.

Q.3.a. Do you share my concerns that the appraisal system in rural America is broken?

A.3.a. As both my wife and I come from families involved in agriculture in the West, I am very aware of concerns about the availability of appraisers in rural areas. I understand that the Board, Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration recently issued an advisory addressing some of the ways institutions can address the issue of appraiser availability. If confirmed, I look forward to hearing from the industry stakeholders to understand their positions on this regulatory action. It is an issue I take very seriously.

Q.3.b. What concerns would you have with raising the residential exemption threshold—which was last modified in 1994—above its current limit of $250K?

A.3.b. I understand that the Federal banking agencies are in the process of evaluating the current threshold. The Board, OCC, and FDIC recently issued a proposal to increase the transaction size threshold for requiring appraisals for commercial real estate transactions, and in that proposal have requested comments on many aspects of the appraisal regulations, including whether the appraisal threshold for residential transactions should be raised to reduce burden, consistent with safety and soundness and consumer protection. If confirmed, I look forward to hearing what the public has to say about that proposal and better understanding the issues involved. It is also my understanding that the bulk of the residential mortgage market is subject to the appraisal rules of other Government entities, such as the Government-Sponsored Enterprises or the Federal Housing Administration. If confirmed, I would support working with those other entities to harmonize appraisal rules for residential mortgages.

Q.4. On several occasions before the Banking Committee Governor Tarullo testified that the dollar asset thresholds in Dodd-Frank such as the $50 billion threshold for SIFI designation, is far too high.

Q.4.a. Do you believe regulators could effectively address systemic risk if the threshold were raised above $50 billion?

A.4.a. One of the important general themes of regulation is ensuring that the character of the regulation is adapted to the character of the institution being regulated, what has become referred to as tailoring. I fully support tailoring, and I think that it is not only appropriate to recognize the different levels of risk and types of risk that different institutions in the system pose, but that it also makes for better and more efficient regulation. Efficient regulation allows the financial system to more efficiently support the real economy.

I believe a variety of approaches could be taken to determine which prudential regulations should apply to which banks in the U.S. banking system. For some regulations or for some bank populations, a simple, fixed-asset threshold may work. For other regulations or bank populations, a more complex, multi-factor approach may be appropriate. If I were to be confirmed, I would stand ready to work with Congress and my colleagues at the Federal Reserve on appropriate tailoring thresholds.

Q.4.b. Are there specific provisions in Dodd-Frank which you believe are particularly costly or unnecessary for a certain subset of banks above the $50 billion threshold?

A.4.b. Broadly speaking, I believe that smaller community and regional banking organizations, whose failure would not cause notable harm to the U.S. economy, can be supervised in a way that promotes safe and sound banking without being subject to the enhanced regulations that apply to larger banking firms. I support efforts to consider whether and how specific regulations should be tailored in a way that reduces the risk that bank failures or distress will have a harmful impact on economic growth, without imposing undue burden. I support efforts to raise the $50 billion threshold in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) to reduce regulatory burden on some regional banks, and, if confirmed, I am open to discussing the best way to accomplish that goal.

Q.4.c. Are there specific provisions in Dodd-Frank which you believe are necessary for all banks above $50 billion in assets that should be retained in order to mitigate systemic risk?

A.4.c. If confirmed, one of my first priorities will be to engage in a comprehensive review of rules to ensure we have a system in place that promotes the safety and soundness of individual institutions, protects the stability of the U.S. financial system, and fosters economic growth and business opportunity. In advance of such a review, I do not have a final view on any specific provisions that should remain in place for all banks over $50 billion. However, I support efforts to raise the $50 billion threshold in the Dodd-Frank Act to reduce regulatory burden on some regional banks with assets over $50 billion, and, if confirmed, I am open to discussing the best way to accomplish that goal.

Q.4.d. What concerns do you have with having a purely qualitative test for identifying systemic risk?

A.4.d. I believe a variety of approaches could be taken to measure a firm's "systemic footprint." While there is merit to considering a qualitative test—since size is not a perfect proxy for risk—care

would have to be taken in crafting such a test to ensure that measuring an institution's standing under the various qualitative elements did not itself become a burdensome compliance effort even for banks that ought clearly to be exempt. If I were to be confirmed, I would stand ready to work with Congress on the design of an approach to measuring firms' systemic importance.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SCHATZ FROM RANDAL QUARLES

Q.1. This Administration's narrative is that Dodd-Frank is constraining lending because compliance is so costly. However, Federal Reserve data shows that banks' commercial lending is at an all-time high—far higher than pre-recession levels—and bank profits are also at an all-time high. The largest banks all passed their stress tests and were given the green light to increase dividend payments and stock buybacks. This is above the high levels we saw in 2016, when the largest banks had over $100 billion to spend on dividends.

Q.1.a. Do you agree that these are signs that banks are thriving?

A.1.a. The stability of the U.S. financial system is supported by the safe and sound operation of banking institutions. One of the most important prudential measures for ensuring that stability is bank capital. Of course, there is a tradeoff between higher bank capital levels that increase the resiliency of individual institutions and the system as a whole, and the cost of that capital. A goal of regulation should be to balance to protection of financial stability in a way that promotes economic growth and business opportunity.

Since the financial crisis, banks have substantially improved their capital planning practices and their capital adequacy. Bank lending in the United States has grown steadily since the crisis and U.S. banks are providing significant support to U.S. economic activity.

If confirmed, I will work with Congress and my colleagues at the Federal Reserve to ensure we have in place a financial regulatory system that protects U.S. financial stability and maximizes long-term economic growth and credit availability.

Q.1.b. Do you think the amount of capital that banks are devoting to dividends and stock buybacks is a problem for our long-term economic growth?

A.1.b. We need a resilient, well-capitalized, well-regulated financial system that promotes the safety and soundness of individual institutions, protects the stability of the U.S. financial system, and fosters economic growth and business opportunity.

Having sufficient capital is essential to the resiliency of the largest banking organizations, as undercapitalized firms may be unable to lend and act as a financial intermediary during stress. Such undercapitalization impeded the ability of banks to lend and was a key contributor to the weakness in economic activity following the financial crisis. Nonetheless, higher levels of capital—at least at some point—may increase the cost of capital to banks, reduce lending, and potentially affect long-term economic growth. If confirmed, I will work with Congress and my colleagues at the Federal

Reserve to ensure that capital requirements are well-calibrated to the risks of the activities and exposures of the banking industry and are sensitive to the character of each institution.

Q.2. In addition to the fake accounts scandal, we recently learned that Wells Fargo charged consumers for high priced auto insurance that they did not need, without their knowledge. The high cost of the auto insurance pushed roughly 274,000 Wells Fargo customers into delinquency and resulted in almost 25,000 wrongful vehicle repossessions.

Q.2.a. What will you do to prevent these types of scandals from happening again?

A.2.a. As I mentioned during my confirmation hearing, the robust enforcement of the consumer rules is important. I understand that the Federal Reserve has authority to address violations of law and unsafe and unsound practices at the institutions it supervises, and, if confirmed, I am committed to taking whatever action is appropriate based on the facts and circumstances. This would extend to the Board's supervisory responsibilities for Bank and Financial Holding Companies, including for the governance structure and enterprise compliance risk management and controls of these holding companies.

Q.2.b. At what point do these kinds of violations become a safety and soundness concern for the banks the Fed supervises?

A.2.b. I understand that the Federal Reserve has authority to address violations of law and unsafe and unsound practices at the institutions it supervises, and, if confirmed, I am committed to taking whatever action is appropriate based on the facts and circumstances of each situation. The Federal Reserve has taken enforcement actions against firms for compliance and other risk management failures that demonstrated overall weaknesses in a firm's risk management framework and internal controls. I consider robust and effective risk management, including compliance risk management, an essential aspect of safety and soundness.

Q.2.c. Do you think banks' compensation practices are contributing to the problem of banks harming their consumers in order to increase profits?

A.2.c. While incentive compensation is an important tool in successful management of financial institutions and is critical to attracting qualified employees and executives, improperly structured incentive-based compensation arrangements may encourage inappropriate risk-taking at financial institutions. If confirmed, I look forward to engaging with Federal Reserve Board members and staff to better understand the impact of incentive compensation practices on the safety and soundness of financial institutions.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM RANDAL QUARLES

Q.1. Please describe the steps you took as a Public Governor on FINRA's Board of Governors to manage your conflicts of interest.

A.1. The Financial Industry Regulatory Authority (FINRA) asks all prospective Governors to disclose board and corporate affiliations

prior to service on its Board. Sitting Governors also have an ongoing obligation to update those disclosures annually and as circumstances warrant; FINRA circulates an annual questionnaire to which all Governors respond which identifies and records any changes to such affiliations.

FINRA's governance team (Office of the Corporate Secretary and Office of the General Counsel) reviews agendas prior to Board and Committee meetings to determine whether any items appear to be a conflict for a specific Governor based on the standards set forth in the FINRA Board's Code of Ethics and Business Conduct (attached). If a potential conflict of interest is identified, the matter will be referred to the Board Conflicts Committee for consideration and determination of whether the matter requires recusal. If this review determines that there is an apparent conflict of interest, the Corporate Secretary will notify the Governor of the need to recuse himself or herself and notify the Board Conflicts Committee, and ensure that the affected Board member is recused from the discussion and voting. Board members are also asked to notify the Conflicts Committee if they are aware of a need for recusal that has not been identified through the process described above.

During my tenure as a Governor, there were no matters identified by FINRA or by myself as being an actual or apparent conflict of interest.

Q.2. During your tenure on FINRA's Board of Governors, did you ever raise with FINRA ethics counsel any issues that may have raised the need to recuse yourself from Board decisionmaking? If so, how was that issue resolved?

A.2. No.

Q.3. Please provide copies of FINRA's corporate governance guidelines and Board Member code of conduct.

A.3. Attached is the Code of Ethics and Business Conduct and the Corporate Governance Guidelines.

Q.4. Please identify and describe any board committees you served on while on FINRA's Board of Governors.

A.4. I serve on three Committees at FINRA: the Executive Committee, Management Compensation Committee, and the Regulatory Policy Committee.

Executive Committee

The Executive Committee is comprised of all Committee chairs and is authorized to exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation between meetings of the Board. I began serving on this Committee effective July 15, 2016.

Management Compensation Committee

The Management Compensation Committee reviews and recommends changes to FINRA's Compensation Policy with the primary objective that it attract, develop and retain high performing individuals who are capable of achieving FINRA's mission of ensuring market integrity and investor protection. The Committee reviews the plans for the development, retention, succession and

retirement of key executives of the Corporation and its subsidiaries. I began serving on this Committee effective November 10, 2015.

Regulatory Policy Committee

The Regulatory Policy Committee advises the Board with respect to the regulatory policies and strategy of FINRA programs. The Committee develops and/or adopts necessary or appropriate regulatory policies and strategy and makes recommendations to the Board on regulatory rule proposals. I began serving on this Committee effective November 10, 2015.

Code of Ethics and Business Conduct for the Board of Governors of FINRA and the Board of Directors of its Subsidiaries

[Adopted by FINRA Board on December 3, 2008; Amended September 19, 2013.]

INTRODUCTION

FINRA serves as the primary private-sector regulator of America's securities industry. Our focus and purpose is investor protection and market integrity.

Because integrity and excellence serve as the foundation for everything we do, we have adopted a Code of Conduct for FINRA's employees, including its officers. The Code explicitly applies to the activities of FINRA's employees; but it also defines our expectations of everyone who acts on our behalf, including the Governors of FINRA and the Directors of its subsidiaries. You, too, are ambassadors for FINRA, and should at all times demonstrate honesty, integrity, fairness and excellence.

We have provided each of you with a copy of our Code of Conduct. In addition, we have prepared this Code of Ethics and Business Conduct for the Board of Governors of FINRA and the Board of Directors of its Subsidiaries. This Code highlights those issues that are particularly relevant to your duties as Governors and Directors. Please review this Code and retain a copy where you can easily access and reference it.

RESPONSIBILITIES OF FINRA GOVERNORS AND DIRECTORS

All Governors and Directors have a responsibility to:

- Be familiar with, understand and comply with the expectations of all laws and regulations relevant to your duties as FINRA Governors and Directors.
- Be familiar with, understand and comply with the expectations of this Code, as well as with those expectations of FINRA's Employee Code of Conduct that are relevant to your ability to fulfill your obligations to FINRA.
- Seek guidance before taking action that you are uncertain about. Feel free to consult with FINRA's Office of General Counsel about any questions or concerns.
- Promptly notify FINRA's Office of General Counsel if you become aware of unethical conduct or violations of the law, FINRA's employee Code of Conduct, or this Code.
- Promote and encourage ethical leadership and a culture of integrity throughout FINRA.
- Embrace and advocate FINRA's mission of "Investor Protection, Market Integrity" when making decisions or acting on behalf of the organization — as a Governor or Director, your fiduciary duty runs to the corporation and all of its constituents, not to the members or parties responsible of your election or appointment to the Board.

CODE OF CONDUCT

A. Avoiding Conflicts of Interest

A conflict of interest exists when our private interests interfere, could interfere, or even *appear* to interfere with the interests of FINRA. We must act honestly and ethically in the handling of actual or apparent conflicts between our personal and/or professional interests and those of FINRA.

Broadly speaking, this means we may not have direct or indirect interests in, or relationships with, any organization where these interests or relationships could conceivably: (a) hinder our objectivity, independence of judgment or conduct in carrying out our responsibilities as FINRA Governors and Directors, or (b) embarrass FINRA because of the *appearance* of a conflict of interest.

Indeed, the appearance of a conflict can be as harmful as an actual conflict. Therefore, while we discuss below several specific situations that you may face as Governors or Directors, the goal of this policy is to avoid the *appearance* of impropriety, as well as situations where independence is actually impaired.

Some Helpful Definitions

"**Immediate family**" (hereafter "family") includes a Governor's or Director's spouse, parent, stepparent, child, or stepchild; a member of a person's household; an individual to whom a person provides financial support of more than 50 percent of his or her annual income; or a person who is claimed as a dependent for federal income tax purposes.

You are considered "**affiliated**" with a regulated entity if you:

- Currently act as an officer, director or employee of the entity; or
- Have been an officer, director or employee of the entity within the last year; or
- Have a "family" member or close business associate, i.e. a partner, who is currently an officer or director of the entity.

"**Substantial financial interest**" includes:

- Being employed by or holding stock or another ownership interest in a regulated entity or vendor which is equal to one percent or more of the outstanding stock of a publicly traded company or one percent or more of the total value of assets of the entity or which is equal to or greater than five percent of your total net worth. (In determining your ownership interest, you should consider not only your own holdings, but also the holdings of any affiliate and any family member.)
- A loan by you or a family member, equal to or greater than five percent of your total net worth, to a regulated entity or vendor.
- Accepting or allowing a family member or affiliate to accept a loan or other form of indebtedness equal to or greater than five percent of your total net worth from a regulated entity or vendor.

1. Examples of Potential Conflicts

a. *Conflicts or Perceived Conflicts Involving Rules or Other Matters Presented to the Board*

If you or a family member has a "substantial financial interest" in a FINRA member or are "affiliated" with a regulated entity, you may not participate in:

- Any regulatory matter, disciplinary action or investigation which involves the regulated entity; or
- Any decision regarding an application by that entity for an exemption or other special dispensation.

Participation by Governors or Directors who are affiliated with regulated entities is an inherent and valuable incident of FINRA's status as an SRO. The compositional requirements of the Boards of FINRA and its subsidiaries have been carefully developed to ensure that a broad spectrum of industry and public views are represented.

When you participate in the discussion related to and/or vote on a rule or a matter, which you believe may significantly and disproportionately impact an entity in which you or a family member has a "substantial financial interest" or with which you or a family member are affiliated, you should always reveal the nature of your interest to the members of the Board prior to the discussion or vote. Under such circumstances, you also should consider recusing yourself from the discussion and the vote. Such situations can give rise to concerns about fairness and objectivity, and can create a *perception* of a conflict of interest, even if there is no actual conflict.

b. *Vendors, Potential Vendors and Other Business Partners*

If you or a family member have a substantial financial interest in or are affiliated with a FINRA vendor or a potential vendor, you may not participate in the consideration of a contract or other agreement that would be material to the operating revenues of that vendor (five percent of more of the vendor's gross revenues). Similarly you should not encourage member firms or companies that do business with FINRA to buy supplies or services from family members or entities with which you or a family member have a substantial financial interest or are affiliated.

c. *Outside Activities*

You should be sensitive to other commitments or activities (i.e., your duties to another Board) that may interfere with your ability to act in the best interest of FINRA. If a situation arises where your commitments or other activities may conflict with your duties as a FINRA Governor or Director, you should consult with the Office of General Counsel.

d. *Corporate Opportunities*

You may not use FINRA property, information or position for personal gain unrelated to the performance of your duties as a FINRA Governor or Director. Prohibited activities include, for example, profiting from business opportunities that you learn about through your service as a FINRA Governor or Director.

e. Compensation

You may not accept compensation in any form for services performed for FINRA from any source other than FINRA. For example, you may not accept from others a finder's fee, commission or other remuneration for any business transaction in which FINRA is involved or for services rendered to FINRA.

2. Relationships with the SEC

Employees of the SEC are prohibited from soliciting or receiving gifts that have more than an incidental value from any entity they regulate, including FINRA and its member firms. With limited exceptions, SEC employees may not accept gifts from FINRA Governors or Directors. The exceptions include: (1) reasonable food or refreshments offered at a meeting; (2) gifts given as a result of personal relationships (i.e., family members or close personal friends); (3) advertising materials of incidental value; and (4) reasonable meals provided as part of an educational program. You should be familiar with, understand and comply with these restrictions.

3. Change or Prospective Change in Employment

If at any time during your tenure as a FINRA Governor or Director, you are changing or in the process of changing your place of employment, you should treat yourself as though the event has already occurred (i.e., consider yourself to be "affiliated" with that entity), and should comport yourself in accordance with the applicable provisions of this Code.

4. Participation in FINRA Adjudicatory Proceedings

FINRA has long-established policies governing participation by FINRA Governors and Directors in adjudicatory proceedings. (*Refer to* FINRA's Policy on Participation in Adjudicatory Proceedings, adopted on January 28, 1997, and NASD Regulation's Policy on Participation in Proceedings, adopted on January 27, 1997, and modified on March 21, 2000.) Pursuant to these policies, you may not appear as an expert or consultant in any FINRA hearing or arbitration proceeding on behalf of any party, other than yourself or the member firm with which you are currently associated. Under certain circumstances, former Governors and Directors may participate as panelists in FINRA disciplinary proceedings or FINRA arbitration proceedings. If you appear as a witness, expert or consultant in any FINRA hearing, any arbitration, any civil litigation, or any other adjudicative proceeding in connection with FINRA matters, you should make it clear to all parties, including the court or adjudicative panel, that you are not appearing on behalf of FINRA.

As a sitting Governor, Director, or member of the National Adjudicatory Council ("NAC"), you may not appear as a legal representative before any FINRA Adjudicator on behalf of any party other than yourself or the member firm with which you currently are associated. You may counsel clients up to the point at which you are required to file a Notice of Appearance, but may not file a Notice of Appearance to act in a representative capacity before an Adjudicator in any FINRA proceeding on behalf of any party other than yourself or the member firm with which you currently are associated. In addition, once you are elected or appointed Governor, Director or NAC member, and throughout your term, you may not appear before an officer or employee of FINRA in a representative capacity during on-the-record testimony, in negotiating any aspect of on-the-record testimony or in any subsequent stage of a FINRA examination, investigation or disciplinary action on behalf of any individual or firm, other than yourself or the member firm(s) with which you are currently associated and were associated before the firm was aware of the examination, investigation or disciplinary action.[1] This proscription does not apply to former Governors, Directors or NAC members, and also does not apply to another member of the law firm with which the Governor, Director or NAC member is associated.

5. Participation in Educational Programs or Speaking Engagements

FINRA recognizes that you may be invited to participate in educational programs. These activities are beneficial to investors, member firms and the general public. Such activities, however, may create real or apparent risks. In order to avoid this risk, FINRA expects you to follow these guidelines:

- Take care that the speech or materials used do not include confidential or non-public information or remarks concerning pending FINRA litigation or disciplinary proceedings.
- When you participate in educational programs or speaking engagements as a representative of FINRA's Board, FINRA's Office of Corporate Communications is available to assist you in preparing your remarks or speech.
- Except where you are stating a policy, position or rule that has been finally approved by FINRA, all speeches should contain a disclaimer indicating that you are expressing your own views and do not necessarily speak for FINRA. The General Counsel's office is available to review advance texts, riders, slides and other materials used for speaking engagements.
- If you are authorized by FINRA to appear as its representative at a public event or speaking engagement, FINRA will pay your expenses, as provided in the applicable FINRA travel policy.

[1] This provision applies to any governor starting a new term after September 19, 2013.

B. Business Gifts, Entertainment and Courtesies

Gifts, entertainment and hospitality (collectively referred to as business courtesies) can help build goodwill and working relationships. But while business courtesies are fairly common, they can also create serious ethical risks. For FINRA, this is particularly true of business courtesies from entities or individuals we regulate, and from current or potential vendors (though all business courtesies can give rise to ethical risks). Be aware, as well, that even if ethical concerns are not well founded, business courtesies can create the *appearance* of misconduct. Such perceptions alone, even if mistaken, can undermine your integrity and that of FINRA.

For this reason, FINRA has adopted the following limits on business courtesies for Governors and Directors. In order to avoid the appearance of any impropriety, you should be careful not to accept business courtesies from regulated entities or vendors if, in your best judgment, the gift is being offered to influence your actions as a FINRA Governor or Director.

We expect you to report to the Office of the Secretary the acceptance of any and all gifts, gratuities or other remuneration received in excess of $500 from a single regulated entity, vendor or potential vendor during any calendar year.

C. Safeguarding Confidential Information

FINRA Governors and Directors have access to a broad array of sensitive, confidential or proprietary information, including information about the firms FINRA regulates, investigates or otherwise has dealings with (as well as the firm's employees and customers), information about FINRA employees, and information about FINRA itself. Unless required by law or instructed by an appropriate member of FINRA's Board of Governors, you should maintain the confidentiality of any and all such information. You may never use such information for personal gain.

D. Protecting FINRA Assets

You may not use or seek to use FINRA's employees, supplies, equipment, buildings or other assets for your personal benefit except for legitimate business purposes or as part of an adopted or approved FINRA program or policy that is available to all Governors and Directors.

E. Honest and Fair Dealing

You should at all times deal fairly with investors, FINRA member firms, suppliers, employees and others with whom FINRA interacts. You should never take advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair practices.

F. Insider Trading

As FINRA Governors and Directors, you may have access from time to time to non-public, confidential or proprietary information about publicly traded companies. It is against FINRA policy for you to trade in the stock of any public company based on *any* non-public information obtained through your service as a FINRA Governor or Director. Moreover, much of this non-public information is *material*, meaning that a reasonable investor would consider it important in deciding to buy, sell, or hold onto a company's stock. It is against the law (as well as FINRA policy) for ***anyone*** to buy or sell the stock of any publicly traded company while in possession of material, non-public information about that company. This means you, but it also means

your spouse, your best friend, and anyone else you might intentionally or inadvertently tip off about material non-public information relating to a publicly traded company.

WAIVERS

Any waiver from any part of this Code requires the express approval of the Board following disclosure of all relevant information.

ANNUAL REVIEW

FINRA's Board of Governors, or a committee of that Board or its designee, will review and reassess the adequacy of this Code annually, and the Board may make any amendments that it deems appropriate.

CERTIFICATION

Each Governor and Director is required to certify annually, as long as he or she serves in such capacity, that he or she has received, read and understands the Code, and agrees to comply with its expectations, as follows:

> I [_____] hereby certify and acknowledge that (i) I am a member in good standing of the Board of Governors of FINRA and/or the Board of Directors of FINRA Regulation or FINRA Dispute Regulation; (ii) I have received, read and understood the Code of Ethics and Business Conduct for the Board of Governors of FINRA and the Board of Directors of its Subsidiaries; (iii) such Code has been and is applicable to my activities as a member of such the Board of Governors of FINRA or the Board of Directors of FINRA Regulation or FINRA Dispute Regulation; (iv) I have complied and am in compliance with such Code; and (v) I am not aware of any non-compliance with such Code by others.

Signed: _____

Name Printed: _____

Date: _____

Corporate Governance Guidelines

Prepared for the FINRA Board of Governors

Updated August 22, 2016

The Mission of the FINRA Board of Governors

The FINRA Board is vested with all powers necessary for the management and administration of FINRA and the promotion of its welfare. The Board has a function independent of management and is not responsible for the day-to-day affairs of the Corporation. It, however, does have the responsibility to oversee management and be informed, investigate and act as necessary to promote FINRA's welfare, objectives and purposes.

Board members need to have an understanding of the issues facing the organization and an ability to apply their knowledge and expertise to those issues. They must represent the best interests of FINRA and further FINRA's mission and stated positions, consistent with the Board's Code of Ethics and Business Conduct, and Board members need to have a full understanding of, and comply with, the FINRA's Restated Certificate of Incorporation and By-Laws that form the governance base of FINRA. Board members must have adequate working knowledge of FINRA, as well as its members and services. Board members must regularly attend Board and committee meetings; participate effectively and in a collegial manner, in all deliberations, and get enough information to make a reasonably informed decision. Board members must observe strict confidentiality of all matters presented to the Board or their appropriate committees. Any possible conflict-of-interest issues must be raised with the appropriate staff or the Chairman of the Board for prompt resolution.

Guidelines on Significant Corporate Governance Issues

Selection and Composition of the Board

Board Membership Criteria

It is the duty of the Governor to communicate and work professionally and effectively with all members of the Board. Board members are expected to be unbiased and objective, voting on matters for the good of investors, industry and marketplace, regardless of the interest of their specific organization, affiliation or classification, as required by applicable law.

The Board includes both Industry and Public Governors. The Corporate Secretary of FINRA collects from each nominee for Governor such information as is reasonably necessary to serve as the basis for a determination of the nominee's qualification as an Industry or Public Governor. Board members have a continuing obligation to notify the Corporate Secretary should such information change in any manner.

The exact size of the FINRA Board is determined by the Board within a range set forth in the By-Laws. There are 10 required Industry Governor seats on the Board comprising:

- three Small Firm Governors,
- one Mid-Size Firm Governor,

- three Large Firm Governors,
- a Floor Member Governor,
- an Independent Dealer/Insurance Affiliate Governor; and
- an Investment Company Affiliate Governor.

In addition, the By-Laws provide that the number of Public Governors on the board must exceed the number of Industry Governors on the board, which results in a minimum of eleven Public Governors. One seat on the Board is also reserved for FINRA's Chief Executive Officer.

Because of these restrictions the practical minimum number of Board members is 22. In April 2013, the Board authorized three additional Public Governor seats to increase the Board's size to the maximum number of 25 governors.

Selection and Orientation of New Governors

The Nominating and Governance Committee identifies and nominates candidates to run for election or be appointed to seats on the Board. Interested persons may submit a letter of interest and brief biography to the Corporate Secretary who will forward the information to the Committee.

Governors who are required to be elected by the members[1] must be elected by a plurality of the votes of the members of FINRA present in person or represented by proxy at the annual meeting of members of the Corporation and entitled to vote for such category of Governors. Quorum, as established in the Certification of Incorporation, is one-third of the members entitled to vote at the meeting of members of the Corporation (i.e., Annual or Special Meetings) and, likewise, with respect to elections for elected Governors, one-third of the members of the class or group entitled to vote.

Orientation of New Governors

As soon as practicable after being elected or appointed to the Board, new Governors receive a new board member orientation, at which they meet with senior management and receive an overview of FINRA's primary programs, departments and operations. New board members are also provided a FINRA Board Member Reference Manual, which summarizes Board member duties and responsibilities.

Board Composition

Definitions of Industry and Public Board Members

The definitions of Industry and Public are set forth in the FINRA By-Laws and provide:

- "Industry Governor" or "Industry committee member" means the Floor Member Governor, the Independent Dealer/Insurance Affiliate Governor and the Investment Company Affiliate Governor and any other Governor (excluding the CEO of the Corporation) or committee member who: (1) is or has served in the prior year as an officer, director (other than as an independent director), employee or controlling person of a broker or dealer, or (2) has a

[1] The Small Firm Governors, Mid-Size Firm Governor and Large Firm Governors are elected by members in the same firm-size category. However, vacancies with less than 12 months on the term may be filled by appointment.

consulting or employment relationship with or provides professional services to a self-regulatory organization registered under the Act, or has had any such relationship or provided any such services at any time within the prior year.

- "Public Governor" or "Public committee member" means any Governor or committee member who is not the CEO of the Corporation or who is not an Industry Governor and who otherwise has no material business relationship with a broker or dealer or a self-regulatory organization registered under the Act (other than serving as a public director of such a self-regulatory organization).

Governors Who Change Their Professional Affiliations

Changes to a Governor's professional affiliation may affect his or her eligibility to serve in the Board classification for which he or she was elected or appointed. A Governor who changes his or her job responsibilities must notify the Corporate Secretary and provide an update to his or her Board questionnaire. The Governor's eligibility to remain on the Board in his or her current seat will be determined following a thorough analysis of the new information.

Term Limits

FINRA Governors, other than the CEO who serves by virtue of his or her position, hold office for a term of not more than three years, or until a successor is elected or qualified, or until death, disqualification, resignation or removal. A Governor generally may not serve more than two consecutive terms on the FINRA Board.

Board Compensation Review

FINRA staff reports periodically to the Management Compensation Committee on the status of FINRA Board compensation in relation to other self-regulatory organizations and large U.S. companies. Additionally, the Board directed the Management Compensation Committee to re-evaluate the Board Compensation Schedule every five years taking into account appropriate cost of living adjustments and board pay comparators. Changes in Board compensation, if any, will be recommended first by the Management Compensation Committee to the Nominating and Governance Committee, and then by the Nominating and Governance Committee to the full Board for discussion and approval.

Board Operations and Conduct

Attendance and Participation

Board members are expected to attend and participate regularly in Board and Committee meetings consistent with the general fiduciary standards and governance needs of FINRA. Members should participate professionally and effectively, in a collegial manner, in all Board and committee deliberations and observe strict confidentiality of all matters presented to the Board or their appropriate committees.

Standard of Conduct

As a protector of investors and a guardian of market integrity, FINRA's Governors have a heightened duty to make certain that they act in the best interest of the company and that their conduct is beyond reproach. Pursuant to FINRA's By-Laws, the standard the Board uses to

determine whether cause exists to remove a Board member is whether continued service affects the best interests of the corporation.

Under this standard, actions by a Governor in his or her individual capacity that may cast doubt upon his or her honesty, integrity, fairness and excellence and/or attract adverse publicity may undermine FINRA's stakeholders' confidence in the organization and may implicate this provision of the By-Laws. In order to maintain the respect and confidence of investors, member firms, business partners, regulators, employees and the public, it is Board policy that any Governor who finds him/herself facing personal, regulatory or legal issues that might implicate this standard must consult with the Chairman of the Board, Lead Director and/or CEO to discuss whether resigning from the Board is in the best interest of the organization.

Assessing Individual Governor's Performance

The effectiveness and credibility of the Board depends on an evaluation of the Board as a whole and of its individual members by the Nominating and Governance Committee. When evaluating Governors up for renomination, the Nominating and Governance Committee considers, among other things, adherence to the Board's mission, guidelines and policies, active engagement and effective interaction among Board members.

Review of Allocation of Powers

The Board periodically reviews the allocation of powers between management and the Board as delineated in the Certificate of Incorporation and the By-Laws, and determines whether these grants of authority are consistent with the changing needs of the business.

Board's Interaction with Interested Groups and the Media

The Board believes that Senior Management speaks for FINRA. If public comment from the Board is appropriate, these comments should, in most circumstances, come from the Chairman or the CEO. Individual Board Members may, from time to time, meet or otherwise communicate with members and various other constituencies that are involved with FINRA at their discretion, but in such circumstances they do so at their own expense and should make clear they do not formally represent FINRA or the FINRA Board.

Board members must not disclose Board information to the public and must observe the confidentiality guidelines. Sensitive, non-public policy and proprietary information should not be disclosed to anyone, including the media. This information may include FINRA internal personnel matters, investigations/examinations in progress, enforcement actions against members, deliberations and contemplated actions of the Board, and information on systems developments.

If a Board member is contacted by the media, the Board member should comport him/herself in a manner consistent with the preceding paragraphs. As a general matter, Board members should inform the FINRA Corporate Communications Department of any media inquiry or refer the inquiry to the FINRA Corporate Communications Department.

Travel Policy

Board members should ensure FINRA business travel conforms to the policy as outlined in the FINRA Board Travel Policy.

Interaction Among Board Members

Effective interaction among Board members ensures a well-functioning Board. Board members should exercise judgment when communicating with fellow Board members. Board members are asked to be respectful of business and other professional commitments of fellow Board members, and refrain from excessive and unnecessary electronic and hard-copy communications.

Board Relationship to Senior Management

Board Access to Senior Management

Board members have complete access to FINRA's Senior Management. Board members are requested to direct questions and issues to these individuals and/or the Corporate Secretary.

Individual Board members should not become involved in operational management, including regulatory matters and responsibilities of FINRA, except as requested by the CEO. The Board must focus on its role as a policy-maker within FINRA.

Board members are requested to use good judgment to ensure that contact is appropriate and non-disruptive to the business operation of FINRA. In order to ensure appropriate follow-up action, the Corporate Secretary should be copied on written communications. Board members should be conscious of the weight of their position and understand that contacts with staff members below the most senior level might be intimidating to such staff and might be interpreted as an attempt to unduly or improperly influence them.

Governors regularly meet in executive session outside the presence of the CEO and other FINRA officers or employees. The Chairman of the Board convenes and presides over these executive sessions and is responsible for communicating to the CEO issues discussed during such executive sessions.

Meeting Procedures

Selection of Agenda Items for Board Meetings

The Chairman and the CEO establish the agenda for each Board meeting. With respect to matters from which the Chairman and the CEO recuse themselves, the Lead Governor may include matters on the agenda of a meeting of the Board.

Each Board member is free to suggest the inclusion of item(s) on the agenda. Board members are requested to provide suggested agenda items to the Corporate Secretary at least three weeks in advance of the Board meeting.

Board Materials Distributed in Advance

Information and data that are important to the Board's understanding of operations will be distributed in writing to the Board sufficiently in advance of Board meetings to permit full review and consideration. FINRA management will make every effort to see that this material is as concise as possible while still providing the necessary information.

Providing materials to the Board in advance will generally conserve meeting time and focus discussion. On those occasions in which the subject matter is too sensitive to be presented in writing, the issue will be presented and discussed in person.

Board Meeting Order

The Chairman establishes the rules of order and procedure of the meeting to ensure the meeting is conducted in an orderly fashion. The Chairman retains the right, if necessary, to rule out of order any remarks or discussion. The Chairman may make additional meeting rules as appropriate or advisable.

The Lead Governor shall convene and preside at all meetings of the Board at which the Chairman is not present and all executive sessions if the Chairman is recused.[2]

Special Meetings

Special meetings of the Board may be called by the Board, the Chairman, the CEO, or the Lead Governor.

Committee Matters

Number, Structure, and Independence of Committees

The Board is authorized to appoint committees to facilitate and assist in the execution of the Board's responsibilities. At present, the committees of the Board include the:

- Audit Committee;
- Executive Committee;
- Finance, Operations & Technology Committee;
- Management Compensation Committee;
- Nominating & Governance Committee;
- Regulatory Policy Committee;
- Small Firm Governor Committee; and
- Large Firm Governor Committee.

The Management Compensation Committee exclusively comprises Public Governors. The Small Firm Governor Committee and the Large Firm Governor Committee comprise the Governors filling those respective seats on the Board.[3] For each of the other committee's listed

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[2] The "Lead Governor" is a member of the Board elected as such by the Board.

[3] The Large Firm Governor Committee and the Small Firm Governor Committees are convened in the event of a vacancy among the Large Firm Governors or the Small Firm Governors in which the term of office remaining is less than 12 months. Such vacancy is only filled by the Large Firm Governor Committee in the case of a Large Firm Governor vacancy, or the Small Firm Governor Committee in the case of a Small Firm Governor vacancy. Any such vacancy of the Mid-Size Governor is filled by the Board. In the event the remaining term of office of any Large Firm, Mid-Size Firm or Small Firm Governor position that becomes vacant is for more than 12 months, such vacancy is filled by the FINRA members entitled to vote for that category of Governorship. In all such instances, nominations are made by the Nominating Committee.

above, the number of Public Governors who serve on the committee must exceed the number of Industry Governors on the committee.

The Nominating & Governance Committee is responsible for recommending the creation and/or elimination of Board Committees, and periodically reviewing and recommending changes to committee charters.

Assignment and Rotation of Committee Members

Board members may indicate their preferred committee assignments. The selection process, however, is subject to various compositional requirements set forth in the FINRA By-Laws, the SEC-approved Plan of Allocation and Delegation of Functions by FINRA to FINRA Regulation, Inc., and the Board-approved committee charters. In nominating individuals to serve on Board Committees, consideration is given to each Governors' backgrounds, experience, and existing responsibilities as members of the FINRA Board.

Committee Meeting Order

The Chairman of the committee establishes the rules of order and procedure of the meeting to ensure the meeting is conducted in an orderly fashion. The Chairman of the committee controls the meeting agenda and the order of issues to be presented to the Board. The Chairman retains the right, if necessary, to rule out of order any remarks or discussion that does not comply with committee procedures. The Chairman may make additional meeting rules as appropriate or advisable.

Committee Agenda and Materials

The Chairman of the committee, in conjunction with the Chairman and the CEO, will establish a meeting agenda for each committee. Each committee member is free to suggest the inclusion of item(s) on the agenda. Committee members are requested to provide suggested agenda items to the Corporate Secretary at least three weeks in advance of the committee meeting. Committee materials will be distributed in writing before the committee meeting.

Leadership Development

Formal Evaluation of the Chief Executive Officer

Annually the Board, through the Management Compensation Committee, evaluates the CEO. This evaluation is communicated to the CEO by the Chairman of the Management Compensation Committee. The evaluation should be based on objective criteria including performance of the corporation, accomplishment of long-term strategic objectives and development of senior management. The evaluation will be used by the Management Compensation Committee when considering the compensation of the CEO.

Succession Planning

The Management Compensation Committee and the Nominating and Governance Committee are jointly responsible for developing and updating a plan of succession for the CEO.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

LETTERS SUBMITTED IN SUPPORT OF THE NOMINATION OF JOSEPH OTTING

AFR Americans for Financial Reform

July 26, 2017

Dear Senator,

On behalf of Americans for Financial Reform, we are writing in opposition to the nomination of Joseph Otting for Comptroller of the Currency. As the head of the Office of the Comptroller of the Currency (OCC), Mr. Otting would be the principal regulator for the safety-and-soundness of national banks, which together hold more than two-thirds of banking assets in the United States. We see nothing in his record which suggests that he will carry out those important responsibilities with an informed and serious commitment to serving the public interest, rather than the narrow interests of the industry from which he comes--even when serving industry interests create a public danger.

Mr. Otting previously served as the CEO of OneWest from 2010 to 2015. During that time, the bank had a well-documented record of consumer complaints, a questionable response to regulatory inquiries, and executed tens of thousands of foreclosures. As Mr. Otting has no prior government experience, his record at OneWest is a central basis on which Senators can judge his nomination.

One of the most concerning pieces of Mr. Otting's legacy at OneWest are the recently-settled charges by the Justice Department of violations of FIRREA due to misconduct in its reverse mortgage business, Financial Freedom.[1] Reverse mortgage products, marketed to the elderly as a way for them to tap home equity, are supposed to include protections against eviction so long as borrowers continue to live in their primary residences. But Financial Freedom apparently engaged in aggressively predatory practices that led to more than 16,000 foreclosures, a far greater number than would be expected based on the company's market share. Elderly homeowners who were recently widowed were most likely to be victimized.

According to the California Reinvestment Coalition, redlining was occurring at OneWest since at least 2011, when Mr. Otting led the bank. OneWest made just two mortgages to black borrowers in 2014 and 2015 in Southern California counties where it had 74 branches.[2] In addition, Mr. Otting also served as the bank's CEO during years when it bent the rules to speed up foreclosures, according to lawyers for the California Department of Justice.[3] The company also

[1] Department of Justice, *Financial Freedom Settles Alleged Liability for Servicing of Federally Insured Reverse Mortgage Loans for $89 Million*, May 16, 2017, available at https://www.justice.gov/opa/pr/financial-freedom-settles-alleged-liability-servicing-federally-insured-reverse-mortgage

[2] *CIT Group Accused of Redlining and Violating Fair Housing Act*, California Reinvestment Coalition, Nov. 18, 2016, available at http://www.calreinvest.org/news/cit-group-accused-of-redlining-and-violating-fair-housing-act.

[3] David Dayen, *Treasury Nominee Steve Mnuchin's Bank Accused of "Widespread Misconduct" in Leaked Memo*, The Intercept, Jan. 3, 2017, available at https://theintercept.com/2017/01/03/treasury-nominee-steve-mnuchins-bank-accused-of-widespread-misconduct-in-leaked-memo/

1620 L Street NW 11th Floor Washington, DC 20036 | 202.466.1885 | ourfinancialsecurity.org

sought to avoid compliance with state law, arguing that state consumer protection laws did not apply to them.[4]

These questions regarding Mr. Otting's record are especially important given the critical decisions before the next Comptroller, including:

- how to implement and enforce the crucial public protections in the Dodd-Frank Act;
- whether to resist bank pressure to unravel the OCC's guidance to banks regarding abusive payday loans;
- whether to oppose efforts by national banks to use preemption to ignore state consumer protection laws;
- whether to abandon the OCC's plans to unlawfully charter nondepository institutions without Congressional authorization;
- whether to disavow the Acting Comptroller's radical proposals to obstruct other regulators authority to protect the financial system; and
- whether to reject the Acting Comptroller's outlandish attempt to overturn the Consumer Financial Protection Bureau's arbitration rule based on unsupported assertions about the effect of holding banks accountable on their safety and soundness.

We thank you for your attention, and urge you to oppose Mr. Otting's nomination.

Sincerely,

Americans for Financial Reform

[4] Boyle v. Vesuvio Holdings, B256055, 2016 WL 595675, at 7 (Cal. App. 2 Dist. Oct. 14, 2016), available at http://www.courts.ca.gov/opinions/nonpub/B256055.PDF; Darwin Bondgraham, *Saving the Homeowner Bill of Rights*, East Bay Express, Nov. 26, 2014, available at https://www.eastbayexpress.com/oakland/saving-the-homeowner-bill-of-rights/Content?oid=4132390

M B C A

MID-SIZE BANK COALITION OF AMERICA

Sen. Mike Crapo
Chairman, Senate Banking
Committee
239 Dirksen Senate Building
Washington, DC 20510

Sen. Sherrod Brown
Ranking Member, Senate Banking
Committee
713 Hart Senate Building
Washington, DC 20510

Re: Support for Joseph Otting -- Comptroller of the Currency

Dear Chairman Crapo and Ranking Member Brown,

Joseph Otting's nomination to lead the Office of the Comptroller of the Currency has the full support of the Mid-Size Bank Coalition of America (MBCA) and its 80 member banks. We encourage the United States Senate to act quickly on Otting's nomination.

Founded in 2010, the MBCA is the only financial services industry group whose sole purpose it is to singularly and effectively represent mid-size banks within the overall banking industry, and to educate lawmakers about the financial regulatory issues and policies affecting the ability of mid-size banks to more fully support and contribute to the growth of the U.S. economy. The MBCA's effectiveness is rooted in the direct engagement of its member CEOs and their senior executives, who present policymakers with facts, with reasoned alternatives and with positive policy suggestions, reflecting the unique point-of-view of mid-size banks. MBCA-member banks average less than $19 billion in size and collectively serve customers and communities in all 50 states, Washington D.C., and 3 U.S. territories.

Mid-size banks have the best features of both big and small banks. Much like community banks, we are deeply invested in our local communities, maintaining a tried and true customer-focused business model through which we offer a high level of service and flexibility to our customers. Our business is straightforward: we take deposits, make loans, provide payments services, and offer modest wealth management capabilities to our customers. Because we're bigger and have more capital than community banks, we offer more product depth, technology, loan capacity, and increased stability.

Because he led a mid-size bank, Joseph has an uncommon appreciation for these distinctions and he understands how complex, still-evolving regulatory requirements confront and challenge the mid-size bank business model by necessitating substantial investments in compliance, risk and capital management infrastructure.

While the MBCA and its members support regulation that is necessary for national economic stability and holds bad actors to account, we think policymakers should focus attention, resources, and time on where risk lies and so as to not burden banks that are not systemically significant. The cost of regulating mid-size banks should not exceed its benefits. This is especially important during a slow and uneven economic recovery, concerns abroad and rising competition from outside the regulated banking industry.

Mid-size banks strongly desire to do even more to support our communities and improve prospects for economic and job growth in them. Joseph shares this desire.

Thank you very much for the opportunity to provide this input and thank you also for considering it. Please let me know if the MBCA can be of any assistance to the Committee on this or any other matter.

Best,

Bob Jones
Chairman and CEO, Old National
Chairman, Mid-Size Bank Coalition of America

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Arvest Bank
Associated Bank
BancorpSouth
Banner Bank
BankUnited
Banc of California
Bank Leumi USA
Bank of Hawaii
Bank of the Ozarks
BOK Financial
Bremer Bank
Cadence Bank
Cathay Bank
Cenlar FSB
CenterState Bank
Central Bancompany
Chemical Bank
City National Bank
Commerce Bank
Cullen/Frost Bankers
Customers Bank
EagleBank
Eastern Bank
East West Bank
EverBank
F.N.B. Corporation
FirstBank Holding Company
First Citizens Bank
First Financial Bank
First Hawaiian Bank
First Horizon Bank
First Midwest Bank
First National Bank of Omaha
Flagstar Bank
Fulton Financial
Glacier Bank
Great Western Bank
Hancock Bank
Heartland Financial
Independent Bank
International Bancshares
Investors Bank
IBERIABANK
MB Financial
MidFirst
NBT Bank
Northwest Bank
Old National Bank
PacWest Bank
People's United Bank
Pinnacle Bank
Popular Community Bank
PrivateBank
Provident Bank
Rabobank NA
Raymond James Bank
Renasant Bank
Scottrade Bank
Signature Bank
Silicon Valley Bank
Simmons Bank
South State Bank
Sterling National Bank
Stifel Bank & Trust
Synovus Bank
TCF Bank
Texas Capital Bank
TowneBank
Trustmark
UMB Financial
Umpqua Bank
Union Bankshares
United Bank
United Community Bank
United Bankshares
Valley National Bank
Webster Bank
WesBanco Bank
Wintrust Financial

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Founder, Chairman and
Chief Executive Officer

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877-592-HOPE (4673)
213-489-7272 Fax

July 25, 2017

Honorable Michael (Mike) Crapo
Chairman
United States Senate
239 Dirksen Senate Building
Washington, D.C. 20510

Dear Senator Crapo:

On July 27, 2017 the U.S. Senate Banking Committee will hold a nomination hearing for the U.S. OCC Comptroller Nominee Mr. Joseph Otting. I respectfully submit a letter of support on the integrity and community reinvestment work of Mr. Otting. As Founder Chairman and CEO of Operation HOPE, I have witnessed firsthand through our economic empowerment work the executive leadership by Mr. Otting and know him, personally, to be a good man.

Let me share with you how we've worked with Mr. Otting and how his executive leadership has made a positive impact with our HOPE clients. As an executive of One West Bank and a HOPE Board member, he has remained a committed and engaged impact leader which brokered a commitment of numerous HOPE Inside locations throughout the West Coast.

Our HOPE Inside programs provides financial literacy, credit management, home ownership counseling, small business and entrepreneurship training, and assists Americans with a financial crisis as a result of disasters. The end result are economically stabilized 700 credit score communities.

Our HOPE Inside programs build upon the legacy of President Abraham Lincoln and the Freedman's Bank of 1865, a landmark institution designed to teach freed slaves about money. As you know, the Freedman's Bank headquarters is located across from the White House, and I am proud to have played a role in the renaming of the Treasury Annex Building to the Freedman's Bank Building under the leadership of the U.S. Department of the Treasury and Secretary Lew in January, 2017.

Operation HOPE has a 25-year history leading and shaping community reinvestment. On the public policy front our efforts include: working with President Bush through executive order to establish financial literacy as public policy of the U.S. government; partnering with the U.S. Department of Homeland Security and FEMA to pioneer the new public policy space of emergency financial disaster, preparedness, response and recovery; becoming the first non-profit entity allowed to operate within a bank branch; and encouraging Treasury to form a coalition to coordinate federal efforts on financial literacy, which resulted in the creation of the Financial Literacy and Education Commission (FLEC). President Bush actually featured an Operation HOPE success story during the ceremony held to create FLEC. I, and we, were able to work with President Obama on his President's Advisory Council on Financial Capacity and the President's Advisory Council on Financial Capacity of Young Americans, and with President Clinton as a founding member of Clinton Global Initiatives.

Operation HOPE has transformed the lives of 2.9 million adults and 1.0 million youth. With the help of 28,000 volunteers, HOPE has uplifted communities through economic empowerment programs, directing more than $2.4 billion economic activity into underserved communities, including $1B in mortgages for 11,000 new homeowners. Operation HOPE provides financial inclusion at scale, and we are the only non-profit national financial services delivery model (urban and rural) for low wealth and struggling middle class communities domestically and internationally, including South Africa, United Arab Emirates, Morocco and Saudi Arabia, empowering woman and youth.

Our innovative HOPE 700 Credit Score Community Program, bolstered by the HOPE National Credit Score Index, is tackling the consumer credit challenge and poverty through a holistic lens, including environmental, contextual, and behavioral factors. In partnership with FICO, HOPE examines and targets 500 credit score communities for economic interventions and HOPE programs. Using credit score as a driver, the HOPE Credit Score Index becomes a predictive index for poverty, crime, poor education, food deserts, low homeownership, GDP, as well as future aspiration. Best of all this approach is non-racial, non-political, urban and rural, and inclusive. I would like to work with you and your team around this Credit Score Index as I believe it has significant public policy implications. I would also like to work with you and your team to build upon the policy created by President Bush, to expand this to be the policy of our nation; financial literacy education for every child at birth.

The Credit Score Index is but one example of our progressive, outcome-based approach to CRA reform, focused on achieving key community-based objectives. After 40 years, the policy is in need of an overhaul. We believe that data and program impacts should guide the targets and assess the success of CRA initiatives and organizations, creating a win for all stakeholders involved. We call this body of work the Silver Rights Movement.

I stand ready to work with the Congressionally Confirmed OCC Comptroller around progressive, outcome-based, CRA reform. Thank you for your congressional efforts towards community reinvestment.

With HOPE,

John Hope Bryant

cc: Acting U.S. Comptroller of the Currency, Keith A. Noreika
HOPE Global Spokesperson Ambassador Andrew J. Young

LETTER SUBMITTED IN SUPPORT OF THE NOMINATIONS OF JOSEPH OTTING AND RANDAL QUARLES

ICBA
INDEPENDENT COMMUNITY BANKERS of AMERICA®

R. SCOTT HEITKAMP
Chairman

TIMOTHY K. ZIMMERMAN
Chairman-Elect

PRESTON L. KENNEDY
Vice Chairman

DEREK B. WILLIAMS
Treasurer

CHRISTOPHER JORDAN
Secretary

REBECA ROMERO RAINEY
Immediate Past Chairman

CAMDEN R. FINE
President and CEO

July 25, 2017

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing
& Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing
& Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Crapo and Ranking Member Brown:

On behalf of the nearly 5,000 community banks represented by ICBA, I write to express our support for two nominees before your committee: Mr. Joseph Otting and The Honorable Randal Quarles. These gentlemen are superb choices for Comptroller of the Currency and Vice Chairman for Supervision of the Board of Governors of the Federal Reserve System, respectively.

I recently had the pleasure of meeting with Mr. Otting who impressed me with his wealth of experience in the banking industry and his thorough understanding of critical regulatory and oversight issues, in particular, the important role played by community banks in the U.S. financial system. As a down-to-earth Iowa native, Mr. Otting's Midwestern perspective will be highly welcome at the Office of the Comptroller of the Currency.

Mr. Quarles has a distinguished history of service at the highest levels of the Treasury Department during the Administrations of President George H.W. Bush and George W. Bush. He is deeply familiar with a broad range of financial policy issues and is endowed with sound judgement to match his experience. Mr. Quarles is highly qualified to oversee bank regulation at the Federal Reserve. We are fortunate to have his commitment to another tour of public service.

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I endorse both nominees without reservation and look forward to working with them once they are confirmed. I urge the swift approval of their nominations by the committee and the Senate.

Thank you for your consideration.

Sincerely,

Camden R. Fine
President & CEO

CC: Member of the Senate Committee on Banking, Housing, & Urban Affairs

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