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NOMINATIONS OF RICHARD CLARIDA AND MICHELLE W. BOWMAN

HEARING

BEFORE THE

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

ONE HUNDRED FIFTEENTH CONGRESS

SECOND SESSION

ON

THE NOMINATIONS OF:

RICHARD CLARIDA, OF CONNECTICUT, TO BE A MEMBER AND VICE CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

MICHELLE W. BOWMAN, OF KANSAS, TO BE A MEMBER, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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NOMINATIONS OF RICHARD CLARIDA AND MICHELLE W. BOWMAN

TUESDAY, MAY 15, 2018

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

The Committee met at 10:17 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Mike Crapo, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN MIKE CRAPO

Chairman CRAPO. The hearing will come to order.

This morning we will consider the nominations of the Honorable Richard Clarida to be a Member and Vice Chairman of the Board of Governors of the Federal Reserve System, and Commissioner Michelle Bowman to be a Member of the Board of Governors of the Federal Reserve System.

Welcome and congratulations to each of you for your nominations to these positions. I see friends and family sitting with you, and I welcome them here as well. You are certainly welcome to introduce them.

We are fortunate to have two highly qualified nominees appearing today. These positions are critical to ensuring safe, sound, and vibrant financial systems and a healthy, growing economy.

Dr. Clarida currently serves as managing director and global strategic advisor at PIMCO, a position he has held since 2006.

Previously, he served as Assistant Secretary of the Treasury for Economic Policy from 2002 to 2003 and as a senior staff economist with the Council of Economic Advisers from 1986 to 1987.

In his academic career, he was an assistant professor at Yale University from 1983 to 1988 and has served as a professor of economics at Columbia University in various capacities since 1988.

If confirmed, Dr. Clarida will serve as the Federal Reserve's Vice Chairman and will play an important role in monetary policy normalization.

Dr. Clarida has written extensively about monetary policy, and I look forward to hearing more about his views. Such expertise will be especially important as the Fed continues to wind down its balance sheet and raise interest rates after years at the zero lower bound.

Commissioner Bowman is currently the State Bank Commissioner of Kansas, a position she has held since February 2017. Previously, Commissioner Bowman worked as a Vice President at

Farmers & Drovers Bank, a community bank with $175 million in assets, from 2010 through 2017.

She has also served in a number of Government roles, including as a staffer in both the Senate and House and in various roles at the Department of Homeland Security.

With past experience as a community banker and as a bank regulator, Commissioner Bowman is well equipped to fill the Federal Reserve Board role reserved for someone with community banking experience.

Rightsizing our regulation for community banks has been a critical goal of mine as Chairman. Earlier this year, the Senate passed Senate bill 2155, a bipartisan bill focused on providing regulatory relief for community banks.

If confirmed, Commissioner Bowman will play a key role in implementing the bill, if it is signed into law. In addition, the Federal Reserve continues to review many of the rules put in place following the crisis.

If confirmed, I look forward to working with Dr. Clarida and Commissioner Bowman on further regulatory and monetary policy improvements. 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. I want to congratulate the two of you and welcome your families to the Committee. Thank you for your willingness to serve our country

In the last Congress, two of President Obama's nominees to serve as Members of the Federal Reserve Board of Governors were denied even consideration by this Committee. Mr. Allan Landon, a Republican, was nominated in January 2015. He waited for 2 years for a hearing—a hearing he never got. Ms. Kathryn Dominguez waited nearly as long—a year and half. Again, nothing. It sounds a lot like what the Republicans did on a Supreme Court nominee.

As a result, President Trump will be able to nominate six of the seven members to the Board of Governors of the Federal Reserve. His first picks, Chair Powell and Vice Chair Quarles, have already been confirmed; Mr. Goodfriend has had his hearing.

Today's nominees, the Honorable Richard Clarida and Commissioner Michelle Bowman, bring relevant experience to the Federal Reserve Board. Dr. Clarida, who is nominated to serve as Vice Chair of the Board, has spent his career studying monetary policy.

As we enter our ninth year of the recovery since the Great Recession, even though job growth in the last couple years has not been quite what it was, with the Fed funds rate still below 2 percent and inflation finally nearing the Fed's target, expertise in that area is critical.

Ms. Bowman has been nominated to serve in the role reserved for an individual with experience working in or supervising community banks. She has done both.

But experience is only useful if you have learned the right lessons from it. So despite the nominees' experience, I am concerned. We have seen the Treasury's recommendations urging that we "tailor" and "recalibrate" the financial protections put in place after the crisis. It sound a lot like Wall Street's wish list.

We have heard the Fed's Vice Chair of Supervision's plans for bank rules. We have seen actions with the Fed's recent capital and leverage proposals, spoken out in opposition by Sheila Bair and Tom Hoenig, two prominent Republican regulators. We see they decrease the amount of capital required by the biggest banks by $121 billion. So we have banks with some of the most—the highest profitability rates in their history. We have a huge tax cut bestowed on the financial services industry. We have legislation that has passed the Senate and will likely soon pass the House, rolling back even more rules and regulations for banks. It just never seems to be enough for them.

It matters more than ever, because of that, who will be voting on proposals to weaken bank rules. The Fed, the OCC, the Office of Thrift Supervision, and other watchdogs spent the decade—"watchdogs," I use that term loosely—leading up to the crisis weakening bank rules and failing to protect communities.

In the first half of 2007, my ZIP Code in Cleveland—44105—had more foreclosures than any other ZIP Code in the United States.

Factories closed; neighborhoods and towns emptied out. The population in Slavic Village where I live dropped 27 percent, down to 20,000 people. At the same time the subprime lending industry swept in.

As early as 2000, the Cuyahoga County Treasurer and other local officials went to the Federal Reserve asking them to take action against subprime lenders preying on homeowners. As early as 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007.

The Fed did nothing.

Dr. Clarida, you have said that the financial crisis resulted from serious failures by regulators of securities markets and banks to adequately understand and supervise markets. I appreciated your comments in my office and the vigilance which I hope you show.

The financial crisis followed a decade of deregulation of the financial industry, and now too many people who informed the policies before the crisis are back.

Dr. Clarida admitted we got it wrong.

Ms. Bowman knows firsthand how bank failures impact communities across the country: 462 failures starting in 2008, including bank failures in your home State and Senator Moran's home State of Kansas. Employment in Kansas is only 1.5 percent higher than at the pre-crisis peak 10 years ago.

I wish others in the Administration and Congress would remember the devastating impacts of the financial crisis.

As I consider the nominations for each of you, I am not just looking to what expertise you bring to these positions. You do that. I want to know that you remember the people behind the numbers. I am looking at how you will approach the numerous issues considered by the Board: monetary policy, small bank regulation with which you are so familiar, Ms. Bowman, but also big bank regulation and supervision, enforcement actions, and, most importantly, whether you will push back on policies that weaken financial stability. Do not just rely on Vice Chair Quarles, who is Director of Supervision. Study it. Push back on him when he is wrong. Push back on him when he deregulates beyond what he should, which already seems imminent.

Thank you.

Chairman CRAPO. Thank you.

At this point we will administer the oath. Will the nominees please rise and raise your right hands? 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. CLARIDA. I do.

Ms. BOWMAN. I do.

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

Mr. CLARIDA. I do.

Ms. BOWMAN. I do.

Chairman CRAPO. Thank you. You may sit down.

I will advise the witnesses that your written statements will be made a part of the record in its entirety. As you can see, we have got a clock there. We ask you to try to keep your presentations to 5 minutes, if possible, so we will have time for questions from the Senators. And, Dr. Clarida, you may proceed first.

STATEMENT OF RICHARD CLARIDA, OF CONNECTICUT, TO BE A MEMBER AND VICE CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. CLARIDA. Thank you very much. Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to appear before you today. I am grateful for the Committee's consideration for the important positions for which I have been nominated. I am also honored to have been nominated by the President to be Vice Chair of the Federal Reserve Board of Governors and a Member of the Board of Governors.

I am grateful for the support of my family who is with me here today: my wife of 29 years, Polly Barry, and my sons Matthew and Russell.

The Federal Reserve has been charged by the Congress with a dual mandate responsibility of maximum employment and price stability. I fully support both pillars of this dual mandate and, if I am confirmed, will support a balanced approach to achieving these important objectives.

The Federal Reserve also plays a central role in ensuring the safety, soundness, and stability of our financial system. If I am confirmed, I will support policies that are effective, efficient, and appropriately tailored; but I will also want to preserve the important gains in resiliency and stability of our financial system that have resulted from the significant improvements and reforms put in place since the financial crisis.

I believe I am well qualified for the positions for which I have been nominated. In my published work, I have developed, along with others, a framework for monetary policy analysis that has been widely cited at the Fed and central banks around the world. Although I have served most of my career in academia, I have had two opportunities to serve in economic policy positions in the Federal Government, in the executive branch: as a senior staff economist with Council of Economic Advisers in 1986 and 1987; and as

Assistant Secretary of the Treasury for Economic Policy between 2002 and 2003. These experiences taught me the importance of doing economic analysis that is practical, that is relevant, and that gives insights into the way that economic policy impacts the lives of real Americans.

I have also had an opportunity to advise investment firms on economics and strategy, and I think these experiences have given me some insights into the interplay between macroeconomics and financial markets.

The Federal Reserve has an enormous responsibility to achieve the objectives assigned to it by the Congress, to communicate the rationale for these policies, and to explain how the policies will achieve the goals assigned. If I am confirmed, I look forward to working with Chair Powell and my other colleagues to satisfy the assignments given to the Federal Reserve and, importantly, to foster the transparent communication and accountability that is so important for the Fed's independent and nonpartisan status.

Thank you again for the privilege of appearing before you today, and I look forward to answering your questions.

Chairman Crapo. Thank you, Dr. Clarida.

Commissioner Bowman.

STATEMENT OF MICHELLE W. BOWMAN, OF KANSAS, TO BE A MEMBER, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Ms. BOWMAN. Good morning, Chairman Crapo, Ranking Member Brown, and Members of the Committee. Thank you for this opportunity to appear before you today. I am deeply honored that the President has nominated me to serve as a Member of the Board of Governors of the Federal Reserve System. Because community banking is a vital and ongoing part of my family's legacy, I am also humbled that, if I am confirmed, I will be holding the position designated for someone with community banking experience.

I am also grateful to my family and my husband's family for their continued support and belief in me. My husband, Wes, our children Jack and Audrey, my sister Maggie, who is a school teacher in Kansas City, Missouri, and my parents, Jan and Hank White, are with me today. My father, Hank, is a fourth-generation banker. He is a farmer and a rancher, a Vietnam veteran, and a retired U.S. Air Force officer. My mother, Jan, is a great inspiration. She taught me that with hard work, anything is possible. My in-laws, John and Sherry Bowman, and Sherry's 91-year-old mother, Mary Hopkins, could not be here with us today, but they are watching from Everest, Kansas.

My family and I have been in community banking for generations. In 1882, my great-great-grandfather, W.H. White, helped to charter the Farmers & Drovers Bank. The bank was named for the customers it served then and continues to serve today: the farmers and ranchers of the Flint Hills of Kansas. Today the fourth and fifth generation of my family continue this long tradition of service through the bank and through active participation in the community and through volunteer work in our community of 2,300 people. I know firsthand that community banks are a vital part of the backbone of small, rural, agricultural towns, and they play a critical role in providing access to credit and fostering economic activity in communities across our country. Without these institutions, many communities and many of our citizens will see their economic opportunities suffer significantly.

I joined my family's bank in 2010, and I learned the business from the front line to the back office. My most challenging role was as compliance officer—working with our small team to implement many of the post-crisis regulations. Although the crisis revealed weaknesses in the U.S. financial system that needed to be addressed, I have witnessed firsthand how the regulatory environment created in the aftermath of the crisis has disadvantaged community banks. And if confirmed, I will bring this perspective to my work at the Board to ensure that rules preserve the resiliency of the financial system, but that they are appropriately tailored to the size, complexity, and risk of an institution.

As a community banker, it was my job to support local businesses and consumers. This experience has given me a personal and deep understanding of how the Federal Reserve's goals of fostering maximum employment and stable prices directly affect the financial system and the broader economy. The dual mandate is critically important to our economy, to our businesses, to our families, and our communities. If I am confirmed, I will be very focused on how we can do the best job possible to fulfill that mandate.

I currently serve as the Kansas State Bank Commissioner, and our office oversees hundreds of State-chartered banks, trust companies, money transmitters, and other nondepository financial service institutions. Our mission is both proactive oversight and protection of the consumers our financial institutions serve. As commissioner, I am accountable to the people of Kansas. And as I carry out my regulatory mission, my goal is to treat every consumer and every institution fairly, respectfully, and with open communication.

I believe the experiences I have described qualify me for this important role, and if confirmed by the Senate, I will be committed to accountability, transparency, and clear communication in all of my responsibilities at the Federal Reserve.

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

Chairman Crapo. Thank you very much, Commissioner Bowman.

I will proceed with the first questioning. My first question is really to both of you, so I would like you each to respond to this. There has been a lot of discussion here in the Senate and, frankly, here today about the concept of tailoring and whether—some view tailoring as rolling back regulations that should be in place. Others views tailoring as getting the correct requirements of regulation focused properly on the risk that is presented by individual financial institutions.

I would just like to have your perspective on both of those. I think it is very clear that one way to improve economic growth is by addressing areas where financial regulations can be improved. Financial regulations should promote a vibrant, growing economy, but should still ensure a safe and sound financial institution. And I personally believe that those two objectives can be achieved. I would simply like your perspectives on that. Dr. Clarida, would you go first?

Mr. CLARIDA. Well, thank you, Mr. Chairman. And, yes, I would agree very much with that sentiment. I think that tailoring and efficiency are goals, but within the context of preserving the important improvements in the financial stability and soundness in our financial system. And certainly were I to be confirmed, that would be my focus on any particular matter that I would vote on as a member, namely, to seek out efficiencies and tailoring to specifics as best as possible, but not putting the system at risk in an unnecessary way.

Chairman CRAPO. Thank you.

Commissioner Bowman?

Ms. BOWMAN. Chairman Crapo, a great deal of work has gone into improving the levels of both capital, liquidity, the stress testing that has been put in place, and also the resolvability of institutions has improved greatly since the crisis. I think when we are talking about appropriateness of regulation and applying it to different institutions in our financial system, we need to be very aware of the complexity, the size, and the risk of those institutions as we are looking to ensure the safety and soundness of our financial system.

I believe it is appropriate to consider those characteristics within the context of safety and soundness and looking to apply the most appropriate level of regulation to each institution.

Chairman CRAPO. Well, I appreciate your answers, and to basically just summarize what I heard, we all agree that the primary objective of our regulatory system should be to assure the safety and soundness of our financial institutions in this country. Within that standard there can be a level of regulation, depending on the size, complexity, business model, and financial risk that is posed by an individual financial institution.

I probably just have time for one more question, and so I am going to ask that of you, Dr. Clarida, and this goes not to regulation but to basically economic policy. The Fed recently began the process of shrinking its balance sheet, which currently sits above $4 trillion. In a speech last year, Chairman Powell cited long-run estimates of the appropriate size of the balance sheet as about $2.4 to $2.9 trillion by 2022. I would just like your opinion on these factors. What factors do you expect to focus on in determining the pace and ultimate scope of the balance sheet reduction?

Mr. CLARIDA. Thank you, Mr. Chairman. Let me begin by saying that certainly I think the Fed does need a smaller balance sheet, and so I am very much in support of the efforts commenced last year to begin to shrink that balance sheet. The ultimate destination for the balance sheet should be a lot smaller than it is today. I am aware of Chairman Powell's comments on that.

One factor determining the size of the balance sheet is the amount of currency in circulation, and that number is growing. So the Fed will have a larger balance sheet, I imagine, at the end of this process, whenever it ends, than it did before the crisis.

I would look forward, if I am confirmed, to working with my colleagues to assess the appropriate metrics for determining when to stop to shrink the balance sheet. So I think the numbers that the Chair has mentioned, that Chair Powell has mentioned, makes sense to me, but I have not studied it deeply and would look forward to talking with my colleagues about that, if confirmed.

Chairman CRAPO. Thank you very much.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

A question for both of you. I will start with you, Commissioner Bowman. Do you believe the Federal Reserve is intended to be independent from the President of the United States?

Ms. BOWMAN. Absolutely.

Senator BROWN. Dr. Clarida?

Mr. CLARIDA. Absolutely. It is essential.

Senator BROWN. Thank you. My understanding is that, Commissioner Bowman, you did not meet with the President and, Dr. Clarida, you did before the nomination?

Mr. CLARIDA. I did meet with the President, yes.

Senator BROWN. Ms. Bowman, you did not?

Ms. BOWMAN. Correct.

Senator BROWN. OK. When you were interviewed by the President, Dr. Clarida, did he say anything that gives the impression that he did not view the central bank as independent?

Mr. CLARIDA. Absolutely not, and let me just state definitively that I had a number of meetings over several months with a number of officials, including the President, and in no meeting and at no time did I ever have any reason to question the independence of the Federal Reserve. Absolutely not.

Senator BROWN. OK. Thank you.

Ms. Bowman, I appreciated the story of your family and the bank, and I must admit maybe I should have listened more to Senator Moran. I did not know what a drover was until I saw the——

[Laughter.]

Senator BROWN. It is not a word, not a thing that we do in Ohio, but the farmers and drovers, so I like that. Your family's bank is profitable. It serves its community. It has maintained a Tier 1 leverage ratio of well over 20 percent, which is five times the required ratio, to my understanding throughout your time working there. Do you agree that banks with higher capital levels tend to lend more, not less, through the ups and downs of the business cycle?

Ms. BOWMAN. Senator, I agree that capital is a very important part of the stability of our financial system, and capital is one of the ways that banks have credit available or funds available to loan to their communities or to their loan customers. It is a very important part of the system. One of many of the four pillars that have been strengthened since the crisis is capital, and liquidity as well. Both of those are important parts of the——

Senator BROWN. And you—sorry to interrupt. You have been able to serve your community well, your bank—you were not there during all this time, I understand. With those higher capital levels, you were able to serve the community well in good times and bad times, correct?

Ms. BOWMAN. That is my understanding, yes, correct.

Senator BROWN. OK. The Fed last month proposed weakening the required leverage rules for the very largest banks, which already many experts think are too low at 5 percent. My question to both of you, and I will start with you, Ms. Bowman: Will you commit to oppose any Federal proposal that weakens leverage rules for the largest banks?

Ms. BOWMAN. Senator, I think it is important to understand the details of all of those proposals so that should I be asked, and if I am confirmed, to participate in discussions regarding those proposals, that I am fully informed, that I have the opportunity to speak with my colleagues, and that I can vote in a way that I feel is appropriate.

Senator BROWN. Thank you for that. I did not expect anything less—or anything more indirect. If you come to the conclusion after talking to Supervision Chair Quarles, Vice Chair Quarles, whatever, and you analyze this and you believe in your mind that these weakened leverage rules—weakening the required leverage rules, you would oppose it?

Ms. BOWMAN. Senator, I would certainly express my opinion and ask questions so that I would be——

Senator BROWN. But if your conclusion was, yes, these rules would weaken required leverage rules, would that mean you would oppose it?

Ms. BOWMAN. I would feel free to vote as I felt appropriate, and if that were how I felt, I would certainly do so.

Senator BROWN. Dr. Clarida, would you like to comment on the same question?

Mr. CLARIDA. Just briefly, just to say that, as I mentioned in my opening statement, a priority of mine in any consideration on any item I would vote on in this area would be I would need to be assured that are preserved the substantial gains in safety and soundness and resiliency that we have in place. So I would look at it on a case-by-case basis, and I agree with the prior comment.

Senator BROWN. That is a bit of a surprise answer from you, Dr. Clarida. In 2010, you wrote, "Financial history suggests 'never again' eventually becomes 'this time it is different.' 'This time it is different' eventually sets the stage for the next financial crisis."

Based on that, you give the same answer?

Mr. CLARIDA. My answer would simply be, as I mentioned, I would want to preserve what we have in place. I would look on it, if confirmed, on a case-by-case basis. But I would certainly hope that I would never fall victim to the "this time it is different" with regards to the financial crisis because it was enormously costly to the economy, to individual communities, and certainly that is not a lesson that I will forget.

Senator BROWN. Well, thank you. I am concerned that we have—well, I am concerned when we have a very aggressive Vice Chair of Supervision now at the Fed who has had a history of supporting deregulation, in some cases ignoring signs of—well, suffering perhaps, as many on this Committee do, from collective amnesia about what happened a decade ago. We have regulators in this Government who were in the Government before and did not see it coming. In fact, many contributed in their vigor and their aggressiveness—their vigor and interest in deregulating. And I am very concerned with the collective amnesia, with the regulators in place in other agencies and at the Fed, who want to deregulate. I am very concerned about the strength and aggressiveness of the two of you in pushing back. I will leave it at that, and I will remind you of your comments later perhaps.

Chairman CRAPO. Senator Scott.

Senator SCOTT. Thank you, Chairman.

To the panel, thank you both for being here and thank you for your willingness to serve. Commissioner Bowman, I would like to say to your family, especially to your father, thank you for your service as an Air Force officer, a banker, a farmer. I guess in the tradition of Kansas, he is just a real Renaissance man. I am not quite sure what your kids do to have to be punished here by sitting through a Banking hearing.

[Laughter.]

Senator SCOTT. I apologize on behalf of this topic for your kids, but I do want to make a couple of points.

The unemployment rate is at 3.9 percent. Wages have increased over the last year by 2.9 percent, the highest increase since 2009. Our economy is growing pretty quickly, 2.9 percent the last quarter of 2017, 2.3 percent the first quarter of this year. With tax reform I would imagine that we can anticipate 3 percent or higher growth in our economy.

Despite all the positive indicators, the market had several days of volatility, typically around the swearing-in of Chairman Powell. If I look back at the recent past, the Federal Reserve has cited stock market volatility as a reason not to raise interest rates. The Fed backed down so many times that this seemed to become learned behavior. Stock market volatility meant no interest rate hikes.

I will ask both of you: Is the stock market a pillar of monetary policy? And would stock market volatility deter you from plans to raise interest rates?

Mr. CLARIDA. I guess let me begin by saying, Senator Scott, thank you for that question. First of all, to me stock market volatility is not a pillar of monetary policy in and of itself. I would not think it would be a factor. Sometimes stock market volatility is associated with other developments that you do pay attention to.

Senator SCOTT. Yes.

Mr. CLARIDA. But stock market volatility alone, absolutely not, as far as I am concerned.

Senator SCOTT. Thank you. Commissioner?

Ms. BOWMAN. I would agree with Dr. Clarida that this should perhaps be one of the several factors that should be considered, but not in and of itself as a guiding factor.

Senator SCOTT. I am glad to hear your answer is basically. Congress says to seek maximum employment and stable prices, no more, no less. I have highlighted in the past what people often seem to forget about low interest rates. It has a negative impact on savers and particularly seniors on a fixed income. So when interest rates go from 4 percent to 3 percent, if you have a $1 million nest egg, that is a $10,000 swing in what you are able to live off of. So it is really important to me, but let me move to a different topic.

I sold insurance for my professional life. I have said it many times that our State-based system of insurance regulation is the best in the world. The President's executive order on financial regulation favors a deferential approach by the Fed to working with primary financial regulators, and when it comes to insurance, that means State-based insurance regulators.

How will you integrate State-based insurance regulators into your work? Both of you, please.

Ms. BOWMAN. Well, I would be happy to take that. As the Kansas State Bank Commissioner, it is very important from where I sit now to be able to have a dialogue about those issues that impact State-chartered institutions or institutions that are regulated at the State level. I believe that it is important to continue that dialogue between the Federal and the State level, and my understanding is that there is a mechanism for that to continue, and that would be something that I would believe would be important to continue.

Senator SCOTT. I am running out of time, so I want to ask you a different question. Thank you for your answer.

I favor an activities-based approach to nonbank SIFI designations and more clarity around what gets you designated and what gets you de-designated. What are your thoughts?

Mr. CLARIDA. Well, Senator, obviously SIFI designation is a part of the process that is now in place. I believe that is handled at the level of the Stability Oversight Council. It is not a subject that I myself have studied. If I were confirmed, I would certainly look forward to learning more about it. But, in general, as a proposition I think an activities-based approach makes a lot of sense. But beyond that, I have not really studied the issue.

Senator SCOTT. OK. Thank you. Let me add a little to the question. Oftentimes an insurance company may have a small bank presence under their umbrella.

Mr. CLARIDA. Right.

Senator SCOTT. If we treat that entire insurance company as if it were a bank, we are only increasing the cost to every single policyholder, even though a sliver of the overall picture of that insurance company has anything to do with a bank. So if you punish an insurance company by treating it like a bank, you are actually not punishing the insurance company. You are punishing the policyholders of the insurance company. So having a delineation between nonbank presence as it relates to SIFI designation is an incredibly important part that I hope you will take some time and learn more about.

Thank you both for your answers and congratulations and condolences for being chosen.

Chairman CRAPO. Thank you.

Senator Reed.

Senator REED. Well, thank you very much, Mr. Chairman. Let me begin, as Senator Scott did, by commending and thanking the families for being here. And, Mr. White, thank you very much for your service in Vietnam and the Air Force. And, Mr. Clarida, your family, a great sacrifice. They could be relaxing in Westerly, Rhode Island, right now.

Mr. CLARIDA. Absolutely.

Senator REED. I appreciate the sacrifice.

We all are pleased that the unemployment rate is 3.9 percent, but behind that number is a labor participation rate that is falling.

And there are perhaps many factors, but one is the continuing innovation, automation of jobs, *et cetera,* and, you know, there is at least a theoretical possibility that several years from now we could have a very low unemployment rate but a huge number of people without jobs.

I will start with you, Dr. Clarida. In terms of your mandate to maintain full employment in this new technological era, how do you factor in job loss? How do you emphasize training and adaptation? Because my sense is that many of these individuals are mid-career who have worked very hard, have skills—but those skills are no longer marketable in many cases? So let me begin with that general question, and then Ms. Bowman.

Mr. CLARIDA. Well, Senator Reed, you are absolutely right. The economy is changing. The unemployment rate of 3.9 percent, as you say, is welcome, but behind that one number is a very, very complex picture. Technology, as you mentioned, is changing rapidly. It creates winners, it creates losers.

I believe with regards to monetary policy, if I were to be confirmed, I would not focus solely on the unemployment rate but on broader measures of the labor market, including labor force participation. My sense is that with regards to technology and education in mid-career, the policies that could best address those challenges are probably policies for the Congress and the executive branch to consider. I think the Fed can do its part by responsibly trying to achieve maximum employment for the economy as a whole.

Senator REED. So there is a fiscal component of this which requires investment in training and job transition and a host of other things.

Mr. CLARIDA. And I believe that is what the research does say.

Senator REED. Thank you.

Commissioner, your comments?

Ms. BOWMAN. Senator, I would frankly rely on my experience in my community. When I returned to Kansas in 2010, we recognized that there were many people unemployed as a result of the financial crisis. There were many partnerships that were developed with training schools, vocational and community colleges that assisted in the development of skills that could be used within perhaps a new industry or a new technology that they might be able to utilize.

In my view, while it is very important in the context of monetary policy and maximum employment, it is also very important for communities to understand the needs of their workers and of their businesses so that they can work to address those things at a local level. That would be one thing that I think is a very critical part of trying to address that.

I do not believe that the Fed has tools that are in its toolbox to be able to address those particular issues, and as Dr. Clarida said, it would be something that Congress would likely need to enact some sort of law that could address those kinds of things. But I have great faith in our communities to recognize the challenges that they face and try to address those.

Senator REED. Thank you. One aspect that just seems to be ubiquitous is the cybersecurity threats to every aspect of our life, and we have been trying to encourage the Securities and Exchange

Commission to take what I think is a very modest step, which is to require someone on a public company's board to have either knowledge of cybersecurity or have some other mechanism, just simply informational to the shareholders. The bank holding companies are particularly, as you both recognize, targets of this type of disruption effect.

Can you take or should you take action as a supervisor of the bank holding companies to make sure that they have at every level, and particularly—the biggest ones I assume have it; it is the smaller bank holding companies—have someone or some capacity for cybersecurity on an active basis? My time has expired, so this might be just a yes or a no.

Mr. CLARIDA. I agree that cybersecurity is a very significant threat to the economy and obviously the financial system. If I am confirmed, I would look forward to understanding what actions the Fed currently takes in that area, but I agree it is absolutely critical.

Senator REED. Thank you, Doctor. Ma'am?

Ms. BOWMAN. I would absolutely agree with the threat of cybersecurity and the importance of having some expertise within an institution to be able to address those risks.

Senator REED. Thank you very much.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Tillis.

Senator TILLIS. Thank you, Mr. Chairman. Thank you both for being here, and thank you for the time in the office last week.

When we talk about deregulation around here, I think that some people will kind of position the question as we are going to deregulate and we are going to expose ourselves to the underlying risk that that regulation was intended to resolve. It does not seem to me that that would be the way that you would go about taking a look at rightsizing and deregulating. Let me give you an example of a few things I would like for you to expand on.

One is the regulatory reform bill that we got bipartisan support out of this Committee, S. 2155. Could you characterize how you think that is—or take a position one way or the other how you think that is the right kind of method for going and trying to find regulations that fit the activities the size and scale of the institutions to which the regulations would be applied? And we will start with you, Commissioner.

Ms. BOWMAN. Senator Tillis, I appreciate that question. At the State level, I oversee banks that range in size from $7 million in assets with three employees to $3.2 billion in assets. All of those qualify by the Federal standard as community banks. It is important to be able to understand the burden on a staff of three to implement the same regulations that apply to much larger institutions.

Senator TILLIS. So about one-third of that bank is probably in regulatory compliance, right?

Ms. BOWMAN. Probably 100 percent of the time.

Senator TILLIS. Yes, OK. And then, Dr. Clarida, we talked about international standards like Basel III.

Mr. CLARIDA. Right.

Senator TILLIS. So you see these standards that are being formulated. I worked in an accounting firm. I am not an accountant, but I worked in an accounting firm, and we were very much engaged in that. So you create maybe these international standards, and then we have those suggestions come into our rulemaking process, and then suddenly you have got a lot of community banks that suddenly find out that they have Basel III regulatory requirements.

Is that a good thing? Or what should we be doing differently as we are being instructed by emerging international standards and making sure that, on the one hand, we provide regulatory relief through the bill like S. 2155, but on the other hand, we come on the back end and just layer on another set of regulations that may not make sense for the nature of the institution targeted?

Mr. CLARIDA. Well, Senator, yes, as I understand, the Fed does participate in these international discussions, but ultimately any rulemaking has to go through a process with comment and affirmative votes of the members. And so certainly the situation you describe would be a situation that I would be concerned about.

So, again, if I am confirmed for this position, I will look at each of those on a case-by-case basis, but would certainly want to respect and really pay attention to the comments and the feedback that the Fed would be getting on any such proposed rulemaking.

Senator TILLIS. Thank you. By the way, I appreciate the answers to the questions by the Ranking Member about your independence. I saw President Erdogan from Turkey on Bloomberg this morning who was talking about he needs to be the ultimate person deciding some monetary policy or interest rates in Turkey. And I think if you see the Turkish currency right now, maybe the markets do not necessarily agree with that. So I appreciate you all continuing to be independent on that scale. I think that is a very vital role that you play.

I do want to associate myself with comments by Senator Scott on insurance savings and loan holding companies. That is an area that we are working on legislation on a bipartisan basis to, again— we are not talking about going to no regulation. We are talking about really taking a look at the nature of the business activities in these institutions and making sure that we have lean regulations that manage the risk but do not actually put certain financial institutions out of business. For anyone to look at the banking sector in North Carolina and see that we have half as many community banks today as we had pre-crisis and suggest that the regulatory overreach of Dodd-Frank was not a contributing factor, I would love to see how they could present a case otherwise. Do you agree with that?

Ms. BOWMAN. I think there are many things that contribute to the reason why we have had either mergers, acquisitions, or failures. I would say that regulatory burden is part of that.

Senator TILLIS. And some of the mergers and acquisitions are a survival decision: I can no longer be a three-person bank with the regulatory construct of a large regional bank or a national bank. So some of it was a natural part of the ecosystem being consumed; as banks get larger, you buy their portfolio, and you build it in. But some of it is just purely a survival decision. I cannot imagine that half the community banks in North Carolina would be gone purely because they were good acquisition targets. And I think we have to look at that so that we have a thriving pyramid, an ecosystem, financial ecosystem that today I do not think we really have.

Thank you all and congratulations to the family, and I look forward to supporting your confirmation.

Mr. CLARIDA. Thank you.

Ms. BOWMAN. Thank you.

Chairman CRAPO. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. Congratulations to both of you on your nominations.

I want to follow up on Senator Brown's questions and make sure we are clear on the question of independence. Mr. Clarida, in your meetings with President Trump, did he ask you how you would vote on proposed increases to the Federal funds rate?

Mr. CLARIDA. Absolutely not.

Senator MENENDEZ. Good. Did the President indicate a preference one way or the other for how you should approach decisions on whether to increase the Federal funds rate?

Mr. CLARIDA. Absolutely not.

Senator MENENDEZ. Good. Now, for both of you, we are tasked with examining your qualifications for 14-year terms, terms that will outlast this Administration and the next. So it is critical—Senator Tester says, "Most of us."

[Laughter.]

Senator MENENDEZ. So it is critical that your decisions—I hope not for you, Jon. So it is critical that your decisions be guided by the Federal Reserve's dual mandate and remain independent of any political pressure or interference from the Administration, this one or any other.

Will each of you commit today that, if confirmed, you will ignore any political pressure or interference, whether it is direct or indirect, from the President or any other member of the Administration in your decisionmaking?

Ms. BOWMAN. Senator, I would just say that the Fed makes decisions based on sound economic policies and judgments, and politics has no place in that.

Senator MENENDEZ. So the answer is yes?

Ms. BOWMAN. Yes.

Mr. CLARIDA. The answer is absolutely yes.

Senator MENENDEZ. Thank you. We have made significant progress from the darkest days of the recession, but in many ways our economic recovery continues to be uneven. Today we are looking at an economy with 3.9 percent unemployment but still very sluggish wage growth. As corporations have reaped billions of dollars in benefits from the new tax law, hardworking families are still waiting to see their paychecks rise.

In a tight labor market, workers, I think, should be able to transform corporate profits as part of it into higher pay, but any acceleration in wages seems to be accruing only to high-paid executives and managers.

This question is to both of you. Do you agree that the achievement of full employment should be associated with strong and broad-based wage growth for average workers, not just senior executives and managers?

Mr. CLARIDA. I will begin with that, Senator Menendez. Absolutely, that is something that we would like to see associated with full employment. It is the case in recent decades that there has been more dispersion between, you know, workers in different categories, and there are a number of factors that impact that. I think the Fed's focus—if I am confirmed, I think the Fed's focus should be on getting that unemployment rate at a level that is on average consistent with a healthy labor market, but acknowledge that there are factors at work that are impacting different workers in different ways.

Senator MENENDEZ. I am not quite sure—what about wage growth?

Mr. CLARIDA. Wage growth will be a function of the growth of the economy. It will be a function of productivity, of technology. There are a number of factors. I think what the Fed can do, Senator, on wage growth is to keep the economy as close as it can to that full employment mandate that Congress has given it.

Senator MENENDEZ. Commissioner?

Ms. BOWMAN. Senator, wage growth is a very important issue, and I think that as the economy improves, it is important that all benefit from the economic conditions. It is a factor that should be considered and looked at within the context of full employment or maximum employment, which is one of the mandates that Congress has given the Fed. It is something that I think is very important, and I would be happy to speak with you further about that if that is an issue that, should I be confirmed——

Senator MENENDEZ. Well, I appreciate your answers. I think a tight labor market, forcing employers to offer higher and more competitive wages normally, that is not what we are seeing. As a matter of fact, wages are up about 2.6 percent annually, which is only slightly higher than the rate at which they have been rising for the better part of 3 years. So that says to me something about the recovery, and the recovery for average Americans not being realized.

Last, the Administration is planning to offer a proposal to make changes to the Community Reinvestment Act with 97 percent of banks receiving satisfactory or outstanding ratings, yet African American and Latino families continue to be disproportionately denied mortgage loans, even when controlling for income, loan amount, location. It seems to me that in that respect we have a problem. But I have real concerns that the new proposals will lead to weakened enforcement by regulators and a discounted importance of physical bank branches.

This is for both of you. Do you agree with Federal Reserve Governor Brainard that it is important to retain a focus on place as the Fed contemplates CRA changes? In essence, do you agree that in some low-income and hard-to-reach communities, physical branches are sometimes the only way to meet local credit needs?

Ms. BOWMAN. Senator, if you do not mind, I would be very happy to start with that. I think in any case discrimination is absolutely unacceptable, whether that is based on race, religion, any of those characteristics. It is important, as we are looking at reviewing the Community Reinvestment Act, that we keep in mind how the country has evolved since the time that that Act was enacted in 1979. There are many changes to the industry, to how our communities are shaped and how they look now, but it is very important that we continue to understand the needs of the community from all parts of the community and that they are addressed appropriately.

Senator MENENDEZ. Mr. Clarida?

Mr. CLARIDA. Senator Menendez, I would just simply say the Community Reinvestment Act has been on the books for 40 years. It would be a very high priority of mine, if confirmed, to make sure that it is enforced. And, obviously, if there are discussions for improving or bringing it up to date, I would be open-minded to that. But the essential mission of the Act I think needs to be respected.

Senator MENENDEZ. Well, let me close by just simply saying, 40 years later, African American families and Latino families are still disproportionately discriminated against, and so something is wrong. And I look forward to seeing how you would respond to that discrimination.

Thank you, Mr. Chairman.

Chairman CRAPO. Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. And congratulations to our two nominees. Let me start with Dr. Clarida.

Dr. Clarida, it is my view that the Fed contributed to the financial crisis by virtue of monetary policy in the years preceding it, specifically very low interest rates for an extended period of time, including negative real interest rates, that coincided, not coincidentally but coincided chronologically, with a housing boom that really turned into a bubble, the bursting of which, of course, was one of the essential features of the crisis.

Do you agree with the view that the Fed probably contributed to the financial crisis in this fashion?

Mr. CLARIDA. Senator, I enjoyed our conversation in your office on this and other topics very much. I fully agree that monetary policy was one part. I think it is tough—I think other factors were also at play, so it is difficult to parse particular quantities of contribution. But, yes, monetary policy did play a part.

Senator TOOMEY. Commissioner Bowman, what is your view on that same question?

Ms. BOWMAN. I would agree with Dr. Clarida that monetary policy did play a part.

Senator TOOMEY. Well, I think that is a really, really important thing to keep in mind. I think we need to learn the lessons of the mistakes that have been made. I agree it is difficult to quantify exactly what portion of the crisis originated in this fashion, but it was part of it.

I think from our discussion, Dr. Clarida, my understanding is you support the idea of continuing the normalization of interest rates.

Mr. CLARIDA. Absolutely.

Senator TOOMEY. And that that you believe is important, and I agree. I guess the question I would like to explore a little bit is: Given the unprecedented behavior of the Fed in recent years, what is normal? You know, what is the new normal, if there is a new normal? And one of the things specifically I would like your thoughts on is the extraordinary quantitative easing exercises. The Fed went for almost 100 years without engaging in anything of the sort, and then we had these repeated rounds of massive buying of fixed-income instruments, including in 2013 when our economy was growing at over 2 percent, unemployment was coming down, the inflation rate was just below 2 percent. So there was no crisis. There was no recession even. And yet we launched another $85 billion-a-month bond-buying program, which included mortgage-backed securities.

So is it your view that during a period like we had in 2013 it would be normal for the Fed to engage in a massive-scale bond-buying program?

Mr. CLARIDA. Perhaps I can begin on that, Senator. My general feeling and what I have written and said about QE is that there are benefits and costs, and initially I would have argued and did at the time think that it made sense in the depths of the period in 2008 for the Fed to pursue that option, acknowledging that it had not been tried before. But at least in my memory, the U.S. had not been essential at zero rates before. But I do believe that the benefits of QE diminished as more and more rounds were added and that the cost of QE went up. I do not know how, frankly, sir, I would have voted if I had been on the Fed at that time, but I am very sympathetic to your view that any discussion and thinking about QE would have to take a serious look at the cost as well as the benefit.

Senator TOOMEY. And would you consider non-Treasury instruments like mortgage-backed securities in a separate category? In other words, do you acknowledge that when the Fed gets into selecting which category of non-Treasury securities, it is really allocating credit?

Mr. CLARIDA. Yes, absolutely, my preference certainly right now going into this would be for the Fed to end up with a Treasury-only portfolio. I do agree that the Fed began to buy the mortgages under duress at a challenging time for the economy. But as a general proposition, my preference would be to have the Fed's balance sheet as much as possible in Treasury securities.

Senator TOOMEY. And, Ms. Bowman, would you like to share your views on the kinds of securities that the Fed should be buying?

Ms. BOWMAN. Senator, I agree with Dr. Clarida's comments about the discussion that you were having previously. Having not been a part of the decisionmaking process, I view the Fed from a prospective perspective at this point. I agree that normalizing the balance sheet is a good idea and that that is the appropriate path forward. And my understanding is as that happens, the balance of Treasurys versus other types of assets will be more normalized, and that would be something that I think would be a good idea.

Senator TOOMEY. I see I have run out of time. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you, Senator Toomey.

Senator Tester.

Senator TESTER. Thank you, Mr. Chairman. I also want to congratulate both of you on your nominations. I appreciate your being here and appreciate your willingness to serve. You have been very succinct with your answers, and I hope you can do that with me, too, because this one you can take all my time and I do not want you to.

I will start with you, Commissioner Bowman. I come from a rural State. You have been a community banker in a past life in a rural State. How would you advocate for rural America? And where do you believe the biggest disconnect is?

Ms. BOWMAN. Senator Tester, I appreciate your perspective being from a rural community, and I certainly also appreciate the partnership that I know that you share with your State commissioner and learning more about their efforts at the State level with your banking industry.

I think it is important to understand that since the crisis there have been 1,500 mergers that have occurred within that community banking space across the country.

Senator TESTER. Yes.

Ms. BOWMAN. And last year alone, there were just over 250. Kansas experienced 16 of those in our State, and when you have just over 200 to supervise and oversee, that is a pretty significant decline.

I think it is important that we understand the pain points for those community banks, understand the importance of safety and soundness within those institutions, but also recognize that in some cases the regulatory framework could be more tailored to appropriately supervise the risk. Their activity basis, their complexity, and also their asset size is critically important in my view with respect to that.

Senator TESTER. Mr. Clarida, Connecticut is a more urban State. Do you have anything to add to her comments? Do you agree with what she said?

Mr. CLARIDA. I completely agree. I will only say, Senator, that I grew up in downstate Illinois in a coal mining town with 8,000 people, proud graduate of the University of Illinois. So I understand how those communities can be impacted.

Senator TESTER. OK. Recently, the Federal Reserve imposed growth restrictions on Wells Fargo in response to some abhorrent treatment of their customers and lack of internal controls. Would you assure me that you will not support releasing them from these growth restrictions until they significantly change the way they do business?

Mr. CLARIDA. Perhaps I can begin. First, let me say that just based upon the news accounts, which, of course, is all I have to go on, the activities of Wells Fargo in this domain are egregious and unacceptable, and I was as shocked as anyone to read about it in the newspaper. If I am confirmed and this matter came before me, as it looks like it would, I would certainly individually want to be absolutely convinced that appropriate steps had been taken and could be verified.

Senator TESTER. OK. Commissioner?

Ms. BOWMAN. I would concur with Dr. Clarida's comments. The actions of Wells Fargo were absolutely inappropriate, and I would certainly want to make sure that any concerns are addressed by the bank prior to any discussion.

Senator TESTER. OK. Thank you both.

I want to talk a little bit about housing finance right now. Basically, do you guys believe there should be a Government guarantee for a 30-year fixed-rate note?

Ms. BOWMAN. Senator, in my view as a community banker, it is important that our community members have access to 30-year fixed-rate notes.

Senator TESTER. OK.

Ms. BOWMAN. Those are very important loan vehicles or mortgage vehicles. Without some kind of guarantee, banks cannot withstand that 30-year interest rate risk.

Senator TESTER. That is correct.

Ms. BOWMAN. So, in my view, it would be very important to maintain that access to credit.

Senator TESTER. Dr. Clarida?

Mr. CLARIDA. I would simply say the 30-year fixed-rate mortgage has served this country well for many, many decades, and I would imagine that going forward it is going to be a crucial part of the system.

Senator TESTER. Do you support it?

Mr. CLARIDA. That is the status quo. I certainly support it.

Senator TESTER. OK, good. The GSEs are in conservatorship. Do you believe that is having any negative impact on the economy?

Mr. CLARIDA. Senator, the GSEs have been in conservatorship since 2008. I am not an expert on housing finance, but obviously for the housing agencies to be in this State is probably not desirable. I am not an expert on housing finance, but——

Senator TESTER. That is all right. That is good.

Commissioner?

Ms. BOWMAN. I would agree with Dr. Clarida.

Senator TESTER. OK. Thank you all. I have got some other questions for the record that we will present to you, but I appreciate your answers not only to me but to previous questioners, too.

Senator Tester. Thank you for being here.

Mr. CLARIDA. Thank you.

Ms. BOWMAN. Thank you.

Chairman CRAPO. Thank you.

Senator Moran.

Senator MORAN. Chairman, thank you very much. Ranking Member, nice to know that we have educated you on the word "drovers." And I look forward to you listening to me more often than you sometimes do.

[Laughter.]

Senator MORAN. Let me welcome both of our nominees here today. Doctor and Commissioner, thank you for joining us. Congratulations on your nomination.

For as long as I have been a Member of the U.S. Senate and a Member of the Banking Committee, I have had conversations with individuals who have sat in the seats that you now sit in after they have been confirmed, mostly about the overregulation or community or what I call "relationship banks." Our financial institutions in rural America are very special and important. For as long as I have been in Congress, I have been explaining to my colleagues that, where I come from, economic development is often whether or not there is a grocery store in town. That is something that many in Congress do not understand, and certainly many within an Administration would find, of course, there is a grocery store.

I think these two things are related. What I have concluded over a period of time is that if we are going to have a grocery store in town, it is dependent upon a financial institution that understands the needs of their community and is not overly regulated in a way in which they cannot make a loan to a business that may not on paper be as financially capable as a regulation may require.

This recently hit home with me again. In our State of Kansas, we had fires across a significant portion of grasslands, particularly in southwest and western Kansas and the ranching community of Ashland. The county is Comanche; the county seat is a town of 900 people. That is the biggest town in the county. And 80 percent of the ground was burned, and most of the cattle died in that as a result.

What hit home with me is that those bankers responded to a crisis for those ranchers. The ranchers, with the death of their cattle, had no collateral. But the bankers continued to make loans, working capital, a line of credit was kept open to keep the ranchers in business.

We are in the process, in the House in particular but soon in the Senate, to debate a farm bill. We often talk about the farm bill as being a safety net for agricultural producers. It is. But so is our community or relationship bankers. In the absence of the ability to access credit in difficult times, either as a result of a fire or low commodity prices, both of which we are having in Kansas today, it is our bankers who keep our farmers in business. It is our bankers who keep our ranchers raising cattle and earning a living.

And so this is an important day for me, particularly with the Commissioner. You, Doctor, and I are going to have a conversation later today, and I will pursue this in further detail. But I know that Ms. Bowman understands the circumstances that it is not just a Kansas issue but it is across the country in rural America, and why this is so different or what I expect to be so different from, I hope, both of you is that every time I have had a conversation about the overregulation of a community bank—a bank, incidentally, that if it was insolvent, would cause no problems for the country, although significant challenges for the stockholders and the community—I get what I would describe as mostly lip service. The Federal Reserve or the FDIC or the Comptroller of the Currency will tell me, "Well, we have an advisory committee, we take seriously our community banks," and yet it seems to me that there is an attitude among many of our regulators that it would be simpler to regulate a lot fewer financial institutions than the number we have today. And, unfortunately, we are on that path, but that is not the solution to the future of the places that I represent.

So I would give you the opportunity, Commissioner and Doctor, to tell me again how you see the role of regulators, FDIC in your regulatory capacity, in regard to financial institutions that, in my view, if we are not careful, become products—their lending practices become a product of a computer program that spews out whether the answer is yes or no as compared to the relationship they have with the lenders, sometimes for generations. What you see in Ashland is a community bank owned by generations of a bank family lending to a set of people who are long-time generational ranchers. And the issue here for me is what can you do to convince me that, once you are a member of the Federal Reserve, you will advocate in a way different than just the idea that we are going to appoint an advisory committee to make certain we do not have overreach?

Let me make a final conclusion before my 14 seconds concludes. I am at a stage in life, Ms. Bowman, in which I know the previous generation. I now know people's parents better than I know, in this case, you and I pay tribute to your Mom and Dad who are here and to the effect, the consequence that their lives have had in the community of Council Grove and Morris County and the surrounding area in the Flint Hills. The joy of being a community banker today is a lot less than it used to be. The idea of the satisfaction that comes with a job is diminished, but your parents and your family have made a tremendous difference in a community in Kansas. And as a result of their profession, Council Grove and the surrounding communities of Dwight and all the places that you and I know have a brighter future as a result of the work of your Mom and Dad. And I am very grateful to them, and from what I know about you, I would tell them thank you for raising a great daughter as well.

Chairman CRAPO. Thank you, Senator Moran.

Senator MORAN. Apparently, you do not have to respond.

[Laughter.]

Chairman CRAPO. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman. And welcome to our nominees and to your families.

Dr. Clarida, your views on monetary policy are well known, but another critical part of your job at the Fed will be helping regulate the big banks. So I want to get to your views on bank regulation.

Do you agree that inadequate regulation of banks helped lead to the 2008 financial crisis?

Mr. CLARIDA. I do.

Senator WARREN. Yeah. So after the crisis, under former Fed Chair Janet Yellen, the Fed imposed new rules on big banks relating to capital, stress tests, liquidity, among other things. Do you believe that those rules helped make the financial system safer?

Mr. CLARIDA. I do.

Senator WARREN. Good. So as you know, Randal Quarles is now the new Fed Vice Chair for Supervision, the person who will be responsible for the Fed's regulatory approach toward the biggest banks. He recently put out a new proposal on capital standards, and by his own admission, when he testified here a few weeks ago, his proposal would reduce capital requirements for every big bank in the country, and that is why both the FDIC and Fed Governor Brainard opposed this plan.

So given your agreement that the new rules have made the financial system safer, are you concerned that the Fed is looking to reverse course and lower capital standards for the biggest banks?

Mr. CLARIDA. Well, Senator, let me say that, as I mentioned in my opening statement, I do think there are opportunities to tailor regulations appropriately. But an equal priority is preserving the substantial gains and resiliency and stability of our financial system. And on any matter that would come before me as a member to vote on, I would want to be assured that we are not trading off that improved resiliency and stability in that particular matter.

I cannot comment on this matter because I have not studied it. I believe it is out for comment right now.

Senator WARREN. I am sorry. You are being—this is a hearing about your becoming Federal Reserve Board Chair, and you have not read this proposal that would take a significant step that, by Mr. Quarles' own admission, would reduce capital standards for the largest banks? You have not read it, and you are telling me you do not have an opinion about it?

Mr. CLARIDA. Senator, I am aware of it in broad ways. I have not studied it in detail, and it is my understanding that before any final decision on that, there would need to be another vote on the matter once the comments are back.

Senator WARREN. Well, I actually am having a hard time understanding how you can sit here, how we evaluate you as a Fed Reserve Member if you cannot tell us how you feel about reducing capital standards for the largest financial institutions.

I tell you what. Let me try this another way. Most experts agree that too-big-to-fail is still a problem, and meanwhile the biggest banks are making huge profits and are among the biggest beneficiaries of the Republican tax bill. These banks are now spending billions of dollars each quarter in stock buybacks. So why on Earth would this be the time to reduce capital standards for these too-big-to-fail banks?

Mr. CLARIDA. Again, Senator, I take the thrust of your observation, and I think that if I am confirmed for this position, I would certainly come to the issue with an open mind. But as I mentioned, my priority would not be to sacrifice any of the gains that we have achieved with the existing policy——

Senator WARREN. Can you just give me any reason why you think it would be appropriate to reduce capital standards for giant financial institutions that are spending billions of dollars right now in stock buybacks?

Mr. CLARIDA. Senator, as I understand it, part of the rationale for the proposal is some of the incentives in the way that it is existing, that is implemented. But, again, beyond that I would look forward to studying it, and I agree that it would be important not to give up any of the gains in resiliency and stability we have achieved.

Senator WARREN. I will take that as, no, you cannot come up with a reason, but you are not telling me you will commit to keeping capital standards high.

Let me ask one more question. Can you identify a single Fed rule on capital, on liquidity, on stress tests, or Board Member obligations, risk management, anything else, that you think should be made stronger than it is right now?

Mr. CLARIDA. Well, Senator Warren, I think in the area of stress testing, I think it is vital. I think it is a crucial part of our system right now, and it is my understanding that the stress test exercises do take into account the loss of a particular institution in stress scenarios. And if those stress scenarios were to be more damaging, then the capital standards would be raised as a function of the stress.

Senator WARREN. I am sorry. So are you saying that you think the rule on stress tests should be made tougher?

Mr. CLARIDA. No. I am saying that the stress scenarios that are——

Senator WARREN. OK, but—I am sorry. Let me just be clear what my question was.

Mr. CLARIDA. Yes.

Senator WARREN. There is a whole range of regulatory issues: capital standards, stress tests, obligations of Board Members. I am asking if you think there is a single regulation that the Fed now has in place that ought to be made tougher.

Mr. CLARIDA. And I do not have one for you today.

Senator WARREN. You do not have one. Look, Dr. Clarida, for a long time leaders at the Fed seemed to think that the only thing they needed to worry about was monetary policy. But as we learned in the 2008 crash, an equally important part of the Fed's job is regulating the giant banks. The defining economic event of the last 50 years was the 2008 financial crisis, and as Alan Greenspan later admitted, it was brought about in part because the Fed did not do its job on regulation.

I am concerned about your lack of background on regulatory issues, and I am concerned about your unwillingness today to support strong capital standards for big banks. So I will be following up with written questions.

Senator Warren. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you. Welcome to your family members. Thank you both. It was a pleasure to meet both of you. Thank you for taking the time.

I have only got 5 minutes, so let me get through this with your indulgence, and let me associate myself with my colleague from Massachusetts and her line of questioning and Dr. Clarida. So let me ask you this: I come from Nevada. The foreclosure crisis, we were ground zero for the foreclosure crisis. What have you learned from that foreclosure crisis? And how will you ensure we avoid another crisis?

Mr. CLARIDA. Well, certainly I think we have all learned that we do not want to go back to the world of 2006 and 2007. And as I have mentioned——

Senator CORTEZ MASTO. Can you give me specifics? I think we would all agree with that, but specifically—you are going to be in a key position, so specifically can you talk about what you have learned and how you will apply what you have learned to your new position that you are being nominated to?

Mr. CLARIDA. Well, some specifics would obviously be higher capital, stress testing at the banks, liquidity, but more broadly in our financial system better understanding and better accounting for the different parts of the system, including, I think, moving certain transactions on to exchanges and clearing. Those are all important steps forward, I think.

Senator CORTEZ MASTO. OK. Thank you.

Ms. Bowman, I am going to associate myself with Senator Menendez's questioning. When you are the last one to ask questions, the questions usually have been answered. But this is another one that is just as important, I think, for many of us, the Community Reinvestment Act exams. I understand—and Senator Menendez stated this—that 98 percent of the banks pass the CRA exams with a satisfactory rating. Ninety-eight percent. So what would it have taken for your bank to earn an outstanding score or any bank to earn an outstanding score based on your understanding?

Ms. BOWMAN. Senator, that is an excellent question. I think those are discussions that I have on a community banking level frequently. I think part of the review that I mentioned with Senator Menendez was that the goalposts seem a bit unclear. I think many of the banks, if not most of the banks that I am aware of and familiar with, with respect to their Community Reinvestment Act activities or activities that benefit that process, there is not clarity for them in and an understanding of the types of investments that they make, whether they are extending credit, whether they are making other investments in their communities if those types of activities can qualify for the CRA. I think that would be something I would be very interested to speak with you about further regarding looking at those types of—how the rule is now and perhaps how communities exist now and how the investments of banks can be improved with respect to that.

Senator CORTEZ MASTO. Thank you, and I appreciate your candor, because the goalposts are unclear, and I guess that goes back to the concerns of what factors do you think would be helpful in determining whether small businesses, communities of color, and low-income areas are truly receiving the support that the law intended. I guess that is our challenge, and that is what we are looking to you to help us identify that so we can make sure that they are getting the help and the support they need.

Ms. BOWMAN. Senator, on that topic in particular, at our bank, when I was the community banker, we worked very closely with our small business customers to help them understand how a business plan should be formed, how they can qualify for different types of credits, and how they can present to a banker in a way that would assist with their approval process with respect to their business plan. That is something that I think community banks in particular are quite good at to help educate their communities about the best ways to make investments.

Senator CORTEZ MASTO. Thank you. And then I have only got a few seconds left. Can you talk about the Consumer Financial Protection Bureau and the importance of it and your interaction with it in this new position? And I will start with you, Dr. Clarida.

Mr. CLARIDA. The Consumer Financial Protection Bureau, of course, is part of the landscape now. As I understand it, a number of the responsibilities were transferred over to the CFPB in the Dodd-Frank legislation, and that is obviously an important part of the way that the country oversees consumer protection, which is an important goal.

Senator CORTEZ MASTO. Ms. Bowman?

Ms. BOWMAN. I believe that the CFPB, Consumer Financial Protection Bureau, is currently the agency that is responsible for assisting in the protection of consumers, and it promulgates regulations that impact their ability to do that and the rest of the prudential regulators and their ability to protect consumers in different ways. It is important that there is open communication and working together to ensure consistency in the application of those regulations and enforcement of those.

Senator CORTEZ MASTO. Thank you. I appreciate it.

Chairman CRAPO. Senator Brown had a request.

Senator BROWN. Thank you. Mr. Chairman, in light of comments from Senator Tillis and others, I have two charts I am going to—one brief study and one chart about community banks and the number of them. This chart—and I know you cannot really see it, but this just shows the number of U.S. community banks as it has declined since 1981, and this sport right here in when Dodd-Frank was enacted. So the decline, there is no way to ascribe Dodd-Frank as accelerating the decline of community banks, decline meaning either sell, merge, or go out of business, or sell to another bank.

So it is pretty clear that Dodd-Frank did not cause the demise of community banks. That is a greatest hit in this Committee from a lot of my colleagues saying, well, it is all because of Dodd-Frank that community banks have gone out of business.

So, Mr. Chairman, I would just ask unanimous consent to put this brief study and the charts into the record.

Chairman CRAPO. Without objection, so ordered.

Senator BROWN. Thank you.

Chairman Crapo. And with that, that concludes the questioning and the hearing. I again thank both of you for participating at our hearing today, and thank you for your willingness to serve the country.

For Senators, all follow-on questions need to be submitted by Tuesday, May 22nd. And for our witnesses, responses to those questions are due by the following Tuesday morning, May 29th. So please respond quickly to the questions you receive.

With that, the hearing is adjourned.

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

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

PREPARED STATEMENT OF RICHARD CLARIDA

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

MAY 15, 2018

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, and I am grateful to have the privilege of the Committee's consideration for these positions. I am also very grateful to have the support of my family who is with me here today—my wife of 29 years, Polly Barry, and my two sons, Matthew and Russell.

The Federal Reserve has been charged by the Congress with a mandate to attain maximum employment and stable prices. I fully support both pillars of this dual mandate and pledge to the Committee that if I am confirmed by the Senate, I will support monetary policies that take a balanced approach to achieving these important objectives. The Federal Reserve also plays a central role in our Government's efforts to ensure the safety and soundness and stability of the U.S. financial system as it provides credit between households and businesses. If I am confirmed, my priority will be to support policies that are effective, efficient, and appropriately tailored and that preserve the far greater resiliency and stability of the financial system that has been achieved as a result of the significant reforms that have been put in place since the financial crisis.

I believe I am well qualified to fulfill the responsibilities of the positions for which I have been nominated. In my published research, I have studied the formulation and communication of monetary policies and developed, along with others, a framework for monetary policy analysis that has been widely cited and used by monetary policymakers and their staffs around the world. Although I have spent most of my career in academia, I have had two opportunities to serve in economic policy positions in the executive branch of the U.S. Government—first, as a senior staff economist with Council of Economic Advisers from 1986 to 1987 and second, as assistant Treasury secretary for economic policy from 2002 to 2003. These experiences were invaluable in providing me a perspective that places a premium on doing economic analysis that is practical, robust, and relevant to better understanding how economic policy affects individual Americans and their communities. Over the years, I have also advised asset management firms on economics and strategy, with a particular focus on global monetary policy, and this experience has given me a deeper understanding of the interactions between macroeconomic developments and financial markets.

The Federal Reserve has an enormous responsibility to achieve the mandates given to it by the Congress, to communicate the rationale for its decisions, and to explain how its policies will enable it to meet these objectives. If I am confirmed, I pledge to work closely with Chairman Powell and my future colleagues to put in place policies that best fulfill its obligation to meet the mandates that the Congress has assigned to the Federal Reserve and to foster the transparent communication and accountability that is so vital to preserving the Federal Reserve's independent and nonpartisan status.

Thank you again for the privilege to appear before you today and I look forward to your questions.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Clarida (Last) **Richard** (First) **Harris** (Other)

Position to which nominated: Vice Chairman, Federal Reserve Board

Date of nomination: 24-04-2018

Date of birth: 18-05-1957 (Day) (Month) (Year) **Place of birth: Herrin Illinois**

Marital Status: Married **Full name of spouse: Polly Morgan Barry**

Name and ages of children:

Matthew Quinn Clarida age 25

Russell William Clarida age 22

Education:

Institution	Dates attended	Degrees received	Dates of degrees
University of Illinois	1975-1979	B.S. Economics	May 1979
Harvard University	1979-1983	M.A. Economics Ph.D Economics	June 1983

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.

United States Treasury Medal for Distinguished Service 2003

Lowell Harriss Endowed Chair in Economics, Columbia University 2003

National Science Foundation Research Grant, 1985 – 1987

World Bank IRIS Program on Institutional Reform, Research Fellow, 1992

Ford Foundation Grant, International Economics Program at SIPA, 1992 - 1996

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

Organization	Office held (if any)	Dates
National Bureau of Economic Research	Research fellow/Associate	1983 - Present
Council on Foreign Relations	Member	2001 - Present
Economic Club of New York	Member	2013 - 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. *(Please see attached cv for further detail)*

Teaching Fellow, Harvard University, Cambridge MA 1981-1983

Assistant Professor, Yale University, New Haven CT 1983-1988 (member of Cowles Foundation)

Senior Staff Economist, Council of Economic Advisers, Washington DC, 1986-1987 (on leave from Yale)

Columbia University, Professor of Economics, New York NY, 1988 – Present (Assistant Professor, 1988-93; Associate Professor with tenure, 1993-96; Professor, 1996-Present; Co-director Center for Economic and Political Analysis, 2000-2001; Lowell Harriss Professor, 2003-Present; Economics Department Chairman, 1997-2001); member, College Committee on Admission and Financial Aid (CAFA), 1999-2001; member Faculty of Arts and Sciences Budget Committee, 2000-2001; Co-Chair Provost Committee on Columbia Health Care Benefits, 2010-11; Member, Education Policy Planning Committee 2013-2016

Consultant, Federal Reserve Bank of New York 1991-1992, 1995-1997

Consultant, Group of 30, Project on Exchange Rate Regimes, 1999

Consultant, JP Morgan Chase, 1994

Consultant, Credit Suisse, Foreign Exchange Research and Strategy, 1998-2000

Consultant, Grossman Asset Management, 2001

United States Treasury, Consultant, 9-2001 to 2-2002 (prior to confirmation as Assistant Secretary)

United States Treasury, Assistant Secretary for Economic Policy, 2002-2003 (On leave from Columbia)

The Clinton Group, Economic Strategist, 2003 – 2005

Director, NBER Project on G7 Current Account Imbalances, 2003-2005.

Pacific Investment Management, Global Strategic Advisor, 2006 – Present

Norges Bank Watcher's Committee, MEMBER, 2009-2010

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.

Senior Staff Economist, Council of Economic Advisers, Washington DC, 1986-1987

Federal Reserve Bank of New York , Academic Advisory Group, 1995-1997

United States Treasury, Consultant, 9-2001 to 2-2002 (prior to confirmation as Assistant Secretary)

United States Treasury, Assistant Secretary for Economic Policy, 2002-2003

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

Please see attached appendix listing published articles, books, working papers and written commentaries. I have done my best to identify titles, publishers, and dates of books, articles, reports, and other published materials, including a thorough review of personal files and searches of publically available electronic databases. Despite my searches, there may be other materials I have been unable to identify, find, or remember.

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.

I have held no office nor offered any services to any political parties or election committees in last 10 years. I signed a letter entitled "Economists for McCain" in 2008 and a letter entitled "Economists for Romney" in 2012 but did not hold office or perform any services to those campaigns.

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.

"Kudlow for US Senate" exploratory committee on January 20, 2016 for $2700.00

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

In my 35-year professional career, I have achieved recognition among academics, policy makers, and financial market participants as an expert on the economics of monetary policy. My academic work on monetary policy as a professor of economics and international affairs since 1988 at Columbia University (and before that at Yale University) has been frequently cited and the framework for a more effective monetary policy developed in these papers has been widely consulted by economists at the Fed and as well as at other major central banks around the world. In this regard, since 2007 I have served as a member of the Deutsche Bundesbank Academic Research Council and have been chairman of this group since 2012. In 2009 - 2010 I served as an external member of the Norges Bank monetary policy review committee, and since 2012 have served on the Academic Advisory Board of the Hong Kong Monetary Authority's Institute for Monetary Research. Earlier in my career, from 1991 to 1992 and again between 1995 and 1997 I was a consultant at the economic research department of the Federal Reserve Bank of New York as part of a group of academic experts that included Ben Bernanke and future Nobel laureate Christopher Sims. And in 1999 I served as a consultant to Paul Volcker and the Group of 30 and contributed to their Project on Exchange Rate Regimes. I have been an active member of the National Bureau of Economic Research (NBER) since 1983, and since 2004 have served as a co-organizer of the NBER's annual International Seminar on Macro Economics, which is typically hosted by a central bank in Europe. I am also a regular participant in the annual Hoover Institution Conference on Monetary Policy, and last summer, delivered a keynote address at the BIS Annual Research Conference.

Although I have spent most of my career in academia, I have had two opportunities to serve in economic policy positions in the executive branch of the U.S. government – first, as a Senior Staff Economist with Council of Economic Advisers from 1986 to 1987 and second, as Assistant Treasury Secretary for Economic Policy from 2002 to 2003. These experiences were invaluable in providing me a perspective that places a premium on doing economic analysis that is practical, robust, and relevant to better understanding how economic policy impacts individual American and their communities.

Since 2006, I have had the opportunity to advise Pacific Investment Management (PIMCO) on global economics and strategy, with a particular focus on global monetary policy. While I myself do not manage portfolios, I have worked with the firm's investment committee to help them interpret and assess global economic and monetary policy trends. I believe this experience has given me an appreciation for the interaction between macroeconomic developments and financial markets that I would not otherwise have obtained.

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, except that upon final appointment, if confirmed, I will take an unpaid leave of absence from my position as a professor at Columbia University. I will apply for annual extensions of the leave of absence until completion of my term of service at the Federal Reserve.

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.

None, other than terminating my leave of absence and returning to my position on the faculty of Columbia University.

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

No.

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

Yes.

Potential conflicts of interest:

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

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. I will resolve any conflicts by following the advice of the Board's DAEO and complying with the terms of the ethics agreement that I have entered into with the DAEO and that has been provided to this Committee.

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

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. I will resolve any conflicts by following the advice of the Board's DAEO and complying with the terms of the ethics agreement that I have entered into with the DAEO and that has been 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 consulted with the Office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. I will resolve any conflicts by following the advice of the Board's DAEO and complying with the terms of the ethics agreement that I have entered into with the DAEO and that has been 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.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. I will resolve any conflicts by following the advice of the Board's DAEO and complying with the terms of the ethics agreement that I have entered into with the DAEO and that has been provided to this Committee.

Civil, criminal and investigatory actions:

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

None.

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

None.

CURRICULUM VITAE
RICHARD HARRIS CLARIDA
January 2018

Address:
Department of Economics, Columbia University
Room 1111 International Affairs Building
New York, New York 10027
(212) 854-3676 (phone)
rhc2@columbia.edu (e-mail)

Date of Birth: May 18, 1957

Education:

B.S. Economics, University of Illinois at Urbana, 1979 Bronze Tablet Honors
M.A. and Ph.D. Economics, Harvard University, 1983 With Distinction

Awards:

National Science Foundation Research Grant, 1985 – 1987
World Bank IRIS Program on Institutional Reform, Research Fellow, 1992
Ford Foundation Grant, International Economics Program at SIPA, 1992 - 1996

Affiliation:

Member, The Cowles Foundation for Research in Economics, 1983 - 1988
Research Fellow, National Bureau of Economic Research, 1983 - 1990
Research Associate, National Bureau of Economic Research, 1990 - Present
Co-Director, Columbia Center for Economic and Political Analysis, 2000-01
Member, Council on Foreign Relations, 2001 – Present
Member, Economics Club of New York, 2013 – Present

Academic Appointments:

Assistant Professor of Economics, Yale University, 1983 - 1988
Assistant Professor of Economics, Columbia University, 1988 - 1993
Associate Professor of Economics and International Affairs (with tenure), Columbia University, 1993 - 1996
Professor of Economics and International Affairs, Columbia University, 1996-Present
C. Lowell Harriss Professor of Economics, Columbia University
July 2003 – Present

Economic Policy Positions:

Senior Staff Economist, Council of Economic Advisers, 1986 - 1987
Assistant Secretary of the United States Treasury for Economic Policy,
February 2002 - May 2003 (awarded Treasury Medal for Distinguished Service)

University Service:

Chairman, Department of Economics, 1997 - 2001
College Committee on Admission and Financial Aid (CAFA), 1999-2001
Faculty of Arts and Sciences Budget Committee, 2000-2001
Co-Chair Provost Committee on Columbia Health Care Benefits, 2010-11
Member, Education Policy Planning Committee , 2013-2016

Professional Service:*

Consultant, Federal Reserve Bank of New York 1991-1992, 1995-1997
Consultant, Paul Volcker and Group of 30, Project on Exchange Rate
Regimes, 1999
Director, NBER Project on G7 Current Account Imbalances, 2003-2005.
Norges Bank Watcher's Committee, 2009-2010
Bundesbank Research Advisory Board, 2007-Present (Chairman since 2012)
Co-Organizer, NBER International Seminar in Macroeconomics, 2004 – Present.
Hong Kong Monetary Authority Institute for Monetary Research, Academic Advisory
Board, 2012-Present

Outside Professional Activities**

Consultant, JP Morgan Chase, 1994
Consultant, Credit Suisse, Foreign Exchange Research and Strategy, 1998-2000
Consultant, Grossman Asset Management, 2001
Economic Strategist, Clinton Group, July 2003 – January 2006
Global Strategic Advisor, Pacific Investment Management Company, 2006 - Present

Editorial:

Editor, G7 Current Account Imbalances: Sustainability and Adjustment, Chicago:
University of Chicago Press, May 2007.

Co-Editor, *NBER International Macroeconomics Annual*, Cambridge: MIT Press
2004 – present.

Citations: Google Scholar Citations 20,132

* For several of these assignments I was paid an honorarium of less than 10,000 dollars.
** The Columbia University Faculty of Arts and Sciences requires its faculty members to disclose any professional activities that might present a real or apparent conflict of interest. Here is the list of my outside professional activities each of which I was paid more than 10,000 dollars.

Publications:

"National Monetary Policies Often Correlate, Sometime Coordinate, but Rarely Cooperate" in *"Rules for International Monetary Stability: Past, Present, and Future,"* edited by Michael D. Bordo and John B. Taylor, Stanford University Press , 2017.

"The Fed is Ready to Raise Rates: Will Past be Prologue?" *International Finance, Winter 2015*

"Optimal Monetary Policy in Open Economies: Practical Perspectives for Pragmatic Central bankers," *Journal of economic Dynamics and Control, December 2014*

"Exchange Rates, Risk Premia, and Inflation Indexed Bond Yields," (with Showen Luo), in Momtchil Pojarliev and Richard M. Levich , The Role of Currency in Institutional Porfolios: Risk Books – Incisive Media , 2014

"What have we Learned about Monetary Policy in a Low Inflation Environment? A Review of the 2000s" Boston Fed Conference on Monetary Policy in a Low Inflation Environment, October 15-16, 2010; published in *Journal of Money, Credit, and Banking*, February 2012.

"Get Real: Interpreting Nominal Exchange Rate Fluctuations," *International Journal of Central Banking*, January 2012.

"Currency Carry Trades: Beyond the Fama Regression" (with Josh Davis and Niels Pedersen), *Journal of International Money and Finance*, December 2009.

"Perspectives on Monetary Policy in the Open Economy" *NBER International Macroeconomic Annual 2008*

"Is Bad News about Inflation Good News for the Exchange Rate?" (with Daniel Waldman), in Asset Prices and Monetary Policy, John Campbell, editor, Chicago: University of Chicago Press, 2008

"G7 Current Account Imbalances: Sustainability and Adjustment," Chapter 1 in G7 Current Account Imbalances: Sustainability and Adjustment, Richard Clarida, editor, Chicago: University of Chicago Press, May 2007.

"Are There Thresholds of Current Account Adjustment in the G7?" Chapter 5 in G7 Current Account Imbalances: Sustainability and Adjustment, Richard Clarida, editor, Chicago: University of Chicago Press, May 2007.

"The Role of Asymmetries and Regime Shifts in the Term Structure of Interest Rates (with Lucio Sarno, Mark Taylor and Giorgio Valente)," *Journal of Business* (79), May 2006.

"Non-Linear Permanent – Temporary Decompositions in Macroeconomics and Finance (with Mark Taylor)," *The Economic Journal*, March 2003.

"The Out of Sample Success of Term Structure Models as Exchange Rate Predictors: A Step Beyond (with Lucio Sarno, Mark Taylor, and Giorgio Valente)," *The Journal of International Economics*, February 2003.

"A Simple Framework for International Monetary Policy Analysis (with Jordi Gali and Mark Gertler)," *The Journal of Monetary Economics*, September 2002.

" The Empirics of Monetary Policy Rules in Open Economies," invited Keynote Address at The Bank of England Conference on the Future of Macroeconomics, April 2000; *The International Journal of Finance and Economics*, December 2001.

" Optimal Monetary Policies in Closed vs Open Economies: An Integrated Approach (with Jordi Gali and Mark Gertler)," *American Economic Review Papers and Proceedings*, May 2001.

"G3 Exchange Rate Relationships: A Recap of the Record and a Review of Proposals for Change," *Princeton Essays in International Economics*, September 2000.

"Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory" (with Jordi Gali and Mark Gertler), *The Quarterly Journal of Economics*, January 2000.

"The Science of Monetary Policy - A New Keynesian Perspective" (with Jordi Gali and Mark Gertler), *The Journal of Economic Literature*, December 1999.

"G3 Exchange Rate Relationships" *Group of Thirty Occasional Paper no. 59*, September, 1999.

"Monetary Policy Rules in Practice: Some International Evidence" (with Jordi Gali and Mark Gertler), *European Economics Review*, June 1998, 1033-1068.

"The Real Exchange Rate and US Manufacturing Profits: A Theoretical Framework with some Empirical Support," *International Journal of Finance and Economics*, 2, June, 1997.

"How the Bundesbank Conducts Monetary Policy" (with Mark Gertler), Chapter 10 in C. Romer and D. Romer, eds., Reducing Inflation: Motivation and Strategy, Chicago: University of Chicago Press, 1997.

"The Term Structure of Forward Exchange Rates and the Forecastability of Spot Exchange Rates: Correcting the Errors" (with Mark P. Taylor), *Review of Economics and Statistics*, LXXIX, August, 1997.

"Dumping: In Theory, In Policy, and in Practice," in J. Bhagwati and R. Hudec, Eds., Fair Trade and Harmonization: Prerequisites for Free Trade?, Cambridge: MIT Press, 1996.

"Consumption, Import Prices, and the Demand for Imported Consumer Durables: A Structural Econometric Investigation," *Review of Economics and Statistics*, LXVIII, August, 1996.

"Real Interest Differentials and Macroeconomic Fundamentals: Empirical Estimates" (with Robert Blake), *International Journal of Finance and Economics*, 1, April, 1996, 103-116.

"Sources of Real Exchange Rate Fluctuations: How Important are Nominal Shocks?" (with Jordi Gali), *The Carnegie-Rochester Conference Series on Public Policy*, December, 1994, 1-55.

"Cointegration, Aggregate Consumption, and the Demand for Imports: A Structural Econometric Investigation," *The American Economic Review*, 84, March, 1994, 298-308.

"US Manufacturing and the Deindustrialization Debate: Macroeconomic Perspectives and Sectoral Assessments," (with Susan Hickok), *The World Economy*, 16, March, 1993, 173-192.

" A Model of Liquidity Overhang," *European Economic Review*, 37, March, 1993, 61-73.

"Entry, Dumping, and Shakeout," *The American Economic Review*, 83, March, 1993, 180-203.

"After Maastricht: Public Investment, International Capital Mobility, and Economic Integration," (with Ronald Findlay), *Economica*, 61, July, 1994.

"Government, Trade, and Comparative Advantage," (with Ronald Findlay), *American Economic Review Papers and Proceedings*, 82, May, 1992.

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The Fed is staring at a nasty rate dilemma in 2017

2015:
Supply and demand gap explains low growth

2014:
March Jobless Rate 6.7%: Enough for Recovery?

2010:
Uncertainty changing investment landscape

2007:
The Dollar's Got Further to Slide

2005:
Our Post-Bubble World

2004:
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2003:
Where Are Rates Headed?
Stable and Confident

The International Economy

Author	Title	Summary	Year
Richard H. Clarida	The Clarida View	In an exclusive interview, TIE sat down with the Bush Treasury's chief macroeconomic strategist, Dr. Richard Clarida	2003
Richard H. Clarida	Letter to Editor	Response to Gale and Orszag	2003
Richard H. Clarida	Will the fallen U.S. dollar set the stage for a global economic boom a year or two from now?	Symposium	2003

Richard H. Clarida	Inflation Targeting	Symposium: Should the Federal Reserve in its conduct of monetary policy follow the European Central Bank and adopt some form of inflation target range? TIE asked thirteen distinguished experts.	2004
Richard H. Clarida	The Bush Economy	TIE sat down with Richard Clarida, the Bush Treasury's former point man for economic policy, for some frank talk on deficits, rate spreads, and inflation risks. Here's how he answered our questions.	2007
Richard H. Clarida	Reflections on Currency Regimes	The uncertainty of the dollar's future role.	2008
Richard H. Clarida	Eyes on the Prize	The role of expectations in monetary policymaking.	2012
Richard H. Clarida	Guidance Counselors	The Taylor Rule and the Fed's forward guidance. With Saumil Parikh.	2014
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"Exchange Rates Since the Last Global Financial Crisis: What My Crystal Ball Didn't Tell Me in 1998," *Global Perspectives*, pimco.com, alternate version appeared previously in *The International Economy*, June 2008.

"After Fukui" (with Tomoya Masanao), *Global Perspectives*, pimco.com, April 2008.

"More Shoes to Drop, But Investment Opportunities for 2008 Remain" (with William Powers), *Global Perspectives*, pimco.com, January 2008.

"A Hard Day's Knight: The Global Financial Market Confronts Uncertainty, Not Just Risk (and the Difference is Important)," *Global Perspectives*, pimco.com, October 2007.

"Quantifying the *Exorbitant Privilege*," *Global Perspectives*, pimco.com, August 2007.

"Is Bad News About Inflation Good News for the Exchange Rate?" *Global Perspectives*, pimco.com, May 2007.

"Petrodollars, the Savings Bust, and the U.S. Current Account Deficit," *Global Perspectives*, pimco.com, March 2007.

"A Great Moderation, But Global Diversification Is Still A Great Deal," *Global Perspectives*, pimco.com, January 2007.

"Dollar Downdraft to Resume: The Case for Currency Diversification" (with Sudi Mariappa), *Global Perspectives*, pimco.com, November 2006.

"Interesting Times," *Global Perspectives*, pimco.com, September 2006.

NBER Working Papers

Year	Authors	Link
2017	Richard H. **Clarida**	The Global Factor in Neutral Policy Rates: Some Implications for Exchange Rates, Monetary Policy, and Policy Coordination
2016	Richard H. **Clarida** Ildikó Magyari	International Financial Adjustment in a Canonical Open Economy Growth Model
2014	Richard **Clarida**	Monetary Policy in Open Economies: Practical Perspectives for Pragmatic Central Bankers
2013	Richard H. **Clarida**	Hot Tip: Nominal Exchange Rates and Inflation Indexed Bond Yields
2009	Richard **Clarida** Josh Davis Niels Pedersen	Currency Carry Trade Regimes: Beyond the Fama Regression
2007	Richard **Clarida** Daniel Waldman	Is Bad News About Inflation Good News for the Exchange Rate?
2006	Richard H. **Clarida** Manuela Goretti Mark P. Taylor	Are There Thresholds of Current Account Adjustment in the G7?
2006	Richard H. **Clarida**	G7 Current Account Imbalances: Sustainability and Adjustment
2002	Richard **Clarida** Jordi Gali Mark Gertler	A Simple Framework for International Monetary Policy Analysis
2001	Richard **Clarida** Lucio Sarno Mark Taylor Giorgio Valente	The Out-of-Sample Success of Term Structure Models as Exchange Rate Predictors: A Step Beyond
2001	Richard **Clarida**	The Empirics of Monetary Policy Rules in Open Economies
2001	Richard **Clarida** Jordi Gali Mark Gertler	Optimal Monetary Policy in Closed versus Open Economies: An Integrated Approach
1999	Richard H. **Clarida**	G3 Exchange Rate Relationships: A Recap of the Record and a Review of Proposals for Change

1999	Richard Clarida Jordi Gali Mark Gertler	The Science of Monetary Policy: A New Keynesian Perspective
1999	Richard Clarida Joe Prendergast	Fiscal Stance and the Real Exchange: Some Empirical Estimates
1999	Richard Clarida Joe Prendergast	Recent G3 Current Account Imbalances: How Important are Structural Factors?
1998	Richard Clarida Jordi Gali Mark Gertler	Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory
1997	Richard Clarida Jordi Gali Mark Gertler	Monetary Policy Rules in Practice: Some International Evidence
1996	Richard Clarida Mark Gertler	How the Bundesbank Conducts Monetary Policy
1994	Richard Clarida Jordi Gali	Sources of Real Exchange Rate Fluctuations: How Important are Nominal Shocks?
1993	Richard H. Clarida	International Capital Mobility, Public Investment and Economic Growth
1993	Richard H. Clarida	Permanent Income, Import Prices, and the Demand for Imported Consumer Durbales: A Structural Econometric Investigation
1993	Richard H. Clarida Mark P. Taylor	The Term Structure of Forward Exchange Premia and the Forecastibility of Spot Exchange Rates: Correcting the Errors
1991	Richard H. Clarida Ronald Findlay	Endogenous Comparative Advantage, Government, and the Pattern of Trade
1991	Richard H. Clarida	The Real Exchange Rate, Exports, and Manufacturing Profits: A Theoreti- cal Framework With Some Empirical Support
1991	Richard H. Clarida	Co-Integration, Aggregate Consumption, and the Demand For Imports: A Structural Econometric Investigation
1991	Richard H. Clarida	Entry, Dumping, and Shakeout
1987	John Y. Campbell Richard H. Clarida	Household Saving and Permanent Income in Canada and the United Kingdom
1987	John Y. Campbell Richard H. Clarida	The Dollar and Real Interest Rates
1986	Richard H. Clarida	International Lending and Borrowing in a Stochastic Sequence Equilibrium
1986	Richard H. Clarida	The Balance of Payments Adjustment Mechanism in a Rational Expectations Equilibrium
1986	John Y. Campbell Richard H. Clarida	The Term Structure of Euromarket Interest Rates: An Empirical Investigation
1984	Richard H. Clarida Benjamin M. Friedman	Why Have Short-Term Interest Rates Been So High?
1984	Richard H. Clarida Diane Coyle	Conditional Projection by Means of Kalman Filtering
1984	Richard H. Clarida Benjamin M. Friedman	The Behavior of U.S.

PREPARED STATEMENT OF MICHELLE W. BOWMAN

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

MAY 15, 2018

Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for this opportunity to appear before you today. I am deeply honored the President has nominated me to serve as a Member of the Board of Governors of the Federal Reserve System. Because community banking is a vital and ongoing part of my family's legacy, I am also humbled that, if confirmed, I will be holding the position designated for someone with community banking experience.

I am also grateful to my family and my husband's family for their continued support and belief in me. My husband, Wes, our children Jack and Audrey, my sister Maggie, a school teacher in Kansas City, Missouri, and my parents, Jan and Hank White, are here with me today. My father, Hank, is a fourth generation banker, Vietnam veteran, and retired U.S. Air Force officer. My mother, Jan, is a great inspiration. She taught me that with hard work, anything is possible. My in-laws, John and Sherry Bowman and Sherry's 91-year old mother Mary Hopkins, could not be here with us today, but they are watching from home in Everest, Kansas.

My family and I have been in community banking for generations. In 1882, my great great grandfather, W.H. White, helped to charter the Farmers & Drovers Bank. The bank was named for the customers it served then and continues to serve today—the farmers and ranchers of the Flint Hills of Kansas. Today, the fourth and fifth generation of my family continue this long tradition of service through the bank and through active participation and volunteer work in our rural community of 2,300 people. I know firsthand that community banks are a vital part of the backbone of small, rural, agricultural towns and play a critical role in providing access to credit and fostering economic activity in communities across our country. Without these institutions, many communities and many of our citizens will see their economic opportunities suffer significantly.

I joined my family's bank in 2010, and I learned the business from the front line to the back office. My most challenging role was as compliance officer—working with our small team to implement many of the new post-crisis regulations. Although the crisis revealed weaknesses in the U.S. financial system that needed to be addressed, I have witnessed firsthand how the regulatory environment created in the aftermath of the crisis has disadvantaged community banks. If confirmed, I will bring this perspective to my work at the Board to ensure that rules preserve the resiliency of the financial system, but are appropriately tailored to the size, complexity, and risk of an institution.

As a community banker, it was my job to support local businesses and consumers. This experience has given me a personal and deep understanding of how the Federal Reserve's goals of fostering maximum employment and stable prices directly affect the financial system and the broader economy. The dual mandate is critically important to our economy, businesses, families, and communities. If I am confirmed, I will be very focused on how we can do the best job possible to fulfill that mandate.

I currently serve as the Kansas State Bank Commissioner and our office oversees hundreds of State-chartered banks, trusts companies, money transmitters, and other nondepository financial service institutions. Our mission is both proactive oversight and protection of the consumers our financial institutions serve. As commissioner, I am accountable to the people of Kansas. And as I carry out my regulatory mission, my goal is to treat every consumer and institution fairly, respectfully, and with open communication.

I believe the experiences I have described qualify me for this important role. If confirmed by the Senate, I will be committed to accountability, transparency, and clear communication in all of my responsibilities at the Federal Reserve. Thank you for the honor of this hearing, and I look forward to answering the Committee's questions.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name:

Bowman	Michelle	White

Position to which nominated: Member, Board of Governors, Federal Reserve System

Date of nomination: 24 April 2018

Date of birth: 25 May 1971 **Place of birth:** Honolulu, Hawaii

Marital Status: Married **Full name of spouse:** John Wesley Bowman

Name and ages of children:

John Henry Bowman 11

Audrey Helen Bowman 9

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Washburn University Law School	1/1994 – 8/1996	Juris Doctorate	8/1996
University of Kansas	8/1989-5/1993	Bachelor of Science	5/1993

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.

Leadership Kansas – 2016 Class Member, elected as Class Representative to Board of Trustees
Kansas Bankers Association, Bank Leaders of Kansas – 2013 Class Member, elected as Class Representative
The Dwight D. Eisenhower Series for Excellence in Public Service – 2011 Class Member, elected as Class Representative to Board of Governors
British American Project - 2008 Fellowship (London, England)

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

Organization	Office held (if any)	Dates
Conference of State Bank Supervisors	Vice Chair, Legislative Committee	2017-current
Leadership Kansas	Board of Trustees	2016 – current
The Dwight D. Eisenhower Series for Excellence in Public Service	President, Vice President, Board Member	2011- current
Council Grove/Morris County Chamber of Commerce & Tourism	President, Vice President, Board Member (left Board in 2017)	2010 – current
Rotary International, Council Grove Chapter	President, Vice President	2010-current
Community Mentoring Program	Treasurer	2010-2017
Council Grove PRIDE Committee	Co-Chairman, Treasurer	2011-2016
City of Council Grove Economic Development Committee		2014-2017
Morris County Republican Committee	Treasurer	2013-current
Kansas Bankers Association		2010-2017
American Bankers Association		2010-2017
Score & Four		2012-current
PEO		2013-current
Daughters of the American Revolution		1991-current
Kappa Kappa Gamma		1990-1993
Republicans Abroad – UK	Chairman, Vice Chairman	2005-2009
The Reform Club		2008-current
Kensington & Chelsea Women's Club		2005-2009
Junior League of London, England		2004-2008
Junior League of Washington, DC		1999-2004
New York State Bar		1997-current

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.

Kansas

Kansas State Bank Commissioner, Office of the State Bank Commissioner	Topeka, Kansas	2/2017 – current
Vice President, Farmers & Drovers Bank	Council Grove, Kansas	1/2010- 1/2017
Director, Farmers & Drovers Bank	Council Grove, Kansas	1/2015-1/2017
Law Clerk, Kansas Bankers Association	Topeka, Kansas	1994-1995

London, England

The Bowman Group, Government & Public Affairs Consulting London, England 11/2004-1/2009

Washington, DC

Senior Management Advisor, Immigration & Customs Enforcement (International Division), Department of Homeland Security 4/2004-8/2004

Policy Advisor to the Secretary, Deputy Assistant Secretary for Legislative Affairs, Department of Homeland Security 2/2003-4/2004

Director, Branch Chief, Congressional & Intergovernmental Affairs Division, Federal Emergency Management Agency 2/2002-2/2003

Counsel, Subcommittee on Highways & Transit, Counsel, Subcommittee on Economic Development, Public Buildings & Emergency Management, US House Committee on Transportation & Infrastructure 1999- 2002

Investigative Attorney, US House Committee on Government Reform & Oversight 1997-1999

Legislative Correspondent, Intern, US Senator Robert J. Dole, 1995-1996

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.

Kansas
Kansas State Bank Commissioner, Office of the State Bank Commissioner Topeka, Kansas 2/2017 – current
City of Council Grove Economic Development Committee Council Grove, Kansas 2014-2017

Washington, DC
Senior Management Advisor, Immigration & Customs Enforcement, International Division, Department of Homeland Security 4/2004-8/2004
Policy Advisor to the Secretary, Deputy Assistant Secretary for Legislative Affairs, Department of Homeland Security 2/2003-4/2004
Director, Branch Chief, Congressional & Intergovernmental Affairs Division, Federal Emergency Management Agency 2/2002-2/2003
Counsel, Subcommittee on Highways & Transit, Counsel, Subcommittee on Economic Development, Public Buildings & Emergency Management, US House Committee on Transportation & Infrastructure 1999- 2002
Investigative Attorney, US House Committee on Government Reform & Oversight 1997-1999
Legislative Correspondent, Intern, US Senator Robert J. Dole, 1995-1996

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.

Morris County, Kansas - Republican Precinct Committee Woman, 2014-current
Morris County, Kansas - Republican Committee, Treasurer, 2013-current
Kansas 1st Congressional District, Alternate Delegate, 2014-2016
London, England - Republicans Abroad – UK, Chairman, Vice Chairman (not an official party organization) 2005-2009

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

$500 Romney for President 8-28-2012

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

My background and experience align directly with the statutory requirement that at least one member of the Board of Governors of the Federal Reserve System have "primary experience working in or supervising community banks." My family and I have been in community banking for generations. I have experienced community banking, not only from that incredibly valuable and rewarding perspective, but also through the prism of being the lead state regulator of community banks, in my home state of Kansas. This unique combination of experience would serve me well in this incredibly important role.

I currently serve as the Kansas State Bank Commissioner. The Office of the State Bank Commissioner (OSBC) oversees regulatory supervision for hundreds of state chartered banks, trust companies, money transmitters, and other non-depository financial service institutions. The mission of the OSBC is both proactive oversight and protection of the consumers our financial institutions serve. Every bank under my supervision qualifies as a community bank according to the definitions currently used, including a heavy presence in rural and agricultural markets. Our Kansas state-chartered banks range in size from just under $7 million in assets to just over $3 billion.

Prior to my appointment as the Kansas State Bank Commissioner, I served as a VP in my family's state-chartered bank with assets of approximately $175 million. I became the third member of the fifth generation of my family working in our bank. My duties in the bank included compliance officer, trust officer, and serving as a member of the board of directors. As a community banker, it was my job to support local businesses and consumers. This experience has given me a personal and deep understanding for how the Federal Reserve's goals of fostering maximum employment and stable prices directly affect the financial system and the broader economy.

Chartered in 1882, Farmers & Drovers Bank endured the Great Depression, the inflationary 1970s, the farm crisis of the 1980s, and the 2008 economic crisis. The 2008 crisis, in particular, hit all banks hard, but I have firsthand experience of how the initial impact as well as the regulatory environment created in its aftermath have disadvantaged community banks despite their minimal contribution to the cause of the economic meltdown.

My banking experience has been supported and enhanced by more than 15 years of non-banking public policy work in the legislative and executive branches of the federal government in Washington, D.C., where I held posts in Senator Bob Dole's office, several U.S. House of Representatives committee staff counsel positions, and executive level appointments in FEMA and the Department of Homeland Security. I also bring an international perspective through my work with the UK and EU governments and industry while living in London, England.

Congress enacted legislation to ensure representation of community banks on the Federal Reserve Board. If confirmed, I will bring my broad experiences and unique perspectives to the deliberations of the Federal Reserve to better ensure well-rounded policy decisions.

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

Yes.

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

No.

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

No.

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

Yes.

Potential conflicts of interest:

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

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. I will resolve any conflicts by following the advice of the Board's DAEO and complying with the terms of the ethics agreement that I have entered into with the DAEO and that has been provided to this Committee.

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

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. I will resolve any conflicts by following the advice of the Board's DAEO and complying with the terms of the ethics agreement that I have entered into with the DAEO and that has been 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 consulted with the Office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. I will resolve any conflicts by following the advice of the Board's DAEO and complying with the terms of the ethics agreement that I have entered into with the DAEO and that has been 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.

As a member of the Kansas Bankers Association and the American Bankers Association from 2010-2017, I discussed a variety of KBA and ABA supported legislative initiatives with federal elected representatives. As a member of the Conference of State Bank Supervisors in 2017 and 2018, I discussed a variety of state banking related issues with federal elected representatives.

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

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. I will resolve any conflicts by following the advice of the Board's DAEO and complying with the terms of the ethics agreement that I have entered into with the DAEO and that has been provided to this Committee.

Civil, criminal and investigatory actions:

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

None.

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

None.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR BROWN FROM RICHARD CLARIDA

Q.1. What is your view on what caused the 2008 financial crisis? What responsibility does the Federal Reserve share in terms of failures in regulatory and supervisory policy?

A.1. Put simply, by 2007 the U.S. financial system was highly fragile. A buildup of leverage and maturity transformation in the years leading up to the crisis left the U.S. and global economy vulnerable to negative surprises. When the downturn in the U.S. housing market occurred, these vulnerabilities amplified the effects of the initial shocks and the result was the financial crisis.

The crisis revealed shortcomings and failures at private institutions, in the overall regulatory framework, and in the actions of specific agencies, including the Federal Reserve.

In response to the crisis, the Federal Reserve increased its regulatory and supervisory scrutiny of the largest financial institutions, for example, putting in place a comprehensive stress-testing regime. In my view, this response has, broadly speaking, increased the resilience of the system.

The new regulatory regime for large banks ensures that the largest institutions are sufficiently strong to continue to function effectively as intermediaries even in periods of substantial financial stress. Capital is critical to ensuring resiliency, as are the availability of high-quality liquid assets, appropriate management of risks, and the presence of a plan for resolution in case needed. Progress has been made in all of these areas, and newer tools like the stress testing regime and the countercyclical capital buffer should also contribute to the resiliency of the system going forward.

Q.2. How did large bank and investment bank leverage contribute to the 2008 financial crisis?

A.2. The buildup of leverage to excessive levels was a key contributor to the spread of the financial crisis. In the run up to the crisis, the firms that experienced the worst problems also had some of the highest leverage ratios. And when the problems at Bear Stearns were resolved through its acquisition by JPMorgan, market participants turned their attention to other firms with similarly high levels of leverage.

However, leverage at large financial institutions alone was not responsible for the 2008 financial crisis. When the housing market turned down and housing-related assets fell in value, a series of vulnerabilities amplified the effects of that shock, including the reliance on short-term wholesale funding at large financial institutions. Some of these institutions faced runs by investors and had to sharply cut back their activities in support of the real economy. And, more broadly, the financial system was highly interconnected in opaque and surprising ways.

Q.3. How would you characterize current risk-weighted and leverage capital levels for the largest U.S. banks—too low, too high, or the correct amount?

A.3. It is critical to the safety and soundness of the largest U.S. banks and to the broader U.S. financial system and economy that these firms are well capitalized. Since the financial crisis, the U.S.

banking agencies have significantly strengthened regulatory capital requirements for large banking firms, which has made them much more resilient and able to continue lending even when under financial stress.

If confirmed, I look forward to examining this question more closely and consulting with my colleagues. Absent critical supervisory information, it would be premature for me to judge the precise appropriate capital levels. However, given its importance, I am very encouraged by the steps that I have observed the Federal Reserve has taken.

Q.4. As you know, the Federal Reserve recently proposed reducing leverage requirements for the eight biggest U.S. global systemically important banks (G–SIBs).[1] In discussing the impact of its proposal, the Federal Reserve noted that it would reduce the amount of tier 1 capital required across the lead insured depository institution (IDI) subsidiaries of the G–SIBs by approximately $121 billion.

Q.4.a. Could a reduction in IDI capital pose any risks to depositors, taxpayers, or financial stability? Why or why not?

A.4.a. In setting capital requirements, there is a risk that leverage ratios may become too binding. When a leverage ratio becomes a binding constraint, it can create incentives for firms to increase their investments in higher-risk, higher-return assets and, conversely, reduce their participation in lower-risk activities.

Q.4.b. What is your view on raising the enhanced prudential standards threshold pursuant to Dodd-Frank section 165 from $50 billion to $250 billion in total consolidated assets, as contemplated in S. 2155?

A.4.b. I support increased tailoring of regulation and supervision. I believe that it was prudent for the Congress to raise the $50 billion asset threshold for larger bank holding companies in order to limit the scope of enhanced prudential standards. In general, regulation and supervision should continue to be tailored to the size, systemic footprint, and risk profiles of institutions, and my understanding of the Economic Growth, Regulatory Relief, and Consumer Protection Act is that while it adjusts the $50 billion threshold, it still allows the Federal Reserve to subject a firm with a higher risk profile to more rigorous regulation.

Q.4.c. Federal Reserve Vice Chair Quarles has said that the Volcker Rule "is an example of a complex regulation that is not working well."[2] Do you agree or disagree? Why?

A.4.c. I think it makes sense to explore whether or not the Volcker Rule can be implemented in a simpler, less burdensome way while still achieving the objectives of the statute.

Q.4.d. What is your view of the Community Reinvestment Act? Does it need to be altered or modernized by the Federal Reserve? If so, what changes do you support?

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[1] *https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180411a.htm.*

[2] *https://www.reuters.com/article/us-usa-fed-quarles/u-s-considering-material-changes-to-volcker-rule-feds-quarlesidUSKBN1GH2U8.*

A.4.d. The Community Reinvestment Act (CRA) has been a part of banking regulation for 40 years. It would be a very high priority of mine, if confirmed, to make sure that it is enforced.

I support the CRA's goal of encouraging banks to meet their affirmative obligation to serve their entire community, and in particular, the credit needs of low- and moderate-income communities. Doing so benefits low- and moderate-income communities and helps them to thrive by providing opportunities for community members, for example, to buy and improve their homes and to start and expand small businesses.

If confirmed, I would be open-minded to discussions for improving or bringing the CRA up to date, but the essential mission of the act needs to be respected.

Q.5. On May 23, the FDIC released their Quarterly Banking Profile. It shows that that bank profits increased 28 percent over the last year, and even more for community banks.

Q.5.a. Do you think it is sound policy to reduce capital requirements for banks that have profit levels this high?

A.5.a. The financial crisis demonstrated the importance of a financial system that has sufficient capital to absorb losses and allow banks to continue lending in an economic downturn. Stronger and higher-quality regulatory capital requirements for U.S. banking firms have therefore been an essential post-crisis reform. However, I believe the banking agencies should continue to examine whether the requirements remain effective over time and adjust the capital framework as appropriate while preserving the essential gains in resiliency and stability of our financial system that have resulted from the reforms put in place since the financial crisis.

Q.5.b. 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.5.b. In my 35-year professional career, I have achieved recognition among academics, policymakers, and financial market participants as an expert on the economics of monetary policy. My academic work on monetary policy as a professor of economics and international affairs since 1988 at Columbia University (and before that at Yale University) has been frequently cited, and the framework for a more effective monetary policy developed in these papers has been widely consulted by economists at the Federal Reserve and as well as at other major central banks around the world. In this regard, since 2007 I have served as a member of the Deutsche Bundesbank Academic Research Council and have been chairman of this group since 2012. In 2009–2010, I served as an external member of the Norges Bank monetary policy review committee, and since 2012 have served on the Academic Advisory Board of the Hong Kong Monetary Authority's Institute for Monetary Research. Earlier in my career—from 1991 to 1992 and again between 1995 and 1997—I was a consultant at the economic research department of the Federal Reserve Bank of New York as part of a group of academic experts that included Ben Bernanke and future Nobel laureate Christopher Sims. And in 1999, I served as a consultant to Paul Volcker and the Group of 30 and contributed to their Project on Exchange Rate Regimes.

I have been an active member of the National Bureau of Economic Research (NBER) since 1983, and since 2004 have served as a co-organizer of the NBER's annual International Seminar on Macroeconomics, which is typically hosted by a central bank in Europe. I am also a regular participant in the annual Hoover Institution Conference on Monetary Policy, and, last summer, delivered a keynote address at the Bank for International Settlements Annual Research Conference.

Although I have spent most of my career in academia, I have had two opportunities to serve in economic policy positions in the executive branch of the U.S. Government: first, as a Senior Staff Economist with Council of Economic Advisers from 1986 to 1987 and second, as Assistant Treasury Secretary for Economic Policy from 2002 to 2003. These experiences were invaluable in providing me a perspective that places a premium on doing economic analysis that is practical, robust, and relevant to better understanding how economic policy impacts individual American and their communities.

Since 2006, I have had the opportunity to advise Pacific Investment Management on global economics and strategy, with a particular focus on global monetary policy. While I myself do not manage portfolios, I have worked with the firm's investment committee to help them interpret and assess global economic and monetary policy trends. I believe this experience has given me an appreciation for the interaction between macroeconomic developments and financial markets that I would not otherwise have obtained.

The Federal Reserve's monetary policy decisions are guided by its statutory mandate to promote maximum employment and price stability. Over the past few years, the Federal Open Market Committee (FOMC) has been gradually reducing monetary policy accommodation. Last year, it raised the target range for the Federal funds rate by ¾ percentage point, and in October it initiated a balance sheet normalization program to gradually reduce its securities holdings. These steps to normalize the stance of monetary policy are welcome, as they reflect the economy's recovery from the financial crisis and recession, the durability of the economic expansion, and the Committee's confidence that inflation will return to 2 percent on a sustained basis. If confirmed, I look forward to working with my colleagues on the FOMC to continue to promote maximum employment and price stability.

Q.5.c. Since the crisis, do you think the Federal Open Market Committee has been on the right course by gradually increasing interest rates?

A.5.c. I believe that the gradual increases that the FOMC has made since December 2015 in the target range for the Federal funds rate have been consistent with its statutory mandate to promote maximum employment and price stability. Over the past few years, the FOMC has been gradually reducing monetary policy accommodation, reflecting the improvement in the U.S. economy. During 2017, it raised the target range for the Federal funds rate by ¾ percentage point, and in October 2017, it initiated a balance sheet normalization program that is gradually reducing the Federal Reserve's securities holdings.

As I noted previously, these steps to normalize the stance of monetary policy are welcome developments, as they are responses to the U.S. economy's recovery from the financial crisis and recession, the sustained nature of the economic expansion, and the FOMC's confidence that inflation will return to 2 percent on a sustained basis. In addition, as decisions on the pace of policy firming have reflected the FOMC's assessment of incoming data and the outlook for the economy, recent years' monetary policy developments have underlined the fact that monetary policy is not on a preset course; rather, it is data dependent and is chosen to promote outcomes for the U.S. economy most consistent with the statutory goals of maximum employment and price stability. If confirmed, I look forward to working with FOMC colleagues on shaping policy decisions in pursuit of these goals.

Q.6. 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.

Q.6.a. Do you agree with the Federal Reserve's current approach, or will you advocate that the Fed use a single rule?

A.6.a. I understand that the simplicity of monetary policy rules has some appeal. But the economy is very complex.

Conducting monetary policy based on simple formulas has a long tradition in the research literature on monetary policy. But economic models are, of necessity, always simplifications of reality, and we need to ask ourselves whether adhering to any simple rule—even if it worked well in an economic mode—would in practice mean that we were implementing the monetary policy that was most consistent with meeting our statutory objectives.

No simple policy rule can capture the full range of considerations that the FOMC must take into consideration when making monetary policy decisions. For example, policymakers must consider not just the current levels of economic variable—which are the variables that appear in many simple policy rule—but also the expected future paths of such variables. In addition, we need to take account of possible risks surrounding those paths and whether the costs associated with particular economic outcomes could be especially high.

We also need to take account of unobservable structural factors that may affect the economy. For example, factors that may persistently lower the level of the neutral Federal funds rate or that may affect the longer-run normal level of the unemployment rate. In contrast, simple monetary policy rules often embed the assumption that these longer-run levels of the real interest rate or the unemployment rate are fixed.

In sum, policy rules' prescriptions can be useful inputs in the FOMC's policy deliberations, but they are not an adequate or satisfactory substitute for FOMC decisions on monetary policy based on a wide range of information.

Q.6.b. While the unemployment rate continues to fall, the labor force participation rate remains at about its lowest level in 40 years. What do you think is contributing to this?

A.6.b. Although we have seen solid job growth this year and further declines in the unemployment rate, the labor force participation rate is still quite low by historical standards. Much of this is due to the movement of the large baby boom cohort into ages when participation rates tend to fall sharply as workers retire. That said, the labor force participation rate for prime-age workers—especially men—has also not rebounded to pre-recession levels. A recent survey paper by Katherine Abraham and Melissa Kearney[3] attributes much of the longer-run decline in participation among prime-age men to factors such as technical change and globalization. However, I also think that this group could represent an additional margin of slack in the sense that some of them could be enticed to reenter the labor force as the demand for labor continues to strengthen.

Q.6.c. Do think the opioid addiction epidemic is related to the decline in labor force participation among prime-age workers?

A.6.c. Yes I do. Economists Anne Case and Angus Deaton[4] have carefully documented the rise in "deaths of despair" in the United States, to which the opioid epidemic has contributed. In addition, Alan Krueger's research[5] on the decline in labor force participation among adult men suggests that the proportion of adult men taking pain medication has risen sharply over the past two decades and is one reason for the decline in labor force participation among this population. More generally, opioid addiction has adversely affected both the health and economic situation of many individuals and their families and is an important issue that needs to be addressed by policymakers.

Q.6.d. Over the past 40 years the link between productivity and wage increases has eroded. More and more, productivity gains aren't shared with workers. Why do you think wage growth has not kept pace with productivity growth? Is there anything the Fed can do to increase wages? Can the Federal Reserve, through monetary policy or regulatory policy, do more for individuals and communities that have not experienced the benefits from the economic recovery?

A.6.d. It is the case in recent decades that there has been more dispersion between workers in different categories and that some workers have fallen behind. There is no consensus on the primary reason for this divergence, but economists tend to attribute this to a number of factors, including globalization, technological change, and a need to better equip workers with the skills needed in today's labor market.

In the aggregate, wage growth is a function of the strength of the economy and the growth in productivity. I think the Federal Reserve can best promote faster wage growth by focusing on its full employment mandate—that is, by getting the unemployment rate

[3] *http://www.nber.org/papers/w24333.*

[4] *http://www.princeton.edu/~accase/downloads/Mortality__and__Morbidity__in__21st__Century__Case-Deaton-BPEA=published.pdf.*

[5] *https://www.brookings.edu/wp-content/uploads/2018/02/kruegertextfa17bpea.pdf.*

to a level that is, on average, consistent with a healthy labor market, but acknowledging that there are factors at work that are impacting different workers in different ways.

Q.6.e. If confirmed, how will you advocate for increased diversity in the Federal Reserve System?

A.6.e. Diversity is a critical aspect of all successful organizations, and it is important to have a diverse workforce at all levels of an organization. I believe that better decisions are made, including in the policy space, when there are individuals with a broad range of backgrounds and perspectives engaged in the process.

If confirmed, I will have the opportunity to meet and speak with individuals and groups throughout the Federal Reserve System, the financial and banking sectors, and regional and community organizations. I will use those opportunities to advocate for career opportunities at the Federal Reserve Board (Board) and the System for individuals with diverse backgrounds, experience, and perspectives. And I plan to actively support Board and Federal Reserve Bank (Reserve Bank) initiatives to identify and recruit individuals with diverse backgrounds and perspectives for careers at the Board and the Reserve Banks. Of course, I also recognize that attracting diverse talent is only the first step. To meet our objectives, we need to create an environment where all will thrive and contribute.

Q.6.f. Federal Reserve Board of Governors nominee Marvin Goodfriend, has recommended that the "central bank put in place systems to raise the cost of storing money by imposing a carry tax on its monetary liabilities." Do you believe that there should be a currency tax, or that there are financial conditions that would call for a currency tax?

A.6.f. I am very skeptical that the real-world effects of a tax on currency could justify imposing such a tax.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED FROM RICHARD CLARIDA

Q.1. The Federal Reserve is one of the agencies 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 servicemembers and their families. 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.

Q.1.a. Do you support these stronger MLA rules? If confirmed, will you ensure that the MLA is vigorously enforced?

A.1.a. In enacting the Military Lending Act (MLA), Congress directed the Department of Defense to issue implementing regulations after consulting with the Federal Reserve and other agencies. I understand that 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.1.b. If changes are made to the Community Reinvestment Act that lead to financial institutions, including those that have an online presence, to take deposits from communities but actually make less of an effort to reinvest in these same communities, would you consider that to be a good or bad outcome?

A.1.b. The Community Reinvestment Act (CRA) was enacted to ensure that banks help meet the credit needs of the communities where they are chartered to do business. It is important that credit flow to consumers and businesses in all communities, including in low- and moderate-income areas, consistent with safe and sound lending to meet their credit needs and further economic development and financial inclusion. Any revisions to CRA that expand the area within which a bank's CRA performance is evaluated should ensure that the new areas are consistent with the original intent of the law.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR MENENDEZ FROM RICHARD CLARIDA

Q.1. How many times did you meet with President Trump prior to being selected as a nominee to the Federal Reserve?

A.1. I met with President Trump one time.

Q.2. In that/those meeting(s), did President Trump ask how you would vote on proposed increases to the Federal funds rate?

A.2. The President did not ask how I would vote on proposed increases to the Federal funds rate.

Q.3. Did the President indicate a preference, one way or the other, for how you should approach decisions on whether to increase the Federal funds rate?

A.3. The President did not indicate a preference for how I should approach decisions on whether to increase the Federal funds rate.

Q.4. After meeting with the President, do you believe he understands the value of an independent central bank? If yes, what did he say to give you that indication?

A.4. In addition to my meeting with the President, I had a number of meetings over several months with a number of officials in the Administration. In no meeting and at no time did I ever have any cause for concern that anyone I met with questioned the independence of the Federal Reserve to conduct monetary policy that would best achieve the mandates assigned to it by the Congress.

Q.5. Will you commit that if confirmed, you will ignore any political pressure or interference, whether it be direct or indirect from the President or any other member of the Administration?

A.5. I have no reason to expect any political pressure or interference, but I fully commit that if confirmed I would completely ignore any political pressure or interference, whether it be direct or indirect from any member of the Administration.

Q.6. Do you agree that the achievement of full employment should be associated with strong and broad-based wage growth for average workers, not just senior executives and managers?

A.6. Absolutely, that is something that we would like to see associated with full employment. It is the case in recent decades that there has been more dispersion between workers in different categories and that some workers have fallen behind. There is no consensus on the primary reason for this divergence, but economists tend to attribute this to a number of factors, including globalization, technological change, and a need to better equip workers with the skills needed in today's labor market.

I think the Federal Reserve can best promote faster wage growth by focusing on its full employment mandate—that is, by getting the unemployment rate to a level that is, on average, consistent with a healthy labor market, but acknowledging that there are factors at work that are impacting different workers in different ways and encouraging policymakers to address those inequities.

Q.7. Why isn't this tight labor market forcing employers to offer higher and more competitive wages?

A.7. It is true that measures of nominal wage growth have been increasing more slowly recently than during the strong labor markets of the mid-2000s or late 1990s. While many factors may be contributing to the relatively slow growth in wages, the most important factor is likely the slowdown in productivity growth over the past decade or so. Indeed, over the past couple of years (and over the past decade), productivity growth averaged 1 percent per year, well below the average rate of 2 ¼ percent since 1950. When productivity growth is lower, employers cannot afford to increase wages by as much as otherwise. Price inflation has also been slower over the past 2 years than the tight labor market of 2006–2007. As a result, real wage growth, which is what matters for workers' welfare, has not slowed as much as nominal wages. Even though current wage growth is lower than previously, most measures of aggregate wages have increased gradually as the labor market has tightened, suggesting that the tighter labor market is pushing up wages. If the labor market tightens further, I would expect wage growth to rise as well, all else held constant.

Q.8. To what extent has workers' decreased leverage to negotiate with their employers impacted their ability to demand higher wages?

A.8. It is difficult to assess how much decreased negotiating leverage has affected workers' ability to demand higher wages. Workers' leverage has increased as the labor market has tightened, producing higher wages and greater employment and employer-provided training. Although wage growth is lower currently than in previous periods of strong labor demand—which would be consistent with decreased negotiating leverage—several other factors are also likely holding down wages. Productivity growth, which is ultimately responsible for the increase in real wages over time, has been quite slow in recent years, as has inflation which influences the rate of nominal wage growth. It's possible that changes in technology may have decreased worker negotiating leverage by, for example, increasing employers' ability to monitor workers and automate jobs, and by making it easier for employers to shift production to different locations. But it is difficult to distinguish the effect of any change in workers' negotiating leverage from the influence of other factors.

Q.9. Do you agree with Federal Reserve Governor Brainard that it is important to retain a focus on place as the Federal Reserve contemplates changes to the Community Reinvestment Act? Do you agree that in some low-income and hard to reach communities, physical branches are sometimes the only way to meet local credit needs?

A.9. Governor Brainard has stated that the time is right to revise the Community Reinvestment Act (CRA) regulations and, in particular, expand the area in which a bank's CRA activities are evaluated. She also emphasized the importance of retaining a core focus on place. In her statement, she cited research that demonstrates that branches are an important vehicle for reaching small business customers and low-income consumers.

I agree with her assessment that the agencies should be thoughtful about how to make the area where CRA activity is evaluated more meaningful to both banks and low- and moderate-income communities.

Q.10. Do you agree that robust enforcement against discriminatory or unfair and deceptive lending practices must work hand-in-hand with any revisions to the Community Reinvestment Act?

A.10. Discriminatory and other illegal credit practices are inconsistent with helping to meet community credit needs and, as such, have a negative effect on a bank's CRA performance. I understand that the Federal Reserve takes evidence of discrimination into account when assigning CRA ratings as prescribed in the CRA regulations. It is important to retain the connection between CRA, fair lending, and laws protecting against other illegal credit practices to ensure that consumers have fair access to credit. I would support examinations that are data-driven, as much as possible, to examine for compliance with fair lending laws and regulations.

Q.11. A Treasury Department report issued in April recommends that the Federal Reserve adopt the OCC's new policy allowing banks with failing CRA ratings to merge or expand so long as they can demonstrate a potential benefit.

Do you think the Federal Reserve should adopt this policy?

A.11. The applications process serves as a means of enforcing CRA, which requires that the appropriate Federal supervisory agency consider a depository institution's record of helping to meet the credit needs of its local communities and to take that record and public comments into account in evaluating applications for deposit-taking facilities, such as for mergers, acquisitions, and branches.

I understand that the Office of the Comptroller of the Currency (OCC) issued guidance last November on how it will assess CRA ratings in the context of its review of a banking application, which varies from the Federal Reserve's guidance.[1] If confirmed, I would want to understand better how the agencies' respective guidance differ and ensure that there is clarity and transparency so that banks can comply, and applications can be evaluated in a manner

[1] OCC, Policy and Procedures Manual, "Impact of CRA Ratings on Licensing Applications", PPM 6300–2, November 8, 2017, *www.occ.treas.gov/publications/publications-by-type/other-publications-reports/ppms/ppm-6300-2.pdf.*

that is consistent with the congressional intent of enforcing the CRA.

Q.12. Prior to the financial crisis, regulators treated assets like subprime mortgage-backed securities as "low risk," which allowed big banks to load up on risky assets without the necessary capital backing. When the crisis hit, the Nation's biggest banks didn't have the capital to withstand the losses.

Do you agree that regulators and banks misperceived risks before the last crisis, and assigned low ratings to assets that were actually toxic?

A.12. The financial crisis demonstrated the importance of a financial system that has sufficient capital to absorb losses and allow banks to continue lending in an economic downturn. Since the crisis, the U.S. banking agencies have appropriately strengthened and improved the quality of the regulatory capital requirements for U.S. banking firms.

Q.13. Last month, the Fed and the OCC proposed a rule that would weaken the enhanced supplementary leverage ratio, a requirement that the Nation's biggest banks hold enough capital to support lending and absorb losses in a downturn. Those banks are required to meet leverage ratios at the holding company level and at the depository institution level—where the deposits are backed by taxpayers. According to the FDIC, this proposal would result in the departure of more than $120 billion in capital—capital that our regulators unanimously deemed necessary after the financial crisis to ensure our Nation's largest banks can withstand losses. Federal Reserve Governor Brainard voted against this proposal—the first dissent in the history of Board votes it keeps on its website (315 votes total)—and the FDIC declined to join the proposal, a significant departure from other postcrisis rulemaking, even though the Fed and FDIC jointly established this rule after the crisis.

Are you at all concerned that without the backstop of an adequate leverage ratio for the Nation's eight biggest banks, banks will once again load up on so-called "low risk" assets, and place taxpayers at risk of future bailouts?

A.13. In setting capital requirements, there is a risk that leverage ratios may become too binding. When a leverage ratio becomes a binding constraint, it can create incentives for firms to increase their investments in higher-risk, higher-return assets and, conversely, reduce their participation in lower-risk activities. My understanding of the enhanced supplementary leverage ratio proposal is that it was aimed at striking an appropriate balance between leverage and risk-based capital requirements. If I was to be confirmed, I would look forward to better understanding the analysis underpinning the proposal and the public comments that were received in response.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNER FROM RICHARD CLARIDA

Q.1. I believe strongly in the importance of the Fed's independence. Recent comments from another Fed candidate (and former Fed Governor)—Kevin Warsh—suggest that President Trump has been anything but shy in revealing his preference for a low interest rate environment.

Q.1.a. Has the President—or anyone in the Administration—impressed upon you their beliefs on how you should vote on matters of monetary policy?

A.1.a. No. I had a number of meetings over several months with a number of officials in the Administration including the President. In no meeting and at no time did anyone impress upon me their belief on how I should vote on matters of monetary policy.

Q.1.b. Do you commit to safeguarding the independence of our central bank?

A.1.b. Yes. I have no reason to expect any political pressure or interference that would challenge the independence of our central bank, but I fully commit that if confirmed I would completely ignore any political pressure or interference, whether it be direct or indirect from any member of the Administration.

Q.1.c. What do believe is the biggest threat to financial stability at the moment?

A.1.c. An important lesson of the global financial crisis was the need for greater vigilance in monitoring the financial system. This includes looking at asset valuations, leverage, liquidity and maturity transformation, and the complexity of the financial system. Understanding the key vulnerabilities in the system is a necessary step in order to pursue effective policies to ensure the health of our financial system should vulnerabilities increase.

Given that we have enjoyed many years of solid growth amid a stable financial system, in my view complacency is a particular threat. Failure to remain vigilant even as the financial system evolves and grows risks the possibility that the reforms put in place since the crisis will lose their effectiveness.

Q.1.d. Do you believe that Title II's Orderly Liquidation Authority is an important tool available at the Fed's disposal during a crisis? Would you vote to use the Authority if bankruptcy was not an appropriate method for resolving a systemic financial institution?

A.1.d. Bankruptcy should be the preferred resolution framework for a failing financial firm. Companies, counterparties, the markets, and investors understand the rules and procedures under the Bankruptcy Code. Nevertheless, Title II's Orderly Liquidation Authority provides an important backstop resolution framework for extraordinary situations.

Every failure of a systemic financial firm is different, and I would consider the facts and circumstances on a case-by-case basis in deciding whether to vote in favor of recommending that the Treasury Secretary use Title II's Orderly Liquidation Authority. One aspect of Title II that would factor into my analysis is that Title II does not allow for Government capital injections and requires that taxpayers suffer no losses from the resolution.

Q.1.e. Do you think current bank risk-based capital levels are too high, too low, or about right? How about the leverage ratio?

A.1.e. Maintaining the safety and soundness of the largest U.S. banks is fundamental to maintaining the stability of the U.S.

financial system and the broader economy. To be safe and sound financial institutions, these firms must be well capitalized. The U.S. banking agencies have substantially strengthened regulatory capital requirements for large banking firms, improving the quality and increasing the amount of capital in the banking system.

High-quality common equity tier 1 capital (CET1) is important because it is available under all circumstances to absorb losses. Since the financial crisis, U.S. banks have been required to meet new higher minimum requirements for CET1 to ensure a solid base of protection against losses. U.S. banks also have been required to meet a new capital conservation buffer on top of the minimum to preserve flexibility to make capital distributions. For the U.S. global systemically important banks (G–SIBs), the Federal Reserve has imposed an additional capital surcharge designed to reduce the threat that a failure of any of these firms would pose to financial stability. (Commonly referred to as the G–SIB surcharge.) Large U.S. banking firms have roughly doubled their capital positions from before the crisis to today.

If confirmed, I look forward to examining this question more closely and consulting with my colleagues. Absent critical supervisory information, it would be premature for me to judge the precise appropriate capital levels. However, given its importance, I am very encouraged by the steps that I have observed the Federal Reserve has taken.

Q.2. As you may know in S. 2155, we contemplate raising the enhanced prudential standards from $50 billion to $250 billion, with an 18 month-delayed effectiveness to give the Fed time to do a rulemaking and decide whether it should apply any of the enhanced prudential standards to banks between $100 billion and $250 billion.

What do you see as the most important enhanced prudential standards for these mid-size banks?

A.2. Throughout our banking regulatory system, we should continue to protect the core tenets of regulatory reform—capital, stress testing, liquidity, resolution planning, and orderly liquidation authority. One important post-crisis reform maintained for banks of that size by S. 2155 is periodic stress testing.

The Federal Reserve further helps ensure the capital adequacy of our largest banking firms through the annual stress testing and Comprehensive Capital Analysis Review (CCAR) exercises, which consider the losses these firms would suffer under adverse economic scenarios on a forward-looking basis. In doing so, these programs help determine firms' capital needs when they will be needed most—in a serious economic downturn.

As we move away from the crisis and as banks continue to add risk to their balance sheets, the stress testing and CCAR programs will be critical to ensuring that banks are doing so in a manner that does not jeopardize their safety and soundness or the stability of the U.S. financial system.

Q.3. The urban-rural economic divide is an area of particular interest for me and an area where I've done a lot of work. I believe that someone shouldn't be forced to leave their community to find a good paying job. As we've seen in the Great Recession and the recovery that's followed, the impacts of these macroeconomic trends are not universal and, in this case, have often been felt more harshly in rural areas.

- What do you believe to be the driving forces behind the decline of rural America? Is this trend the result of globalization and technological change?
- Do you believe these trends are irreversible?

A.3. Research has shown that employment growth relative to population has been slower in rural areas in recent years than in large cities, and several important measures of well-being in rural areas have declined dramatically over recent decades. While important research is being done to better understand these disturbing trends, no firm conclusions regarding the underlying causes have yet emerged. Research does suggest that globalization and technological change have adversely affected the wages and employment of lower-educated workers, many of whom reside in rural areas. There is also some research that suggests that the increased availability of opioid drugs has also adversely affected employment and welfare in rural areas.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN FROM RICHARD CLARIDA

Q.1. Now that you have had more time to examine the Fed's recent proposal on changes to capital standards, do you support the proposal as currently written? If so, why do you think it is appropriate to reduce capital requirements for the country's largest banks at this time? If not, what changes would you need to see to the proposal before supporting it?

A.1. We need a resilient, well-capitalized financial system that is strong enough to withstand even severe shocks and support economic growth by lending through the economic cycle. Since the crisis, the U.S. banking agencies have substantially strengthened regulatory capital requirements for large banking firms, improving the quality and increasing the amount of capital in the banking system. It would be important to me not to give up any of the gains in resiliency and stability that have been achieved since the crisis.

Risk-based and leverage capital requirements work best together when leverage capital requirements generally serve as a backstop to risk-based capital requirements. In cases where the leverage ratio becomes a binding constraint, it can create incentives for banking organizations to reduce their participation in lower-risk, lower-return business activity, such as repo financing, central clearing services for market participants, and taking custody deposits, notwithstanding client demand for those services.

I understand that the Federal Reserve's enhanced supplementary leverage ratio (eSLR) proposal is designed to maintain the eSLR standards as a meaningful constraint on leverage while ensuring a more appropriate complementary relationship between global systemically important banks' (G–SIBs) risk-based and leverage-based capital requirements, and to help ensure that the leverage-based capital requirements generally serve as a backstop to risk-based capital requirements. If confirmed, I would look forward to reviewing the comments that the Federal Reserve receives on the proposal.

Q.2. Do you believe that any U.S. banks are Too Big to Fail?

- If so, what can and should the Fed do to address this problem?
- If not, what evidence supports your conclusion?

A.2. I believe that the post-crisis regulatory reforms and stronger supervision have resulted in a great deal of progress being made in strengthening the financial system and making large firms better able to absorb losses. Having said that, it is important for financial supervisors to remain vigilant to ensure that the financial system continues to remain resilient as economic conditions and market practices evolve.

Q.3. Section 402 of S. 2155, which recently passed the Senate and allows banks "predominantly engaged in custody, safekeeping, and asset servicing activities" to have less capital.

Do you believe that language applies to JPMorgan Chase and Citigroup? Would that analysis hold if those two banks created intermediate holding companies to house their custody services?

A.3. Section 402 of the Economic Growth, Regulatory Relief, and Consumer Protection Act provides leverage ratio relief to firms that qualify as "custodial banks" with respect to reserves held at certain central banks. The bill defines a custodial bank as any depository institution holding company that is predominantly engaged in custody, safekeeping and asset servicing activities (and any subsidiary depository institution of such a holding company). The Federal Reserve Board (Board) and the other Federal banking agencies have authority to issue regulations implementing this section. By its terms, the bill does not appear to apply to diversified holding companies, such as JPMorgan Chase or Citigroup, because their custodial operations constitute a relatively small percentage of their overall businesses.

The Board applies regulatory capital requirements to bank holding companies on a consolidated basis. Under this approach, the top-tier bank holding company is required to aggregate all its activities and the assets of its subsidiaries. As a result, simply inserting an intermediate holding company would not affect the activities or assets of the consolidated banking organization or the analysis of whether the consolidated organization was considered to be predominantly engaged in custody, safekeeping, and asset servicing activities. This result would apply to an intermediate holding company that controlled the custody services of the banking organization as well as to any other intermediate holding company in the structure. An intermediate holding company therefore would not affect the capital requirements of the consolidated banking organization.

Q.4. Banks today reported record profits—up 27.5 percent from the first quarter of last year. The economy is nearly a decade into a long expansionary period.

Why is a reduction in capital requirements necessary or appropriate at this time?

A.4. We need a resilient, well-capitalized financial system that is strong enough to withstand even severe shocks and support economic growth by lending through the economic cycle. To that end, the U.S. banking agencies have substantially strengthened regulatory capital requirements for U.S. banking firms, improving the quality and increasing the amount of capital in the banking system. At the same time, it is important to monitor the capital rules on an ongoing basis, to determine whether the framework is effectively measuring and addressing risk and working as intended, and to adjust the framework as needed.

Reforms proposed by the Federal Reserve suggest that the enhanced supplementary leverage ratio standards may be currently calibrated too high, creating potential incentives for firms to disengage from certain low-risk, low-return financial activities that are beneficial for the economy. Modest recalibration may reduce these negative incentives while not materially changing overall large bank capital requirements. As mentioned previously, if confirmed, I look forward to reviewing the comments received on reform proposals.

Q.5. Fed Chair Powell recently announced that the Fed's Board of Governors would vote on whether to relieve Wells Fargo from the growth restriction the Fed imposed on it pursuant to its February 2018 consent order.

Q.5.a. What kind of changes at Wells Fargo would you need to see before voting to lift the growth restriction?

A.5.a. First, let me say that just based upon the news accounts, the activities of Wells Fargo in this domain are egregious and unacceptable, and I was as shocked as anyone to read about it in the newspaper. If I am confirmed and this matter came before me, I would certainly individually want to be absolutely convinced that appropriate steps had been taken and could be verified. My understanding is that the firm must fully comply with the terms of the Consent Order, which requires a number of improvements to be made to the firm's governance and risk management practices. If confirmed, I would only vote to lift the asset cap if the required improvements are implemented to the satisfaction of the Federal Reserve.

Q.5.b. Do you believe the Fed should place more emphasis on finding diverse leaders for the regional banks?

A.5.b. Like many others, I was excited to see the appointment of Raphael Bostic in 2017 as the first African American Reserve Bank president and, more recently, the appointment of Andre Anderson as the first African American First Vice President. Andre's appointment to this senor leadership role was particularly satisfying as I understand that he rose through the ranks at the Federal Reserve, beginning at the Birmingham Branch where he was hired to process municipal bonds.

Despite these recent appointments, I know that the senior leadership of the Board, and indeed the System, agree that there is a lot more work to be done to move the System toward its objective of benefiting fully from a diverse workforce and leadership. I and I know my potential future colleagues on the Board as well, view this as critical first and foremost because it allows the best possible job to be done in meeting the responsibilities enumerated for the System in the Federal Reserve Act.

If I am confirmed, I will arrive on the job eager to engage with my colleagues across the System on this important issue. I fully understand that the Federal Reserve Act assigns primary responsibility for selecting senior leadership at the Reserve Banks to their Class B and Class C directors. But the Act also gives the Board of Governors the responsibility to approve such appointments, and I intend to take that role seriously, including by doing everything that I can to use my position to help attract more diverse leaders to the System like Raphael and Andre.

Q.5.c. If so, how do you recommend changing the current hiring process so that it produces more diverse leaders?

A.5.c. Diversity is a critical aspect of all successful organizations. In my experience, and in agreement with Chairman Powell's sentiments, we make better decisions when we have a wide range of backgrounds and voices around the table.

There is value in having a diverse workforce at all levels of an organization. I am committed to achieving further progress, and to better understanding the challenges to improving and promoting diversity of ideas and backgrounds.

My understanding is that while different Reserve Banks tried different approaches, diversity has been a point of emphasis in all recent searches. Specific efforts of which I am aware include advance engagement with community groups and hiring of national search firms with specific expertise in diversity. If confirmed I look forward to encouraging the continuation of these efforts and I also commit to look for additional proven approaches to further expand the Federal Reserve's efforts.

Q.6. The Fed is apparently participating in an interagency effort to reform regulations implementing the Community Reinvestment Act. In April, the Treasury Department sent a memo to the Fed, the OCC, and the FDIC recommending several rule changes.

Q.6.a. Do you disagree with any of the Treasury recommendations?

A.6.a. I understand that Treasury's recommendations were based on the Department's outreach effort and the summary sent to the agencies includes helpful insights. If confirmed, I look forward to reviewing the recommendations in more detail and supporting efforts to ensure that the agencies work together to find ways to improve both effectiveness and transparency in Community Reinvestment Act (CRA) supervision.

Q.6.b. What are your priorities for CRA reform?

A.6.b. If confirmed, I would work to better understand the calls from banks, community development organizations and others for making CRA evaluations more consistent and transparent. As well as for calls to revise the CRA in a way that encourages more lending and investment in underserved areas.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM RICHARD CLARIDA

Community Reinvestment Act

Q.1.a. Should CRA be expanded to all nonbanks? Some assert that in today's financial landscape, CRA compliance should be expanded to all nonbanks, including credit unions, fintechs, mortgage companies, investment, and others.

A.1.a. The Community Reinvestment Act (CRA) has been a part of banking regulation for 40 years. It would be a very high priority of mine, if confirmed, to make sure that it is enforced.

I support the CRA's goal of encouraging banks to meet their affirmative obligation to serve their entire community, and in particular, the credit needs of low- and moderate-income communities. Doing so benefits low- and moderate-income communities and helps them to thrive by providing opportunities for community members, for example, to buy and improve their homes and to start and expand small businesses.

If confirmed, I would be open-minded to discussions for improving or bringing the CRA up to date, but the essential mission of the act needs to be respected.

Q.1.b. Do you support a full scope review for CRA exams? Do you think geographical assessment areas should define CRA accountability both where the majority of branch lending and the majority of nonbranch lending occurs?

A.1.b. It is important that the agencies with rule writing authority for CRA (the Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency) evaluate ways to provide a meaningful evaluation of a bank's CRA activities in all of the communities it serves. I understand that the agencies are considering ways to make the area in which CRA performance is evaluated more reflective of current banking practices, and I support that effort.

Q.1.c. If a fair lending exam detects a violation after a bank has been graded for its CRA exam, do you think the bank should receive a retroactive downgrade?

A.1.c. Discriminatory and other illegal credit practices are inconsistent with helping to meet community credit needs. I can understand why regulators would want to take into account banks' records in fair lending when evaluating their performance in the spirit of community reinvestment. What would seem to be important is that there is clarity in the application and the implications of the ratings on a bank's supervisory record, particularly if the timing of the examinations are different.

Q.2. Many Democratic, Republican and Independent current and former regulatory officials raising concerns about the bank deregulation bill range from former Fed Chair Paul Volcker, former Fed Governor and Deputy Treasury Secretary Sarah Bloom Raskin, former FDIC Chair Sheila Bair, former Counselor to the Treasury Secretary Antonio Weiss, and former Deputy Governor of the Bank of England Paul Tucker. These former banking regulators either State that a $250 billion bank threshold is too high to protect financial stability or that we should not weaken the leverage rules for the largest banks, or both.

Do you think anything in S. 2155 puts the financial system at risk? Do you share the concerns raised by your predecessors? If so, why? If not, why not?

A.2. Regulation and supervision should continue to be tailored to firms' size, systemic footprint, and risk profiles. I believe that it was prudent for the Congress to raise the $50 billion asset threshold for larger bank holding companies in order to limit the scope of enhanced prudential standards. As I understand the Economic Growth, Regulatory Relief, and Consumer Protection Act, it adjusts thresholds but still allows the Federal Reserve to subject a firm with a higher risk profile to more rigorous regulation.

Q.3. There are a number of places in S. 2155 that would require the Federal Reserve to conduct additional cost-benefit analysis in order to regulate big banks.

Mr. Clarida, you have said that the Federal Reserve underestimated the human costs of the financial crisis prior to 2008? What have you learned from your previous analytic mistakes? How will you ensure you will not repeat those previous errors?

A.3. The financial crisis and its effect on the economy clearly harmed millions of Americans who lost their jobs, their homes, their savings, access to credit, *etc.* The crisis served as a cautionary tale about the critical importance of a resilient financial system that supports economic growth and meets the credit needs of businesses and consumers. I believe this experience underpinned much of the post-crisis regulatory agenda, and if I were to be confirmed, I would certainly keep the importance of financial stability firmly in mind as a policymaker.

Q.4. Chair Yellen was the first chair in Federal Reserve history to share data with this Committee about racial economic disparities during her semi-annual testimony. When she presented that data, she touted significant progress, and indeed, black unemployment fell from 11.8 percent at the beginning of her term to the current historically low figure of 6.9 percent.

What do you attribute this trend to? Do you think the attention that Janet Yellen paid to this issue and the policies of the Federal Reserve deserve credit for the progress that has been made?

A.4. The unemployment rate of African Americans has historically been more cyclical than the unemployment rate for the economy as a whole. It deteriorates more when the economy goes into a recession and improves more during expansions. Thus, the current historically low level of the African American unemployment rate is a function of the long economic expansion our country is currently experiencing. The efforts of the Federal Open Market Committee (FOMC) to achieve its dual mandate have likely contributed to the strong overall macroeconomic performance, although many other factors have also contributed. With respect to the attention paid by former Chair Janet Yellen and the FOMC in recent years to racial economic disparities, I would say that understanding the heterogeneity in how different groups in the economy fare can help to improve our understanding of the economy as a whole. That said, the tools available to monetary policymakers are not designed to ameliorate long-standing economic disparities.

Q.5. At that same testimony where Janet Yellen presented information about racial economic disparities, she said, quote "it is troubling that unemployment rates for these minority groups remain higher than for the Nation overall, and that the annual income of the median African American household is still well below the median income of other U.S. households."

Though African American unemployment is lower today, Chair Yellen's point remains true. Do you think the recent progress is sufficient? What more can be done to ensure that unemployment among African Americans is equal to white unemployment? In addition to increasing employment rates for African Americans, what can the Fed do to increase wages and wealth for African Americans and Latinos?

A.5. I have been heartened to see that, as you note, the steady macroeconomic performance of recent years has measurably improved employment and income among African American households. That said, I believe more progress could be made. However, the tools that the Federal Reserve has at its disposal are not designed for ameliorating long-standing economic disparities. The main way in which the Federal Reserve can contribute is by promoting a healthy and stable economy, which will provide economic opportunity for a broad range of households. Moreover, to the extent allowed by law, the Federal Reserve can also use its regulatory and supervisory role to ensure that African Americans have equal access to credit and the financial system so as to promote their economic well-being. In addition, the Federal Reserve produces a variety of datasets and research that can help inform our understanding of the economy and policies that could be undertaken by those outside of the Federal Reserve System to help close the gap between African Americans and other U.S. households.

Q.6. Marvin Goodfriend, another nominee to the Federal Reserve Board of Governors has urged the Federal Reserve to incent spending by placing a tax on currency.[1]

Q.6.a. Do you support Mr. Goodfriend's proposal to tax currency kept outside of circulation?

A.6.a. I am very skeptical that a tax on currency could be justified as a tool of monetary policy.

Q.6.b. If Mr. Goodfriend's proposal were to be implemented, can you estimate what the impact would be on savers and low-income depositors?

A.6.b. I do not have such an estimate, as I have not undertaken research on this topic.

Q.7. The Consumer Financial Protection Bureau has endured new leadership that is hostile to its mission. A number of enforcement actions aimed at helping people receive redress from fraud or overcharges has been stopped.

Q.7.a. If the Consumer Financial Protection Bureau's leadership refuses to ask for adequate funding or takes steps that you think are harmful to people or our economy, will you let Senate Banking Committee Members know? If so, how? If not, why not?

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[1] Goodfriend, Marvin. "The Case for Unencumbering Interest Rate Policy at the Zero Bound." Carnegie Mellon University. September 15, 2015. Available at: *https://www.kansascityfed.org/~/media/files/publicat/sympos/2016/econsymposium-goodfriend-paper.pdf.*

A.7.a. I understand that the Federal Reserve Board (Board) plays a consultative role in Consumer Financial Protection Bureau (CFPB) rulemakings and coordinates in the examinations as appropriate, but does not have any oversight of the CFPB organizational or structural design, nor of CFPB enforcement priorities.

If confirmed, I would support efforts to collaborate with the CFPB, while supporting the Federal Reserve's efforts to continue to carry out supervisory and enforcement responsibilities for the financial institutions, and for the laws and regulations under its authority to comply with all applicable Federal consumer protection laws and regulations.

Q.7.b. The Federal Reserve retains supervision and enforcement authority for financial institutions below $10 billion in assets. Please provide a list of public enforcement actions taken toward any Fed-regulated institutions in the past 3 years. Please note any fines or penalties assessed. Please note if you agree or disagree with these enforcement actions.

A.7.b. Although I cannot comment on the specific circumstances of actions the Federal Reserve has taken in the past, I believe bank supervisors have a responsibility to ensure that the institutions subject to supervision operate safely and soundly and that they comply with applicable statutes and regulations, and furthermore, that the Federal Reserve should use its formal enforcement authority to achieve these objectives where appropriate. A list of public enforcement actions taken against institutions regulated by the Federal Reserve in the past 3 years, including any civil money penalties assessed against the institution, is provided in *Appendix A* to this request.

Q.8. Some current Federal Reserve leaders support reducing banks' capital requirements. This concerns me as capital requirements have been a key tool in restoring the safety of the financial system since the crisis. Ensuring modest leverage ratios prevents banks from lending out more than they can afford to, and especially keeps them away from riskier assets like the ones that fueled the crisis.

For this reason, Democrats and Republicans in the House and Senate, as well as FDIC Vice Chair (and former Kansas City Fed President) Thomas Hoenig all support higher capital requirements, not lower ones. Do you support any changes to the current capital requirements for financial institutions? If so, please describe.

A.8. The financial crisis demonstrated the importance of a financial system that has sufficient capital to absorb losses and allow banks to continue lending in an economic downturn. Since the crisis, the U.S. banking agencies have strengthened and improved the quality of the regulatory capital requirements for U.S. banking firms. However, I believe the banking agencies should continue to examine whether the requirements remain effective over time and adjust the framework as appropriate while preserving the essential gains in resiliency and stability of our financial system that have resulted from the reforms put in place since the financial crisis.

Q.9.a. In recent years, Federal Reserve policymakers have warned that we should raise interest rates to counter asset bubbles destabilizing the financial system. Board of Governor Nominee Marvin

Goodfriend has suggested replacing liquidity coverage ratios and a host of other regulations with tighter monetary policy.[2]

Do you believe that the blunt tool of monetary policy can be a substitute for sound financial protections? What is your understanding of the historical evidence surrounding the relationship between monetary policy and asset bubbles?

A.9.a. Monetary policy, which is already tasked with the goals of price stability and full employment, should not be considered a substitute for strong financial and supervisory standards. Such standards are critical for ensuring stability of the U.S. financial system. The excessive leverage and maturity transformation in place in 2007 left the economy vulnerable to a deterioration in the housing market and an increase in investor concerns regarding the solvency and liquidity of large, interconnected financial institutions.

Reforms since that time, enacted by Congress and implemented by the appropriate agencies, have raised loss-absorbing capacity within the financial sector and reduced the susceptibility of the financial system to destabilizing runs.

Of course, gaps exist in financial regulation, and some institutions, like hedge funds and many finance companies, largely fall outside of the prudential regulatory perimeter. Therefore, changes in interest rates could at times be appropriate as a supplementary tool to address threats to full employment and price stability emanating from widespread imbalances or buildups of risk in areas where more-targeted tools are inadequate or nonexistent.

Asset-price swings owe to many factors, and monetary policy has not generally been a prime factor in historical episodes involving large increases in asset prices. Run-ups in asset prices that are not supported by economic fundamentals usually involve an increased tolerance for risk or a decreased perception of risk.

Q.9.b. Besides monetary policy, what other tools are available to temper asset bubbles?

A.9.b. It is always difficult to judge whether the price of an asset has reached an unsustainable level, particularly in real time. That said, it is important for the appropriate authorities, including the Federal Reserve, to monitor asset price developments and to consider whether, for example, unusually rapid increases in asset prices are leading to vulnerabilities that could jeopardize the efficient functioning of the financial system, price stability, or full employment.

The difficulties associated with detecting asset bubbles as they emerge highlight the need for strong and appropriately tailored regulatory and supervisory standards at all times. Negative shocks, including asset price declines, the sudden failure of a major financial institution and so forth are always possible. The core capital and liquidity regulations and supervisory policies adopted by the Federal Reserve, including stricter standards for the most systemic firms, are, in my view, consistent with a view that the system should be resilient to such shocks.

[2] Senate Committee on Banking, Housing, and Urban Affairs, June 7, 2016, Hearing. Available at: *https://www.gpo.gov/fdsys/pkg/CHRG-114shrg21603/pdf/CHRG-114shrg21603.pdf.*

Q.10. In the years since the financial meltdown, the Federal Reserve has played a key role in putting our economy back on stable footing and setting the conditions for more robust growth. Still, there have been bills introduced that would eliminate the Fed's full employment mandate on the basis that, according to the bill's findings "at best, the Federal Reserve may temporarily increase the level of employment through monetary policy."

Can you elaborate on how the Fed influences employment in the short-run, and discuss whether failure to use monetary policy effectively in the face of severe downturns could do permanent damage to the level of unemployment in the economy?

A.10. In the short run, the Federal Reserve influences employment by adjusting its target range for the Federal funds rate and by influencing the expected future path of short-term interest rates through its forward guidance. These monetary policy actions affect the interest rates that many households confront when deciding whether to borrow and spend, and that businesses face when making their investment plans. Additional spending by households and businesses will, in turn, cause businesses to hire more workers to meet the higher demand for their products and services. In this way, monetary policy can be used to combat recessions and reduce the associated rise in unemployment.

Q.11. Critics of quantitative easing have argued that it is incompatible with the Fed's price stability mandate; however in discussing quantitative easing the Fed has consistently noted that the program is designed to promote a stronger pace of economic growth and to ensure that inflation, over time, is at levels consistent with the Fed's mandate.

Q.11.a. Can you comment on how the Fed's policies in recent years have actually supported the Fed's price stability mandate?

A.11.a. Faced with the most severe financial crisis since the Great Depression, the FOMC cut short-term interest rates to zero by the end of 2008. In order to address the economic downturn and stem disinflationary pressures, the Federal Reserve also turned to nontraditional tools such as asset purchases and forward guidance, as means of providing the additional accommodation. These policies put downward pressure on longer-term interest rates and helped to make financial conditions more accommodative, encouraging and supporting the economic recovery. By providing a cushion for aggregate demand during the recession and supporting spending during the recovery, the Federal Reserve's monetary policy measures helped to keep inflation close to 2 percent. In particular, in part because aggregate demand was supported by monetary policy, the U.S. economy avoided the severe downward pressure on the price level that occurred during the Great Depression, which in turn prevented inflation expectations from falling sharply below 2 percent.

Q.11.b. What does the latest research tell us about the effectiveness of the Fed's large scale asset purchases?

A.11.b. Estimates of the effects of large-scale asset purchases vary across studies, but most suggest that asset purchases put downward pressure on term premiums and resulted in lower longer-term interest rates than would otherwise have been the case. Lower long-term interest rates, in turn, helped to support asset prices more broadly and to bolster spending on goods and services by households and businesses. That said, there are costs as well as benefits to large-scale asset purchases and certainly today I support the Federal Reserve's program to shrink its balance sheet.

Q.11.c. Is there any evidence that the Fed's asset-purchase program, which sought to support the economy by lowering long-term interest rates, has been a drag on U.S. productivity as some Republicans have suggested? Is there any evidence that the program has created a "false economy" as Trump has asserted?

A.11.c. I am not aware of research suggesting that the Federal Reserve's policies have contributed to the sluggish pace of productivity growth observed over recent years. Studies focusing on the slowdown in U.S. productivity growth point to various developments such as weak capital spending in the wake of the financial crisis, a slower pace of technological advance, a decline business dynamism, and a deterioration in workforce skills as factors contributing to recent productivity trends.

Q.11.d. How would the economy have likely fared in terms of unemployment, GDP, wage growth, *etc.,* had the Fed chosen not to pursue its asset purchase program?

A.11.d. The Federal Reserve conducts monetary policy to promote maximum employment and stable prices. Various research studies by academic and central bank economists suggest that the Federal Reserve's asset purchase programs helped to make financial conditions more accommodative, support economic recovery, strengthen labor market conditions, and foster price stability.[3]

Q.11.e. Is there any evidence that the Fed's stimulus program has paved the way for the next global meltdown, as Trump claimed?

A.11.e. While there are many sources of risk and uncertainty in the global economy, the Federal Reserve's conduct of monetary policy has contributed to an improved global economic outlook by supporting the U.S. economic expansion and maintaining low and stable inflation.

Q.11.f. How does the Fed's balance sheet as a percentage of GDP compare with the balance sheets of the next largest economies? Do these countries have a dual mandate similar to the Fed?

A.11.f. The size of the Federal Reserve's balance sheet relative to nominal GDP currently stands at about 23 percent. Last October, the FOMC initiated its plan to normalize the size of the Federal Reserve's balance sheet. Under that plan, the size of the Federal Reserve's balance sheet will decline gradually over coming years. With nominal GDP expected to rise over that time, the size of the Federal Reserve's balance sheet relative to nominal GDP will likely decline appreciably.

The size of the Federal Reserve's balance sheet as a percent of GDP is smaller than those of many other major foreign central banks. The size of the central bank balance sheets relative to nomi-

[3] See, for example, Eric M. Engen, Thomas Laubach, and David Reifschneider (2015), "The Macroeconomic Effects of the Federal Reserve's Unconventional Monetary Policies," Finance and Economics Discussion Series 2015–005, Washington: Board of Governors of the Federal Reserve System, February, *http://dx.doi.org/10.17016/FEDS.2015.005.*

nal GDP for the United Kingdom, the euro area, Japan, and Switzerland are, very roughly, about 28, 40, 100, and 120 percent, respectively.

All of these central banks employed large-scale asset purchase programs to address the implications of the financial crisis in their countries. All of these central banks operate with a single mandate to pursue price stability. However, in many cases, this mandate is treated as medium-term objective, and other goals, including output and employment stabilization and financial stability, are cited to justify deviations from price stability in the short run.

Q.12. It is my understanding that major central banks around the world maintain and have drawn on their authority to purchase a wide range of assets including corporate bonds, commercial paper, real estate investment trusts, and equities among other assets.

Q.12.a. Given the broad authorities available to other central banks, rather than shrink the Fed's tool kit, do you think Congress should consider expanding it?

A.12.a. As I indicated above, I believe the FOMC's existing monetary policy toolkit—notably including forward guidance and balance sheet policies—has served the Nation well and has supported the U.S. economy in the wake of the financial crisis. Currently, I do not see compelling reasons why the toolkit needs to be expanded, but I do believe that the experience of the past decade suggests the value of preserving the existing toolkit.

Q.12.b. For example, with an expanded authority, could the Fed play a useful role in supporting municipal finance, student loan financing or other types of consumer credit during periods where each of these sectors experienced heightened distress? Would you support or oppose such expansion of the Fed's authority?

A.12.b. The Federal Reserve conducts monetary policy to promote its statutory goals of maximum employment and stable prices. The Congress has granted the Federal Reserve authority to purchase and sell certain types of assets in pursuit of these goals. In general, the range of assets the Federal Reserve is authorized to purchase is limited to very high quality assets with minimal credit risk such as Treasury and agency securities.

The Federal Reserve's purchases of Treasury and agency securities during the crisis were effective in making financial conditions more accommodative and helping to support economic recovery and stem disinflationary pressures.

Limiting the Federal Reserve's authorities to a narrow range of very high-quality assets helps to insulate the Federal Reserve from political pressures that could undercut the effective conduct of monetary policy and result in poor macroeconomic outcomes. That theme was highlighted in the joint statement issued by the Treasury and the Federal Reserve in 2009 on "The Federal Reserve's Role in Preserving Financial and Monetary Stability."

That document noted that, "Actions taken by the Federal Reserve should also aim to improve financial or credit conditions broadly, not to allocate credit to narrowly defined sectors or classes of borrowers. Government decisions to influence the allocation of credit are the province of the fiscal authorities."

Other central banks have the authority to purchase a broad range of assets, and have utilized these authorities in responding to the financial crisis. The Congress could consider expanding the Federal Reserve's asset purchase authorities if it wished. In doing so, the Congress would need to weigh the possible benefits of expanded purchase authorities for the Federal Reserve as a tool for addressing economic weakness versus the possible costs associated with exposing the Federal Reserve to heightened political pressures and involving the Federal Reserve in decisions involving significant credit allocation.

My own view is that the Federal Reserve's current authorities for purchasing assets have served the country well, and I do not see a compelling reason to expand those authorities.

Q.12.c. As the Fed begins to shrink its balance sheet, what are some of the negative impacts that Senate Banking Committee Members should monitor? What concerns—if any—do you have about shrinking the balance sheet? What will you do to monitor the process of maturing securities to avoid a negative impact on the economy?

A.12.c. I believe that the FOMC's gradual approach regarding the removal of policy accommodation has supported the economy's continued expansion, the ongoing strengthening of the labor market, and a likely return to 2 percent inflation on a sustained basis.

As part of this gradual approach, the FOMC initiated its balance sheet program last October. This program will reduce the Federal Reserve's securities holdings in a gradual and predictable manner. The program has gone smoothly so far and has not given rise to any unduly large reaction of financial markets.

The FOMC has indicated that, consistent with the data dependence of monetary policy, it could change the details of its plans in light of economic and financial developments. If confirmed, I will be monitoring developments very carefully along with Board and FOMC colleagues for any signs that the normalization of the Federal Reserve's balance sheet is contributing to strains in the financial system.

In addition, if confirmed, I will advocate continued clear communication by the FOMC about its longer-term plans regarding the Federal Reserve's balance sheet.

With regard to the liabilities side of its balance sheet, the FOMC has stated that it anticipates a reduction in the quantity of reserve balances, over time, to a level appreciably below that seen in recent years but larger than that prevailing before the financial crisis. Federal Reserve officials have indicated the aggregate level of Federal Reserve liabilities will reflect the public's demand for currency, the banking system's demand for reserve balances, and the Committee's decisions about how to implement monetary policy most efficiently and effectively in the future. These statements by the FOMC and the Federal Reserve about the ultimate policymaking framework strike me as appropriate and correct.

I support the FOMC's position that, in the longer-run, it intends to hold no more securities than it will need to implement monetary policy efficiently and effectively. I believe that the Committee's expectation that the Federal Reserve's balance sheet will consist primarily of Treasury securities is appropriate and is consistent with effective and efficient monetary policy implementation.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR BROWN FROM MICHELLE W. BOWMAN

Q.1. What is your view on what caused the 2008 financial crisis? What responsibility does the Federal Reserve share in terms of failures in regulatory and supervisory policy?

A.1. A buildup of leverage and maturity transformation in the years leading up to the crisis left the U.S. and global economy vulnerable to shocks. When the housing market turned down, the effects of that shock were amplified as leverage was wound down and funding patterns shifted.The result was what we all painfully experienced as the financial crisis.

Since then, post-crisis reforms have been designed to reduce the likelihood and severity of future financial crises. These efforts have been aimed at shoring up issues in the private sector, in regulation, and in the mandates and tools of the various regulatory agencies, including the Federal Reserve.

The Federal Reserve's response to the crisis included boosting the resilience of the financial system through stronger capital, liquidity, and other prudential requirements for large banking firms. Capital is critical to ensuring resiliency, as are the availability of high-quality liquid assets, appropriate management of risks, and the presence of a plan for resolution in case it is needed. Progress has been made in all of these areas, and newer tools like the stress testing regime and the countercyclical capital buffer should also contribute to the resiliency of the financial system going forward. I believe these actions have, broadly speaking, increased the resilience of the financial system.

Q.2. How did large bank and investment bank leverage contribute to the 2008 financial crisis?

A.2. The increase in leverage, along with the rise of other vulnerabilities, contributed to the negative effects that were felt when the housing market turned down sharply in the United States. As the crisis unfolded in the Spring of 2008, markets were focused on the firms that had the highest leverage ratios, and it was one of the factors that led to investors putting more pressure on some firms than others.

It would be a mistake, however, to focus only on leverage. Maturity transformation, for example, also played a critical role, as did other vulnerabilities. Many firms relied on short-term wholesale funding that they then used to purchase longer-term assets. When that funding dried up, firms had difficulty finding new financing for those assets. As a result, assets were sold, and the effects were felt throughout the financial system and in the real economy.

Q.3. How would you characterize current risk-weighted and leverage capital levels for the largest U.S. banks—too low, too high, or the correct amount?

A.3. Maintaining the safety and soundness of the largest U.S. banks is fundamental to maintaining the stability of the U.S. financial system and the broader economy. To be safe and sound financial institutions, these firms must be well-capitalized. The U.S. banking agencies have substantially strengthened regulatory capital requirements for large banking firms, improving the quality and increasing the amount of capital in the banking system. Indeed, large U.S. banking firms have roughly doubled their capital positions from before the crisis to today, making them significantly more resilient, as well as able to support lending and financial intermediation in times of financial stress. If confirmed, I look forward to looking more closely at this question and consulting with my colleagues.

Q.4. As you know, the Federal Reserve recently proposed reducing leverage requirements for the eight biggest U.S. global systemically important banks (G–SIBs).[1] In discussing the impact of its proposal, the Federal Reserve noted that it would reduce the amount of tier 1 capital required across the lead insured depository institution (IDI) subsidiaries of the G–SIBs by approximately $121 billion.

Q.4.a. Could a reduction in IDI capital pose any risks to depositors, taxpayers, or financial stability? Why or why not?

A.4.a. While capital is good for absorbing losses, the manner in which capital requirements are determined can have important consequences. If a leverage ratio becomes a binding constraint, it can create incentives for banking organizations to reduce their participation in lower-risk, lower return business activity, such as repo financing, central clearing services for market participants, and taking custody deposits, notwithstanding client demand for those services. Similarly, it can create incentives for firms to increase their participation in higher-risk, higher-return activities.

Q.4.b. What is your view on raising the enhanced prudential standards threshold pursuant to Dodd-Frank section 165 from $50 billion to $250 billion in total consolidated assets, as contemplated in S. 2155?

A.4.b. I agree that regulation and supervision should be tailored in a manner that allows the financial system to more efficiently support the real economy. The Federal Reserve has been working for many years to tailor regulation and supervision to the size, systemic footprint, and risk profile of individual institutions. Recognizing the levels and types of risk of the different institutions in the financial system improves the quality and efficiency of regulation, but I believe more tailoring can and should be done.

It is reasonable for Congress to raise the $50 billion asset threshold to limit the scope of the enhanced prudential standards to larger bank holding companies. My understanding is that the Economic Growth, Regulatory Relief, and Consumer Protection Act (Act) preserves the ability of the Federal Reserve to reach below the new $250 billion line, if warranted, to subject a firm to more stringent regulation. In general, the Act preserves the Federal Reserve's ability to adequately monitor and regulate systemic risk of banking firms as well as its ability to regulate banking firms for safety and soundness objectives.

[1] *https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180411a.htm.*

Q.4.c. Federal Reserve Vice Chair Quarles has said that the Volcker Rule "is an example of a complex regulation that is not working well."[2] Do you agree or disagree? Why?

A.4.c. While Congress recently enacted legislation excluding smaller firms from the Volcker Rule, there is still room for the Federal Reserve and the other responsible agencies to tailor and reduce regulatory requirements to more efficiently implement the policy objectives of the statute in a manner consistent with the safety and soundness of the banking system. It is worthwhile for the agencies to consider further tailoring the implementing rule as it applies to firms that do not engage in a large amount of trading activity, and to simplify the requirements for satisfying exemptions for permitted activities such as hedging, market making, and underwriting. These changes would provide clarity to banking organizations and help them more efficiently provide market liquidity and facilitate capital formation.

Q.4.d. What is your view of the Community Reinvestment Act? Does it need to be altered or modernized by the Federal Reserve? If so, what changes do you support?

A.4.d. The Community Reinvestment Act's (CRA) goal of encouraging banks to meet their obligation to serve their entire community, including in low- and moderate-income communities is critically important. All communities, particularly low- and moderate-income communities, thrive when they have access to credit on fair terms that increase opportunities for investing in homes, starting businesses, and education.

I believe that the current CRA supervisory and regulatory framework could be improved based on feedback from industry and community stakeholders, and that it is time to review the CRA regulations to ensure they are effective in achieving the important objectives set by Congress. In particular, the regulation's definition of "assessment area," should be revised to reflect significant changes in the banking landscape since CRA was enacted and the current CRA regulations were adopted.

Technology and other industry advancements have enabled banks to serve consumers in areas far from their physical branches. As such, it is sensible for the agencies to consider expanding the assessment area definition to reflect the local communities that banks serve through delivery systems other than branches.

I believe that additional input and analysis on this matter will be needed to determine how best to define such assessment areas and how to evaluate performance in those areas.

Q.5. On May 23, the FDIC released their Quarterly Banking Profile. It shows that that bank profits increased 28 percent over the last year, and even more for community banks.

Q.5.a. Do you think it is sound policy to reduce capital requirements for banks that have profit levels this high?

A.5.a. We need a resilient, well-capitalized financial system that is strong enough to withstand even severe shocks and support

[2] *https://www.reuters.com/article/us-usa-fed-quarles/u-s-considering-material-changes-to-volcker-rule-feds-quarlesidUSKBN1GH2U8.*

economic growth by lending through the economic cycle. To that end, the U.S. banking agencies have substantially strengthened regulatory capital requirements for U.S. banking firms, improving the quality and increasing the amount of capital in the banking system. At the same time, it is important to monitor the capital rules on an ongoing basis, to determine whether the framework is effectively measuring and addressing risk and working as intended, and to adjust the framework as needed.

Q.5.b. 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.5.b. The Federal Reserve's mandate to promote maximum employment and stable prices is critically important to our economy, to businesses, families and communities, and if I am confirmed, I will be very focused on how we can do the best job possible to fulfill that mandate.

My views on employment and the labor market have certainly been shaped by the experience of the last 10 to 15 years. We've seen the Nation go from high levels of employment and solid wage growth into a very deep recession. In the crisis, it was clear that many people who were able to work lost their jobs and could not find work, and businesses that had the capacity to produce and grow could not find a market for their goods and services. And when you have a huge gap between what the economy can do and what it is currently doing, I believe that is where policymakers like the Federal Reserve can take appropriate action, sometimes quite strong action, and help the economy get back to a more normal level of employment and output.

Of course, as I have seen in my career as a community banker and as a regulator, the labor market, in a large, diverse economy like ours, is quite complicated and there are many factors to consider in measuring its health. For example, who is available to work and what can they do? I have worked with businesses that have trouble hiring, because there may be a shortage of highly skilled workers. In some communities in my home State, there are demographic changes—an aging workforce, for example—that affects how much businesses can hire. My family's bank lends to many consumers, and often we have seen that a strong job market will bring people back into the workforce and that is a good thing. And, of course, when there is strong demand for workers and the economy is growing, we see wages begin to grow. A strong economy supports strong wage growth.

Given the complexity involved in looking at the labor market, common sense tells me to be careful in assuming there is a precisely right level of employment that we can be very confident in saying is the right level for all economic conditions. In general, my approach as a community banker and regulator has been to take a look at all the best evidence and analysis you can find, listen hard to many different views, and then make your best judgment. And that is how I will approach evaluating the health of the labor market, should I be confirmed.

Stable prices and the level of overall inflation is a critical part of the dual mandate and, should I be confirmed, I will be focused on achieving this important goal. When inflation gets too high or too low, or is too volatile, that hurts everyone—consumers, businesses, and communities—because making economic decisions and planning for the future becomes more and more difficult.

I think one of the most important things the Federal Reserve can do is make sure that the expectations that people have for where inflation is heading remain stable. As a banker, I never wanted people to be put in a position where they were coming into my bank and showing me a business plan where they were just unable to predict what price they would be paying for a very broad range of important goods and services a year or two from now. Of course, some prices will always be going up while others will be going down. That is just how markets work. What is important is that the general level of prices remains fairly predictable. When people borrow money or make plans, it is important that they feel confident that their future incomes will support that debt and those plans. I want people focusing on making good business decisions, not spending their time guessing about inflation. So keeping inflation and inflation expectations stable is very important to me.

I also think we have learned that inflation can be too low. If demand is weak for a prolonged period of time, businesses cannot sell goods, they lower prices further, lay people off, keep wages down. And we have seen that is a tough cycle to break free from. For the Federal Reserve, when you get interest rates very low, it is hard to create additional incentives for borrowing and investing. It is tough to go below zero. As a policymaker, I would want to make sure we keep inflation at an appropriate level, so we reduce our risk of getting back to the so called Zero Lower Bound.

Finally, let me just say that there is a great deal of complexity that goes into understanding why the general level of prices change. For example, Kansas produces a lot of oil and natural gas, so I am well aware of how swings in the supply and demand for commodities can shape prices. But it is not always clear how businesses and consumers set their expectations for inflation. Productivity and technological change affect prices too. This is an important area for more research, and I look forward to learning more about these topics, if I am confirmed.

Q.5.c. Since the crisis, do you think the Federal Open Market Committee has been on the right course by gradually increasing interest rates?

A.5.c. I believe the Federal Open Market Committee's (FOMC) monetary policy decisions should be guided strictly by its responsibilities under current law to promote maximum employment and price stability. The FOMC has been raising its target for the Federal funds rate since December 2015 and reducing the size of its holdings of Treasury securities and mortgage-backed securities since October of 2017. The FOMC's gradual approach to reducing monetary accommodation in this way has been instrumental in supporting the economic recovery and a return of inflation to the FOMC's 2 percent objective. The FOMC has also stressed and I also believe that it is appropriate that monetary policy is not on a preset course. Instead, it is data dependent and chosen to best achieve the objectives set forth by Congress. If confirmed, I would look forward to working with other members of the FOMC to further promote the attainment of the FOMC's statutory goals.

Q.6. 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.

Q.6.a. Do you agree with the Federal Reserve's current approach, or will you advocate that the Fed use a single rule?

A.6.a. The economy is very complex, and monetary policy is determined in an environment in which a multitude of indicators and conditions must be taken into account. Simple rules, by definition, cannot accommodate such a wide variety of considerations. For example, simple rules generally do not accommodate variation in the expectations of investors and consumers, risks to the economic outlook, or deep economic conditions such as productivity growth that may be time varying. All that said, simple monetary policy rules do have some appeal because they capture some key elements of appropriate policy, and I believe that it is useful for policymakers to routinely consult the recommendations from a variety of benchmark rules. I also believe it can be useful for the FOMC to explain to Congress and the public the differences between its policies and those prescribed by simple rules, and the reasons for those differences.

Q.6.b. While the unemployment rate continues to fall, the labor force participation rate remains at about its lowest level in 40 years. What do you think is contributing to this?

A.6.b. The labor market remains strong. Job gains have been solid, on average, in recent months, and the unemployment rate has fallen to 3.9 percent, the lowest level in many years. As you note, however, the labor force participation rate is still quite low by historical standards. To some extent, the downward trend in the overall participation rate reflects demographic forces, most prominently increased retirements among members of the large baby boom generation. However, the labor force participation rate for prime-age workers is also below its level prior to the financial crisis, although it has risen more recently in response to the tight labor market. Longer-term trends in globalization and automation have likely contributed to the decline in prime-age participation over time, but my hope and expectation is that a strong labor market will continue to pull many of these workers back into the labor force.

Q.6.c. Do think the opioid addiction epidemic is related to the decline in labor force participation among prime-age workers?

A.6.c. The opioid epidemic is a very serious crisis that has had severe consequences for the affected individuals and their families. In addition, the opioid epidemic undoubtedly has had adverse effects on the economy. For example, I think the evidence shows that opioid addiction adversely affects an individual's ability to participate effectively in the labor market and thus has contributed to the decline in labor force participation among prime-age workers. Of course, causality may go the other way as well, with a lack of job opportunities, particularly in rural areas, contributing to both withdrawal from the labor force and increased opioid abuse.

Q.6.d. Over the past 40 years the link between productivity and wage increases has eroded. More and more, productivity gains aren't shared with workers. Why do you think wage growth has not kept pace with productivity growth? Is there anything the Fed can do to increase wages? Can the Federal Reserve, through monetary policy or regulatory policy, do more for individuals and communities that have not experienced the benefits from the economic recovery?

A.6.d. Wage growth is a very important issue, and while it is encouraging that wages seem to be rising a little faster than a few years ago, I would like to see stronger wage growth. In addition, I think that, as the economy improves, it is important that a wide range of individuals and communities benefit from a strong labor market. However, monetary policy is a blunt tool that is not well equipped to affect specific sectors of the economy. Rather, the Federal Reserve can best help individuals and communities by focusing on achieving its dual mandate of full employment and stable inflation.

Q.6.e. If confirmed, how will you advocate for increased diversity in the Federal Reserve System?

A.6.e. There is great value in having a diverse workforce at all levels of an organization. Diversity, including diversity of thought, perspective, and experience, is an important attribute of all successful organizations. Better decisions are made when we have a wide range of backgrounds and voices to draw from.

I am committed to achieving further progress, and to better understanding the challenges to improving and promoting diversity of ideas and backgrounds at the Federal Reserve Board (Board) and the Federal Reserve Banks (Reserve Banks), including in the senior leadership ranks. My position will provide opportunities to meet and speak with individuals and groups throughout the System, the financial community, and regional and community organizations.

Those opportunities will enable me to express strong support for the System's initiatives to encourage individuals with diverse cultural, academic, and professional backgrounds to consider positions with the Federal Reserve. I will also welcome the opportunity to work with Board and System groups to enhance programs and initiatives to identify and recruit individuals with diverse backgrounds and perspectives for careers at the Board and the Reserve Banks, as well as to create an environment where all will be successful.

Q.6.f. Federal Reserve Board of Governors nominee Marvin Goodfriend, has recommended that the "central bank put in place systems to raise the cost of storing money by imposing a carry tax on its monetary liabilities." Do you believe that there should be a currency tax, or that there are financial conditions that would call for a currency tax?

A.6.f. The United States dollar enjoys a well-earned status as a store of value and a reliable means of exchange both domestically and across the world. Any new policy that could undermine the confidence that is placed in the dollar should be thought through very carefully and undertaken only after a great deal of study. Fortunately, the United States economy is strong and inflation is close to 2 percent, so there is no need to consider such a policy. Moreover, the Federal Reserve's main monetary policy tools have helped to meet the goals set forth for the Federal Reserve by statute.

Q.6.g. Please provide a complete list of The Bowman Group's clients.

A.6.g. The Bowman Group provided consulting services to the following entities in the United Kingdom and European Union between 2004 and 2009: UK Industry and Parliament Trust; Titan Corporation, UK LTD; Conservative Shadow Homeland Security Spokesman Patrick Mercer, MP (Homeland Security Advisory Panel); DKE Aerospace; Conservative Friends of America; and Localis.

Q.6.h. Please describe in detail greater than you provided in your Office of Government Ethics letter how you will comply with the Federal Reserve Act requirement that you cannot hold stock in any bank, banking institution, or trust company?

A.6.h. I will divest shares of bank stock currently held in my name in accordance with the ethics agreement following confirmation. In addition, following confirmation, in accordance with the ethics agreement, the two trusts containing bank stock will be rewritten with advice of counsel according to a provision in Missouri trust law that provides for "decanting"—or rewriting—the trusts to exclude me and my heirs as beneficiaries of the trusts. While serving as a member of the Board, I will not acquire any stock in a bank, banking institution, or trust company.

Q.6.i. If confirmed, do you intend to serve for the entirety of your term?

A.6.i. Should I be confirmed, I intend to serve the entirety of the term.

Q.6.j. After your term as a member of the Federal Reserve Board of Governors, do you have any plans to resume employment or serve on the Board of your family's bank?

A.6.j. At this time, I do not intend to, nor have I been asked to, return to employment or board service at my family's bank.

Q.7. This is the first time this Committee has considered a nominee to fill the position on the Fed Board "with experience working in or supervising community banks having less than $10,000,000,000 in total assets."

Q.7.a. If confirmed, do you believe it is your role to advocate for the community banking industry?

A.7.a. The Federal Reserve seeks to foster a strong and stable financial system that serves banking needs in a fair and transparent manner. I believe that this objective can best be achieved when we have a diversified and competitive banking industry that includes a healthy community bank segment. My experience as a banker and State supervisor has shown me the vital role community banks play in providing credit and services to small businesses and communities both large and small. Consequently, I believe it is important to support the community bank model and avoid imposing regulatory burdens that are unnecessary to ensure their safe, sound, and fair operation.

Q.7.b. If confirmed, what would you like to achieve for community banks?

A.7.b. I am strongly committed to working to tailor the regulation and supervision of community banks in a manner that ensures their safety and soundness but is appropriate to their size and simplicity. I am particularly interested in working on simplifying capital rules for these banks and reducing the burden of their regulatory reporting requirements. As a community banker and State bank supervisor, I have seen small banks struggle with the burdens imposed by regulation. If confirmed, I want to ensure that the Federal Reserve Board fully considers the perspectives and challenges faced by these banks when it formulates and implements its regulations.

Q.7.c. Can you clarify your answer to Senator Scott on whether or not you believe the stock market is a pillar of monetary policy?

A.7.c. Current law requires the Federal Reserve's monetary policy decisions to be guided by its obligation to promote maximum employment and price stability. Many factors must be considered as inputs into monetary policy decisionmaking, and the financial conditions facing business and households, including stock market performance, are often relevant aspects of the outlook for macroeconomic performance. However, the FOMC should not take into account stock market performance for any purpose outside of what is necessary to achieve its goals as established by Congress. Fortunately, the United States economy is strong and inflation is close to 2 percent, and financial market conditions currently appear sufficiently accommodative to further support macroeconomic performance.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED FROM MICHELLE W. BOWMAN

Q.1. The Federal Reserve is one of the agencies 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 servicemembers and their families. 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.

Q.1.a. Do you support these stronger MLA rules? If confirmed, will you ensure that the MLA is vigorously enforced?

A.1.a. The Military Lending Act (MLA) provides special consumer protections for service members 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 that Federal Reserve staff has worked with Department of Defense staff to carry out that mandate and, if confirmed, I will support that effort as well as the Federal Reserve's full enforcement of the MLA at the institutions it supervises.

Q.1.b. If changes are made to the Community Reinvestment Act that lead to financial institutions, including those that have an online presence, to take deposits from communities but actually make less of an effort to reinvest in these same communities, would you consider that to be a good or bad outcome?

A.1.b. The Community Reinvestment Act (CRA) was enacted to ensure that banks help meet the credit needs of the communities where they are chartered to do business.

As a community banker and bank commissioner, it is my interest to see credit flowing to consumers and businesses in all communities consistent with safe and sound lending—including in low- and moderate-income areas—to further economic development and financial inclusion.

I believe that any revisions to CRA that expand the area within which a bank's CRA performance is evaluated should ensure that the new areas are consistent with the original intent of the law, and that changes would include clear guidance to banks so that they are able to comply.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR MENENDEZ FROM MICHELLE W. BOWMAN

Q.1. Will you commit that if confirmed, you will ignore any political pressure or interference, whether it be direct or indirect from the President or any other member of the Administration?

A.1. Yes.

Q.2. Do you agree that the achievement of full employment should be associated with strong and broad-based wage growth for average workers, not just senior executives and managers?

A.2. The labor market remains strong. Job gains have been solid, on average, in recent months, and the unemployment rate has fallen to 3.9 percent, the lowest level in many years. However, wage growth is also a very important issue, and while it is encouraging that wages seem to be rising a little faster than a few years ago, I would like to see stronger wage growth. In addition, I think that, as the economy improves, it is important that a wide range of individuals and communities benefit from a strong labor market. The Federal Reserve can best help a broad range of workers by focusing on achieving its dual mandate of full employment and stable inflation.

Q.3. Why isn't this tight labor market forcing employers to offer higher and more competitive wages?

A.3. Even though wage growth has been slow relative to previous decades, most measures of aggregate wages have increased gradually over the past few years as the labor market has tightened. Moreover, we have seen some indications that workers are benefiting from a tighter labor market in ways other than higher wages. Firms appear to be searching out workers whom they might have previously passed over and seem to be more willing to offer training to workers whose skills need to be improved. I expect these trends to continue and expect workers to reap greater benefits from the strong labor market.

Q.4. To what extent has workers' decreased leverage to negotiate with their employers impacted their ability to demand higher wages?

A.4. Over much of the recovery, many workers had very little negotiating leverage with employers because labor was abundant, but jobs were not. This has changed in recent years, and there are signs that negotiating leverage for at least some workers has increased. Some firms are exerting considerably greater effort to find and sign workers, which gives sought-after employees some negotiating leverage. Looking back over a longer time period, it could be that changes in technology, or other factors, may have decreased worker negotiating leverage by, for example, increasing employers' ability to monitor workers, automate tasks or shift production to different locations. But it is difficult to know how much such longer-term developments have affected negotiating leverage and wages.

Q.5. Do you agree with Federal Reserve Governor Brainard that it is important to retain a focus on place as the Federal Reserve contemplates changes to the Community Reinvestment Act? Do you agree that in some low-income and hard to reach communities, physical branches are sometimes the only way to meet local credit needs?

A.5. In Governor Brainard's recent remarks on Community Reinvestment Act (CRA) modernization, she stated that the time is "ripe for a refresh to make it even more relevant to today's challenges." In particular, she focused on finding a way to expand the area in which a bank's CRA activities are evaluated, in addition to the importance of retaining a core focus on location.

In her statement, she cited research that demonstrates that branches are an important vehicle for reaching small business customers and low-income consumers.

I agree with her assessment that the agencies should focus on how to make the area where CRA activity is evaluated more meaningful to both banks and low- and moderate-income communities.

Q.6. Do you agree that robust enforcement against discriminatory or unfair and deceptive lending practices must work hand-in-hand with any revisions to the Community Reinvestment Act?

A.6. Discrimination and other illegal credit practices are barriers to helping to meet community credit needs and, as such, are inconsistent with the CRA.

I understand why the regulators take evidence of discrimination into account when assigning CRA ratings as prescribed in the CRA regulations.

I believe that there is a connection between CRA, fair lending, and laws protecting against other illegal credit practices, and this connection should be clear to bankers trying to comply with laws designed to ensure that consumers and communities have fair access to credit.

Q.7. A Treasury Department report issued in April recommends that the Federal Reserve adopt the OCC's new policy allowing banks with failing CRA ratings to merge or expand so long as they can demonstrate a potential benefit.

Do you think the Federal Reserve should adopt this policy?

A.7. One means of enforcing CRA is the bank applications process. An institution's most recent CRA record is a particularly important consideration in the applications process. In addition to wanting to serve their communities, banks know that CRA ratings are also important to their ability to grow and expand.

I understand that the Office of the Comptroller of the Currency's (OCC) guidance on how it will assess CRA ratings in the context of its review of a banking application has recently changed and varies from the Federal Reserve's guidance. If confirmed to the Federal Reserve Board (Board), I would want to understand how the Federal Reserve guidance is applied and the nature of the differences between its guidance and the OCC's approach.

Fundamentally, I believe that it is important to maintain the Congress' intent to use the CRA as a measure in evaluating banking applications, while ensuring that there is clarity and transparency for banks to understand how the guidance is applied.

Q.8. Prior to the financial crisis, regulators treated assets like subprime mortgage-backed securities as "low risk," which allowed big banks to load up on risky assets without the necessary capital backing. When the crisis hit, the Nation's biggest banks didn't have the capital to withstand the losses.

Do you agree that regulators and banks misperceived risks before the last crisis, and assigned low ratings to assets that were actually toxic?

A.8. The financial crisis highlighted deficiencies in both the quantity and quality of capital required by the banking agencies' regulatory capital rules. Since the crisis, U.S. banking agencies have substantially strengthened regulatory capital requirements for large banking firms. Maintaining the safety and soundness of the largest U.S. banks is fundamental to maintaining the stability of the U.S. financial system and the broader economy.

Q.9. Last month, the Fed and the OCC proposed a rule that would weaken the enhanced supplementary leverage ratio, a requirement that the Nation's biggest banks hold enough capital to support lending and absorb losses in a downturn. Those banks are required to meet leverage ratios at the holding company level and at the depository institution level—where the deposits are backed by taxpayers. According to the FDIC, this proposal would result in the departure of more than $120 billion in capital—capital that our regulators unanimously deemed necessary after the financial crisis to ensure our Nation's largest banks can withstand losses. Federal Reserve Governor Brainard voted against this proposal—the first dissent in the history of Board votes it keeps on it's website (315 votes total)—and the FDIC declined to join the proposal, a significant departure from other postcrisis rulemaking, even though the Fed and FDIC jointly established this rule after the crisis.

Are you at all concerned that without the backstop of an adequate leverage ratio for the Nation's eight biggest banks, banks will once again load up on so-called "low risk" assets, and place taxpayers at risk of future bailouts?

A.9. The supplementary leverage ratio is an important component of the regulatory capital framework. The enhanced supplementary leverage ratio standards applicable to U.S. global systemically important banks were intended to serve as an appropriate complement and strong backstop to these firms' risk-based capital requirements. It is important to get the relative calibration of the leverage and risk-based requirements right.

Experience suggests that the enhanced supplementary leverage ratio standards are currently calibrated too high, creating potential incentives for firms to disengage from certain low-risk, low-return financial activities that are beneficial for the economy. Similarly, they potentially incent high-risk, high-return activities. Modest recalibration can reduce these negative incentives while not materially changing overall large bank holding companies' capital requirements.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNER FROM MICHELLE W. BOWMAN

Q.1. I believe strongly in the importance of the Fed's independence. Recent comments from another Fed candidate (and former Fed Governor)—Kevin Warsh—suggest that President Trump has been anything but shy in revealing his preference for a low interest rate environment.

Q.1.a. Has the President—or anyone in the Administration—impressed upon you their beliefs on how you should vote on matters of monetary policy?

A.1.a. I have had no communication with the President or members of the Administration seeking to influence my position or future vote, if confirmed, on monetary policy issues.

Q.1.b. Do you commit to safeguarding the independence of our central bank?

A.1.b. I believe that Congress wisely chose to insulate monetary policy decisions from short-term political influences. Insulation from short-term political pressures is crucially important for the effective conduct of monetary policy, the Federal Reserve is and must also remain accountable to the public. If confirmed, I will be committed to building on the Federal Reserve's tradition of transparency, openness, and accountability while maintaining the independence of the Federal Reserve in the conduct of monetary policy.

Q.1.c. What do believe is the biggest threat to financial stability at the moment?

A.1.c. We have enjoyed many years of economic growth since the recession that followed the financial crisis. The financial system has been relatively stable during that period. As a result, there is a tendency to forget the lessons that we have learned. When we forget, however, we make ourselves vulnerable again.

A crucial lesson from the financial crisis is that we always need to be prepared. The reforms that have been implemented since the crisis have helped us to build a more resilient financial system. However, we cannot rest. We must be vigilant in monitoring the financial system, both the vulnerabilities that were important contributors to the financial crisis—like asset valuations, leverage, maturity transformation, and complexity—as well as new vulnerabilities that could emerge. Only with vigilance can we avoid the natural slide toward complacency that overtakes us as the distance between us and the crisis grows.

Q.1.d. Do you believe that Title II's Orderly Liquidation Authority is an important tool available at the Fed's disposal during a crisis? Would you vote to use the Authority if bankruptcy was not an appropriate method for resolving a systemic financial institution?

A.1.d. Bankruptcy should be the preferred resolution framework for a failing systemic financial firm, in the same way that it is the resolution framework for the holding companies of our Nation's community banks. However, as the Treasury noted in their report on Orderly Liquidation Authority and Bankruptcy Reform, it is important to have an emergency tool for use in extraordinary circumstances.

I would need to know all of the facts and circumstances before deciding whether it was appropriate to vote in favor of recommending that the Treasury Secretary use Title II's Orderly Liquidation Authority in connection with a specific failure. One aspect of Title II that I would weigh is that it does not allow for Government capital injections and requires that taxpayers suffer no losses from the resolution.

Q.1.e. Do you think current bank risk-based capital levels are too high, too low, or about right? How about the leverage ratio?

A.1.e. Maintaining the safety and soundness of the largest U.S. banks is fundamental to maintaining the stability of the U.S. financial system and the broader economy. To be safe and sound financial institutions, these firms must be well-capitalized. The U.S. banking agencies have substantially strengthened regulatory capital requirements for large banking firms, improving the quality and increasing the amount of capital in the banking system. Indeed, large U.S. banking firms have roughly doubled their capital positions from before the crisis to today, making them significantly more resilient, as well as able to support lending and financial intermediation in times of financial stress.

It is my understanding that reforms proposed by the Federal Reserve suggest that the enhanced supplementary leverage ratio standards may be currently calibrated too high, creating potential incentives for firms to disengage from certain low-risk, low-return financial activities that are beneficial for the economy. Additionally, I understand that modest recalibration may reduce these negative incentives while not materially changing overall large bank capital requirements.

Q.2. As you may know in S. 2155, we contemplate raising the enhanced prudential standards from $50 billion to $250 billion, with an 18 month-delayed effectiveness to give the Fed time to do a rulemaking and decide whether it should apply any of the enhanced prudential standards to banks between $100 billion and $250 billion.

What do you see as the most important enhanced prudential standards for these midsized banks?

A.2. I believe the bank regulatory framework should continue to protect the core tenets of regulatory reform—capital, stress testing, liquidity, resolution planning, and orderly liquidation authority.

However, not all standards are appropriate for all banking organizations, and it is appropriate to tailor regulation and supervision to the size, systemic footprint, and risk profile of individual institutions. Recognizing the levels and types of risk of the different institutions in the system improves the quality and efficiency of regulation.

Periodic supervisory stress testing is an important post-crisis reform maintained for banks with assets between $100 billion and $250 billion by the Economic Growth, Regulatory Relief, and Consumer Protection Act, and will help the Federal Reserve Board ensure that these firms are engaged in less burdensome but still robust, forward-looking capital assessments.

Q.3. The urban-rural economic divide is an area of particular interest for me and an area where I've done a lot of work. I believe that someone shouldn't be forced to leave their community to find a good paying job. As we've seen in the Great Recession and the recovery that's followed, the impacts of these macroeconomic trends are not universal and, in this case, have often been felt more harshly in rural areas.

- What do you believe to be the driving forces behind the decline of rural America? Is this trend the result of globalization and technological change?
- Do you believe these trends are irreversible?

A.3. I agree that the relatively poor labor market outcomes in rural areas in recent years is a big concern. Globalization and technological change may be playing a role, but determining the causes of these adverse trends is difficult. What's clearer to me is that these trends are reversible. Public policy can ameliorate, if not fully reverse, these trends by, for example, increasing infrastructure investment and promoting greater educational and job-training opportunities. Moreover, some current or future changes in technology can prove favorable to workers in rural areas by increasing their ability to work remotely, or by making it easier for production to be located in rural areas but still be connected to supply chains.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN FROM MICHELLE W. BOWMAN

Q.1. Do you believe that any U.S. banks are Too Big to Fail?

- If so, what can and should the Fed do to address this problem?
- If not, what evidence supports your conclusion?

A.1. I believe substantial progress has been made in making the financial system more resilient, particularly as a result of stronger capital, liquidity, stress testing, and resolution planning requirements that were introduced in the wake of the financial crisis. Activities and risks in the financial sector evolve quickly, however, especially at the largest firms, so I also believe that regulators need to closely monitor risks to the financial system over time and act accordingly.

Q.2. Section 402 of S. 2155, which recently passed the Senate and allows banks "predominantly engaged in custody, safekeeping, and asset servicing activities" to have less capital.

Q.2.a. Do you believe that language applies to JPMorgan Chase and Citigroup?

A.2.a. Section 402 of the Economic Growth, Regulatory Relief, and Consumer Protection Act allows depository institution holding companies that qualify as "custodial banks" to exclude reserves at certain central banks for purposes of leverage capital requirements. This section defines a custodial bank as any depository institution holding company that is predominantly engaged in custody, safekeeping and asset servicing activities (and any subsidiary depository institution of such a holding company) and the banking agencies could issue regulations to implement these provisions. Diversified bank holding companies, such as JPMorgan Chase and Citigroup, have significant custodial operations but these operations are relatively small compared to the companies' overall operations. Therefore, these organizations would not appear to qualify as "custodial banks."

Q.2.b. Would that analysis hold if those two banks created intermediate holding companies to house their custody services?

A.2.b. The Federal Reserve Board's (Board) regulatory capital rules are based on financial consolidation. Consolidation combines the assets and activities of the top-tier company and its subsidiaries so that they can be viewed holistically. In my current understating, if a depository institution holding company reorganized all of its custodial services under an intermediate holding company but made no other changes, the assets and activities of the top-tier, consolidated depository institution holding company would not be affected. Housing the custody services under an intermediate holding company therefore would not affect whether a company received capital relief under section 402 of the Economic Growth, Regulatory Relief, and Consumer Protection Act.

Q.3. Banks today reported record profits—up 27.5 percent from the first quarter of last year. The economy is nearly a decade into a long expansionary period.

Why is a reduction in capital requirements necessary or appropriate at this time?

A.3. It is clear that a resilient, well-capitalized financial system that is strong enough to withstand even severe shocks and support economic growth by lending through the economic cycle is needed. To that end, the U.S. banking agencies have acted to substantially strengthen regulatory capital requirements for U.S. banking firms, resulting in improved quality and an increase in our amount of capital in our banking system. At the same time, it is important to monitor the capital rules on an ongoing basis, to determine whether the framework is effectively measuring and addressing risk and working as intended, and to adjust the framework as needed.

Reforms proposed by the Federal Reserve suggest that the enhanced supplementary leverage ratio standards may be currently calibrated too high, creating potential incentives for firms to disengage from certain low-risk, low-return financial activities that are beneficial for the economy. Modest recalibration may reduce these negative incentives while not materially changing overall large bank capital requirements.

Q.4. Fed Chair Powell recently announced that the Fed's Board of Governors would vote on whether to relieve Wells Fargo from the growth restriction the Fed imposed on it pursuant to its February 2018 consent order.

Q.4.a. What kind of changes at Wells Fargo would you need to see before voting to lift the growth restriction?

A.4.a. As specified in the Consent Order, the firm must adopt and implement the remediation plans the Consent Order requires to improve Wells Fargo's governance and risk management, including internal controls and testing of those controls, particularly for compliance and operational risk.

I understand that the firm must also engage a third party to review the implementation of the plans and required improvements.

And furthermore, that a number of improvements must be made to the firms' governance and risk management practices to be fully compliant with the terms of the Consent Order. If confirmed, with regard to lifting the asset cap imposed, I would only vote to do so if the required improvements are implemented to the satisfaction of the Board.

Q.4.b. Do you believe the Fed should place more emphasis on finding diverse leaders for the regional banks? If so, how do you recommend changing the current hiring process so that it produces more diverse leaders?

A.4.b. My impression is that the Federal Reserve System and its leadership has placed considerable emphasis on increasing the diversity of senior leadership, and with some significant successes. However, I think all also agree that more must still be done. If confirmed, I will join the Board with the intent to devote time and attention to understanding the full range of challenges in this space, and think creatively about how the Board in particular can engage more effectively in support of the shared goal of a more diverse senior leadership.

In reviewing recent searches, I have observed that search committees have used a variety of new channels to solicit input on important attributes for the districts' presidents, as well as suggestions of specific individuals for consideration. They have also worked to make the process as transparent as possible. Outreach has occurred through social media—for example, webinars and YouTube videos—and also through more traditional efforts, such as meetings with key constituencies, including nonprofit and advocacy groups as well as the business community. All of this seems promising and important, and represents a foundation on which I hope we can continue to build.

I believe the Federal Reserve is committed to making further progress and to better understanding the challenges to promoting and improving diversity of ideas and backgrounds. It has described this as an ongoing objective, and I assure you that diversity will remain a high-priority objective for the Federal Reserve, if I am confirmed.

Q.4.c. The Fed is apparently participating in an interagency effort to reform regulations implementing the Community Reinvestment Act. In April, the Treasury Department sent a memo to the Fed, the OCC, and the FDIC recommending several rule changes. Do you disagree with any of the Treasury recommendations?

A.4.c. I understand that the Treasury's recommendations were based on a broad outreach effort and the summary sent to the agencies includes helpful insights.

As with any process, I believe that it is likely that some recommendations may be difficult to implement as a practical matter, such as the recommendation to standardize the examination schedules across the regulatory agencies.

If confirmed, I would want to review the recommendations to see which would result in improving the effectiveness of the Community Reinvestment Act (CRA), while focusing on potential ways to relieve regulatory burden for community banks.

I would like to see the agencies work together to find ways to accomplish both goals.

Q.4.d. What are your priorities for CRA reform?

A.4.d. There is a great deal of consensus among banks, community development organizations, and others regarding the need to make CRA evaluations more consistent and transparent.

I also agree that CRA should be revised in a way that encourages more lending and investment in underserved areas.

I believe these are good goals for the agencies to pursue and that any revisions to the CRA regulations need to balance the interests of both community and industry stakeholders.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM MICHELLE W. BOWMAN

Community Reinvestment Act

Q.1.a. Should CRA be expanded to all nonbanks? Some assert that in today's financial landscape, CRA compliance should be expanded to all nonbanks, including credit unions, fintechs, mortgage companies, investment, and others.

A.1.a. If confirmed, I assure you that I would be committed to using the authorities available to the Federal Reserve to identify and take action against discriminatory lending practices. However, as the scope of the Community Reinvestment Act (CRA) is mandated by statute, any expansion of its coverage to nondepository institutions would require a statutory change.

Q.1.b. Do you support a full scope review for CRA exams? Do you think geographical assessment areas should define CRA accountability both where the majority of branch lending and the majority of nonbranch lending occurs?

A.1.b. It is important that the agencies with rule writing authority for CRA (the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency) evaluate ways to provide a meaningful evaluation of a bank's CRA activities in all of the communities it serves.

My understanding is that the agencies are considering ways to make the area in which CRA performance is evaluated more reflective of current banking practices. I support that effort.

Q.1.c. If a fair lending exam detects a violation after a bank has been graded for its CRA exam, do you think the bank should receive a retroactive downgrade?

A.1.c. Discriminatory and other illegal credit practices hinder access to credit, which can limit opportunity in communities, and that is inconsistent with the spirit of the CRA.

I believe that regulators do take fair lending matters into consideration when assigning CRA ratings, as prescribed in the CRA regulations.

Given the importance of both the CRA and fair lending laws, I believe it is critical to ensure clarity in the rules and an understanding of compliance with those rules, and to ensure credit is flowing to consumers and businesses in all communities consistent with safe and sound lending, including in low- and moderate-income areas. Doing so, will help meet credit needs and further economic development and financial inclusion.

Q.2. Many Democratic, Republican, and Independent current and former regulatory officials raising concerns about the bank deregulation bill range from former Fed Chair Paul Volcker, former Fed Governor and Deputy Treasury Secretary Sarah Bloom Raskin, former FDIC Chair Sheila Bair, former Counselor to the Treasury Secretary Antonio Weiss, and former Deputy Governor of the Bank of England Paul Tucker. These former banking regulators either State that a $250 billion bank threshold is too high to protect financial stability or that we should not weaken the leverage rules for the largest banks, or both.

Do you think anything in S. 2155 puts the financial system at risk? Do you share the concerns raised by your predecessors? If so, why? If not, why not?

A.2. I believe that regulation and supervision should be tailored in a manner that allows the financial system to more efficiently support the real economy. The Federal Reserve has been working for many years to tailor regulation and supervision to the size, systemic footprint, and risk profile of individual institutions. Recognizing the levels and types of risk of the different institutions in the system improves the quality and efficiency of regulation, but I believe more tailoring can and should be done.

It is reasonable for Congress to raise the $50 billion asset threshold to limit the scope of the enhanced prudential standards to larger bank holding companies. My understanding is that the Economic Growth, Regulatory Relief, and Consumer Protection Act preserves the ability of the Federal Reserve to reach below the new $250 billion line, if warranted, to subject a firm to more stringent regulation. In general, the Act preserves the Federal Reserve's ability to adequately monitor and regulate systemic risk of banking firms as well as its ability to regulate banking firms for safety and soundness objectives.

I also support the Act's exemption for community banks from the Volcker rule. Such a move provides relief for thousands of small institutions that face ongoing compliance costs simply to confirm that their activities and investments are indeed exempt from the statute. An exemption at this level is not likely to increase risk to the financial system.

Q.3. CRA regulations establish different CRA exams for banks with different asset levels. Small banks, those with less than $307 million in assets, have the most streamlined exam that consists of only a lending test. Intermediate small banks (ISB), those with assets of $307 million to $1.226 billion, have exams that consist of a lending test and a community development (CD) test. The CD test assesses the level of CD lending and investing for affordable housing, economic development, and community facilities. Large banks, those with assets above $1.2 billion, have the most complex exams which consist of a lending test, an investment test, and a service test.

It is my understanding that your bank qualified as a small bank, so it had a streamlined exam focused on lending only. In your response to my question on what it would take for your bank to earn an outstanding rating instead of a satisfactory rating, you stated you found the exam guidelines unclear. Please identify where you feel CRA guidelines for small banks are unclear.[1]

A.3. In general, community bankers seek to serve their customers in ways that are safe and sound and within their institution's ability. I believe that community bankers, in spirit, would say they strive to be viewed as outstanding bankers by their customers and in their communities.

The CRA examination procedures describe a variety of factors that are taken into account, such as the economies and opportunities that may exist in the markets that the bank operates in. Given that such conditions can vary between examinations, and that the regulations are not prescriptive, it can be difficult for banks to have certainty as to what factors may be viewed as more favorable and result in an "Outstanding" rating.

Q.4. Chair Yellen was the first chair in Federal Reserve history to share data with this Committee about racial economic disparities during her semi-annual testimony. When she presented that data, she touted significant progress, and indeed, black unemployment fell from 11.8 percent at the beginning of her term to the current historically low figure of 6.9 percent.

What do you attribute this trend to? Do you think the attention that Janet Yellen paid to this issue and the policies of the Federal Reserve deserve credit for the progress that has been made?

A.4. With the aggregate unemployment rate near its lowest point since the 1970s, it is not surprising that the unemployment rate for African Americans is also close to its lowest point since then. Both figures reflect the long economic expansion our country has been enjoying. Although our macroeconomic performance cannot be attributed to any single factor, the efforts of the Federal Open Market Committee (FOMC) to achieve its dual mandate have likely been a contributing factor. Moreover, while monetary policy is blunt tool, which works by lifting the economy as a whole rather

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[1] CRA Examination Procedures Overview: Available at: *https://www.ffiec.gov/cra/pdf/cra__exsmall.pdf.*

than by targeting the well-being of any single group in our society, the efforts of the Federal Reserve to pay attention to the diversity of our economy contributes to a better understanding of how it works for all Americans, which should help to improve policymaking.

Q.5. At that same testimony where Janet Yellen presented information about racial economic disparities, she said, quote “it is troubling that unemployment rates for these minority groups remain higher than for the Nation overall, and that the annual income of the median African American household is still well below the median income of other U.S. households.”

Though African American unemployment is lower today, Chair Yellen’s point remains true. Do you think the recent progress is sufficient? What more can be done to ensure that unemployment among African Americans is equal to white unemployment? In addition to increasing employment rates for African Americans, what can the Fed do to increase wages and wealth for African Americans and Latinos?

A.5. The economic disparities between African American households relative to other U.S. households, with respect to both unemployment and incomes, are long-standing, and I would like to see the gap close further. By promoting a strong stable economy, the Federal Reserve can create widespread economic opportunities that both reduce unemployment and boost incomes among all households. African-Americans have also had problems accessing credit and other financial resources on an equal footing, and the Federal Reserve can use its regulatory and supervisory role to make sure that financial institutions meet their obligations in this regard. However, the tools available to the Federal Reserve cannot address many of the longstanding challenges facing African American communities. These actions would require action by Congress and State and local governments.

Q.6. Marvin Goodfriend, another nominee to the Federal Reserve Board of Governors has urged the Federal Reserve to incent spending by placing a tax on currency.[2]

Q.6.a. Do you support Mr. Goodfriend’s proposal to tax currency kept outside of circulation?

A.6.a. The United States dollar enjoys a well-earned status as a store of value and a reliable means of exchange both domestically and across the world. Any new policy that could undermine the confidence the world places in the dollar should be thought through very carefully and undertaken only after a great deal of study. Fortunately, the United States does not find itself in such a situation presently, as the U.S. economy is strong and inflation is close to 2 percent, so there is no need to contemplate such a tax.

Q.6.b. If Mr. Goodfriend’s proposal were to be implemented, can you estimate what the impact would be on savers and low-income depositors?

[2] Goodfriend, Marvin. “The Case for Unencumbering Interest Rate Policy at the Zero Bound.” Carnegie Mellon University. September 15, 2015. Available at:*https://www.kansascityfed.org/~/media/files/publicat/sympos/2016/econsymposium-goodfriend-paper.pdf.*

A.6.b. The effects of a currency tax on savers and low-income depositors are certainly part of the myriad of potential consequences that would have to be investigated if this policy were to be considered. As stated above, I believe that any new policy that could undermine the confidence the world places in the dollar should be thought through very carefully and undertaken only after a great deal of study. Moreover, the United States is not in a position of needing to consider such a policy at present.

Q.7. The Consumer Financial Protection Bureau has endured new leadership that is hostile to its mission. A number of enforcement actions aimed at helping people receive redress from fraud or overcharges has been stopped.

Q.7.a. If the Consumer Financial Protection Bureau's leadership refuses to ask for adequate funding or takes steps that you think are harmful to people or our economy, will you let Senate Banking Committee Members know? If so, how? If not, why not?

A.7.a. My understanding is that the Consumer Financial Protection Bureau (CFPB) consults with the Federal Reserve Board (Board) in its rulemakings and coordinates in the examinations as appropriate, but the Board does not have oversight of the CFPB organizational or structural design.

If confirmed to serve on the Board of Governors, I would fully support the Federal Reserve as it continues to carry out its supervisory and enforcement responsibilities to ensure that the banks it regulates are held accountable for compliance with all applicable Federal consumer protection laws and regulations.

Q.7.b. The Federal Reserve retains supervision and enforcement authority for financial institutions below $10 billion in assets. Please provide a list of public enforcement actions taken toward any Fed-regulated institutions in the past 3 years. Please note any fines or penalties assessed. Please note if you agree or disagree with these enforcement actions.

A.7.b. Bank supervisors have a responsibility to ensure that the institutions subject to the Federal Reserve's supervision operate safely and soundly and that they comply with applicable statutes and regulations, and additionally, that the Federal Reserve should use its formal enforcement authority to achieve these objectives where appropriate. I cannot comment on the specific circumstances of actions the Federal Reserve has taken in the past. A list of public enforcement actions taken against institutions regulated by the Federal Reserve in the past 3 years, including any civil money penalties assessed against the institution, is provided in *Appendix A* to this request.

Q.8. Some current Federal Reserve leaders support reducing banks' capital requirements. This concerns me as capital requirements have been a key tool in restoring the safety of the financial system since the crisis. Ensuring modest leverage ratios prevents banks from lending out more than they can afford to, and especially keeps them away from riskier assets like the ones that fueled the crisis.

For this reason, Democrats and Republicans in the House and Senate, as well as FDIC Vice Chair (and former Kansas City Fed President) Thomas Hoenig all support higher capital requirements, not lower ones. Do you support any changes to the current capital requirements for financial institutions? If so, please describe.

A.8. We need a resilient, well-capitalized financial system that is strong enough to withstand even severe shocks and support economic growth by lending through the economic cycle. To that end, the U.S. banking agencies have substantially strengthened regulatory capital requirements for U.S. banking firms, improving the quality and increasing the amount of capital in the banking system. At the same time, it is important to monitor the capital rules on an ongoing basis, to determine whether the framework is effectively measuring and addressing risk and working as intended, and to adjust the framework as needed.

Q.9.a. In recent years, Federal Reserve policymakers have warned that we should raise interest rates to counter asset bubbles destabilizing the financial system. Board of Governor Nominee Marvin Goodfriend has suggested replacing liquidity coverage ratios and a host of other regulations with tighter monetary policy.[3]

Do you believe that the blunt tool of monetary policy can be a substitute for sound financial protections? What is your understanding of the historical evidence surrounding the relationship between monetary policy and asset bubbles?

A.9.a. Monetary policy is the primary tool through which the Federal Reserve works to achieve the goals of price stability and full employment. To use that tool for other purposes could undermine its effectiveness for those goals, and thus monetary policy should not be considered a substitute for prudent financial and supervisory standards. As we learned in the crisis, the lack of such standards had significant consequence. The buildup of leverage and maturity transformation in the years leading up to the crisis left the U.S. and global economy vulnerable to shocks. When the housing market turned down, the effects of that shock were amplified as leverage was wound down and funding patterns shifted. The result was what we all painfully experienced as the financial crisis.

Post-crisis reforms have raised loss-absorbing capacity within the financial sector and reduced the susceptibility of the financial system to destabilizing runs. Of course, gaps exist in financial regulation, and therefore, changes in interest rates could at times be appropriate as a supplementary tool to address threats to full employment and price stability emanating from widespread imbalances or buildups of risk in areas where more-targeted tools are inadequate or nonexistent.

Understanding movements in asset prices is very difficult, and there are many factors that contribute to their short- and long-term movements. Monetary policy has not generally been a prime factor in historical episodes involving large increases in asset prices.

Q.9.b. Besides monetary policy, what other tools are available to temper asset bubbles?

A.9.b. Making a determination about the appropriate value of an asset is extremely difficult. Many factors come into play in the

[3] Senate Committee on Banking, Housing, and Urban Affairs, June 7, 2016, Hearing. Available at: *https://www.gpo.gov/fdsys/pkg/CHRG-114shrg21603/pdf/CHRG-114shrg21603.pdf.*

determination of both the short-term and long-term value. Instead of trying to determine every assets' appropriate value, it is important to monitor asset prices more broadly, along with the other crucial vulnerabilities that contribute to financial market difficulties, like leverage, maturity transformation, and interconnectedness. When shocks occur, it is those vulnerabilities that amplify the effects of the shocks and jeopardize the efficient functioning of the financial system, price stability, or full employment.

Because determination of the appropriate level of asset prices is difficult, we need to be prepared at all times by ensuring the safety and soundness of our financial institutions and our financial system through prudent regulations and supervisory standards. We never know when a negative shock can occur, including asset price reversals. As a result, the prudent capital, liquidity, and other regulations and policies adopted by the Federal Reserve are critical for the protection of our financial system going forward.

Q.10. In the years since the financial meltdown, the Federal Reserve has played a key role in putting our economy back on stable footing and setting the conditions for more robust growth. Still, there have been bills introduced that would eliminate the Fed's full employment mandate on the basis that, according to the bill's findings "at best, the Federal Reserve may temporarily increase the level of employment through monetary policy."

Can you elaborate on how the Fed influences employment in the short-run, and discuss whether failure to use monetary policy effectively in the face of severe downturns could do permanent damage to the level of unemployment in the economy?

A.10. In the short run, the Federal Reserve influences employment primarily through its effect on the financial conditions facing households and businesses. For example, lower interest rates promote household spending by reducing the cost of borrowing for big-ticket purchases such as houses and cars. Similarly, lower interest rates make it less costly for businesses to invest in new plants and equipment. This additional demand, in turn, leads to higher production, faster job growth, and rising household income and wealth. A failure to use monetary policy to effectively combat a severe downturn would risk persistently high unemployment and perhaps even risk falling into a harmful deflation where wages and prices actually fall.

Q.11. Critics of quantitative easing have argued that it is incompatible with the Fed's price stability mandate; however in discussing quantitative easing the Fed has consistently noted that the program is designed to promote a stronger pace of economic growth and to ensure that inflation, over time, is at levels consistent with the Fed's mandate.

Q.11.a. Can you comment on how the Fed's policies in recent years have actually supported the Fed's price stability mandate?

A.11.a. Faced with the most severe financial crisis since the Great Depression, the FOMC cut short-term interest rates to zero by the end of 2008. The Federal Reserve also turned to nontraditional tools such as asset purchases and forward guidance, as means of providing the additional accommodation. These policies put downward pressure on longer-term interest rates and helped to make financial conditions more accommodative, encouraging and supporting the economic recovery. By providing a cushion for aggregate demand during the recession and supporting spending during the recovery, the Federal Reserve's monetary policy measures helped to keep inflation close to 2 percent. In particular, in part because aggregate demand was supported by monetary policy, the U.S. economy avoided the severe downward pressure on the price level that occurred during the Great Depression, which in turn prevented inflation expectations from falling sharply below 2 percent.

Q.11.b. What does the latest research tell us about the effectiveness of the Fed's large scale asset purchases?

A.11.b. It is difficult to say with certainty what the effects of large-scale asset purchases have been, but most studies find that the purchases put downward pressure on long-term interest rates, which in turn lowered borrowing rates for businesses and consumers, and boosted stock prices. These effects served to bolster spending on goods and services by households and businesses, supporting the recovery.

Q.11.c. Is there any evidence that the Fed's asset-purchase program, which sought to support the economy by lowering long-term interest rates, has been a drag on U.S. productivity as some Republicans have suggested? Is there any evidence that the program has created a "false economy" as Trump has asserted?

A.11.c. I find it unlikely that the Federal Reserve's policies have contributed to the sluggish pace of productivity growth observed over recent years. It is more likely that factors such as subdued spending on investment and research and development by businesses, as well as a reduction in the skills of the labor force resulting from the financial crisis and ensuing recession, have weighed on productivity.

Q.11.d. How would the economy have likely fared in terms of unemployment, GDP, wage growth, *etc.,* had the Fed chosen not to pursue its asset purchase program?

A.11.d. The Federal Reserve conducts monetary policy to promote maximum employment and stable prices. Various research studies by academic and central bank economists suggest that the Federal Reserve's asset purchase programs helped to make financial conditions more accommodative, support economic recovery, strengthen labor market conditions, and foster price stability.[4]

Q.11.e. Is there any evidence that the Fed's stimulus program has paved the way for the next global meltdown, as Trump claimed?

A.11.e. While there are many sources of risk and uncertainty in the global economy, I believe the Federal Reserve's conduct of monetary policy has contributed to an improved global economic outlook by supporting the U.S. economic expansion and maintaining low and stable inflation.

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[4] See, for example, Eric M. Engen, Thomas Laubach, and David Reifschneider (2015), "The Macroeconomic Effects of the Federal Reserve's Unconventional Monetary Policies," Finance and Economics Discussion Series 2015–005, Washington: Board of Governors of the Federal Reserve System, February, *http://dx.doi.org/10.17016/FEDS.2015.005.*

Q.11.f. How does the Fed's balance sheet as a percentage of GDP compare with the balance sheets of the next largest economies? Do these countries have a dual mandate similar to the Fed?

A.11.f. The size of the Federal Reserve's balance sheet relative to nominal GDP currently stands at about 23 percent. Last October, the FOMC initiated its plan to normalize the size of the Federal Reserve's balance sheet. Under that plan, the size of the Federal Reserve's balance sheet will decline gradually over coming years. With nominal GDP expected to rise over that time, the size of the Federal Reserve's balance sheet relative to nominal GDP will likely decline appreciably.

The Federal Reserve's balance sheet as a percentage of GDP is smaller than those of most other major foreign central banks. The central bank balance sheets of the United Kingdom, the euro area, Japan, and Switzerland are about 28, 40, 100, and 120 percent of their nominal GDP, respectively. All of these central banks employed large-scale asset purchase programs to address the implications of the financial crisis in their countries.

All of these central banks operate with a single mandate to pursue price stability. However, in many cases, this mandate is treated as medium-term objective, and other goals, including output and employment stabilization and financial stability, are cited to justify deviations from price stability in the short run.

Q.12. It is my understanding that major central banks around the world maintain and have drawn on their authority to purchase a wide range of assets including corporate bonds, commercial paper, real estate investment trusts, and equities among other assets.

Q.12.a. Given the broad authorities available to other central banks, rather than shrink the Fed's tool kit, do you think Congress should consider expanding it?

A.12.a. As mandated by Congress, the Federal Reserve conducts monetary policy to promote maximum employment and price stability. It is important that the Federal Reserve has the tools it needs to fulfill this mandate. The Federal Reserve's purchases of Treasury securities and agency securities in the wake of the financial crisis were designed to ease financial conditions and promote the recovery.

The Federal Reserve is quite limited in the kinds of assets it can purchase, and those limits seem appropriate to me. Expanding the Federal Reserve's authority to allow it to purchase a broad range of securities could expose the Federal Reserve to pressures to influence the allocation of credit to particular sectors. Such pressures could threaten the Federal Reserve's independence, which is essential to allow the Federal Reserve to make decisions in the best interest of the Nation as a whole. Of course, it is up to Congress to determine the Federal Reserve's authorities.

Q.12.b. For example, with an expanded authority, could the Fed play a useful role in supporting municipal finance, student loan financing or other types of consumer credit during periods where each of these sectors experienced heightened distress?

Would you support or oppose such expansion of the Fed's authority?

A.12.b. Please see response to question 12a.

Q.12.c. As the Fed begins to shrink its balance sheet, what are some of the negative impacts that Senate Banking Committee Members should monitor? What concerns—if any—do you have about shrinking the balance sheet? What will you do to monitor the process of maturing securities to avoid a negative impact on the economy?

A.12.c. I believe that the gradual approach to removing policy accommodation that the FOMC has been pursuing has supported the economic recovery and helped the Committee make progress toward its 2 percent inflation objective. The program has proceeded smoothly thus far with no outsized financial market movements. If confirmed, I would support a continuation of clear communication about the FOMC's plans to shrink the Federal Reserve's balance sheet. My understanding is that, in the longer-run, the Federal Reserve intends to hold no more securities than it will need to implement monetary policy efficiently and effectively. I also understand that the Federal Reserve expects its holdings will eventually consist primarily of Treasury securities. The FOMC has stressed and I believe it is appropriate that the shrinking of the balance sheet remains data dependent, and that it could change its plans if confronted with a substantial deterioration in the economic outlook.

Q.13. Ms. Bowman, in your testimony, you stated, "the regulatory environment created in the aftermath of the crisis has disadvantaged community banks. If confirmed, I will bring this perspective to my work at the Board to ensure that rules preserve the resiliency of the financial system, but are appropriately tailored to the size, complexity, and risk of an institution."

As you know, the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111–203) rules are tailored so larger banks have higher standards than smaller banks. Of the 14 "major" rules issued by banking regulators pursuant to the Dodd-Frank Act, 13 either include an exemption for small banks or are tailored to reduce the cost for small banks to comply. Supervision and enforcement are also structured to pose less of a burden on smaller banks than they do on larger banks, such as by requiring less frequent bank examinations for certain small banks.

Q.13.a. Please explain which rules you think "have disadvantaged community banks?" Please explain which rules you think should be changed and how?

A.13.a. In my experience, both as a community banker and as the Kansas State Bank Commissioner, two aspects of bank regulation can be particularly problematic for community banks: complexity and a one-size-fits-all approach that does not sufficiently differentiate between large and small banks. I believe it is worth exploring whether some regulations can be made simpler while still achieving their prudential aims (the regulatory capital framework for community banks, for example, could perhaps be simplified). Likewise, I would support exempting small banks from regulations that address large-bank issues, such as the Volcker rule.

Q.13.b. Do you think community banks, those with less than $2 billion in assets, should follow Federal consumer protection rules?

A.13.b. Decisions about the application of Federal consumer protection rules and compliance by particular institutions are for Congress to decide through law, and as implemented by the responsible rulewriting agency. In this case the rulewriting agency is the CFPB.

That being said, I believe that consumer protection is important regardless of where a consumer chooses to bank or to seek credit or other financial products. I also believe there is agreement across the industry that one-size-fits-all regulation does not always work. Exemptions to rules are sometimes warranted, and asset size of financial institutions can be a factor used to make that determination.

Q.13.c. Do you think community banks should comply with the requirement that loans should be made to people who can repay them? This is called the "know before you owe" rule. Community banks are largely exempt from both mortgage origination and servicing rules because they are small creditors with less than $2 billion in assets or service fewer than 500 loans.

A.13.c. I feel strongly that we should not allow the risky underwriting standards used by many originators prior to the housing crisis to return. It is also important, however, that laws and rules do not needlessly prevent creditworthy borrowers from getting a mortgage.

Decisions about which banks must comply with consumer financial service laws are up to Congress through statute or implementation of the statute by the CFPB, as the responsible rulewriting agency, through regulation.

As Congress and the CFPB consider which banks should comply with particular underwriting rules, it is important to consider the impact of any rule on a community bank's ability to provide credit to reliable borrowers but whose creditworthiness may be difficult to capture in a broad, universally applied rule.

Q.13.d. Rules protecting people who send remittances apply to any financial institution that sends more than 100 remittances a year. Do you support changes to Regulation E/Electronic Fund Transfers? If so, how would you change this rule?

A.13.d. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the CFPB has exclusive rule writing authority to implement most consumer laws, including the Electronic Fund Transfer Act provisions governing remittance transfers, which the Bureau implements through Regulation E.

The CFPB, however, generally is required to consult with prudential regulators or other Federal agencies, including the Board, prior to proposing a rule and during the comment process regarding consistency with prudential, market, or systemic objectives administered by such agencies. (Sec. 1022(b) of the Dodd-Frank Act). If confirmed, I will work to ensure that the Board continues to fulfill its consultative role in Bureau rulemakings, including any rulemakings related to remittance transfers.

Q.13.e. Dodd-Frank limited compensation requirements for loan originators to prevent steering to high-cost loans. Only originators that make fewer than 10 loans in a 12-month period are exempt.

Do you support changes to the Loan Originator Compensation Requirements (Regulation Z)?

A.13.e. Under the Dodd-Frank Act, the CFPB has exclusive rule writing authority to implement most consumer laws, including the compensation rules for loan originators issued under the Truth in Lending Act. The Dodd-Frank Act also provides that the CFPB's rules are not subject to approval or review by the Board.

However, the Dodd-Frank Act also requires the CFPB to consult with prudential regulators, which includes the Board, before and during any rulemaking regarding the rules' consistency with prudential, market, or systemic objectives administered by the respective agency.

If confirmed, I will work to ensure that the Board continues to fulfill its consultative role in connection with the CFPB's rulemakings, including any rulemaking related to the loan originator compensation rules.

Q.13.f. Mortgage Servicing Rules under Regulation X and Z are designed to protect home buyers from high-cost loans. Servicers with fewer than 5,000 mortgage loans are exempted from some of these rules. What changes do your recommend to Regulations X and/or Z?

A.13.f. The CFPB has exclusive rule writing authority to implement most consumer laws, including the mortgage servicing rules under Regulation X and Z. The Dodd-Frank Act also speaks to the autonomy of the CFPB's rulemaking authority by providing, for example, that no rule can be subject to approval or review by the Board. (Sec. 1012(c) of the Dodd-Frank Act). Therefore, changes to the mortgage servicing rules under Regulations X and/or Z are up to the CFPB to decide.

The Dodd-Frank Act requires that the CFPB engage in an interagency consultation process during the proposed and final rulemaking process with all the prudential regulators.

If the CFPB decided to amend the mortgage servicing rules, I would expect that Board staff would participate in the CFPB's process, and review rulemakings to identify principal areas of concern and potential effects with respect to credit availability, safety and soundness, regulatory burden, consumer protection and compliance supervision.

Q.13.g. Do you think banks that make more than 25 mortgage loans should share the loan and borrower characteristics through the Home Mortgage Disclosure Act database?

A.13.g. Decisions about what information banks should provide under the Home Mortgage Disclosure Act (HMDA) are up to Congress through statute or as implemented by the CFPB, as the responsible rulewriting agency, through its regulation.

HMDA is a valuable public disclosure law, with the data reported being instrumental in enhancing supervisory and research efforts for more than 30 years.

I am aware that an intent of the recently passed Economic Growth, Regulatory Relief, and Consumer Protection Act is to provide regulatory relief from the HMDA data collection and reporting requirements as expanded by the Dodd-Frank Act for certain banks that have a lower volume of loan origination. I am also aware that the CFPB plans to revisit its 2015 rulemaking under HMDA to reevaluate institutional and transactional coverage, as well as what data should be collected and reported under HMDA.

As noted above, Congress requires the CFPB to engage in an interagency consultation process during the rulemaking process. If confirmed, I will work to ensure that the Board continues to fulfill its consultative role in connection with such rulemakings, including any rules under HMDA.

Q.13.h. Banks with assets under $50 billion are not required to comply with the liquidity coverage ratio. Do you think they should be? Why or why not?

A.13.h. Prudent liquidity management is important at all banks. Longstanding supervisory guidance emphasizes the importance of banks regularly monitoring their liquidity positions and maintaining sufficient levels of liquidity to meet anticipated and unexpected demands for funding. Supervisors monitor banks' liquidity levels using financial data provided by banks on quarterly Call Reports and review liquidity risk management practices in depth during bank examinations to ensure that banks are managing their liquidity in a safe and sound manner. In my experience, this supervisory approach has been effective for smaller banks. For larger, systemically important banks that have more complex funding profiles, the liquidity coverage ratio requirements are more important. In the case of these entities, the liquidity coverage ratio helps ensure that acceptable levels of liquidity are maintained in order to minimize the risk that a liquidity strain at one large bank causes broader disruptions to the financial system.

I understand that the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act provides additional discretion to the Federal Reserve to determine the appropriate supervisory tools to monitor liquidity in institutions with assets between $50 billion and $250 billion. If confirmed, I look forward to studying the liquidity coverage ratio and its effectiveness more closely and working with my Board colleagues to ensure that Federal Reserve supervision continues to promote effective liquidity risk management in all institutions under its supervision, regardless of their size or complexity.

Q.13.i. Banks with assets under $250 billion are not required to comply with regulatory capital rules. Do you think they should be? Why or why not?

A.13.i. Banks of all sizes must maintain adequate capital to ensure their safety and soundness. All banks are required to comply with regulatory capital rules. I believe it is appropriate that large banks are subject to more stringent capital requirements, reflecting their greater complexity and the greater risk they pose to the stability of the U.S. financial system.

Q.13.j. The Volcker rule which prohibits proprietary trading applies to all banks but has streamlined policies and procedures for banks with less than $10 billion in assets. Do you think banks under a certain size should be allowed to invest in hedge funds and private equity funds on their own behalf? Do you think the Volcker Rule should not apply to banks under a certain size?

A.13.j. Congress has recently spoken to this question by enacting legislation that excludes certain small banking organizations from the restrictions of the Volcker Rule. These firms do not have large trading operations in relation to their size. I believe that this reform will reduce regulatory burdens on community banks without causing harm to the financial system because these banks do not engage in the type of trading that the Volcker Rule was intended to restrict. Additionally, I believe that the regulatory regime that applies outside of the Volcker Rule is sufficient to protect the safety and soundness of community banks.

Q.13.k. Collateralized debt obligations backed by Trust Preferred Securities are restricted. Do you think banks under a certain size that hold CDO–TruPs should not have to comply with restrictions?

A.13.k. Interconnectedness in the banking system increases when banking organizations invest in other banking organization's capital securities, including through structured products. This interconnectedness heightens the likelihood that instability at one banking organization will spread to others, regardless of the size of the banking organizations involved.

Q.13.l. Debit card interchange fees and routing requirements do not apply to banks that have fewer than $10 billion in assets. Do you think banks under this size should comply with interchange fees and routing requirements?

A.13.l. I believe that it is a matter for Congress to decide what, if any, additional exemptions from these provisions should be provided.

Q.14. Let me ask you about other regulations that apply to banks but were not enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Q.14.a. Do you think the "primary duty" of a bank's board of directors is "to ensure the bank operates in a safe and sound manner"?

I believe that an effective board of directors is integral to the continuing safety and soundness of a banking firm, including its compliance with laws and regulations. I understand that the Federal Reserve has proposed guidance on board effectiveness in part, and in recognition that the supervisory expectations in existing guidance did not consistently focus on the core responsibilities of boards. The proposed guidance would eliminate unnecessary or outdated expectations and encourage boards to devote more time and attention to their core responsibilities, which when exercised effectively, promote the safety and soundness of the firm.

Q.14.b. Do you have recommendations for changes to the Bank Secrecy or Anti-Money Laundering rules?

A.14.b. Banks are required to comply with the Bank Secrecy Act and Anti-Money Laundering (BSA/AML) laws and regulations in order to safeguard the U.S. financial system from the risks of money laundering and terrorist financing. In my time as a banker at Farmers & Drovers Bank in Kansas, and as the Kansas State Bank Commissioner, I know that banks take this responsibility seriously, but this compliance incurs significant costs and resources, especially for smaller banks.

BSA/AML regulations are generally issued by the Department of Treasury's Financial Crimes Enforcement Network (FinCEN) or on an interagency basis, which means that most BSA/AML requirements are handled on an interagency basis. Further, I understand that the Federal Reserve participates in several groups designed specifically for BSA/AML issues. Notably, the Federal Reserve participates, along with other Federal banking agencies and the Conference of State Banking Supervisors, in the Federal Financial Institutions Examination Council (FFIEC) BSA/AML Working Group, which meets regularly to discuss various BSA/AML supervisory and policy matters. The Federal Reserve also participates in the BSA Advisory Group (BSAAG), which brings together Federal and State financial regulatory agencies, FinCEN, law enforcement and industry.

I do not have any recommendations for changes to the BSA/AML laws and regulations at this time; however, I support continuation of the Federal Reserve's interagency efforts to increase the efficiency, transparency, and effectiveness of the supervision and regulation of financial institutions, including those related to compliance with BSA/AML rules.

Q.15. In 2017, when you served as the Banking Commissioner of Kansas, George and Agatha Enns conspired with Plains State Bank employees to launder money. The Enns were sentenced to 3 years of probation and forfeited nearly $2 million in ill-gotten gains.

Q.15.a. What was the Enns' crimes? What was the role of the Kansas Banking Commission and your role personally in this investigation and lawsuit?

A.15.a. The Office of the State Bank Commissioner (OSBC) shares regulatory authority with Federal agencies in enforcing banking laws. The Department of Justice, in consultation with the FDIC, IRS and DEA, prosecuted George and Agatha Enns and certain employees of the Plains State Bank for crimes of conspiracy to commit money laundering, failing to file a Suspicious Activity Report, and money laundering that occurred from 2011 to 2014. The indictments were unsealed in April 2015. The Department of Justice did not consult with the OSBC in this matter, and no Kansas Bank Commissioner has played a role in this Federal criminal action. The charges alleging that the Plains State Bank employees failed to file SAR reports for activity conducted 2011–2014 were dropped in this case.

Q.15.b. Please describe other criminal and civil lawsuits that occurred during your tenure as Commissioner.

A.15.b. The OSBC is currently involved in an ongoing case filed in 2008 resulting from the actions of a previous Bank Commissioner as described below.

Columbian Financial Corporation v. Bowman, in her official capacity as Bank Commissioner of Kansas, et al.

Columbian Bank and Trust Company was a State-chartered bank regulated by the OSBC. On August 22, 2008, the then-Kansas Bank Commissioner declared the bank insolvent and appointed the FDIC as receiver due to a liquidity failure. Shortly thereafter, Columbian Financial Corporation, as the sole shareholder of Columbian Bank and Trust Company, began litigating the Declaration of Insolvency and Tender of Receivership in State and Federal courts. Most recently, Columbian Financial Corporation filed in the District Court of Kansas alleging violations of 42 U.S.C. § 1983 by the Bank Commissioner of Kansas in the Commissioner's official capacity. Due to being appointed as the Bank Commissioner of Kansas, I was substituted as a defendant in this official capacity on September 18, 2017.

In 2008, Columbian Financial Corporation alleged that the Bank Commissioner in his official capacity denied Columbian Bank and Trust Company and Columbian Financial Corporation due process by declaring the bank insolvent, seizing the bank's assets and not providing adequate constitutional protections and remedies before and after the declaration and seizure. The allegations contained in the suit arise from the actions of the former Bank Commissioner who made the decision to close the bank. On November 21, 2017, I, in my capacity as Bank Commissioner, filed a motion for summary judgment and alterative motion for judgment on the pleadings based on the doctrinal bars of *res judicata* and collateral estoppel alleging Columbian Financial Corporation had a full and fair opportunity to litigate these allegations in an administrative hearing and judicial review in the Kansas court system. On May 17, 2018, the District Court of Kansas granted the Commissioner's motion for summary judgment and dismissed the case finding the previous State proceedings did not fall below the minimum procedural requirements of the Due Process Clause. As of this writing, Columbian Financial Corporation has not filed an appeal.

Appendix A Federal Reserve Enforcement Actions
Jan. 2015 - May 2018

Name of Entity	Type of Enforcement Action	Issue Type (e.g. Safety and Soundness, BSA/AML, etc.)	Effective/Issued Date
Affinity Financial Corp., Newport Beach, California, and Waterfield Financial Services, Inc., Indianapolis, Indiana	C&D Order	Safety and Soundness	6/13/2016
Agricultural Bank of China, Beijing, Peoples Republic of China, and Agricultural Bank of China New York Branch, New York, New York	C&D Order	BSA/AML	9/28/2016
Allied Bank, Mulberry, Arkansas	PCA	Safety and Soundness	8/15/2016
Banco Bilbao Vizcaya Argentaria S.A., Bilbao, Spain, and BBVA Securities, Inc., New York, New York	$27,000,000 CMP	Safety and Soundness	12/21/2016
Bank & Trust, S.S.B., Del Rio, Texas	C&D Order	BSA/AML	8/18/2017
Bank of America Corp., Charlotte, North Carolina	C&D Order & $205,000,000 CMP	FX	5/20/2015
Bank of Fayette County, Piperton, Tennessee	$12,000 CMP	Flood Insurance	4/26/2018
Bank of Gueydan, Gueydan, Louisiana	$7,000 CMP	Flood Insurance	10/6/2017
Bank of Monroe, Union, West Virginia	$28,640 CMP	Flood Insurance	11/23/2015
Bank of New York Mellon Corp., New York, New York	$3,000,000 CMP	Safety and Soundness	6/27/2017
Bank of Nova Scotia, Toronto, Canada, and Bank of Nova Scotia New York Agency, New York, New York	Written Agreement	BSA/AML	11/5/2015
Bank of Star City, Star City, Arkansas	$11,000 CMP	Flood Insurance	3/27/2017
Bank of the Orient, San Francisco, California	C&D Order	BSA/AML	6/17/2015
Barclays Bank plc, London, England, and Barclays Bank plc New York Branch, New York, New York	C&D Order & $342,000,000 CMP	FX	5/20/2015
BB&T Corp., Winston-Salem, North Carolina	C&D Order	BSA/AML	1/25/2017
BCBank, Inc., Philippi, West Virginia	$5,000 CMP	Flood Insurance	6/1/2015
BNP Paribas S.A., Paris, France, and BNP Paribas USA, Inc., New York, New York, and BNP Paribas Securities Corp., New York, New York	C&D Order & $246,375,000 CMP	FX	7/17/2017

Appendix A Federal Reserve Enforcement Actions
Jan. 2015 - May 2018

Name of Entity	Type of Enforcement Action	Issue Type (e.g. Safety and Soundness, BSA/AML, etc.)	Effective/Issued Date
Calumet County Bank, Brillion, Wisconsin	Written Agreement	Safety and Soundness	12/17/2015
Cecil Bank, Elkton, Maryland	PCA	Safety and Soundness	8/7/2015
Chicago Shore Corp., Chicago, Illinois, and Security Chicago Corp., Chicago, Illinois	Written Agreement	Safety and Soundness	10/28/2016
China Construction Bank Corp., Beijing, People's Republic of China, and China Construction Bank New York Branch, New York, New York	Written Agreement	BSA/AML	7/16/2015
CIT Group, Inc., Livingston, New Jersey	$5,200,000 CMP	Mortgage Servicing	1/12/2018
Citigroup Inc., New York, New York	C&D Order & $342,000,000 CMP	FX	5/20/2015
Clear Mountain Bank, Bruceton Mills, West Virginia	$14,000 CMP	Flood Insurance	2/12/2018
CommerceWest Bank, Irvine, California	C&D Order	BSA/AML	4/12/2016
Commerzbank AG, Frankfurt am Main, Germany	C&D Order & $200,000,000 CMP	BSA/AML and OFAC	3/12/2015
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., Utrecht, Netherlands, and Rabobank Nederland New York Branch, New York, New York	Written Agreement	BSA/AML	6/30/2015
Covenant Bancgroup, Inc., Leeds, Alabama	Written Agreement	Safety and Soundness	12/28/2015
Credit Agricole S.A., Paris, France	C&D Order & $90,300,000 CMP	OFAC	10/19/2015
Customers Bank, Phoenixville, Pennsylvania	C&D Order & $960,000 CMP	FTC Act	12/2/2016
Deutsche Bank AG, Frankfurt am Main, Germany	C&D Order & $19,710,000 CMP	Volcker	4/20/2017
Deutsche Bank AG, Frankfurt am Main, Germany	C&D Order & $58,000,000 CMP	OFAC	11/4/2015
Deutsche Bank AG, Frankfurt am Main, Germany, and DB USA Corp., New York, New York, and Deutsche Bank AG New York Branch, New York, New York	C&D Order & $136,950,000 CMP	FX	4/20/2017

Appendix A Federal Reserve Enforcement Actions
Jan. 2015 - May 2018

Name of Entity	Type of Enforcement Action	Issue Type (e.g. Safety and Soundness, BSA/AML, etc.)	Effective/Issued Date
Deutsche Bank AG, Frankfurt am Main, Germany, and DB USA Corp., New York, New York, and Deutsche Bank AG New York Branch, New York, New York, and Deutsche Bank Trust Company Americas, New York, New York	C&D Order & $41,000,000 CMP	BSA/AML	5/26/2017
Discover Financial Services, Riverwoods, Illinois	Written Agreement	BSA/AML	5/26/2015
East West Bank, Pasadena, California	Written Agreement	BSA/AML	11/9/2015
Everbank Financial Corp, Jacksonville, Florida	$1,800,000 CMP	Mortgage Servicing	6/8/2017
Farmers & Merchants Bank of Ashland, Ashland, Nebraska	$6,200 CMP	Flood Insurance	4/26/2016
Farmers State Bank, Victor, Montana	$12,000 CMP	Flood Insurance	10/6/2017
Fayette County Bank, St. Elmo, Illinois	Written Agreement	Safety and Soundness	6/22/2015
Fayette County Bank, St. Elmo, Illinois	PCA	Safety and Soundness	10/31/2016
Federal One Holdings, LLC, Milton, Massachusetts, and Admirals Bancorp, Inc., Boston, Massachusetts	Written Agreement	Safety and Soundness	7/28/2017
First Bankshares, Inc., Barboursville, West Virginia	Written Agreement	Safety and Soundness	8/8/2016
First Community Bank, Glasgow, Montana	$27,285 CMP	Flood Insurance	5/11/2016
First Iowa State Bank, Keosauqua, Iowa	$7,500 CMP	Flood Insurance	6/1/2015
First Nebraska Bank, Valley, Nebraska	$55,500 CMP	Flood Insurance	9/13/2017
First State Bank of Colorado, Hotchkiss, Colorado	$9,285 CMP	Flood Insurance	9/18/2015
Four Oaks Bank & Trust Company, Four Oaks, North Carolina	Written Agreement	Safety and Soundness	7/30/2015
Freedom Bank of Virginia, Fairfax, Virginia	$2,100 CMP	Flood Insurance	5/11/2015
Goldman Sachs Bank USA, New York, New York	$90,000 CMP	Flood Insurance	1/12/2018
Goldman Sachs Group, Inc., New York, New York, and Goldman Sachs Bank USA, New York, New York	$14,000,000 CMP	Mortgage Servicing	1/12/2018

Appendix A Federal Reserve Enforcement Actions
Jan. 2015 - May 2018

Name of Entity	Type of Enforcement Action	Issue Type (e.g. Safety and Soundness, BSA/AML, etc.)	Effective/Issued Date
Goldman Sachs Group, Inc., New York, New York, and Goldman, Sachs & Co. New York, New York	C&D Order & $36,300,000 CMP	Safety and Soundness	8/2/2016
Goldman Sachs Group, Inc., New York, New York	C&D Order & $54,750,000 CMP	FX	5/1/2018
Habib Bank Limited, Karachi, Pakistan, and Habib Bank Limited New York Branch, New York, New York	C&D Order	BSA/AML	12/11/2015
Hazard Bancorp, Hazard, Kentucky, and Peoples Bank and Trust Company of Hazard, Hazard, Kentucky	Written Agreement	Safety and Soundness	3/3/2016
Heartland Bank, Little Rock, Arkansas	PCA	Safety and Soundness	8/15/2017
Higher One, Inc., New Haven, Connecticut	C&D Order & $2,231,250 CMP & $24,000,000 Restitution	FTC Act	12/23/2015
HSBC Holdings plc, London, England, and HSBC North America Holdings Inc., New York, New York	C&D Order & $175,296,000 CMP	FX	9/29/2017
HSBC North America Holdings, Inc., New York, New York, and HSBC Finance Corp., Mettawa, Illinois	$131,000,000 CMP	Mortgage Servicing	2/5/2016
Hua Nan Commercial Bank Ltd., Taipei City, Taiwan, and Hua Nan Commercial Bank Ltd., New York Agency, New York, New York	C&D Order	BSA/AML	4/19/2018
Independent Bank, Grand Rapids, Michigan	$56,205 CMP	Flood Insurance	8/27/2015
Industrial and Commercial Bank of China Ltd., Beijing, People's Republic of China, Industrial, and Commercial Bank of China Ltd. New York Branch, New York, New York	C&D Order	BSA/AML	3/12/2018
Industrial Bank of Korea, Seoul, South Korea, and Industrial Bank of Korea New York Branch, New York, New York	Written Agreement	BSA/AML and OFAC	2/24/2016
JPMorgan Chase & Co., New York, New York	C&D Order & $342,000,000 CMP	FX	5/20/2015
JPMorgan Chase & Co., New York, New York	C&D Order & $61,932,500 CMP	Safety and Soundness	11/17/2016
Liberty Bank, South San Francisco, California	Written Agreement	BSA/AML	8/5/2016
Markesan State Bank, Markesan, Wisconsin	Written Agreement	Safety and Soundness	9/8/2017
Mega International Commercial Bank Co., Ltd., Taipei, Taiwan	C&D Order & $29,000,000 CMP	BSA/AML	1/17/2018

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Name of Entity	Type of Enforcement Action	Issue Type (e.g. Safety and Soundness, BSA/AML, etc.)	Effective/Issued Date
Mesquite Financial Services, Inc., Alice, Texas	Written Agreement	Safety and Soundness	7/6/2017
Mid America Bank and Trust Company, Dixon, Missouri	C&D & $5,000,000 Restitution	FTC Act	10/26/2017
Morgan Stanley, New York, New York	$8,000,000 CMP	Mortgage Servicing	1/12/2018
National Bank of Pakistan, Karachi, Pakistan, and National Bank of Pakistan, New York Branch, New York, New York	Written Agreement	BSA/AML	3/14/2016
NongHyup Bank, Seoul, South Korea, and NongHyup Bank, New York Branch, New York, New York	Written Agreement	BSA/AML	1/17/2017
OSB Community Bank, Brooklyn, Michigan	Written Agreement	Safety and Soundness	7/30/2015
Peoples Bank, Lawrence, Kansas	C&D & $2,800,000 Restitution	FTC Act	11/28/2017
Platte Valley Bank, Scottsbluff, Nebraska	$33,785 CMP	Flood Insurance	3/6/2017
PNC Financial Services Group, Inc., Pittsburgh, Pennsylvania	$3,500,000 CMP	Mortgage Servicing	1/12/2018
Raton Capital Corp., Raton, New Mexico	Written Agreement	Safety and Soundness	7/10/2015
Rock Bancshares, Inc., Little Rock, Arkansas, and Heartland Bank, Little Rock, Arkansas	Written Agreement	Safety and Soundness	12/13/2016
Royal Bank of Scotland, Edinburgh, Scotland, and RBS Securities Inc., Stamford, Connecticut	C&D Order & $274,000,000 CMP	FX	5/20/2015
Santander Holdings USA, Inc. Boston, Massachusetts, and Santander Consumer USA, Inc., Dallas, Texas	Written Agreement	Safety and Soundness	3/21/2017
Santander Holdings USA, Inc. Boston, Massachusetts	Written Agreement	Safety and Soundness	7/2/2015
Seaway Bancshares, Inc., Chicago, Illinois	Written Agreement	Safety and Soundness	6/24/2015
ServiceLink Holdings, LLC, Jacksonville, Florida	$65,000,000 CMP	Mortgage Servicing	1/23/2017
Société Générale S.A., Paris, France, and Société Générale New York Branch, New York, New York	C&D Order	BSA/AML	12/14/2017

Appendix A Federal Reserve Enforcement Actions
Jan. 2015 - May 2018

Name of Entity	Type of Enforcement Action	Issue Type (e.g. Safety and Soundness, BSA/AML, etc.)	Effective/Issued Date
State Street Corp., Boston, Massachusetts, and State Street Bank and Trust Company, Boston, Massachusetts	Written Agreement	BSA/AML	5/28/2015
SunTrust Bank, Atlanta, Georgia	$1,501,000 CMP	Flood Insurance	5/24/2017
Tri-County Bank, Brown City, Michigan	$5,000 CMP	Flood Insurance	11/18/2015
Truxton Trust Company, Nashville, Tennessee	$11,285 CMP	Flood Insurance	4/29/2015
U.S. Bancorp, Minneapolis, Minnesota	$4,400,000 CMP	Mortgage Servicing	1/12/2018
U.S. Bancorp, Minneapolis, Minnesota and USB Americas Holding Co., Minneapolis, Minnesota	C&D Order & $15,000,000 CMP	BSA/AML and OFAC	2/14/2018
UBS AG, Zurich, Switzerland, and UBS AG Stamford Branch, Stamford, Connecticut	C&D Order & $342,000,000 CMP	FX	5/20/2015
Wayne Bank and Trust Company, Cambridge City, Indiana	$23,000 CMP	Flood Insurance	10/31/2017
Wells Fargo, San Francisco, California	C&D Order	Safety and Soundness	2/2/2018

May 14, 2018

The Honorable Michael Crapo
Chairman
U.S. Senate Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
U.S. Senate Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown:

We write today in support of the nomination of Dr. Richard Clarida to be the Vice Chair of the Board of Governors of the Federal Reserve. Each of us has known Dr. Clarida for many years and has high regard for his academic work and professional qualifications.

Dr. Clarida is one of the nation's leading monetary policy scholars. He has been a Professor of Economics at Columbia University for three decades and has published widely in the top economics journals. His expertise in monetary issues, together with his thoughtfulness and good judgment, will be invaluable assets to the Federal Open Market Committee and the Federal Reserve System.

Dr. Clarida also possesses extensive public and private sector experience. He served as the Assistant Secretary for Economic Policy at the United States Treasury, where he was awarded the Treasury Medal for Distinguished Service, and as a Senior Staff Economist at the Council of Economic Advisers. In addition, his private sector roles have given him important experience with the functioning of financial markets, which will be useful for making monetary policy as well as in discharging the Federal Reserve's responsibilities to oversee banking institutions and to promote financial stability.

Finally, we are confident that Dr. Clarida, if confirmed, will uphold the Federal Reserve's tradition of independence and nonpartisan policymaking. He understands the importance of hearing all sides of an issue and making policy decisions based on the best available data. Accordingly, we believe he is well qualified to serve as the Vice Chair of the Federal Reserve Board and strongly support his nomination.

Sincerely,

Dr. Ben Bernanke
Former Chairman of the Board of Governors of the Federal Reserve
Former Chairman of the Council of Economic Advisors

Dr. Stanley Fischer
Former Vice-Chairman of the Board of Governors of the Federal Reserve

Dr. Alan Blinder
Former Vice-Chairman of the Board of Governors of the Federal Reserve

Dr. Martin Feldstein
Former Chairman of the Council of Economic Advisors

ICBA
INDEPENDENT COMMUNITY
BANKERS *of* AMERICA®

May 14, 2018

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing,
and Urban Affairs
Washington, D.C. 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
Washington, D.C. 20510

Dear Chairman Crapo and Ranking Member Brown:

On behalf of the nearly 5,700 community banks represented by the Independent Community Bankers of America (ICBA), I write to express our enthusiastic support for the nomination of Michelle "Miki" Bowman for the Federal Reserve Board of Governors (Board). Ms. Bowman is highly qualified to fill this important post by virtue of her broad government and bank regulatory experience and her impressive community banker credentials. I expect her to make an invaluable contribution to Board deliberations and to strengthen the Board's rulemaking and open market operations.

Ms. Bowman is a superb choice to fill the Board seat reserved for an individual with community banking regulatory or business experience. ICBA worked hard to ensure the Board had a dedicated member with community bank experience and fought to have that requirement enacted into law. That position has not been filled since it was required by Congress in 2014. We are proud that Ms. Bowman has been nominated to fill this important seat. Ms. Bowman knows community banking from the inside as a fifth generation Kansas community banker. She is also a top financial regulator, currently serving as Kansas Bank Commissioner. She has been an officer of the Farmers and Drovers Bank of Council Grove, Kansas, where she was involved in both the lending and compliance aspects of the business. She has also worked in her family's cattle and farm operation and thus appreciates the link between agriculture and community banking and the importance of both to our national economy.

In Washington, Ms. Bowman has worked both in Congress and the Administration. She served on the personal staff of Senator Bob Dole and as counsel to several House committees. She was appointed by President George W. Bush to serve as an executive at the Federal Emergency Management Agency and later as Deputy Assistant Secretary and Policy Advisor to the Secretary for Homeland Security. She holds a Juris Doctorate from Washburn University School of Law and a Bachelor of Science from the University of Kansas.

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I can tell you that the community bankers who know Ms. Bowman best, her industry colleagues in Kansas, are thrilled by her nomination and the prospect of her service on the Board. With nearly 5,700 community banks nationwide, we look forward to Ms. Bowman's representation and input on the Federal Reserve Board. Thank you for scheduling her nomination hearing. I urge that she be voted out of committee and confirmed by the Senate expeditiously.

Sincerely,

/s/

Rebeca Romero Rainey
President & CEO

CC: Members of the Senate Committee on Banking, Housing, and Urban Affairs

Chapter 2 - Structural Change Among Community and Noncommunity Banks

In the past 25 years, the number of banks has declined sharply. Between 1984 and 2011, the total number of federally insured bank and thrift charters declined by 59 percent, from 17,901 to 7,357. A confluence of new charters, failures, mergers between banking companies, and consolidation of charters within holding companies underlie this decline. Moreover, these changes and other structural changes in the industry (such as the enormous growth among the very largest banks) have taken place in distinct waves associated with banking crises and the business cycle and were influenced by regulatory changes that have generally been conducive to consolidation over time.

Community banks emerged from this period fewer in number and with a diminished share of banking industry assets. Nonetheless, they continue to represent by far the most common business model among FDIC-insured institutions.

This chapter analyzes the decline in the number of banks to determine the effects of consolidation, mergers, failures, and new charters individually. In order to gauge the stability of banks of differing asset size, rates of consolidation, merger, failure, and survivorship are calculated by asset size groups and for community and noncommunity banks. The impact of bank failures among different bank groups is captured by computing a failure index, which measures the frequency of failures within one group relative to failures for all banks during any period.

Consolidation

The banking industry experienced much consolidation during the study period from 1984 through 2011.[1] Of the 15,432 banks (as opposed to banking organizations) that exited the industry between 1984 and 2011, 17 percent failed, 49 percent merged with an unaffiliated bank, and another 32 percent consolidated with other charters within their existing bank holding company.[2] These failures, mergers, and consolidation have occurred in distinct waves. Most failures during the period (2,555 in all) occurred because of the banking and thrift crisis of the late 1980s and early 1990s and the financial crisis of 2007-2008 and its aftermath (see Chart 2.1). In contrast, only 47 institutions failed during the interval from 1996 to 2005.

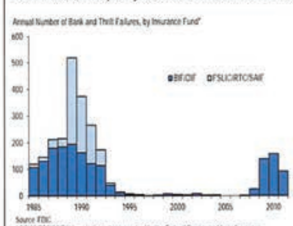
Mergers peaked in the mid-1980s and mid-1990s, during periods of economic expansion (see Chart 2.2). The average number of unassisted mergers was 346 per year between 1985 and 2000 and declined to 182 per year from 2001 through 2011, with the three slowest years for merger activity occurring between 2009 and 2011. The annual number of intracompany consolidations (see Chart 2.3) also generally rose in the late 1980s and then declined after the mid-1990s. Charter consolidations averaged 234

[1] The study period extends from year-end 1984 through year-end 2011. Time series analysis of stock variables (variables measured at a point in time) reported at year-end will extend from 1984 through 2011. Time series analysis of flow variables (variables measured across a period of time) will extend from 1985 through 2011.

[2] An additional 365 institutions (about 2 percent of charters) self-liquidated or otherwise exited the industry without failure or merger during this period.

Chart 2.1

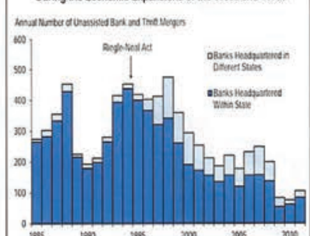
Bank and Thrift Failures Have Mostly Taken Place Within Two Distinct Crises, Interrupted by More Than a Decade of Few Failures



Source: FDIC.
* FSLIC/RTC/SAIF failures indicate those resolved by the Federal Savings and Loan Insurance Corporation (FSLIC), the Resolution Trust Corporation (RTC), or by the FDIC under its Savings Association Insurance Fund (SAIF). The SAIF was merged with the Bank Insurance Fund (BIF) to form the Deposit Insurance Fund (DIF) on March 31, 2006.

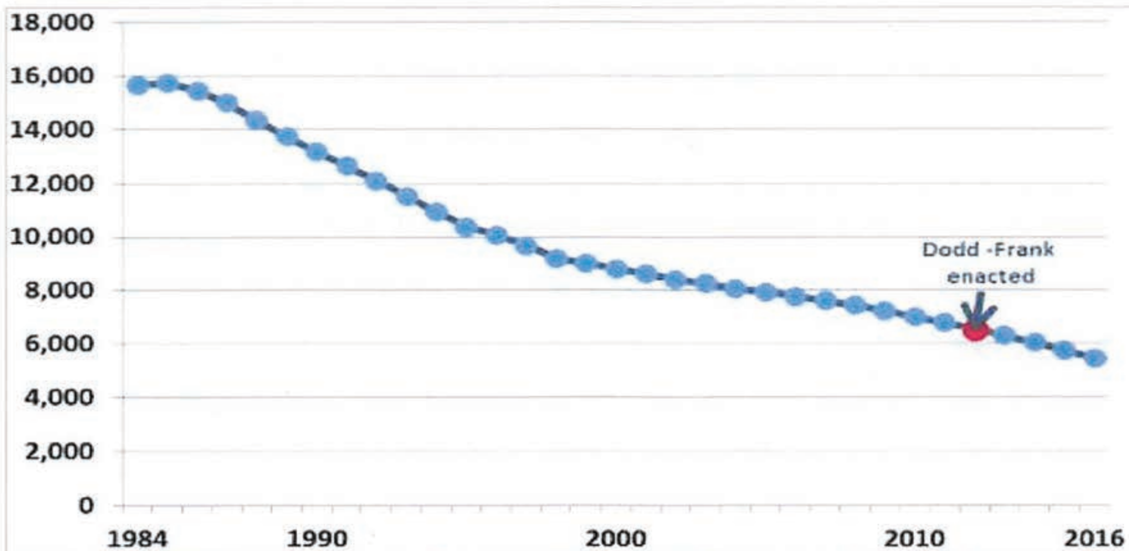
Chart 2.2

Unassisted Mergers of Banks and Thrifts Peaked During the Economic Expansions of the 1980s and 1990s



Source: FDIC.

Number of U.S. Community Banks



Source: Federal Deposit Insurance Corporation, Historical Community Banking Reference Data