NOMINATIONS OF
LAURA S. UNGER, PAUL R. CAREY,
DENNIS DOLLAR, EDWARD M. GRAMLICH,
ROGER W. FERGUSON, JR., AND ELLEN SEIDMAN

HEARING
BEFORE THE
COMMITTEE ON
BILLING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED FIFTH CONGRESS
FIRST SESSION
ON
NOMINATIONS OF:
LAURA S. UNGER, OF NEW YORK, TO BE A COMMISSIONER OF THE SECURITIES
AND EXCHANGE COMMISSION
PAUL R. CAREY, OF NEW YORK, TO BE A COMMISSIONER OF THE SECURITIES
AND EXCHANGE COMMISSION
DENNIS DOLLAR, OF MISSISSIPPI, TO BE A MEMBER OF THE NATIONAL CREDIT
UNION ADMINISTRATION BOARD
EDWARD M. GRAMLICH, OF VIRGINIA, TO BE A MEMBER OF THE BOARD OF
GOVERNORS OF THE FEDERAL RESERVE SYSTEM
ROGER W. FERGUSON, JR., OF MASSACHUSETTS, TO BE A MEMBER OF THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
ELLEN SEIDMAN, OF THE DISTRICT OF COLUMBIA, TO BE THE DIRECTOR OF
THE OFFICE OF THRIFT SUPERVISION

SEPTEMBER 30, 1997

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NOMINATIONS OF:

LAURA S. UNGER, OF NEW YORK, TO BE A COMMISSIONER OF THE SECURITIES AND EXCHANGE COMMISSION

PAUL R. CAREY, OF NEW YORK, TO BE A COMMISSIONER OF THE SECURITIES AND EXCHANGE COMMISSION

DENNIS DOLLAR, OF MISSISSIPPI, TO BE A MEMBER OF THE NATIONAL CREDIT UNION ADMINISTRATION BOARD

EDWARD M. GRAMLICH, OF VIRGINIA, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

ROGER W. FERGUSON, JR. OF MASSACHUSETTS, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

ELLEN SEIDMAN, OF THE DISTRICT OF COLUMBIA, TO BE THE DIRECTOR OF THE OFFICE OF THRIFT SUPERVISION

TUESDAY, SEPTEMBER 30, 1997

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Washington, DC.

The Committee met at 9:40 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Alfonse M. D'Amato (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN ALFONSE M. D'AMATO

The CHAIRMAN. Good morning. Today, the Committee is holding a hearing on six important nominations. On our first panel, we will hear from two nominees who I know very well, and it's my great pleasure to work with both of them, Laura Unger and Paul Carey.
They have been nominated to be Commissioners of the Securities and Exchange Commission. I am pleased to note the presence of SEC Chairman Arthur Levitt as well. I think his presence indicates his deep appreciation, support, and concern with respect not only to the Commission, but with respect to these two nominees whom he's had an opportunity to work with.

On our second panel, we will hear from Edward Gramlich and Roger Ferguson, who have been nominated to be Members of the Board of Governors of the Federal Reserve System.

On our third panel, we have Dennis Dollar, who has been nominated to be a Member of the National Credit Union Administration Board, and Ellen Seidman, who has been nominated to be the Director of the Office of Thrift Supervision.

I want to take this opportunity to welcome each of our nominees.

Now we will begin with our first panel, the nominees for the Securities and Exchange Commission, Laura Unger and Paul Carey. Before swearing in our nominees, I would like to make several remarks about Laura Unger and Paul Carey. In my opinion, the President could not have chosen two more qualified people to serve on the SEC.

Laura Unger has done a very outstanding job as the Securities Counsel on the Banking Committee since 1992. Laura actually started working for the Committee and for my office in 1990, when she came over from the SEC as a Congressional Fellow. Before that, she served as a staff attorney in the SEC Division of Enforcement from 1988 to 1990. Laura is a native of New York. She received her undergraduate degree from U.C. Berkeley and her law degree from New York Law School. Having worked with Laura over the last 7 years, I know from firsthand experience that she will be an excellent Commissioner. She has the expertise and the experience in this area that will be a tremendous asset to the SEC.

She is also the proud mother of Simone, who is here with us today. Let's see, Simone is 9 months old. Is that right?

Ms. UNGER. Yes.

The CHAIRMAN. Beautiful, beautiful girl, and she's married to Peter Unger, this youthful, handsome, debonair gentleman in the first row.

[Laughter.]

I wish to extend a special welcome to Simone and to Peter.

Now, with respect to Paul Carey. What can you say about a Carey that hasn't been said by his father already?

[Laughter.]

I have known the Carey family for many, many years. I've known them when we haven't been on the same side, I've known them when we've had differences, I've known them when we've been on the same side, and I would much rather have them on my side.

There are many of them. They are formidable. They are dedicated. They are a great family, and they have made New York the Empire State.

We are indeed fortunate today to have the former Governor of the State of New York with us, and I know this must be a very proud day for Governor Carey to watch his son, Paul, go through the process of becoming a Securities and Exchange Commissioner because I know it will be a reality.
Governor Carey, would you stand so we can recognize you and thank you for being here?

[Applause.]

To say that the Irish Tribe is alive, well, and thriving would be an understatement. Three of Paul’s brothers are also here; Brian, Thomas, and Kevin. We welcome all of you.

Paul has been working in the White House as a Special Assistant to the President since February 1993. He is a native New Yorker and a graduate of Colgate University. Through his job in the White House, Paul and I, as well as many Members of the Committee, have had the opportunity to work together on a wide range of legislative issues. He is a man of utmost integrity and competence, a true professional, and a dedicated and courageous public servant. He has served the President and the country well, and has earned the confidence and respect of everyone he has worked with.

I want to welcome Paul and his family and friends who are in attendance and look forward to watching his work for many years to come.

Now, at this point, I will swear in our two witnesses.

I see we have been joined by Senator Reed. Do you have a statement, Senator?

OPENING COMMENTS OF SENATOR JACK REED

Senator REED. Mr. Chairman, I too want to commend the nominees and I wish them well.

I have had a chance to work very closely with Paul over the last several years, and I’m disappointed that Laura is leaving us to join the SEC, but to both of them best wishes.

The CHAIRMAN. Thank you, Senator.

Would you please rise for the oath?

[Witnesses sworn.]

SWORN TESTIMONY OF LAURA S. UNGER
OF NEW YORK, TO BE A COMMISSIONER OF THE SECURITIES AND EXCHANGE COMMISSION

Ms. UNGER. Chairman D’Amato, Senator Sarbanes, and Members of the Committee, as a member of the Committee staff, it is an especially great honor to appear before you today to testify on my nomination by the President to be Commissioner of the Securities and Exchange Commission.

As you noted earlier, I wanted to mention my beautiful husband and daughter sitting behind me, and thank my husband in particular for his support and for extricating me from New York City to come to Washington—which I did kicking and screaming—only to have a wonderful time here. I also want to thank my beautiful daughter Simone’s wonderful nanny, who makes it possible for me to go to work every day and not have to worry about my daughter having a good time.

I am also pleased to share the table today with my able colleague, Paul Carey, the President’s choice for the other vacant Securities and Exchange Commissioner seat, a fellow New Yorker, and an individual with whom I have had the pleasure of working. If confirmed, I look forward to sharing a table at the Commission with Mr. Carey.
As the Chairman mentioned earlier, I joined his staff as a Congressional Fellow from the SEC almost exactly 7 years ago. Over the last 7 years, I have had the pleasure and privilege to work closely with the Chairman and Committee Members on a variety of issues. It has never been dull. I have had the opportunity to work on a number of important pieces of legislation and have enjoyed every moment of my tenure on the Committee staff.

Working for the Chairman and the Committee at this challenging time in our financial history has afforded me the opportunity to help shape the securities laws and to participate in important policy decisions concerning the efficiency and fairness of the capital markets and the protection of investors. Should the Senate confirm my nomination, I look forward to continuing my work in this area as a Securities and Exchange Commissioner.

The Commission's mission is to administer and enforce the securities laws to protect investors and to maintain fair, honest, and efficient markets. To fulfill this mission, the SEC must consider the delicate balance between investors and the marketplace. Without investor confidence, the capital markets will not flourish. However, too much regulation will make the markets an unattractive source of financing to companies. If confirmed, I will work to ensure that the Commission's programs strike the appropriate balance.

I feel extraordinarily honored to have been the President's choice for a seat on the Commission. As the Commission heads toward the 21st century, it will face a myriad of challenges, including issues involving market structure, technology, internationalization, continued growth in the mutual fund industry, as well as financial modernization. If confirmed, I welcome the opportunity to work on these issues and to be a Member of the Commission as it prepares for the new millennium.

When I left the SEC 7 years ago to come to Capitol Hill and work for Senator D'Amato, I promised I would return to the Commission. At that time, I had no idea in what capacity. As hard as it will be to leave the Committee, the Committee Members, and all of my colleagues on the staff, should the Senate confirm my nomination, it is with great enthusiasm and anticipation that I will return to the Commission to serve as a Commissioner. If confirmed, I look forward to continuing to work with this Committee and staff in my new capacity.

Thank you, Mr. Chairman, for everything. It has been a wonderful experience. I look forward to answering any questions.

The CHAIRMAN. Thank you, Laura. It's great having you on that side of the table not testifying as an expert witness.

Before I call upon Paul Carey for his remarks, I would like to acknowledge his dear friend who does him honor, his family honor, and the process honor, former President of the Ex-Im Bank, Ken Brody and Mrs. Brody.

Ken, thank you for being here with us today.

I would also like to add into the record two very strong statements of support on behalf of both nominees from the Senior Senator from New York, Senator Moynihan, who unfortunately is not feeling well, which precludes him from being here.

He asked me to pay special tribute to Paul. He said that he is going to miss working with you, but he certainly looks forward to
working with you in your new position, and he has asked me to extend personally his best wishes to the Governor.

I am going to ask that both of these statements be placed in the record as if read in their entirety.

Mr. Carey.

**SWORN TESTIMONY OF PAUL R. CAREY**
**OF NEW YORK, TO BE A COMMISSIONER OF THE SECURITIES AND EXCHANGE COMMISSION**

Mr. Carey. Thank you, Mr. Chairman, Senator Sarbanes, and Members of the Committee. I am grateful to the President for nominating me to the Securities and Exchange Commission. I am also honored to appear before you today and appreciate the Committee's scheduling the hearing in such an expedited fashion. I am especially pleased to be embarking on this endeavor at the same time as Laura Unger. I have had the good fortune to work with Laura on many issues. If confirmed, I am enthusiastic about the contribution we can both make to this Commission by our ability to work together.

Before his elevation to the Supreme Court by President Franklin D. Roosevelt, William O. Douglas served as the third Chairman of the SEC—from 1937 to 1939. He described the mission of the SEC in very simple but compelling words. "We are the investor's advocate." That remains true to this day, and I believe it has been particularly evident during the tenure of Chairman Arthur Levitt. I am proud to note that my relationship with the Chairman dates back to the 1970's when our fathers served together as Governor and Comptroller of New York State. If confirmed, I look forward to extending into this generation the shared honor of public service of our two families by joining the SEC with Chairman Levitt.

I believe the SEC, in recent years, has been a model for the relationship that should exist between the regulators and the regulated. This relationship requires both a healthy tension and a level of cooperation on a variety of issues. We have improved the way our markets function and preserved the United States capital markets' exemplary standing throughout the world. As a result, the fairness and transparency in our markets have been enhanced, to the enormous benefit of investors.

Many of the challenges that lie ahead are in the relationship between our markets and those of other nations. Ongoing efforts to arrive at international accounting standards as well as cooperation on enforcement matters should permit us to accommodate the growth of across-the-border transactions without diminishing investor protection. The integrity of our markets and the confidence that has produced is owed in large measure to the vigorous enforcement efforts of the SEC. Markets are dramatically affected by the rapid development of technology, which presents both opportunities and risks that must be carefully monitored. Investors will also benefit from the SEC's "plain English" effort to make disclosure documents clearer and easier to understand, as well as the Investor Education and Assistance Program which gives investors a forum in which they can get objective information.

It takes vigilance and judgment to encourage capital formation and vigorously maintain investor protection. This will be my prin-
Principal concern if I am confirmed by this Committee and the full Senate as a Securities and Exchange Commissioner. I hope that I can look forward to working with this Committee and its staff on the many issues we will face together.

Thank you. I look forward to taking any questions that you may have.

The Chairman. We have been joined by the Former Chairman and Ranking Member of the Committee, Senator Sarbanes.

Senator Sarbanes.

OPENING STATEMENT OF SENATOR PAUL S. SARBANES

Senator Sarbanes. Mr. Chairman, thank you very much. I'll be very brief. Unfortunately, I am not going to be able to stay this morning. I regret that because I was looking forward to exchanging views with the various nominees that are before us. I want to thank you for scheduling this very important hearing.

I would like to make the observation that all six of the nominees that will be before the Committee today have very important regulatory responsibilities. We often think of the Federal Reserve simply in terms of its monetary policy responsibilities, but it has very significant regulatory responsibilities and it will fall on all six of these nominees to ensure that the framework within which the economic system is functioning is one that maintains the honesty and the integrity of the markets and the honesty and integrity of financial activity.

This is a heavy responsibility and one which I believe, if not properly discharged, can undermine the workings of our economic system. I just want to underscore that.

I intend to support all of the people that are here before us. I know Paul Carey and Laura Unger well from their work either for or with this Committee. They have both been very much involved in securities legislation which has been enacted in recent years, and now they're going to have an opportunity to implement those statutes and enforce the Federal securities laws. While they are both young, or younger than us, at least, I guess might be the way to put it, we're looking forward to their tenure in this important position. I wish them well, but underscore the important burdens they will be assuming.

I have had the opportunity to meet with the two nominees for the Federal Reserve Board. In any event, they will be coming up in a later panel, but I'm afraid I won't be able to get back for that panel. While I have underscored their responsibilities and regulation in terms of assuring the viability of the financial structure, they also have important responsibilities in formulating monetary policy.

The American economy is now working extremely well. We have brought the deficit down. I believe the latest estimate is that it is expected to be under $30 billion at the end of this fiscal year. It was $290 billion in fiscal 1992, so we have had a constrained fiscal policy which has helped to bring the deficit down. At the same time, we have needed an accommodating monetary policy in order to ensure that economic activity stays at high levels.

We have managed to achieve that, and we have the lowest unemployment in 25 years and the lowest inflation in 30 years. That's
an enviable record, and both Professor Gramlich and Mr. Ferguson will have a heavy burden in carrying that through.

I am very glad we are at last going to get a Director at the Office of Thrift Supervision, especially someone of the caliber of Ellen Seidman. It has been some time since that position has been filled. I think this Committee has consistently, in the past, urged Administrations to fill that post. Often people end up doing double duty in that office and, as Director of the Office of Thrift Supervision, it's not a desirable situation.

Finally, Mr. Chairman, I have had an opportunity to meet with Dennis Dollar, and I must say I think he will bring to the Board of the NCUA a good understanding of the credit union movement. He has been involved in it personally, he's done a very good job, and he understands the important role that it has played in our economy. In our discussions, he outlined his full appreciation of the NCUA's responsibility to protect the safety and soundness of the credit union industry. I am pleased to support his nomination as well.

I apologize to all of the nominees that I'm not going to be able to stay through this.

Thank you very much.

The CHAIRMAN. Thank you, Senator.

Let me ask, Ms. Unger, just one question.

Have you adequately prepared the staff and Mr. Menell for your new successor?

[Laughter.]

Have you made any recommendations?

Ms. UNGER. I'm not sure Mr. Menell has accepted the fact that I might be departing.

[Laughter.]

The CHAIRMAN. I want to ask the same question of Mr. Carey.

Have you adequately prepped your successor? Do you know who it is?

Mr. CAREY. I don't know who my successor is.

The CHAIRMAN. We may have to hold this until we determine that.

[Laughter.]

Mr. CAREY. But I'm sure that he or she will carry on the tradition of working in a cooperative fashion with this Committee.

The CHAIRMAN. I think I would be wasting the Committee's time were this Senator to put forth questions to the nominees regarding what they considered to be the greatest problem, et cetera.

I know they are going to be looking at all of the issues as they come up on the radar screen, and will be of very valuable assistance to Chairman Levitt.

Senator Reed, do you have any questions?

Senator REED. Thank you, Mr. Chairman.

I would just like to raise a couple of issues for your thoughts. First is that shortly the SEC will be issuing regulations with respect to Rule 14(a)(8), which is the proxy rule which would limit their oversight of the process. I wonder if both nominees could comment upon their views with respect to the regulation of the SEC in this new 14(a)(8) proposal.
Ms. UNGER. Senator, I have had the opportunity to be briefed on the SEC’s Rule proposal in my capacity as a staff member of this Committee. I know the Commission’s goal was to balance shareholder access to the corporation and to have input in certain aspects of the corporation’s activities without unduly constraining the corporation’s ability to conduct its day-to-day activities. It is my understanding that the proposal was an attempt to balance the shareholders’ interest in participating in the corporation’s activities with that of the corporation in conducting its activities.

I have heard since the proposal has been released that people might be of the opinion that it’s not a balanced proposal. I would need to look at it further. I do believe that shareholders should have a say, when appropriate, in the activities and conduct of the company in which they invest.

But I do understand the company’s need to keep some control over those activities or input by the shareholders.

Senator REED. Paul, do you have any thoughts? I realize Laura has had more proximate exposure to some of these issues of the Committee.

Mr. CAREY. Senator Reed, thank you.

I do believe the issue is one where the SEC is trying to strike the best balance between the needs and rights of shareholders to submit proposals, and to be able to have access to proxy information that would enable them to do so.

I have not had the opportunity to be briefed on the Commission’s new proposal, but look forward to having a more informed perspective on it. I would like to give you a more thoughtful response in the future and to work with you and your staff on this issue.

Senator REED. I appreciate that.

One concern that’s been raised is that without some type of formal review of these proposals by the SEC, it might give too much leverage to corporations to discard appropriate proposals by their shareholders, and if you could look at that, I would appreciate it.

Another area of some concern is with the Small Order Execution System. There has been discussion that this system was designed really to help small investors and that professional investors are entering into these trades with more speculative motives, which is something that could be detrimental to the interests of those small investors.

Again, your thoughts or comments or at least an indication of your interest would be appreciated.

Laura, would you like to respond to that?

Ms. UNGER. Senator, again, as a Committee staffer, I have had the opportunity to speak to people about the SOES issue, the Small Order Execution System.

The intent of the system was, following the market break in 1987, to enable small investors to get out of their position. As you know, there were problems with some of the orders being executed at that time. It enabled small investors to go into the marketplace and basically execute an order at a quoted price.

The problem is that there are some abuses apparently or there have been abuses that have been described with this system in that professional traders also take advantage of this system to execute orders.
I think it’s important that small investors be able to access the market, but it’s important to do it in such a way so as not to unduly burden those brokers who are trying to conduct their business in an orderly fashion.

I know the NASD has been trying to come up with a system that will take these two competing interests into account and I believe they are working on a new proposal now. I would be happy to work with the Commission in order to strike the appropriate balance in that area.

Senator Reed. Thank you.

Paul, are there any comments that you would like to make?

Mr. Carey. I would like to comment that the system is designed and the new rules are designed to give the greatest possible transparency to investors when they are making their trades and to give them the most timely and reliable information to ensure liquidity and orderly execution.

I believe that many of the rules have been an improvement on the current system, but we need to work closely with the market makers to make sure that no unintended impediments to orderly trading have been created.

Senator Reed. Thank you.

One final point which I believe requires no comment. I would like to simply mention a critical issue which is facing all the financial service industries, and that’s preparing for the year 2000, dealing with the technological shift and the computer problems. Since the securities industry is heavily dependent upon technology and computerization, I would hope that both of you, in your tenure on the Commission, would almost immediately begin to look at any possible difficulties and consequences and what the response of the industry might be, so that they’re fully prepared for the potential difficulties at the year 2000 because of technology. That would be something I would appreciate.

Mr. Chairman, these are eminently qualified nominees and I believe we all look forward with much enthusiasm to supporting their nominations.

The Chairman. Thank you very much, Senator.

I would like to say that I think Mr. Carey was very incisive in expressing a concern that I’ve heard from others. We must see to it that the liquidity of the marketplace is not diminished to a point where we actually wind up costing the consumer more money.

I would hope this issue is something that we will address in the future. I know it’s easier said than done, but it is very important.

Before I call upon the third panel ahead of the second panel, because we have been joined by the Senate Majority Leader, and rank does have its privileges—

[Laughter.]

—and I like being Chairman of this Committee—

[Laughter.]

—I might add that we have been joined by another luminary who is here to loan his strong support to Mr. Carey, and that is Judge Richard Eaton.

Judge, it is good to have you here with us today. I would not want your presence to go unnoticed.
I want to thank both of the SEC nominees, and I look forward to moving this to the floor speedily, particularly since we're going to get the Senate Majority Leader up here right now.

Thank you very much.

On our third panel, we will be hearing from Dennis Dollar, who has been nominated to be a Member of the National Credit Union Administration Board.

Let me ask that Dennis Dollar come forward at this time.

[Pause.]

Thank you very much.

At this point, I would like to recognize and call upon the Senate Majority Leader, Senator Lott. Indeed, it's a great privilege to have you come before the Committee, Senator, and to have you loan your support to Mr. Dollar.

Senator Lott.

OPENING STATEMENT OF TRENT LOTT
A U.S. SENATOR FROM THE STATE OF MISSISSIPPI

Senator LOTT. Thank you, Mr. Chairman. It's a great pleasure to see you here chairing this Committee, and I thank you for allowing me to go out of order. I also thank you for your support on a number of issues over the years, but most especially when I've been running for leadership positions. I know how important your support has been.

I thank you for this opportunity and I'm delighted to be here this morning in support of this nominee and in support of the other nominees that you're holding this hearing on. I'm sure they will receive, with your support, expeditious consideration when reported from the Committee and when they reach the floor.

I believe the Senior Senator from Mississippi will be joining us momentarily, and it will show the great respect which we have for this nominee, Dennis Dollar, who is President of the Gulfport, Mississippi VA Federal Credit Union, nominated to serve on the Board of the National Credit Union Administration.

Mr. Chairman, I hate to admit this, but as far back as 1972, when I was just 30 years old and running for Congress my first time, in a district where most people had never seen a live Republican before, I went to a community college campus there in the Gulfport, Biloxi, Mississippi area to debate my opponent, and my student chairman on the campus for that campaign was none other than Dennis Dollar.

Dennis did not have any gray hair then. He has gotten ahead of me on the gray hair, but he did a great job, and went on to lead a distinguished career. After his education at the community college and the University of Mississippi, he, himself, joined the political arena and was elected at 22 years of age to the Mississippi House of Representatives. He was a leader in legislation to open up the government and let the sunshine come in.

He was elected, by the way, as a Democrat, Mr. Chairman, and he served in magnificent fashion in the legislature and developed quite a reputation for being a reformer and a genuine leader. He ran statewide for office and came within, I believe, 1 percentage point of being elected to Secretary of State there in the State of Mississippi.
Dennis Dollar has been a leader in his community. If you look at his resume, you will see he is a man that gets involved in his community, in his State, in his church, and with charity, all the way from the March of Dimes to the Gulfport Job Corps, Kids Voting, the Mississippi Arts Fair for the Handicapped. He really does what a citizen is supposed to do, all the while, being a leader in the business world.

He has been the president of a junior college that focused primarily on business courses and has also been in the real estate business. He has the kind of background that certainly qualifies him for this position, but the one thing that qualifies him most is the fact that he currently heads a Federal credit union and was selected as one of the five most outstanding credit union CEO's in the United States by the Credit Union Times.

Mr. Dollar has been properly educated. He has been in the business world, the academic world, the legislature, he was my ardent supporter the last time I ran for the Senate, and he's been a real leader in credit union activities.

I'm very proud of his nomination and pleased that the President has submitted his name for this nomination. Once he is reported out by the Committee, I hope expeditiously, then we will be able to move his name along with one that's been on the calendar for some time, to fill the two vacant slots on the National Credit Union Administration Board.

I wholeheartedly endorse this nominee, my friend, and I know he will do a great job for the State, the country, and for credit unions.

I will not filibuster any longer, Mr. Chairman, because I see the Senior Senator from Mississippi has arrived to provide his endorsement also.

Thank you very much, Mr. Chairman, for allowing me to go out of order and for having this hearing.

The CHAIRMAN. Senator, thank you. I know that Mr. Dollar must feel very proud and very honored that you and Senator Cochran would take the time to be here in support of his nomination.

Senator Cochran.

OPENING STATEMENT OF THAD COCHRAN
A U.S. SENATOR FROM THE STATE OF MISSISSIPPI

Senator COCHRAN. Mr. Chairman, thank you very much for the opportunity to appear with my good friend and colleague, Senator Lott, to endorse the nomination of Dennis Dollar to serve on this important National Credit Union Administration Board.

Dennis is well qualified, he has good judgment, he's well educated, he has served with distinction in the State legislature in our State, and he's a good friend and a good all-around person who will bring a perspective and good common sense to the decisionmaking process of this Board.

We are honored that he has been selected. Our State is honored, and we are very proud of Dennis and know that he will do a wonderful job.

I ask that my full statement be included in the record.

The CHAIRMAN. So ordered.

Senator, we again are deeply appreciative. Mr. Dollar, I know you must be very honored that both Senators would take their time
to come and physically be supportive here and loan themselves so strongly to your nomination.

Senators, I know that you’re busy, and I don’t think we have any questions.

Senator Faircloth, now’s the time to ask Senator Lott what you wanted to before.

[Laughter.]

In the interest of time, I am going to suggest we hear from the third panel now. I hope the second panel will understand.

I’m going to ask that both Ms. Seidman and Mr. Dollar stand for the oath.

[Witnesses sworn.]

Mr. Dollar, why don’t we turn to you for your opening statement, and then we will go to Ms. Seidman.

**SWORN TESTIMONY OF DENNIS DOLLAR**

**OF MISSISSIPPI, TO BE A MEMBER OF THE NATIONAL CREDIT UNION ADMINISTRATION BOARD**

Mr. DOLLAR. Thank you, Mr. Chairman, and ladies and gentlemen of the Committee. I appreciate very much the confidence of the President and the nomination to serve as a Member of the National Credit Union Administration Board, and the appearance here today of both Senator Lott and Senator Cochran. It is quite an honor, and I appreciate it so much. I also appreciate the opportunity to meet before the Committee, and I want to thank you for this prompt hearing.

As the Chief Executive Officer of a credit union which can best be described as of small to moderate size—the Gulfport VA Federal Credit Union has approximately $31 million in assets, right on the nationwide average of between $25 and $30 million—for the past 6 years, I have dealt with the day-to-day issues facing our Nation’s credit unions.

I have sat across the desk from the member of limited means who says, “I can’t send my daughter to college without this loan,” or “My son will not have clothes for school unless my credit union can help me.”

I have stood in the parking lot with that proud member who finally financed his first car or truck and says, “I never thought I would own one on my own, now I can take that new job that my family really needs but it’s 20 miles away.”

I have seen the regulatory process firsthand and experienced the depth of an NCUA examination. I am a committed adherent to the importance of safety and soundness considerations.

Of all of the member services we provide at our credit union, I tell my members daily that the most important member service we can provide is a strong, safe, sound, and viable credit union.

I look forward to the opportunity to work as a Member of the NCUA Board to use this perspective I have gained in the credit union trenches, while at the same time applying the public policy perspective that I gained through 8 years as a State legislator.

Having served as a Member of the Mississippi House of Representatives for two 4-year terms, from 1976 to 1984, I have looked at issues from a public policy, regulatory, and legislative point of view as well.
I understand that not only credit union members have a stake in the safety and soundness of our Nation’s credit unions, but so do the American people.

I look forward to working with this Committee and Congress, as a Member of the NCUA Board upon confirmation, to continue to ensure the safety and soundness of a growing credit union system for years to come.

Again, Mr. Chairman and Members of the Committee, I am honored to be before you today for this confirmation hearing, and I will gladly answer any questions that you might have of me.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Dollar.

Ms. Seidman has been nominated to be the Director of the Office of Thrift Supervision and we would be pleased to have someone of her caliber in this very important position. The position needs to be filled, as Senator Sarbanes pointed out. We have been urging the Administration to decide on a nominee.

Ellen Seidman has served as Special Assistant to the President for Economic Policy since 1993. Before that, she worked at the Federal National Mortgage Association as a Senior Vice President for Regulation, Research, and Economics. She has also worked in the Department of the Treasury as a Special Assistant to the Under Secretary for Finance. Ms. Seidman earned an MBA from George Washington University, a law degree from Georgetown University Law Center, and her undergraduate degree from Radcliffe College.

I think we are fortunate that the President has chosen such an able person as yourself.

Ms. Seidman.

SWORN TESTIMONY OF ELLEN SEIDMAN
OF THE DISTRICT OF COLUMBIA, TO BE THE DIRECTOR
OF THE OFFICE OF THRIFT SUPERVISION

Ms. SEIDMAN. Thank you very much, Mr. Chairman.

Mr. Chairman, Senator Sarbanes, and Members of the Committee, I am honored to appear before you as President Clinton’s nominee to head the Office of Thrift Supervision. I want to thank you for holding this hearing. I also want to thank President Clinton and Secretary Rubin for their confidence in me; my family—my husband, Walt Slocombe, and my son, Will Slocombe—for all their support and patience; and Nic Retsinas, Jonathan Fiechter, and the staff at the Office of Thrift Supervision for their hard work and good spirits. And I want to thank the Committee’s Staff Director, Howard Menell, for reminding me of our years spent together at New Rochelle High School.

[Laughter.]

Mr. Chairman, the prospect of serving as the Director of OTS is humbling and exciting. As I spoke to many Committee Members during my courtesy calls, I was inevitably asked, “Why do you want this job?” Quite simply, I think it is one of the best public service jobs in Washington today.

These are dynamic times in the financial services industry, and OTS and the institutions it regulates are playing a very important part in the industry’s evolution. As you know, the country’s first Internet “bank” was a thrift, and new companies are entering the
thrift industry, even as consolidation continues to reduce the total number of institutions which are supervised by the OTS. At the same time, thrifts continue their critical role as home mortgage lenders, with residential whole loans comprising over 50 percent of the industry's assets, and traditional home lenders leading the industry in profitability.

These have been good years for the thrift industry, but OTS's primary responsibility must always be to make certain the industry continues to be safe and sound, no matter what the economic conditions. Depositors and taxpayers are counting on OTS to understand what the risks are, to establish sound and sensible rules, and to make certain those rules are followed. In contrast to thrift regulation of the 1980's, OTS has the statutory and regulatory tools, the resources, and the public and political support to accomplish this mission. My responsibility, if confirmed, will be to support and enhance what has been accomplished, both leading and backing the agency's staff as they take sometimes difficult actions.

The OTS must also encourage the institutions it supervises to meet their responsibilities to make certain that financial services are available on a fair and equitable basis in all communities the institutions serve. This is not only good for consumers and communities, it is good for business. If communities have access to capital and are part of the financial mainstream, economic development follows, as do jobs and profits for the businesses which serve those communities.

The challenges for the industry, and thus for OTS, are many, but what makes the prospect of leading the agency exciting is that each challenge brings opportunities. Homogenization of different types of financial services and consolidation in the financial services industry can bring increased access to capital and the advantages of greater scale, particularly in development and deployment of new products and the best new technology. But these trends challenge management and morale. They challenge institutions to continue to effectively serve their customers and their communities, and they challenge regulators to fully understand and effectively supervise a broader array of risks and of activities.

Technology, too, is the source of opportunities and challenges. Technology not only provides better tools for understanding the business but also the ability to serve customers in new ways and more efficiently. But technology's challenges are legion: preparing for the year 2000; protecting the security and privacy of institutions' systems and customers' accounts; understanding the tools so that management and regulators can use them rather than being trapped in a world of black boxes; and, finally, making the benefits of technology available to all.

That means being careful that credit scoring tools, which can clearly enhance productivity, are used to free up underwriters to analyze applications that don't fit the scoring systems precisely, rather than to restrict access to credit. And it means enhancing, not restricting, access to ATM's and electronic banking as those technologies become more and more prevalent.

Finally, there is the challenge of the changing legal structure. One cannot be nominated to be the Director of OTS without being aware that people have been talking about abolishing the OTS vir-
tually since the day it was founded. The office needs full-time leadership and direction so it can be part of determining its future and that of the thrift industry, and to implement that future, whatever it may be, in such a manner that protects depositors, the insurance funds, and taxpayers, and is sensitive and responsive to the needs of employees and the institutions it regulates.

Mr. Chairman and Members of the Committee, thank you for the consideration of my nomination. If confirmed, I look forward to working with you to meet the challenges of this new era.

I would be pleased to answer any questions.

The CHAIRMAN. Thank you very much.

Senator Reed, do you have any questions?

Senator REED. Yes, I do, Mr. Chairman.

First, Mr. Dollar, thank you for your presentation today, and for your experience, particularly your experience as an actual director of a local credit union.

Perhaps the biggest issue that’s facing the credit union industry is the scope of membership and the types of services that a credit union can offer.

I wonder if you could comment about your views on that subject and, in particular, is there such a point where a credit union grows large enough that provisions of the CRA and other such provisions should be applicable to a credit union?

Mr. DOLLAR. Senator, what separates a credit union from other financial institutions is its structure, the cooperative nature of its structure and the not-for-profit nature of its structure.

I do not believe there is anything inherently wrong with a not-for-profit financial cooperative growing. I think that it must grow within the bounds of the law and the Federal Credit Union Act has been interpreted by the NCUA to allow for growth, and to perform its mission to extend credit to people of small means for provident purposes.

The NCUA, I think, has carried forth that policy very effectively. The rulings of the early 1980’s, which allowed multiple employer groups, and have been contested by some and will be ultimately heard in the Supreme Court, is a decision that the courts will determine, and perhaps this Congress may even ultimately decide. I personally believe it was a good decision. I will use my credit union as an example.

In 1982, Senator, the Gulfport VA Medical Center, which is our original sponsor group, had approximately 2,000 employees. Today, in 1997, it has approximately 240 employees. Had we been limited to just serving that single employer group, our credit union might have safety and soundness considerations today. But, because of the NCUA’s policy, we were able to allow many small businesses with less than 500 employees, who would have never been able to form a credit union of their own — and we would not want to see a proliferation of small, undercapitalized credit unions — to affiliate with ours, thus ensuring our safety and soundness and, at the same time, meeting the mission of the Federal Credit Union Act to extend that membership.

I hope this is a policy that will be allowed to continue. Of course, we will do so in accordance with whatever the Supreme Court ruling and the determination of this Congress might be.
Senator Reed. Thank you, Mr. Dollar.

Ms. Seidman, you mention in your statement that it was a thrift institution that was the first Internet bank.

With all these technological changes, I wonder if you might comment on the role, going forward, of the Community Reinvestment Act in a very much changed circumstance?

Ms. Seidman. Thank you, Senator. That's actually an extraordinarily difficult question that we all have to work on very carefully, and one that OTS has started to fully consider.

The question of how the Community Reinvestment Act applies to entities that don't exist in place, but only exist in cyberspace, is one that was not thought of in 1978 when the Act was first passed.

I fully believe those institutions have a full CRA obligation. The challenge to OTS and the other financial services regulators is to figure out with those institutions the very best way to make certain that they meet their obligation to their community, even if that community is a nationwide community.

Senator Reed. Thank you.

I have just one final point. Your nomination has been greeted with enthusiasm in many quarters, particularly by Nic Retsinas, who would like to get back to the Federal Housing Administration.

Ms. Seidman. I'm very happy, if confirmed, to be able to free Nic up. It's been an amazing service he's put in over the course of this last year.

Senator Reed. Thank you very much. Thank you, Mr. Chairman.

The Chairman. Thank you.

Senator Faircloth.

OPENING COMMENTS OF SENATOR LAUCH FAIRCLOTH

Senator Faircloth. Thank you, Mr. Chairman.

Ms. Seidman and Mr. Dollar, thank you both for being here.

Ms. Seidman, did you write a memo for the President regarding the meeting he held with a number of bankers in May 1996?

Ms. Seidman. Yes, I did, sir.

Senator Faircloth. While you were at the White House, did you ever see this many bankers gathered before the May meeting?

Ms. Seidman. Senator, I was not at the May meeting, so I didn't see them gathered then.

Senator Faircloth. You didn't go to the meeting?

Ms. Seidman. No, I didn't.

Senator Faircloth. Why not?

Ms. Seidman. I wasn't invited.

Senator Faircloth. Why not?

Ms. Seidman. I think it was above my pay grade.

Senator Faircloth. Your what?

Ms. Seidman. I was a staff person who was working for the National Economic Council in connection with that briefing. I wrote my briefing memo, and had nothing more to do with the event.

Senator Faircloth. Who selected the bankers who were to be there?

Ms. Seidman. I have no idea who selected them. The Office of Public Liaison handled the entire matter.

Senator Faircloth. In the memo you wrote, you said, we do have concerns about the specifics of Leach's reform proposal, which
would greatly increase the Federal Reserve’s role in financial services policymaking at the expense of the Administration, generally, and the OCC, in particular.

If I would read the memo directly, there seems to have been an effort by the Administration to block financial services legislation, and to reserve those decisions for the OCC. The Administration apparently wanted to capitalize on that by raising money from the banking industry.

What do you have to say to that analysis?

Ms. SEIDMAN. Senator, it was the Administration’s policy then, and it is the Administration’s policy now, that financial services reform is something that ought to be done, and it ought to be done legislatively. We had some serious concerns with Senator Leach’s proposal then, and we have some serious concerns with the proposals that are currently pending before the House.

Nevertheless, we firmly believe that financial services modernization is an appropriate subject for legislation, and that it is important that Congress have the opportunity to fully consider the many ramifications of the whole financial services evolution, rather than just leaving it to mainly the marketplace, but also the regulators.

Senator FAIRCLOTH. Well, your memo seemed to say that the reform proposal would greatly increase the Federal Reserve’s role in financial services policy at the expense of the OCC.

Ms. SEIDMAN. Senator, yes, that is, in fact, the position that we took with respect to—

Senator FAIRCLOTH. “We,” being who?

Ms. SEIDMAN. The Administration—with respect to Mr. Leach’s legislation.

This isn’t an issue of whether Congress should have the responsibility for making the rules. In many respects, it was a question of exactly which regulatory body would have which particular kinds of responsibility.

Senator FAIRCLOTH. All right. What are your views on preserving the Savings & Loan Charter?

Ms. SEIDMAN. I firmly believe that it is important to maintain institutions whose primary focus continues to be home lending.

Senator FAIRCLOTH. Ms. Seidman, my question was, do you think we should preserve the Savings & Loan Charter?

Ms. SEIDMAN. I believe we can preserve the focus of the Charter in a number of ways. I think the legislative debate that we’re having, that is ongoing, will be a debate about whether it is only possible to preserve that focus in a separate charter, or whether it can be preserved in a broader charter.

Senator FAIRCLOTH. You lost me. Yes or no, I can understand.

Do you believe we should preserve the Savings & Loan Charter?

Ms. SEIDMAN. Senator, I believe we should preserve the functions that are served by that Charter.

Senator FAIRCLOTH. But put it somewhere else?

Ms. SEIDMAN. Whether that Charter itself needs to be preserved is something that I think will be a continuing subject of debate in this Congress.

Senator FAIRCLOTH. It is going to be a subject of debate in Congress, and you think there should be some regulation, but you don’t
think we should preserve the Savings & Loan Charter; is that what you're saying?

Ms. SEIDMAN. That's not what I said. As you know, the Administration sent two proposals to Congress, one which would have fully preserved the Savings & Loan Charter, and another which would have made available——

Senator FAIRCLOTH. Which one did you support?

Ms. SEIDMAN. Senator, I supported both proposals.

Senator FAIRCLOTH. Ms. Seidman, a real concern of mine is that a number of companies are putting in applications to charter savings and loans, such as insurance companies. What procedures do you plan to put in place at the OTS to ensure that new savings and loan charters are operated in a safe and sound manner, and that we don't have a repeat of the savings and loan crisis?

Ms. SEIDMAN. Senator, as I said in my statement, I believe that at this point, OTS has much better tools, regulatory authority, and resources than the savings regulators ever had during the 1980's.

The processes that are currently in place in order to determine whether new charters will be granted are processes that look carefully into the management and capitalization and prospective businesses of a new S&L.

When I reach OTS, if confirmed, I will obviously be working very hard to make certain that those procedures do continue to enable us to have a safe and sound industry, no matter who owns the individual institutions.

Senator FAIRCLOTH. That's all, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Kerry.

Senator KERRY. I don't have any questions at this time.

The CHAIRMAN. Mr. Dollar, I would like to commend you on your very incisive answer to Senator Reed's question about the case pending before the Supreme Court concerning the scope of credit union membership.

I think you have given a firsthand illustration as to how and why you have had this movement from a very narrow interpretation. That movement has helped the system as opposed to being an expansive intrusion.

Indeed, at some point, there may be a need to further clarify the scope of the mission of credit unions. But I certainly think that under certain circumstances, it is important to maintain the viability of the institution, as it fulfills its mission. I favor the competitive nature that has taken place.

You have given an excellent response to the critics.

I want to thank both of the nominees. We certainly look forward to moving the process in a very expeditious manner.

Ms. SEIDMAN. Thank you, Senator.

Mr. DOLLAR. Thank you, Senator.

The CHAIRMAN. I would like to call our second panel.

We will hear from Edward Gramlich and Roger Ferguson, both of whom have been nominated to be Members of the Board of Governors of the Federal Reserve System.

Mr. Gramlich is currently the Dean of the School of Public Policy at the University of Michigan. He has had a distinguished career, both in academia and in Government, having been both a Professor
and Chairman of the Economics Department at the University of Michigan, as well as the Deputy Director and Acting Director of the Congressional Budget Office. Early in his career, Mr. Gramlich worked for the Federal Reserve Board in the Research Division. More recently, Mr. Gramlich was the Chairman of the Quadrennial Advisory Council on Social Security from 1994–1996. Mr. Gramlich has received many awards, and has a very extensive list of publications to his credit. He is a graduate of Williams College, and received his Ph.D. from Yale University.

Roger Ferguson is currently a Partner and Director of Research and Information Systems at McKinsey & Company. He has also had an impressive career as a securities and banking attorney in private practice and as a consultant to banks and financial institutions. Mr. Ferguson has received both a law degree and a Ph.D. in Economics from Harvard University. He has studied macroeconomics, money and banking, international trade and development, and industrial organization.

On behalf of the Committee, I am pleased to welcome you both, and your families and friends who are with us today.

At this point, before I turn to Mr. Gramlich, I'm going to ask you both to stand for the oath.

[Witnesses sworn, en banc.]

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

Mr. GRAMLICH. I do.

Mr. FERGUSON. I do.

The CHAIRMAN. Thank you.

Senator Kerry.

OPENING STATEMENT OF SENATOR JOHN F. KERRY

Senator KERRY. Mr. Chairman, thank you very much. I wanted to say a few words about Roger Ferguson. Unfortunately, I can't stay for the hearing itself. You have cited most of his accomplishments in your own introduction. I won't repeat all of them, except to say that they are an extraordinary testimony to the background and preparation that he brings to this job. I believe that we are very lucky to have somebody of that quality coming out of a company with as strong a reputation as McKinsey & Company, with the background that he has as a securities lawyer, prepared to assume this responsibility.

I would also point out to the Committee that he was born here in Washington, and comes from a middle-income family. His father was a GS-10 Federal employee and his mother a public school-teacher. Together, they have raised an individual who, during the 1960's here, saw the early days of the civil rights movement and some of the disturbances in the city and took his own inspiration from Andrew Brimmer, another Harvard-trained economist, who is the first African-American to serve on the Federal Reserve Board.

I think he's following in great footsteps and will himself be able to serve as a terrific role model and example to other young people and to their aspirations. I think it's wonderful to have him nominated by the President, and look forward to his service.

The CHAIRMAN. Thank you, Senator.

Mr. Gramlich.
SWORN TESTIMONY OF EDWARD M. GRAMLICH OF VIRGINIA, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. GRAMLICH. Thank you, Mr. Chairman.

Mr. Chairman and Members of the Committee, it is a pleasure to appear before you today as President Clinton's nominee to be a Member of the Board of Governors of the Federal Reserve System. If the Committee and the rest of the Senate approve my nomination, I look forward to serving in this important position. I promise to work with the other Members of the Board, with Dr. Ferguson, and with the Committee, to carry out the objectives that Congress has established for the Federal Reserve, both for overall monetary policy and to assure the safety and soundness of our Nation's banking and payment system.

I have in my statement, Mr. Chairman, a short biographical sketch which you have already summarized, so I will just ask that you insert that into the record, and let me proceed and talk about the Federal Reserve.

The overall objectives which are faced by the Federal Reserve, listed in the Federal Reserve Act, are "maximum employment, stable prices, and moderate long-term interest rates." I would like to discuss each.

In the long run, the most fundamental of these three objectives is stable prices. In the short run, there are many factors, oil price shocks, exchange rate movements, and so forth, that can influence price movement. But, in the long run, I believe, along with most other economists, that the fundamental responsibility for controlling a nation's inflation rate rests with its central bank policies.

Since nominal interest rates equal real interest rates plus the rate of inflation, controlling inflation also controls nominal interest rates. Real interest rates can then be controlled by fiscal policy. Modern day macroeconomic thinking suggests that when economies are open to international trade and capital flows, monetary policy becomes the key policy to stabilize employment, and fiscal policy determines the overall saving rates and real interest rates. If the Federal Reserve is adequately guarding stabilization needs, which I hope it will be when I am there, if I am privileged to go there, fiscal policy is free to keep national saving rates high and real interest rates low. This would be my idea of a desirable monetary/fiscal policy mix.

Finally, the objective of "maximum employment" brings up the famous tradeoff between inflation and unemployment. Along with most other economists, I believe that ultimately there is not much of a tradeoff. Some unemployment rates are so low that, if continued, they will lead to steadily accelerating price increases. In the economic literature, the lowest sustainable rate of unemployment has come to be called NAIRU, the Non-Accelerating Inflation Rate of Unemployment.

I am often asked whether I believe in NAIRU, but I think that this simple question glosses over a key policy issue, for it turns out to be rather difficult to measure and identify NAIRU. When I first came out of graduate school, the target unemployment rate was said to be about 4 percent. Later on, as inflation dramatically increased, the standard estimate shifted to about 6 percent. Now, the
economy has been operating for a while in the range of 5 percent
unemployment, with as yet few signs of incipient inflation. Given
all this uncertainty, one can believe in a loose sense in the exis-
tence of NAIRU, but still find it hard to say how one would vote on
monetary policy in particular circumstances. I would put myself in
that category.

Hence, I would be an advocate of promoting maximum employ-
ment within the Fed's long-term responsibility to control inflation.
These conditions would guarantee a healthy economy, a reasonable
growth in the living standards over time, and a realistic chance for
workers at all income levels and ethnic backgrounds to prosper.

Thank you very much, Mr. Chairman. I would like to submit the
rest of my statement for the record, and would be happy to answer
any questions you might have.

The CHAIRMAN. Thank you very much, Mr. Gramlich.

Mr. Ferguson.

SWORN TESTIMONY OF ROGER W. FERGUSON, JR.
OF MASSACHUSETTS, TO BE A MEMBER OF THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. FERGUSON. Thank you, Chairman D'Amato.

Chairman D'Amato, Members of the Committee, I am pleased to
appear before you today as President Clinton's nominee to serve on
the Board of Governors of the Federal Reserve System, along with
Professor Gramlich. Let me also thank Senator Kerry for that kind
introduction and statement about my background.

I am mindful that the decisions of the Federal Reserve influence
the economic well-being of all Americans through their impact on
output growth, job creation, inflation, interest rates, and the value
of the dollar. The Fed also has important supervisory and regu-
laratory responsibilities for the safety and soundness of the banking
system, for the integrity of the payments mechanism, and for the
enforcement of the fair lending and other consumer laws, including
the Community Reinvestment Act.

If I am confirmed, I pledge to work with other Members of the
Board to craft a monetary policy geared toward stable prices, maxi-
mum employment, and moderate long-term interest rates, the goals
established in the Federal Reserve Act, and to faithfully execute
the regulatory enforcement and oversight responsibilities entrusted
by Congress to the Federal Reserve Board.

As did Dr. Gramlich, I have other statements here dealing with
my background. I will pass over those, as you and Senator Kerry
have already given me a background introduction.

Let me turn now to some of the issues confronting the Federal
Reserve.

Price stability, I believe, should be a central goal of monetary
policy. There are many reasons for according high priority to this
objective. Inflation undermines social equity and harmony in our
diverse Nation. As interest rates rise to compensate for inflation,
many families will find it increasingly difficult to qualify for and
service loans for homes and cars. The wages and salaries of some
workers do not keep up with inflation, and their standard of living
falls. Inflation erodes the wealth of any small investors whose as-
sets are denominated in fixed dollar terms. In addition, with high
and unstable inflation, managerial efforts often emphasize, and corporate profits derive from, taking advantage of rapid increases in the general level of prices rather than from producing and selling the products that consumers need. Job creation eventually slows as businesses focus more on financial rather than productive aspects of their operations.

Many factors affect the behavior of prices in the short run, but in the long run, inflation on a sustained basis cannot occur unless monetary policy accommodates it. The Federal Reserve controls the Nation’s money supply, and thus the FOMC effectively determines the level of inflation over the longer run. The Fed’s responsibility is to be ever vigilant for early signs of inflation, and to choose policies that are designed to maintain a noninflationary environment that allows sustainable growth and job creation.

The effect of Federal Reserve policies on the economy occurs with a very substantial lag. Therefore, I agree with the Fed’s historic approach of reducing monetary stimulus before the emergence of obvious and strong inflationary pressure.

The second objective of the Federal Reserve is to keep the economy growing as close as possible to its maximum potential output. The Federal Reserve is to seek the lowest rate of unemployment that can be achieved without risking the acceleration of inflation. My goal, as a Governor of the Federal Reserve Board, would be to create an environment conducive to achieving and sustaining this low level of unemployment. There are many reasons to avoid unemployment. Just as with inflation, unemployment has real human and economic costs. The toll of high unemployment, like that of a regressive tax, falls most heavily on groups in the work force that are the least able to bear the burden. Additionally, full employment gives more of our citizenry an opportunity to gain useful skills and work-related disciplines.

In the short run, the Federal Reserve frequently faces a tradeoff between the goals of low inflation and high employment, but ultimately price stability underpins sustainable output growth and job creation.

If I am confirmed, I will join the Federal Reserve at a time when the macroeconomic fundamentals are exceptionally sound. As some others in this room have noted, underlying inflation is the lowest it has been in more than 30 years, and the unemployment rate has declined to under 5 percent, also the lowest in a generation. Similarly, growth in the output of goods and services over the past year has been approximately 3.5 percent. Many economists are searching for an explanation for this splendid performance.

Unfortunately, even in today’s strong economy, there are still segments of society in which jobs are not plentiful, and income distribution remains skewed.

The role of the Federal Reserve Governor now, as always, is to monitor every available economic indicator to make needed policy readjustments. This is a role that requires pragmatism and balance, not adherence to an immutable set of preconceived notions. With current uncertainties, Federal Reserve Governors should be open to the possibility that underlying dynamics of the economy might be changing, but they should seek evidence for such developments and not act on the presumption of change.
In addition, the Federal Reserve is an active supervisor and regulator of bank holding companies and State member banks. In this, the Federal Reserve, in cooperation with other agencies, is responsible to preserve the safety and soundness of the entire banking system for the benefit of society. We are living in an era of consolidation in the banking industry, the gradual blurring of distinctions between banks and other financial institutions, and the ongoing globalization of the financial sector. The role of the Federal Reserve Governor with respect to banking supervision is to execute prudent judgments to impose regulations on banks that ensure the safety and soundness of the banking system, that mirror the operation of a well-functioning market, that allow a reasonable pace of financial modernization, and that assure a full range of financial services for our citizens, our communities, and our businesses. The basic framework for banking regulation is set by Congress.

I will note that I have other pages here which I would like to have placed into the record.

In conclusion, I would like to thank you, Senator D’Amato, and the Committee for considering my nomination. I would be pleased to respond to any questions you may have.

The CHAIRMAN. Thank you very much, Mr. Ferguson.

Senator FAIRCLOTH. Thank you, Mr. Chairman. I have a couple of very brief questions.

Mr. Ferguson, you attended Pembroke College?

Mr. FERGUSON. Yes, in Cambridge.

Senator FAIRCLOTH. In Cambridge. OK. There was one in North Carolina, and I couldn’t figure out how you made that jump forward from Pembroke.

Mr. FERGUSON. Unfortunately, not the one in North Carolina.

Senator FAIRCLOTH. OK. I have a couple of questions.

Are you in agreement with the constraints that Chairman Greenspan has held on interest rates—his agreement to let them rise if it’s necessary to contain inflation? Do you hold the same views on restraining inflation that the Federal Reserve has followed in the last 3 or 4 years?

Mr. FERGUSON. I think the answer to that question is that I certainly believe that price stability is the primary goal.

Senator FAIRCLOTH. That what is?

Mr. FERGUSON. Price stability is the primary goal that the Federal Reserve should be following; it is written into the law.

I think if we look at the response and the nature of the economy today, it is clear that the Federal Reserve, along with Congress, has made some very wise decisions that have gotten us into the position where we have what now appears to be very solid growth, relatively low unemployment, and no immediate signs of incipient inflation.

I believe the Federal Reserve is certainly to be commended for what it has done thus far. Obviously, I was not in the room at each FOMC meeting, so I can’t comment exactly on how I would have voted in the past, but I would say the record indicates that wise decisions have been made.
Senator FAIRCLOTH. What is your visceral reaction to the question: If we had to make a choice between inflation, monetary inflation, or an increase in unemployment, which way would you move?

Mr. FERGUSON. As I have said here, I believe, in the long run, those two things work together, which is to say that I believe that price stability creates the underpinnings that allow the economy to achieve sustainable growth.

Senator FAIRCLOTH. In a word, yes or no, which would be your visceral reaction?

Mr. FERGUSON. In honesty, Senator, I can't give you a word, yes or no, on that, and I understand why you're asking the question.

I believe there are many, many factors that would have to go into the decision. We have to be mindful that we are trying to push for maximum employment, consistent with price stability.

Senator FAIRCLOTH. Thank you.

Mr. Gramlich, I ask you the same question.

Mr. GRAMLICH. Unfortunately, Senator—

Senator FAIRCLOTH. I just want your visceral reaction, which is the most—

Mr. GRAMLICH. Unfortunately, I'm going to give the very same answer. I think we both believe—

Senator FAIRCLOTH. Thank you so much.

[Laughter.]

I have already heard it. So we don't get an answer to that.

Mr. GRAMLICH. Let me try to add one more sentence to that, if I may.

We both believe that, in the long run, if we have stable prices, then those become the atmosphere for maximizing employment. I think we're both saying that stable prices would be, in our view, the primary goal of central bank policy.

The CHAIRMAN. Senator Reed.

Senator REED. Thank you, Mr. Chairman. I want to also thank the nominees. I have had the chance to meet with them, and they are both extraordinarily gifted and accomplished individuals, and fully prepared to deal with all the aspects of the responsibilities of the Federal Reserve.

What I think is particularly interesting and commendable is that their individual expertise mirrors the two major functions of the Board, macroeconomic policy—and Professor Gramlich is one of the renowned experts in America—and the regulation of the financial services industry. Mr. Ferguson, at McKinsey & Company, was an American leader in advising financial institutions. Both individually and collectively, I think these are very wise nominees.

I don't really have any questions, but would like to assert the statement I made in our meetings, and that is that I think it is incumbent that we maintain a moderate to low interest rate policy. I do, in fact, think that is helping our economic recovery. I think it also is filling in the gaps for a very constrained fiscal policy as we reduce spending here in Washington.

I have another point which I have tried to make, and that is that our greatest success in terms of balancing the budget and having confidence in the American economy rests on relatively low interest rates over the next several years. Without those interest rates, our
budget plans, I think, will be shredded, and we will not only face a monetary and economic crisis, but a political crisis again.
I don't know if you would like to comment on those thoughts, but essentially, I would like to reiterate them with you today. No comment is necessary.

Mr. Gramlich. I don't mind commenting. I said in my statement that the way economists think about interest rates is that there are two components, the real interest rate and the inflation premium.
The inflation premium comes just from controlling inflation, as we have been talking about. That's certainly one important way to keep interest rates moderate. The other way is by responsible fiscal policy. Matters such as reducing budget deficits play an important role there.
I think Congress and the central bank have followed a policy that actually does try to keep interest rates moderate, and I would like to keep doing that. I think we have things on the right track, and we shouldn't change it.
Mr. Ferguson. Let me comment. I think there is also an important implication in your observation.
It is true that we're certainly having good times. Some people have called it a good-time-economy. But we have seen news as recently as yesterday that indicates that this is not happening for all components, all parts of our Nation. We still have what for me, personally, is an embarrassingly high poverty level in this country.
I referred briefly to distribution of income. Some of these things the Federal Reserve just cannot do anything about directly. They fall much more under the ambit of perhaps fiscal policy. However, as Professor Gramlich has pointed out, and I have stated as well, certainly maintaining price stability and creating as many opportunities as we possibly can for job growth and job creation is an important objective of the Federal Reserve.

Senator Reed. Thank you very much, gentlemen. I thank you, Mr. Chairman.
The Chairman. Thank you, Senator.

Dr. Ferguson, I don't want to prolong this, but you spoke about the importance of maintaining a policy of price stability. I understand that. You have also emphasized the importance of job growth and job creation.

What exactly do you think the Fed's role is in that regard? I am concerned when I hear about emphasizing the Fed's role in growth. Could you be more specific?

Mr. Ferguson. Let me be quite clear.
The Chairman. I would like that.

Mr. Ferguson. I am a firm believer, for sure, in price stability, as I have said. I strongly believe, as does Dr. Gramlich, that is the underpinning which allows the economy to maintain sustainable growth.
The response that I gave to Senator Reed's question talked more broadly about a variety of other issues that are of concern personally, but not as a policy matter.
As with many citizens, we are concerned that we maintain sustainable growth. I think the role that the Federal Reserve can play there is certainly primarily in maintaining price stability.
The CHAIRMAN. We are not looking at some kind of activist policy or philosophy that's going to come from the Fed because you may have a concern for the unevenness of the economic expansion, and I understand that. Everyone should be concerned with that.

Mr. FERGUSON. No, I am not suggesting activist policy; what I'm suggesting is that the role that the Fed can play is one of maintaining price stability. I think that is consistent with maintaining sustainable growth.

The CHAIRMAN. OK.

I want to thank the nominees. I believe the President has chosen two nominees who have extraordinary backgrounds, and have demonstrated a commitment to helping this country.

I hope that in their capacities as Governors of the Fed, they are successful in loaning their intellect and their capabilities to this very important position. We look forward to moving these nominees as quickly as possible to the floor for Senate confirmation.

We stand in recess. Thank you.

Mr. GRAMLICH. Thank you.

Mr. FERGUSON. Thank you.

[Whereupon, at 11 a.m., Tuesday, September 30, 1997, the hearing was adjourned.]

[Prepared statements, biographical sketches of the nominees, and response to written questions follow:]
PREPARED STATEMENT OF SENATOR THAD COCHRAN
ON THE NOMINATION OF DENNIS DOLLAR TO BE A MEMBER OF THE NATIONAL CREDIT UNION ADMINISTRATION BOARD

Mr. Chairman, I am pleased to have the opportunity to speak in support of the confirmation of Dennis Dollar to the Board of the National Credit Union Administration. Dennis is a longtime friend and a fellow Mississippian.

Dennis has had a diverse career as a realtor, educator, Member of the Mississippi House of Representatives, and as President of the Gulfport VA Federal Credit Union. He would bring a great deal of knowledge and experience to the Board from these varied positions.

In addition to his work, Dennis has found the time to participate in numerous other professional, civic, and charitable organizations, holding leadership roles in most of them. His long and distinguished history of community involvement has earned him great respect and appreciation in Mississippi.

I believe that Dennis' character, combined with his excellent understanding of credit union issues and his broad range of experience, would make him an excellent addition to the NCUA Board.

Mr. Chairman and Members of the Committee, I urge you to support Mr. Dollar's nomination.

PREPARED STATEMENT OF SENATOR DANIEL PATRICK MOYNIHAN
ON THE NOMINATION OF LAURA S. UNGER TO BE A COMMISSIONER OF THE SECURITIES AND EXCHANGE COMMISSION

It is my pleasure today to support Laura S. Unger for confirmation to the position of Commissioner of the Securities and Exchange Commission (SEC).

Ms. Unger was born in New York City. After graduation from the University of California at Berkeley in 1983, she returned to the city to attend New York Law School.

It was during law school that Ms. Unger began her work with SEC matters. As a summer associate and law clerk at Moskowitz Altman & Frankel, she assisted in preparing documents and filings for private placements, initial public offerings, exchange listings, and annual and quarterly reports filed with the Commission.

Ms. Unger went to work for the SEC as a staff attorney and moved to Washington in 1989. In this position she worked on investigations and cases involving insider trading, financial fraud, and other violations of Federal securities laws.

Ms. Unger's most recent experience working for Senator D'Amato, first as a SEC Congressional Fellow and then as Counsel, has added very valuable experience to Ms. Unger's repertoire and knowledge of the workings of the SEC.

Ms. Unger currently serves as Securities Counsel to the Senate Banking Committee. She has gained a solid understanding of securities issues and helped craft a number of bills that have become law, including the National Securities Market Improvements Act of 1996, the Securities Litigation Reform Act of 1995, and the Small Business Loan Securitization and Secondary Market Enhancement Act of 1994.

I thank the President for bringing Ms. Unger's name forward and I urge my colleagues to approve her nomination.

ON THE NOMINATION OF PAUL R. CAREY TO BE A COMMISSIONER OF THE SECURITIES AND EXCHANGE COMMISSION

Paul R. Carey is a young man of great intelligence and unwavering sound judgment. My enthusiasm for him is shared by many of my colleagues who have had occasion to work with him in his capacity as Special Assistant to the President for Legislative Affairs.

The son of New York's legendary Governor, Hugh L. Carey, Paul has lived most of his life in New York. Born in Brooklyn and raised in Albany, he received his Bachelor's degree in Economics from Colgate University. His professional career began with securities work for Donaldson, Lufkin & Jenrette in Manhattan and then with First Albany Corporation in Albany, New York.

Paul Carey has an extraordinary knowledge of Government and how it works and how it is supposed to work. He has served as an Advisor to the President on banking and financial matters, devoting a considerable portion of his time to matters directly related to the Securities and Exchange Commission.

We have a rare opportunity to bring an individual of high intellect and flawless integrity to a position of critical importance. I commend the President for bringing his name forward and I urge the Committee to support his nomination.
PREPARED STATEMENT OF LAURA S. UNGER
COMMISSIONER-DESIGNATE, SECURITIES AND EXCHANGE COMMISSION
SEPTEMBER 30, 1997

Chairman D'Amato, Senator Sarbanes, and Members of the Committee, as a
member of the Committee staff, it is an especially great honor to appear before you
today to testify in connection with my nomination by the President to be Commis-
sioner of the Securities and Exchange Commission.

I am also pleased to share the table today with my able colleague, Paul R. Carey,
the President's choice for the other vacant Securities and Exchange Commissioner
seat, a fellow New Yorker, and an individual with whom I have had the pleasure
of working. If confirmed, I look forward to sharing a table at the Commission with
Mr. Carey.

As the Chairman knows, I joined his staff as a Congressional Fellow from the
SEC almost exactly 7 years ago. Over the last 7 years, I have had the pleasure and
privilege to work closely with the Chairman and Committee Members on a variety
of issues. It has never been dull. I have had the opportunity to work on a number
of important pieces of legislation and have enjoyed every moment of my tenure on
the Committee staff.

Working for the Chairman and the Committee at this challenging time in our fi-
nancial history has afforded me the opportunity to help shape the securities laws
and to participate in important policy decisions concerning the efficiency and fair-
ness of the capital markets and the protection of investors. Should the full Senate
confirm my nomination, I look forward to continuing my work in this area as a Se-
curities and Exchange Commissioner.

The Commission's mission is to administer and enforce the securities laws to pro-
tect investors and to maintain fair, honest, and efficient markets. In order to fulfill
this mission, the SEC must consider the delicate balance between the investors and
the marketplace. Without investor confidence, the capital markets will not flourish.
However, too much regulation will make the markets an unattractive source of fi-
nancing to companies. If confirmed, I will work to ensure that the Commission's pro-
grahms strike the appropriate balance.

I feel extraordinarily honored to have been the President's choice for a seat on
the Commission. As the Commission heads toward the 21st century, it will face a
myriad of challenges, including issues involving market structure, technology, inter-
nationalization, continued growth in the mutual fund industry, as well as financial
modernization. If confirmed, I welcome the opportunity to work on these issues and
to be a Member of the Commission as it prepares for the new millennium.

When I left the Securities and Exchange Commission 7 years ago to come to Cap-
itl Hill to work for Senator D'Amato, I promised I would return to the Commission.
As hard as it will be to leave the Committee, the Committee Members, and all of
my colleagues on the staff, should the Senate confirm my nomination, it is with
great enthusiasm and anticipation that I will return to the Commission to serve as
a Commissioner. If confirmed, I look forward to continuing to work with this Com-
mittee and staff in my new capacity.

Thank you, Mr. Chairman. I look forward to answering any questions.
STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Unger  Laura  Simone
(Last) (First) (Other)

Position to which nominated: Commissioner, Securities & Exchange Comm'n. Date of nomination: 9/18/97

Date of birth: 08/01/61  Place of birth: New York, New York

Martial Status: married  Full name of spouse: Peter Van Buren Unger

Name and ages of children: Simone Taylor  9 months

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<td></td>
<td>New York Law School</td>
<td>9/84 - 6/87</td>
<td>J.D.</td>
<td>6/87</td>
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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.

U.C. Berkeley Honor Society
New York Law School Journal of International & Comparative Law
SEC Quality Increase Award (1988)
SEC Performance Award (1989)
Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

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

see attached

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## Memberships and Offices

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<td>New York Law School Student Bar Association</td>
<td>Secretary</td>
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<td>Junior League of Washington</td>
<td>Christmas Tea Co-chair</td>
<td>1/96-12/96</td>
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<td>The Decade Society</td>
<td>Silent Auction Co-chair</td>
<td>3/94-12/94</td>
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<td>Charities Co-chair</td>
<td>1/97-present</td>
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<td>Women in Housing and Finance</td>
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<td>American Bar Association</td>
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## Employment Record

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<td>8/83-5/84</td>
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<td>Legal Assistant</td>
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<td>5/84-1/86</td>
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<td>Law Clerk/Summer Associate</td>
<td>Moskowitz Altman &amp; Frankel, New York City</td>
<td>2/86-5/87</td>
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<td>Staff Attorney</td>
<td>SEC Division of Enforcement, New York City</td>
<td>1/88-4/89</td>
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<td>Staff Attorney</td>
<td>SEC Division of Enforcement, Wash., D.C.</td>
<td>4/89-10/90</td>
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<td>SEC Congressional Fellow</td>
<td>Office of Senator Alfonse M. D’Amato, Wash., D.C.</td>
<td>10/90-4/92</td>
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<tr>
<td>Counsel</td>
<td>Senate Committee on Banking, Housing &amp; Urban Affairs, Wash., D.C.</td>
<td>4/92-present</td>
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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.

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

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.

not applicable
Government Experience

Student Intern, Office of Councilwoman Barbara Lashley, Berkeley, CA., 12/82-6/83

Staff Attorney, SEC Division of Enforcement, New York City, 1/88-4/89

Staff Attorney, SEC Division of Enforcement, Wash., D.C., 4/89-10/90

SEC Congressional Fellow, Office of Senator Alfonse M. D’Amato, Wash., D.C., 10/90-4/92

Counsel, Senate Committee on Banking, Housing & Urban Affairs, Wash., D.C., 4/92-present
Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

|none|

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

|see attached|

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 - see attached|

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|
Qualifications

Over the last decade, I have had the opportunity to work on and study a wide range of issues involving the federal securities laws and the Commission.

As securities counsel to the Senate Banking Committee, I cover legislation, rulemaking initiatives and industry developments. During my tenure, I have learned of the Commission’s varied responsibilities and undertakings to protect investors, enhance capital formation and preserve the integrity of our capital markets.

I have worked closely with the Senators, the Commission, NASAA and industry groups on a number of bills that have become law, including the National Securities Markets Improvement Act of 1996, the Securities Litigation Reform Act of 1995, the Small Business Loan Securitization and Secondary Market Enhancement Act of 1994, the Government Securities Act Amendments of 1993 and the Limited Partnership Rollup Reform Act of 1993. I have also participated in the Banking Committee’s work on a number of related issues, such as financial modernization, investment advisor oversight, fair trade in financial services, the deregulation of public utility holding companies, derivatives, municipal securities and the Orange County Bond default, financial accounting for employee stock options and bank sales of mutual funds.

At the beginning of my career, I was an attorney in the Commission’s Enforcement Division. In that capacity, I worked on a number of investigations and cases involving insider trading, financial fraud and other violations of the federal securities laws.

While in law school, I worked as a law clerk and summer associate at a New York City boutique law firm with a corporate law practice. There, I assisted in preparing a variety of documents and filings for private placements, initial public offerings, exchange listings and annual and quarterly reports filed with the Commission. I also wrote a note for the *Journal of International and Comparative Law* on international securities law and the emerging global market.

1. Future Employment Relationships

I am presently employed as Counsel to the Senate Committee on Banking, Housing, and Urban Affairs. I certify that immediately upon taking the oath of office as Commissioner, I will resign from the Counsel position.
Potential conflicts of interest:

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

   none

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

   see attached

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.

   none
2. Potential Conflicts of Interest

Potential conflicts of interest might involve the following entities:

- Dreyfus Worldwide Money Market Fund
- Fidelity Contra Fund
- Fidelity Puritan Fund
- Fidelity New Millenium Fund
- Fulbright & Jaworski
- MBNA America
- Riggs Bank
- Vanguard 500 Index Trust Fund

\[1\text{ Acquired July 1, 1997 (after close of reporting period for Form 278).}\]
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.

see attached

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.

not applicable

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
5. Resolving Conflicts of Interest

My General Recusal Policy

I have been furnished with a copy of 18 U.S.C. 208, as amended by the Ethics Reform Act of 1999, and the Canons of Ethics for Members of the Securities and Exchange Commission, 17 C.F.R. 200.50 et seq., both of which I have read. I understand that, as required by 18 U.S.C. 208, I must disqualify myself from any particular matter that, to my knowledge, would have a direct and predictable effect on my financial interests or a financial interest imputed to me, unless a written waiver of such disqualification is issued pursuant to 18 U.S.C. 208(b).

Accordingly, I intend to disqualify myself from participation in any particular matter involving specific parties that has a direct and predictable effect on my financial interests or a financial interest imputed to me.

In addition, I intend to participate in matters of general applicability, such as general policy considerations, rulemaking proceedings or legislation, except that, as required by 18 U.S.C. 208, I will not participate when such a matter would, to my knowledge, have a direct and predictable effect on my financial interests, or financial interests imputed to me.

Finally, I intend to disqualify myself on a case by case basis, with respect to any other matter where, in order to avoid the possible appearance of impropriety, it appears desirable to me to disqualify myself, despite the lack of any actual conflict of interest or any requirement to do so.

My Recusal Policy Regarding My Spouse’s Employer, Fulbright & Jaworski

As long as my spouse is employed by Fulbright & Jaworski, or has any continuing financial ties to it, I will disqualify myself from any particular matter involving specific parties in which Fulbright & Jaworski is or represents a party, as required by 5 C.F.R. 2635.502.

I intend to participate in matters of general applicability, such as general policy considerations, rulemaking proceedings or legislation, including any of these matters in which Fulbright & Jaworski is or represents a party, except that, as required by 18 U.S.C. 208, I will not participate when such a matter would, to my knowledge, have a direct and predictable effect on financial interests imputed to me.

Finally, I intend to disqualify myself on a case by case basis, with respect to any other matter where, in order to avoid the possible appearance of impropriety, it appears desirable to me to disqualify myself, despite the lack of any actual conflict of interest or any requirement to do so.

I understand that the financial interests that would be imputed to me are those of a spouse, dependent child, general partner, or any organization in which I am serving as officer, director, or trustee, or any person with whom I am negotiating for employment.
Thank you, Mr. Chairman, Senator Sarbanes, and Members of the Committee. I am grateful to the President for nominating me to the Securities and Exchange Commission. I am also honored to appear before you today and appreciate the Committee's scheduling a hearing in such an expedited fashion. I am especially pleased to be embarking on this endeavor at the same time as Laura Unger. I have had the good fortune to work with Laura on many issues. If confirmed, I am enthusiastic about the contribution we can both make to this Commission by our ability to work together.

Before his elevation to the Supreme Court by President Roosevelt, William O. Douglas served as the third Chairman of the SEC—from 1937 to 1939. He described the mission of the SEC in very simple but compelling words: "We are the investor's advocate." It remains true to this day, and I believe it has been particularly evident during the tenure of Chairman Arthur Levitt. I am proud to note that my relationship with the Chairman dates back to the 1970's when our fathers served together as Governor and Comptroller of New York State. If confirmed, I look forward to extending into this generation the shared honor of public service of our two families by joining the SEC with Chairman Levitt.

I believe the SEC, in recent years, has been a model for the relationship that should exist between the regulators and the regulated. This relationship requires both a healthy tension and a level of cooperation on a variety of issues. We have improved the way our markets function and preserved the United States capital markets' exemplary standing throughout the world. As a result, I believe fairness and transparency in our markets have been enhanced, to the enormous benefit of investors.

Many of the challenges that lie ahead are in the relationship between our markets and those of other nations. Ongoing efforts to arrive at international accounting standards as well as cooperation on enforcement matters should permit us to accommodate the growth of across-the-border transactions without diminishing investor protection. The integrity of our markets and the confidence that has produced is owed in large measure to the vigorous enforcement efforts of the SEC. Markets are dramatically affected by the rapid development of technology, which presents both opportunities and risks that must be carefully monitored. Investors will also benefit from the SEC's "plain English" effort to make disclosure documents clearer and easier to understand, as well as the Investor Education and Assistance Program which gives investors a forum in which they can get objective information.

It takes vigilance and judgment to encourage capital formation and vigorously maintain investor protection. This will be my principal concern if I am confirmed by this Committee and the full Senate as a Securities and Exchange Commissioner. I hope that I can look forward to working with this Committee and its staff on the many issues we will face together.

Thank you.
## STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

**Name:** Carey Paul Robert  
**Position to which nominated:** Commissioner - United States Securities and Exchange Commission  
**Date of nomination:** September 16, 1997  
**Date of birth:** 10/18/62  
**Place of birth:** Brooklyn, NY  
**Marital status:** Single  
**Full name of spouse:**  
**Name and ages of children:**  

### Education

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<thead>
<tr>
<th>Institution</th>
<th>Dates attended</th>
<th>Degrees received</th>
<th>Dates of degrees</th>
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<tbody>
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<td>Skidmore College</td>
<td>9/81-6/83</td>
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<td>N/A</td>
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<tr>
<td>Colgate University</td>
<td>2/84-6/86</td>
<td>B.A. Economics</td>
<td>1986</td>
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</table>

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

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<tr>
<th>Organization</th>
<th>Office held (if any)</th>
<th>Dates</th>
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<td>Gardiners Bay Country Club</td>
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<td>Mashomack Preserve</td>
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<td>1989-1992</td>
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<td>University Club of Washington, DC</td>
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<td>1993-Present</td>
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<td>The Flax Trust</td>
<td>Board Member</td>
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<td>Irelands Children</td>
<td>Development</td>
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<td>Children's Hospital-Albany</td>
<td>Development</td>
<td>1988-1991</td>
</tr>
</tbody>
</table>

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

**February 1993 to Present - Special Assistant to the President**

- The White House, Washington, DC
- June 1992 to Feb 1993 - Northeast Finance Director
  - The Democratic National Committee
  - Northeast Finance Director
- Sept 1991 to June 1992 - Clinton for President Committee
  - Little Rock, Arkansas
- June 1988 to Sept 1991 - Associate First Albany Corporation
  - Albany, New York
- July 1986 to May 1988 - Associate Donaldson, LuFkin & Jenrette
  - New York, New York
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.

Special Assistant to the President for Legislative Affairs,

February 1993 to Present

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

Clinton For President Committee - Northeast Finance Director

September 1991 to June 1992

Democratic National Committee - Northeast Finance Director

June 1992 to February 1993
**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 the specific amounts, dates, and names of the recipients.

Lynn Yeakel for Senate, June 30, 1992, $500

Clinton for President Committee, May 27, 1992, $616

Democratic National Committee, January 29, 1993, $5,937

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

(Attach sheet)

**Future employment relationships:**

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

   I am presently employed as Special Assistant to the President. I certify that immediately upon taking the oath of office as Commissioner, I will resign from this position.

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
Qualifications

During my tenure as Special Assistant to the President, I have been an adviser on banking and financial services policy and legislation and have focused a considerable portion of my time to Securities and Exchange Commission matters. Additionally, I worked in the securities industry for most of my career prior to joining the public sector. I believe the combination of these experiences will provide me with a unique insight in the issues facing the SEC.
Potential conflicts of interest:

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

   None

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

   Westmoreland Grantor Trust (beneficiary interest in family residence held in trust form)

   See attached.

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.

   None
Potential Conflicts of Interest

No member of my immediate family is an officer or director of any securities firm, investment company, investment adviser, registered public utility holding company or any of its affiliates, or of any company that has public security holders. Two of my siblings, however, are employed by Goldman, Sachs & Co., a regulated securities firm. My brother Donald Carey is a Vice-president in the Municipal Finance Division's headquarters office, and my sister Helen Carey is a Vice-president in the Municipal Sales Division's headquarters office.
4. List any lobbying activity during the past 10 years in which you have engaged 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.

Since February of 1993 I have been a Special Assistant to the President for Legislative Affairs.

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

See attached sheet

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.

See attached sheet

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

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

I have been furnished with a copy of 18 U.S.C. 208, as amended by the Ethics Reform Act of 1989, and the Canons of Ethics for Members of the Securities and Exchange Commission, 17 C.F.R. 200.50 et seq., both of which I have read. I understand that, as required by 18 U.S.C. 208, I must disqualify myself from any particular matter that, to my knowledge, would have a direct and predictable effect on my financial interests or a financial interest imputed to me, unless a written waiver of such disqualification is issued pursuant to 18 U.S.C. 208(b).

Accordingly, I intend to disqualify myself from participation in any particular matter involving specific parties that has a direct and predictable effect on my financial interests or a financial interest imputed to me.

In addition, I intend to participate in matters of general applicability, such as general policy considerations, rulemaking proceedings or legislation, except that, as required by 18 U.S.C. 208, I will not participate when such a matter would, to my knowledge, have a direct and predictable effect on my financial interest, or financial interest imputed to me.

As long as either of my siblings is employed by Goldman Sachs, I will disqualify myself from any particular matter involving specific parties in which either of their respective divisions is involved if the circumstances regarding my participation would cause a reasonable person with knowledge of the relevant facts to question my impartiality, unless I have received authorization to participate. 5 C.F.R. 2635.502.

Finally, I intend to disqualify myself on a case-by-case basis, with respect to any other matter where, in order to avoid the possible appearance of impropriety, it appears desirable to me to disqualify myself, despite the lack of any actual conflict of interest or any requirement to do so.

I understand that the financial interests that would be imputed to me are those of a spouse, dependent child, general partner, or any organization in which I am serving as officer, director, or trustee or any person with whom I am negotiating for employment.
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.

On August 15, 1995, in the normal course of carrying out its supervisory responsibilities of the Clinton for President Committee, Inc. (1992), the Federal Election Commission found reason to believe I violated a provision of the Federal Election Campaign Act of 1991 as a result of the Committee's failure to reimburse me in a timely fashion for expenses I incurred. However, after considering the circumstances of the matter, the Commission by letter dated September 12, 1995 stated its determination to take no further action and closed its file as it pertains to me. A copy of the Commission's letter is attached.
On August 15, 1995, the Federal Election Commission found reason to believe that you violated 2 U.S.C. § 441a(1)(A), a provision of the Federal Election Campaign Act of 1971, as amended, by making an excessive contribution to the Clinton for President Committee ("the Committee"). However, after considering the circumstances of this matter, the Commission also determined to take no further action and closed its file as it pertains to you. The Factual and Legal Analysis, which formed the basis for the Commission's finding, is attached for your information.

Please be advised that your total amount of contributions violated the contribution limitation at 2 U.S.C. § 441a(1)(A). The Commission reminds you that "advances" for the costs incurred in providing goods or services to, or obtaining goods or services that are used by or on behalf of, a candidate or a political committee are considered contributions. See 11 C.F.R. § 116.5(b). You should take steps to ensure that you abide by the contribution limitation and this regulation in the future.

The file will be made public within 30 days after this matter has been closed with respect to all other respondents. You are advised that the confidentiality provisions of 2 U.S.C. § 437g(a)(12)(A) still apply with respect to all respondents still involved in this matter.

If you have any questions, please contact Peter G. Blumberg or Andre Pineda, the attorneys assigned to this matter, at (202) 215-1690 or (800) 424-9530.

Sincerely,

Danny V. McDonald
Chairman

Enclosure
Factual and Legal Analysis
RESPONDENT: Paul Carey
MUR: 4172

This matter was generated by information obtained by the Federal Election Commission ("the Commission") in the normal course of carrying out its supervisory responsibilities pursuant to the Federal Election Campaign Act of 1971, as amended ("the Act"). 2 U.S.C. § 437g(a)(2). The information is based on contributions made to the Clinton for President Committee, Inc. ("the Committee").

The Act states that no person may make contributions to any candidate and his or her authorized political committees with respect to any election for Federal office which, in the aggregate, exceed $1,000. 2 U.S.C. § 441a(a)(1)(A).

The payment by an individual from his or her personal funds for the costs incurred in providing goods or services to, or obtaining goods or services that are used by or on behalf of a political committee is a contribution. 11 C.F.R. § 116.5(b). However, two exemptions exist. First, an individual may spend an aggregate of $1,000 per election for personal transportation expenses on behalf of a candidate without such expenditures counted as contributions. 11 C.F.R. §§ 100.7(b)(5) and 116.5(b). Second, advances of personal funds will not be considered contributions if they are for the individual's personal transportation expenses or for the usual and normal subsistence expenses of the individual who is not a volunteer, where such
expenses are incurred while the individual is travelling on behalf of a candidate or a political committee of a political party. 11 C.F.R. § 116.5(b); see also Explanation and Justification for 11 C.F.R. § 116.5(b), 55 Fed. Reg. 26382-83 (June 27, 1989). If the individual's transportation and subsistence expenses are paid by personal credit card, they must be reimbursed within 60 days after the closing date of the billing statement on which the charge first appears, or if a personal credit card was not used, within 30 days after the date on which the expenses were incurred. Id. When an individual incurs expenses for the subsistence of others, a contribution occurs at the time the financial obligation is incurred, regardless of when the payment is due or when the individual pays the debt. 11 C.F.R. § 116.5. See also, Explanation and Justification of 11 C.F.R. § 116.5(b), 55 Fed. Reg. 26382 (June 27, 1989).

The Commission intended section 116.5 to provide a limited exception to the general rules governing contributions for an individual's personal transportation expenses, and for usual and normal subsistence expenses of an individual who is not a volunteer. 11 C.F.R. § 116.5, 55 Fed. Reg. 26382-3 (June 27, 1989). The Commission also adopted section 116.5 out of concern that during critical periods in a campaign when an authorized committee is experiencing financial difficulties, individuals may attempt to circumvent the contribution limitations by paying committee expenses and not expecting reimbursement for substantial periods of time. Explanation and Justification for 11 C.F.R. § 116.5, 55 Fed. Reg. 26382-3 (June 27, 1989); see also NUR 1349.
(Commission found probable cause to believe that Reagan for President Committee violated 2 U.S.C. § 441a(e) by waiting 81 days to reimburse a volunteer who paid $18,713 in expenses on behalf of the committee.)

From September 1991 to July 1992, Mr. Carey made expenditures for transportation, food, parking, taxi, and miscellaneous costs. Since these expenditures were for himself and for the subsistence of others, these expenditures resulted in contributions to the Committee. 11 C.F.R. § 116.5(b). Because Mr. Carey paid for his own travel and subsistence costs with his personal credit card or by means other than his personal credit card, and because he was not reimbursed for these costs within 30 or 60 days, he made contributions to the Committee. Id. By making expenditures for the subsistence of others, Mr. Carey made contributions to the Committee at the time he incurred such expenditures. Id. The above-stated expenditures ranged from $2.00 to $751.74. On February 29, 1992, Mr. Carey’s excessive amount reached its highest at $5,350.

Therefore, there is reason to believe that Paul Carey violated 2 U.S.C. § 441a(a)(1)(A) by knowingly making contributions in excess of the contribution limitations.

\[\text{1/ On February 29, 1992, Mr. Carey’s highest excessive amount reached $5,350. However, pursuant to 11 C.F.R. § 100.7(b)(8), Mr. Carey was entitled to spend an aggregate of $1,000 per election for personal transportation expenses on behalf President Clinton without such expenditures counted as contributions. Therefore, Mr. Carey’s highest excessive amount on February 29, 1992 was $5,350 ($5,350 - $1,000).}\]
PREPARED STATEMENT OF DENNIS DOLLAR
MEMBER-DESIGNATE, NATIONAL CREDIT UNION ADMINISTRATION BOARD
SEPTEMBER 30, 1997

Thank you, Mr. Chairman, and ladies and gentlemen of the Committee for the prompt hearing and the opportunity to meet with you on behalf of my nomination to serve on the Board of the National Credit Union Administration.

As the Chief Executive Officer of a credit union which can best be described as of small to moderate size (the Gulfport VA Federal Credit Union has approximately $31 million in assets, right on the nationwide average of just under $30 million) for the past 6 years, I have dealt with the day-to-day issues facing our Nation's credit unions.

I have sat across the desk from the member of limited means who says, “I can’t send my daughter to college without this loan,” or “My son will not have clothes for school unless my credit union can help me.”

I have stood in the parking lot with that proud member who finally financed his first car or truck and says, “I never thought I would own one on my own, now I can take that new job that my family really needs but it’s 20 miles away.”

I have seen the regulatory process firsthand, have experienced the depth of an NCUA examination, and am a committed adherent to the importance of safety and soundness considerations.

Of all of the member services we provide at our credit union, I tell my members daily that the most important member service we can provide is a strong, safe, sound, and viable credit union.

I look forward to the opportunity to work as a Member of the NCUA Board to use this perspective I have gained in the credit union trenches, while at the same time applying the public policy perspective that I gained through 8 years as a State legislator.

Having served as a Member of the Mississippi House of Representatives for two 4-year terms, from 1976 to 1984, I have looked at issues from a public policy, regulatory, and legislative point of view as well.

I understand that not only credit union members have a stake in the safety and soundness of our Nation’s credit unions, but so do the American people.

I look forward to working with this Committee and Congress, as a Member of the NCUA Board upon confirmation, to continue to ensure the safety and soundness of a growing credit union system for years to come.

Again, Mr. Chairman and Members of the Committee, I am honored to be before you today for this confirmation hearing, and I would gladly answer any questions you might have of me.

Thank you very much.
**STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES**

Name: **Dollar**, Dennis

Position to which nominated: **Board, National Credit Union Admin.**

Date of nomination: **August 1, 1997**

Date of birth: **22 August 1953**

Place of birth: **Helen, MS**

Marital status: **married**

Full name of spouse: **Jamie Maureen Sullivan Dollar**

Name and ages of children:
- **Christopher Ryan Dollar** (age 16)
- **Lindsie Elice Dollar** (age 12)

Education:

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<th>Institution</th>
<th>Dates attended</th>
<th>Degrees received</th>
<th>Dates of degree</th>
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<td>University of Mississippi</td>
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<td>B.A.</td>
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</tbody>
</table>

Honors and awards:

- Outstanding Young Men of America, 1980-88
- Who's Who In Mississippi, 1989
- Notable Americans, 1978
- Selected as one of five outstanding credit union CEO's in "Most Outstanding CEO" nationwide recognition by Credit Union Times, 1994
### Memberships:

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

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<thead>
<tr>
<th>Organisation</th>
<th>Office held (if any)</th>
<th>Dates</th>
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<tbody>
<tr>
<td>March of Dimes</td>
<td>Co-Chairman</td>
<td>1994</td>
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<tr>
<td>United Way of South Ms.</td>
<td>Chairman</td>
<td>1993-94</td>
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<td>Gulfport Job Corps Center</td>
<td>Community Council</td>
<td>1984-96</td>
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<td>Gulfport Rotary Club</td>
<td>Chairman</td>
<td>1994</td>
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<tr>
<td>Kids Voting-Mississippi</td>
<td>Member</td>
<td>1991-present</td>
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<td>Boys and Girls Club</td>
<td>Leadership Board</td>
<td>1991-present</td>
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<tr>
<td>Goodwill Industries</td>
<td>Board Member</td>
<td>1979-90</td>
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</tbody>
</table>

(see attached sheet for additional)

### Employment record:

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

- **Coast Materials Company, Ready-Mix Concrete Sales.** 1976-79, Gulfport, MS.
- **Port City Real Estate, Real Estate Sales.** 1979-81, Gulfport, MS.
- **Tom Jennings Realtor, Real Estate Sales.** 1981-84, Gulfport, MS.
- **Phillips Junior College, Gulfport, MS.** Teacher, Administrator, 1984-91.
- **First Baptist Church of Lyman, Gulfport, MS.** Music/Youth Director, 1979-82.
- **Big Ridge Baptist Church, D'Iberville, MS.** Music/Youth Director, 1983-89.
- **Robinson Road Baptist Church, Gulfport, MS.** Music Director, 1990-93.
- **Big Ridge Baptist Church, D'Iberville, MS.** Music Director, 1993-present.
- **Gulfport VA Federal Credit Union, Gulfport, MS.** President and CEO, 1991-present.
MEMBERSHIPS (Continued)

Mississippi Arts Fair for the Handicapped, Board Member, 1977-85
Mississippi Coast Chamber of Commerce, Board Member, 1991-93
Mississippi Credit Union System, Chair, Governmental Affairs Committee, 1993-95
United Way of South Mississippi, Board Member, 1986-89
Gideons International, Member, 1989-present
Gulf Coast Baptist Association, Moderator, 1994-97
Gulf Coast Mental Health Center, Advisory Board, 1976-82
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.

Mississippi House of Representatives, State Representative, District III

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

Republican nominee for U. S. Congress from 5th District of
Mississippi in 1996. Member of Mississippi Republican Party.
Served as State Convention delegate, 1996.

None
Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

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

Future employment relationships:

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

   Yes

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

   I have no plans to resume employment with the Gulfport VA Federal Credit Union after completing government service.

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

   No

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

   Yes
Potential conflicts of interest:

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

   None

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

   None

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.

   None
c. List any lobbying activity during the past 10 years in which you have engaged 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 potential conflict of interest that may be disclosed by your responses to the above items.

N/A

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
DENNIS DOLLAR

- Lifelong resident of Gulfport, Mississippi.
- Elected to Mississippi House of Representatives in 1975 from Harrison County at age 22. At that time, the youngest member of the House of Representatives.
- Re-elected to Mississippi House of Representatives in 1979 without opposition.
- Declined to run for third term in 1980, opting instead to seek the office of Secretary of State. Narrowly defeated in this bid.
- Appointed by Governor as a member of the 1986 Commission on the Mississippi Constitution. Also appointed to serve as President of the 1986 Mississippi Constitution Commission.
- Previously served as President and CEO of the Gulfport VA Federal Credit Union, a $31 million federally-chartered credit union with over 11,500 members representing over 150 employer groups on the Mississippi Gulf Coast. Chartered in 1935, on the premises of its original sponsor, the Gulfport VA Medical Center, the Gulfport VA Federal Credit Union has three branches in Gulfport, one in Bay St. Louis, and one in Biloxi and is the 1983 recipient of the Harrison County Economic Excellence Award of Outstanding Small Business of the Year; the 1984 recipient of the Mississippi Credit Union League's Monticello Award for achieving the highest percentage of membership growth; both the 1983 and 1984 first place recipient ($20-$50 million asset category) of the National Dora Maxwell Social Responsibility Award recognizing credit unions for their outstanding contributions to their community; and the 1983 first place recipient ($20-$50 million asset category) of the National Dora Maxwell Social Responsibility Award recognizing credit unions for their outstanding contributions to their community.
- Republican nominee for U.S. Congress from 5th District of Mississippi in 1986, having won the Republican nomination with 80% of the vote in the Supers Tuesday primary. Although defeated in general election, received highest vote percentage of any previous challenger against seven-year incumbent Democrat congressman.
- Former realtor and educator, having served as President of Phillips Junior College from 1986-89, as well as other administrative capacities within the E-campus Phillips system.
- Selected as one of five outstanding credit union CEO's in "Most Outstanding CEO" nationwide recognition by Credit Union Times, a prestigious credit union industry publication, 1994.
- Campaign Chairman, United Way of South Mississippi, 1983-84.
- Chairman, Mississippi Credit Union System Government Affairs Committee, 1983-85.
- Chairman, Leadership Gulf Coast Class of 1991-92. Member, Gulfport Rotary Club.
- President, Leadership Gulf Coast Class of 1991-92. Member, Gulfport Rotary Club.
- Member, Gulf Coast Baptist Association. Member, Christian International.
- Baptist Deacon. Previously serving as Music & Youth Director, Big Ridge Baptist Church, Gulfport, 1986-88.
- Elected to former State Senator of Gulfport, a Gulfport schoolteacher. Two children, Christopher, 15, and Lindsey, 12.

LEGISLATIVE FACTS ABOUT DENNIS DOLLAR

- Authored bills which were enacted into law to grant 18-year-olds the rights of credit, protect rape victims from unnecessary abuse in court, make decals available for the license plates of handicapped citizens, outlaw child pornography in the state and the state's 1983 weighted-decision driving law.
- Served as chairman for the Mississippi Open Meetings Law and the 1983 Public Records Act.
- Recipient of Margaret Dress Award from the Associated Press in 1981 for "courage and effusiveness in fighting to protect for all people the right to be fully informed."
PREPARED STATEMENT OF ELLEN SEIDMAN
DIRECTOR-DESIGNATE, OFFICE OF THRIFT SUPERVISION
SEPTEMBER 30, 1997

Mr. Chairman, Senator Sarbanes, Members of the Committee, I am honored to appear before you as President Clinton’s nominee to head the Office of Thrift Supervision. I want to thank you for holding this hearing. I also want to thank President Clinton and Secretary Rubin for their confidence in me; my family—my husband, Walt Slocombe, and my son, Will Slocombe—for their support and patience; and Nic Retsinas, Jonathan Flechter, and the staff at the OTS for their hard work and good spirits. And I want to thank the Committee’s Staff Director, Howard Menell, for reminding me of our years together at New Rochelle High School.

Mr. Chairman, the prospect of serving as the Director of OTS is humbling and exciting. As I spoke to many Committee Members during my courtesy calls, I was inevitably asked, “Why do you want this job?” Quite simply, I think it is one of the best public service jobs in Washington today.

These are dynamic times in the financial services industry, and OTS and the institutions it regulates are playing an important part in the industry’s evolution. The country’s first Internet “bank” was a thrift, and new companies are entering the thrift industry, even as consolidation continues to reduce the total number of institutions supervised by OTS. At the same time, thrifts continue their critical role as home mortgage lenders, with residential whole loans comprising over 50 percent of the industry’s assets, and traditional home lenders leading the industry in profitability.

These have been good years for the thrift industry, but OTS’s primary responsibility must always be to make certain that the industry continues to be safe and sound, no matter what the economic conditions. Depositors and taxpayers are counting on OTS to understand what the risks are, to establish sound and sensible rules, and to make certain those rules are followed. In contrast to thrift regulation of the 1980s, OTS has the statutory and regulatory tools, the resources, and the public and political support to accomplish this mission. My responsibility, if confirmed, will be to support and enhance what has been accomplished, both leading and backing the agency’s staff as they take sometimes difficult actions.

OTS must also encourage the institutions it supervises to meet their responsibilities to make certain that financial services are available on a fair and equitable basis in all communities the institutions serve. This is not only good for consumers and communities, it is good for business. If communities have access to capital and are part of the financial mainstream, economic development follows, as do jobs and profits for the businesses serving those communities.

The challenges for the industry, and thus for OTS, are many, but what makes the prospect of leading the agency exciting is that each challenge brings opportunities. Homogenization of different types of financial services and consolidation in the financial services industry can bring increased access to capital and the advantages of greater scale, particularly in development and deployment of new products and the best new technology. But these trends challenge management and morale. They challenge institutions to continue to effectively serve their customers and their communities, and they challenge regulators to fully understand and effectively supervise a broader array of activities and of risks.

Technology, too, is the source of opportunities and challenges. Technology not only provides better tools for understanding the business but also provides the ability to serve customers in new ways and more efficiently. But technology’s challenges are legion: preparing for the year 2000; protecting the security and privacy of institutions’ systems and customers’ accounts; understanding the tools so management and regulators can use them rather than being trapped in a world of black boxes; and, finally, making the benefits of technology available to all. That means being careful that credit scoring tools, which can clearly enhance productivity, are used to free up underwriters to analyze applications that don’t fit the scoring systems precisely, rather than to restrict access to credit. It means enhancing, not restricting, access to ATM’s and electronic banking as those technologies become more prevalent.

Finally, there is the challenge of the changing legal structure. One cannot be nominated to be the Director of OTS without being aware that people have been talking about abolishing OTS virtually since it was founded. The office needs full-time leadership and direction so it can be part of determining its future and that of the thrift industry, and to implement that future, whatever it may be, in a manner that protects depositors, the insurance funds, and taxpayers, and is sensitive and responsive to the needs of employees.

Thank you for the consideration of my nomination. If confirmed, I look forward to working with you to meet the challenges of this new era.
**STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES**

**Name:** Seidman  
**Last Name:** Ellen  
**First Name:** Shapiro

**Position to which nominated:** Director, Office of Thrift Supervision  
**Date of nomination:** 2/6/97

**Date of birth:** 12/3/48  
**Place of birth:** New York, New York

**Martial Status:** Married  
**Full name of spouse:** Walter Becker Slocombe

**Name and ages of children:**  
Benjamin William Slocombe (12)  
Sarah Cody Slocombe (Step-daughter) (29)  
Merrin Hayes Slocombe (Step-daughter) (27)

**Education:**  
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<th>Dates of degrees</th>
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<tr>
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<td>George Washington Univ</td>
<td>1984-87</td>
<td>MDA</td>
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**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.

- Secretary's Award for Meritorious Achievement, USDOT, 10/9/79
- General Counsel's Award, US Treasury, 5/86
- Special Achievement Award, US Treasury, 7/86
- Treasury Department Award, 12/8/87
Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable, and other organizations.

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<td>Emily's List</td>
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<td>1987(*) to date</td>
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<td>1989(*) to date</td>
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<td>1989 to 1993(*)</td>
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<td>Bd Member</td>
<td>1991(*) to 1993</td>
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Employment record: List below all positions held since college, including the title or description of job, names of employment, location of work, and dates of inclusive employment.

March 1993 to present - Special Assistant to the President for Economic Policy; Executive Office of the President; Old Executive Office Building, Washington, DC

November 1991 to February 1993 - Senior Vice President, Regulation, Research & Economics; Federal National Mortgage Association; Washington, DC

February 1991 to November 1991 - Vice President for Strategic Planning & Critical Issues; Federal National Mortgage Association; Washington, DC

November 1988 to February 1991 - Vice President and Assistant to the Chairman; Federal National Mortgage Association; Washington, DC

November 1987 to November 1988 - Director of Strategic Planning; Federal National Mortgage Association; Washington, DC

March 1986 to November 1987 - Special Assistant to the Under Secretary (Finance); US Department of the Treasury; Washington, DC

December 1981 to March 1986 - Attorney-Advisor, Office of the General Counsel, and Associate General Counsel, Chrysler Loan Guarantee Board; US Department of the Treasury; Washington, DC

March 1979 to December 1981 - Deputy Assistant General Counsel for Environmental, Civil Rights and General Law; US Department of Transportation; Washington, DC
March 1978 to March 1979 - Attorney-Advisor, Office of the General Counsel; US Department of Transportation; Washington, DC

August 1975 to March 1978 - Associate: Caplin & Drysdale; Washington, DC

August 1974 to August 1975 - Law Clerk to the Honorable Oscar H. Davis; United States Court of Claims; Washington, DC

Summer 1973 - Law Clerk; Miller, Cassidy, Larroca & Lewin; Washington, DC

Summer 1972 - Law Clerk; Tufo, Johnston & Zuccotti; Washington, DC

June(?) 1970 to July(?) 1971 - Project Planner, Housing Innovations, Inc; Boston, MA

September(?) 1969 to June(?) 1970 - Planning Aide; Planning Office, Massachusetts Institute of Technology; Cambridge, MA
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.

My federal government experience is listed as part of my employment record.

In addition, during 1975, I served on a District of Columbia task force to develop the Advisory Neighborhood Commission system established under the home rule legislation. From 1975 to 1977, I served as an Advisory Neighborhood Commissioner, from district 6B07 on Capitol Hill.

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


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

I am a registered Democrat. I have not held office in nor rendered service to any political party or election committee during the last 10 years. As noted in my response to the next question, I have contributed money to the Democratic National Committee and the Democratic Senatorial Campaign Committee.
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 the specific amounts, dates, and names of the recipients.

Emily's List - total of $950 - on 1/30/89; 9/22/89; 4/7/90; 6/10/90; 9/7/91; 1/13/93; and 1/4/97
Women's Campaign Fund - total of $1,000 - on 4/21/89; 10/23/89; 2/24/91; 10/19/91; and 12/2/91
DSCC - total of $600 - on 10/29/89; 10/22/90; 2/24/91; 2/22/92; and 11/5/94
DNC - $500 on 8/1/92
Josie Heath for Senate - total of $500 - on 2/2/90; 6/10/90; 8/2/90; 9/14/90; and 6/26/92

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

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

I will sever my connection with the Executive Office of the President. I will continue to remain employed by the United States government.

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 firms, association or organization.

I have no plans to resume employment with anyone after my government service.

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

No one has made a commitment to me of a job after I leave the government.

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

I expect to serve for the full term for which I have been appointed.
Statement of qualification:

I am qualified to be the Director of the Office of Thrift Supervision by virtue of my education and my government and business experiences. In addition to my Bachelor's degree in Government, I have a law degree and a Masters in Business Administration in Finance and Investments. I have practiced law, both in and out of the government. Much of my government service involved issues relating to the appropriate degree and manner of government regulation of private businesses – the railroads, the government securities industry, and most recently, the banking and thrift industries. During my years at Fannie Mae, I worked extensively on the measurement and regulation of risk in the mortgage industry, as well as how that industry can best serve all communities. I also participated in the regulatory system from the perspective of a regulated entity, complementing my government experience. In my current position, I have participated in the development of this Administration’s policies to reduce regulatory burdens on the banking and thrift industries and to encourage them to extend the profitable reach of their services to all. My management experience includes line responsibility for a department with diverse responsibilities at Fannie Mae. In addition, throughout my career I have managed interdisciplinary and interagency teams to produce high quality products in a timely manner.
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.

I am fully vested in a fully-funded non-contributory defined benefit pension plan at the Federal National Mortgage Association. I also have money in a 401(k) plan at the Federal National Mortgage Association. Neither FNMA nor I am contributing to the plan, and it is run by Fidelity, with full discretion on my part to choose investments. I do not believe either of these pension plans creates any conflict of interest. Nevertheless, I have agreed with the Treasury Department that I will take actions described in a letter dated February 6, 1997 and attached hereto as Exhibit A, to avoid any appearance of conflict.

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.

None.

3. Describe any business relationship, dealing, or financial transaction (other than taxpaying) 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.

As noted in my employment history, I have been employed by the United States Government for more than 4 of the past 10 years. I do not believe this employment creates any conflict of interest.
4. List any lobbying activity during the past 10 years in which you have engaged 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 an employee of the Federal National Mortgage Association, I participated in the development of both legislation and regulations applicable to the corporation. While I had occasional direct contact with Members of Congress and congressional staff, this was a very small part of my responsibilities.

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

As stated in Exhibit A, the letter dated February 6, 1997 from me to Neal Wolin, Deputy General Counsel of the Treasury Department, if any question relating to a potential conflict or appearance of conflict should arise, I will promptly consult with Treasury Department ethics staff so the matter can be resolved appropriately.

Civil, criminal
and investiga-
tory 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
Mr. Chairman and Members of the Committee, it is a pleasure to appear before you today as President Clinton's nominee to be a Member of the Board of Governors of the Federal Reserve System. If the Committee and the rest of the Senate approve my nomination, I look forward to serving in this important position. I promise to work with the other Members of the Board, and with the Committee, to carry out the objectives that Congress has established for the Federal Reserve, both for overall monetary policy and to assure the safety and soundness of our Nation's banking and payment system.

Background

Were I to rejoin the Federal Reserve System, this would complete the cycle for me. After receiving my Ph.D. in Economics from Yale University in 1965, my first professional job was with the research staff of the Fed. I served there for 5 years, being part of a new and at the time avant garde project to build an econometric model explaining the workings of monetary policy. This was a very heady project for a young economist, and one that I think was very productive. A successor version of this model is still in use at the Fed. I will never claim, nor did I then, that models could explain everything, but the attempt to specify the workings of monetary policy in hard and cold terms has led to great insights on appropriate overall macroeconomic targets for monetary policy and on strategies to achieve these objectives.

I left the Fed in 1970 to become Director of the Policy Research Division at the Office of Economic Opportunity. Following that, I became first a Senior Fellow at the Brookings Institution, and later a Professor of Economics and Public Policy at the University of Michigan. At Michigan, I have served for 11 years as either Dean of the School of Public Policy or Director of the Institute for Public Policy Studies (the predecessor institution). I have also spent 4 years as Chair of Michigan's Economics Department and, while on leave, 2 years back in Washington as Deputy and Acting Director of the Congressional Budget Office.

Over this time, my work has spread out widely from my early econometric model days. I have both taught and written on macroeconomics, income distribution, State and local fiscal issues, benefit-cost analysis, education, and in recent years have delved into the economics of professional baseball (I was Staff Director for baseball's Economic Study Commission) and Social Security (I was Chair of the Quadrennial Advisory Council on Social Security).

While the particular topics are very different, there is a common theme to this work. Throughout my professional life I have believed in, and tried to promote, policies that are economically practical but still provide opportunities for human growth and advancement. The Social Security plan I proposed, for example, is the one that I feel best preserves the important social protections now built into Social Security, but also provides for enough total saving that future benefits can be afforded economically. At the CBO, I and others there argued for humane ways of cutting deficits; at OEO, for economically efficient ways of dealing with poverty. I strongly feel that both economic and social goals are important. Sometimes one's advice must be weighted toward economic practicality, sometimes toward humanity. A good economist should know how to balance both objectives, which is what I have tried to do throughout my career.

The Federal Reserve

Turning now to issues facing the Federal Reserve, the overall objectives of Federal Reserve policy, listed in the Federal Reserve Act, are "maximum employment, stable prices, and moderate long-term interest rates." Let me discuss each.

In the short run, there are many factors—oil price shocks, exchange rate movements, bad harvests—that can influence price movement. But, in the long run, I believe, along with most other economists, that the fundamental responsibility for controlling a nation's inflation rests with its central bank policies. It used to be felt that inflation could be related in a very mechanical way to the rate of money growth. These days this linkage has become more complicated because of the impact of financial innovation on holdings of various monetary assets. But while the relationships may have become more complicated, Federal Reserve policy is still the dominant influence in determining U.S. inflation rates in the long run. I believe both that it is important to keep inflation under control, and that the Fed must play an important role in doing so.
Since nominal interest rates equal real interest rates plus the rate of inflation, controlling inflation also controls nominal interest rates. Real interest rates can then be controlled by fiscal policy. Modern day macroeconomic thinking suggests that when economies are open to international trade and capital flows, monetary policy becomes the key policy to stabilize employment, and fiscal policy determines the overall national saving rates and real interest rates. If the Federal Reserve is adequately guarding stabilization needs, fiscal policy is then free to keep national saving rates high and real interest rates low. That would be my idea of a desirable monetary/fiscal policy mix.

Previously, I have worked mainly on the fiscal side. At the Congressional Budget Office, I was a strong proponent of deficit reduction, as a way to raise national saving. In the Social Security Council, I was a strong proponent of policies to raise national, and retirement, saving. Joining the Fed will give me an opportunity to work on this issue from the monetary side, but I will retain an interest in fiscal restraint as a key way to assure long run low real interest rates.

Finally, the objective of “maximum employment” brings up the famous tradeoff between inflation and unemployment. Along with most other economists, I believe that ultimately there is not much of a tradeoff—some unemployment rates are so low that, if continued, will lead to steadily accelerating price increases. In the economic literature, the lowest sustainable rate of unemployment has come to be called NAIRU—the Non-Accelerating Inflation Rate of Unemployment.

While I am often asked whether I believe in NAIRU, I think this simple question glosses over the key policy issue, for it turns out to be rather difficult to measure and identify NAIRU. When I first came out of graduate school, the target unemployment rate (we did not use the term NAIRU in those days) was said to be about 4 percent. Later on, as U.S. inflation became virulent, the standard estimate shifted to above 6 percent. Now, the economy has been operating for a while in the range of 5 percent unemployment, with as yet few signs of incipient inflation. Given all this uncertainty, one can believe in a loose sense in the existence of NAIRU, but still find it hard to say how one would vote on monetary policy in particular circumstances. I would put myself in that category.

Part of the reason for this uncertainty could be that the manifestations of inflation are rather subtle. Chairman Greenspan in the past has defined stable prices as a set of economic circumstances where inflation, per se, plays little role in economic decisions. The U.S. economy may be close to this point now. The soaring stock market may be one indication that the inflation monster has at least for now been tamed. Another suggestive indication is that the spread between long- and short-term interest rates is very narrow—there has never been much explanation for this spread, other than that bond markets have distrusted the central bank’s long-term commitment to stopping inflation. Right now, bond markets seem to have become more trusting of the Fed. There are still other advantages of stable prices, and it stands to reason that one of those is that NAIRU might decline a bit—that is, in the end stable prices may even advance the goal of maximum employment.

Hence, I would be an advocate of promoting maximum employment within the Fed’s long-term important responsibility to control inflation. These conditions would guarantee a healthy economy, a reasonable growth in the living standards over time, and a realistic chance for workers of all income levels and ethnic backgrounds to prosper.

Finally, the Federal Reserve has other significant responsibilities that extend beyond overall monetary policy. It has important responsibilities for regulating the safety and soundness of the banking system, for promoting efficient payments systems, and for insuring fair and nondiscriminatory allocations of credit. While I have studied these issues less than overall monetary policy, I see them as being particularly important right now. Regulatory issues have become very complicated with the rapid financial innovation now proceeding within the Nation’s banking system. The Fed has to provide a regulatory environment that facilitates financial innovation, but yet preserves safeguards. I will work with the other Board Members to try to fashion a forward-looking, but safe, regulatory strategy.

Mr. Chairman and Members of the Committee, I would be happy to answer any questions you might have.
STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Gramlich Edward

Position to which nomination: Governor, Federal Reserve Board

Date of nomination:

Date of birth: 1863 Place of birth: Rochester, NY

Marital Status: married Full name of spouse: Ruth Brown Gramlich

Name and ages of children: Sarah Becker Gramlich 30
Robert Edward Gramlich 28

Education:

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<td>Yale University</td>
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<td>Yale University</td>
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<td>Ph.D.</td>
<td>1965</td>
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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.

- National Association of Business Economists, Abramson Award, 1970
- Association for Public Policy and Management, Vernon Award, 1987
- Society of Government Economists, Honorary Lifetime Member, 1994
- Economics Trading Cards, 1995
- Michigan Association of Governing Boards, Distinguished Faculty Award, 1994
Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

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<td>Association for Public Policy and Management</td>
<td>Vice President</td>
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<td>National Tax Association</td>
<td>Board of Directors</td>
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Employment record: List below all positions held since college, including the title or description of job, name of employer, location of work, and dates of inclusive employment.

Federal Reserve Board, Research Division 1965-70
Office of Economic Opportunity, Director Policy Research Division 1971-73
The Brookings Institution, Senior Fellow, 1973-76
The University of Michigan, Professor of Economics and Public Policy, 1976-97
The University of Michigan, Chair, Economics Department, 1983-86 and 1989-90
The University of Michigan, Director, Institute of Public Policy Studies 1979-83, 1991-97
The University of Michigan, Dean, School of Public Policy, 1995-97
Congressional Budget Office, Deputy Director 1986
Congressional Budget Office, Acting Director 1987
Government experience: List any experience in or direct association with federal, state, or local governments, including any advisory, consultant, temporary or other part-time service or positions.

- Federal Reserve Board, Research Division 1965-70
- Congressional Budget Office, Deputy Director 1986
- Congressional Budget Office, Acting Director 1987

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

See attached CV

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

None
Political Contributions:  Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

None

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

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.

I hope to take an unpaid leave of absence from the University of Michigan.

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

I hope to take an unpaid leave of absence from the University of Michigan.

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

I hope to take an unpaid leave of absence from the University of Michigan.

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

Yes
Beginning with my first professional job at the Federal Reserve in 1965, I have been interested in monetary and macroeconomics. I have taught courses in macroeconomics at all levels over the years, in both Economics Departments and the School of Public Policy. In addition to the Federal Reserve Board, I also have much government experience, having had management jobs at the Office of Economic Opportunity and the Congressional Budget Office. I also chaired the widely-noted Quadrennial Advisory Council on Social Security from 1994-96.
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 you will influence in the position to which you have been nominated.

None

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

At present, I own stock in Citicorp and in Salomon Brothers. I have been advised that these holdings could present a conflict of interest.

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

None
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.

I have agreed to sell my Citicorp and Salomon Brothers stock if my nomination is confirmed.

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
Edward M. Gramlich

April 1997

Curriculum Vitae

Dean, School of Public Policy
440 Lorch Hall
The University of Michigan
Ann Arbor, MI 48109-1220
(313) 764-9483
FAX: (313) 763-9181
nedg@umich.edu

1720 Morton Avenue
Ann Arbor, MI 48104
(313) 665-5207

Born: June 18, 1939; Rochester, NY
Married, two children (born 1966, 1968)
SS number: 108-30-7255

Education

BA, Williams College, 1961
MA, Yale University, 1962
Ph.D. Yale University, 1965

Full Time Positions

Federal Reserve Board, Research Division, 1965-70
Office of Economic Opportunity, Director, Policy Research Division, 1971-73
The Brookings Institution, Senior Fellow, 1973-76
The University of Michigan:
Professor of Economics and Public Policy, 1976--
Director, Institute of Public Policy Studies, 1979-83, 1991-95
Dean, School of Public Policy, 1995--
Chair, Economics Department, 1983-86, 1989-90
Congressional Budget Office:
Deputy Director, 1986
Acting Director, 1987

Temporary Positions

Monash University, 1970
George Washington University, 1974
Cornell University, 1975-76
Stockholm University, 1979
Other Professional

Editorial Board:
National Tax Journal, 1970-83
Evaluation Review, 1980-83
Journal of Economic Literature, 1981-84
Brookings Panel on Economic Activity, 1973-81
White House Summit Conference, 1974
National Science Foundation, Economics Panel, 1973-75
Association for Public Policy and Management:
Policy Council, 1979-84
Vice President, 1979-80
Program Chair, 1981
Editorial Selection Committee, 1984, 1988, 1993
Minority Fellows Program Advisory Committee, 1994–
American Economic Association, Vice President, 1992
Truman Scholarship Selection Panel, 1982-85, 1994–
Ford Foundation Advisory Committee on Social Welfare Policy, 1984-87
International Seminar on Public Economics, Executive Committee, 1986–
National Tax Association, Board of Directors, 1988-91
Congressional Budget Office, Panel of Economic Advisors, 1988-92
Ann Arbor Blue Ribbon Panel on City Finances, Chair, 1991-92
Major League Baseball Economic Study Committee, Staff Director, 1991-92
Michigan Association of Governing Boards, Distinguished Faculty Award, 1994
US Social Security System Quadrennial Advisory Council, Chair, 1994-96
Society of Government Economists, Honorary Lifetime Member, 1994–
Economist Trading Cards:
UM Flint Series
Prentice-Hall Series

University of Michigan Committees

Committee on Economic Status of Faculty, Chair, 1978-79
Economics Department Executive Committee, 1977-80, 1982-83, 1988-89
Committee on Undergraduate Financial Aid, Chair, 1983-84
Population Studies Center Executive Committee, 1990-91
Special Task Force on Statistical Support, 1988-90
Board of Student Publications, 1989-92
Advisory Committee on University Relations, 1990
Cost of Higher Education Task Force, 1989-90
Provost's Advisory Committee on Excellence, Chair, 1990-92
Advisory Committee on University Budgets, 1992-93
International Institute Governing Board, 1994-97
Economic Development Council, 1994-95
Journalism Task Force, 1995

Books

Savings, Deposits, Mortgages, and Housing in the FRB-MIT-Penn Econometric Model,
coedited with Dwight M. Jaffee, Hesh Lexington, 1972


Control of Local Government, coedited with B. C. Ysander, Industrinens Utredningsinstitut (Sweden), 1985.


Journal Articles


"The Role of Money in Economic Activity: Complicated or Simple?" Business Economics, September 1969 (given the 1970 Abramson Award for best article in the journal by the National Association of Business Economists)


"The Usefulness of Monetary and Fiscal Policy as Discretionary Stabilization Tools," Journal of Money, Credit, and Banking, May 1971


"State and Local Budgets the Day After It Rained: Why Is the Surplus So High?" Brookings Papers on Economic Activity, 1:1978


"Migration and Income Distribution Responsibilities," with Deborah S. Laren, *Journal of Human Resources*, Fall 1984


"The Deductibility of State and Local Taxes," *National Tax Journal*, December 1985


"Federalism and Federal Deficit Reduction," National Tax Journal, September 1987


Major Reports (Principal author)

"The Experiment in Educational Performance Contracting*, Office of Economic Opportunity, 1973

"Staff Analysis,* in Report of Major League Baseball’s Economic Study Group, 1992

"Report of the Quadrennial Advisory Council on Social Security, Social Security Administration, 1997

Chapters in Books


"State and Local Budget Surpluses and the Effect of Federal Macroeconomic Policies," Joint Economic Committee Print, 1979


"How Bad are the Large Deficits?" in John L. Palmer and Gregory B. Mills (eds.), *Federal Budget Policy in the 1980s*, The Urban Institute Press, 1984


"Rethinking the Role of the Public Sector," in Barry P. Bosworth and Alice M. Rivlin (eds.), The Swedish Economy, The Brookings Institution, 1985


"The Spatial Dimension: Should Worker Assistance Be Given to Poor People or Poor Places?", with Colleen Hefflin, in Richard Freeman and Peter Gottschalk (eds.), Demand Side Explanations of Earnings Inequality, Russell Sage Foundation, forthcoming


Comments, Discussion, Reviews

"Break," Finanz und Geldpolitik in Umbruch, 1969
"Christ," Journal of Money, Credit, and Banking, May 1971
"Lee," Econometrica, March 1972
"O'Brien," National Tax Journal, March 1972
"Zarnowitz," Journal of Finance, December 1972
"Vogel," Joint Economic Committee Print, 7:1975
"Plotnick," Horizontal Equity, Uncertainty, and Economic Well-Being, 1985
"Burtless-Vroman," Industrial Relations Research Association Proceedings, 1985
"Netzer," The Economic Consequences of Tax Simplification, 1986
"Solow," The Negative Income Tax Experiment Then and Now, 1987
"Tax analysts," National Tax Association Proceedings, 1989
"von Furstenberg," The Great Fiscal Experiment, 1991
"Schultze," Journal of Economic Literature, September 1993
"Zinzalbarist," Federal Reserve Bank of Boston Regional Review, Spring 1993
"Rate of Return," Detroit News Op Ed, March 1994
"Maskus-Penuberti," forthcoming volume in honor of Robert Stern
"Blank," Demand Side Explanations of Earnings Inequality, forthcoming
Chairman D'Amato, Members of the Committee, I am pleased to appear before you today as one of President Clinton’s nominees to serve on the Board of Governors of the Federal Reserve System. I am honored that the President has nominated me to serve as a Member of the Board.

I am mindful that the decisions of the Federal Reserve influence the economic well-being of all Americans through their impact on output growth, job creation, inflation, interest rates, and the value of the dollar. The Fed also has significant supervisory and regulatory responsibilities for the safety and soundness of the banking system, for the integrity of the payments mechanism, and for the enforcement of the fair lending and other consumer laws, including the Community Reinvestment Act. Finally, the Federal Reserve Board has general oversight for the functioning of the 12 Federal Reserve Banks.

If I am confirmed, I pledge to work with other Members of the Board to craft a monetary policy geared toward stable prices, maximum employment, and moderate long-term interest rates, the goals established in the Federal Reserve Act, and to faithfully execute the regulatory enforcement and the oversight responsibilities entrusted by Congress to the Federal Reserve Board. These are challenging and important tasks and I will devote my full energies to carrying out these duties to the best of my ability.

Before commenting on some of the issues which confront the Federal Reserve, let me briefly describe my background and qualifications for the position as Governor.

I started my professional career as a securities and banking lawyer, representing major investment banks in their securities underwriting and merger activities, and commercial banks in their syndicated loan origination and project financing. In 1984, I left the law and went to McKinsey & Company as a consultant to banks and other financial institutions. As a consultant, I have worked on a broad range of strategic and operational issues relating to financial institutions.

Furthermore, since 1991, I have served as the Director of Research and Information Systems for McKinsey & Company. In that role, I am responsible for nearly 400 professionals and have been immersed in the problems of attracting and developing a research staff similar to the staff in the Federal Reserve System. I have also had responsibility for some of our firm’s technology investments.

I hope my broad background and range of experiences have equipped me with the analytical tools, the general problem-solving skills, and the exposure to particular problems needed in order to comprehend emerging trends in the domestic economy and the banking industry and to help in the formulation of monetary policy, bank supervision, and regulatory policies and oversight procedures for the Federal Reserve System.

Let me turn now to some of the issues which confront the Federal Reserve.

Price stability should be a central goal of monetary policy. There are many reasons for according high priority to this objective. Inflation undermines social equity and harmony in our diverse Nation. As interest rates rise to compensate for inflation, many families will find it increasingly difficult to qualify for and service loans for homes and cars. The wages and salaries of some workers do not keep up with inflation and their standard of living falls. Inflation erodes the wealth of any small investors whose assets are denominated in fixed dollar terms. Times of inflation often become stressful to the least advantaged among us. In addition, with high and unstable inflation, managerial efforts emphasize, and the corporate profits derive disproportionately from, taking advantage of rapid increases in the general level of prices rather than from producing and selling the products that consumers need. Job creation eventually slows as businesses focus on the financial rather than productive aspects of their operations. Inflation creates uncertainty and distorts price
signals, complicating business and household planning. Higher inflation diminishes incentives to save and invest in productive real and financial assets and increases the incentive to invest in assets thought to be good "hedges" for inflation.

Many factors, including fiscal policy, exchange rates, external shocks, and productivity shifts, affect the behavior of prices in the short run, but in the long run, inflation on a sustained basis cannot occur unless monetary policy accommodates it. The Federal Reserve controls the nation's money supply, and thus the FOMC effectively determines the level of inflation over the longer run. The Fed's responsibility is to be ever vigilant for early signs of inflation and to choose policies that are designed to maintain a noninflationary environment that allows sustainable growth and job creation.

This is a challenging task. The effect of Federal Reserve policies on the economy occurs with a substantial lag. Uncertainties concerning the strength of key economic linkages make accurate predictions difficult. Therefore, I agree with the Fed's historic approach of reducing monetary stimulus before the emergence of any obvious and strong inflationary pressure. Unfortunately, the timing and appropriate amount of a change in monetary policy involve some guesswork and some risk taking.

The second objective of the Federal Reserve is to keep the economy growing as close as possible to its maximum potential output. The Federal Reserve is to seek the lowest rate of unemployment that can be achieved without risking accelerating inflation. My goal, as a Governor of the Federal Reserve Board, would be to create an environment conducive to achieving and sustaining this low level of unemployment. There are many reasons to avoid unemployment. Just as with inflation, unemployment has real human and economic costs. A rough rule of thumb is that each percentage point of unemployment, in excess of the natural rate, costs the economy about 2 percent of GDP, roughly $140 billion. The toll of high unemployment, like that of a regressive tax, falls most heavily on groups in the workforce that are least able to bear the burden. There is a phrase that you may be aware of, "last hired, first fired," which describes the experience of some of our least advantaged citizens in the labor markets. Additionally, full employment gives more of our citizenry an opportunity to gain useful skills and work-related disciplines. This opportunity is lost in periods of high unemployment.

In the short run, the Federal Reserve often faces a tradeoff between the goals of low inflation and high employment, but ultimately price stability underpins sustainable output growth and job creation. A monetary policy which pushes the economy beyond its potential for the sake of current employment gains is shortsighted and ultimately unfair to American workers. The recession of the early 1980s illustrates the enormous price that workers and businesses might pay to bring inflation under control after it builds up.

If I am confirmed, I will join the Federal Reserve at a time when the macroeconomic fundamentals are exceptionally sound, but there is some uncertainty as to how long this is sustainable. Underlying inflation is the lowest it has been in more than 30 years, and the unemployment rate has declined to under 5 percent, also the lowest in a generation. Similarly, growth in the output of goods and services over the past year has been approximately 3.5 percent. Many economists are searching for an explanation for this splendid performance of high employment, low inflation, and rapid growth. Explanations include productivity increases spurred by technology investments, the globalization of production, and deregulation in a number of industries.

Unfortunately, even in today's strong economy, there are segments of society in which jobs are not plentiful, and income distribution remains skewed.

The role of a Fed Governor now, as always, is to monitor every available economic indicator in order to update and refine judgments of economic performance and to make needed policy readjustments. This is a role that requires pragmatism and balance, not adherence to an immutable set of preconceived notions. With the current uncertainties, Federal Reserve Governors should be open to the possibility that underlying dynamics of the economy might be changing, but they should seek evidence for such developments and act on the presumption of change. The evidence of basic improvements in the longer-term efficiency of the economy is suggestive now. I hope that it becomes clearer in the future.

The Federal Reserve is, and should be, an active supervisor and regulator of bank holding companies and State member banks. In this, the Federal Reserve, in cooperation with other agencies, is responsible to preserve the safety and soundness of the entire banking system for the benefit of society. We are living in an era of consolidation in the banking industry, the gradual blurring of distinctions between banks and other financial institutions, and the ongoing globalization of the financial sector. The role of the Federal Reserve Governor with respect to banking supervision is to execute prudent judgments to impose regulations on banks that ensure
the safety and soundness of the banking system, that mirror the operation of a well functioning market, that allow a reasonable pace of financial modernization, and that assure a full range of financial services for our citizens, our communities, and our businesses. The basic framework for banking regulation is set by Congress.

We cannot and should not attempt to substitute the judgments of regulators for the judgments of individual bank management. Nor can we protect every bank from the competitive forces that are part of our free-market economy; some banks will make bad strategic decisions or have bad luck. However, the Federal Reserve must ensure that the misfortunes of individual banks do not become a contagion that spreads to the rest of the banking system. To execute the assigned role fully, Federal Reserve Governors should continue to have a voice in the current lively discussion on the pace and direction of deregulation. Similarly, the Federal Reserve should speak clearly if and when it sees trends in the banking industry that, if left unchecked, can create the risk of eroding the stability of a large number of depository institutions. Finally, the role of supervisor should be exercised so as to minimize the burden of regulation, maximize the flow of valuable information to the Federal Reserve Board, and, if possible, accelerate the spread of sound practices throughout the banking industry.

I am a strong believer in the independence of the Federal Reserve. A policy regimen geared toward long-term economic health must avoid the temptation to conduct policies that overheat the economy for short-term gains. Occasionally, the FOMC will have to undertake unpopular actions in order for the economy to maintain sustainable growth. Congress wisely devised a system which enables the Federal Reserve to take the long view free from any undue influence. I believe that this system best serves the interests of the American people and ultimately enhances economic performance. I also appreciate the necessity for accountability on the part of the Fed to Congress and ultimately to the American people. Appropriate reports to Congress' oversight committees are an important part of the Federal Reserve's functioning in a democracy. Additionally, the entire Federal Reserve System must be good stewards of its resources. There should be no question that resources are used carefully. Federal Reserve independence comes with the expectation that the leaders of the System will husband its resources and will also be prepared to provide the proper accountings when called for. If I am confirmed, I pledge my full cooperation in this process.

In conclusion, I would like to thank you and the Committee for considering my nomination. I would be pleased to respond to any questions you may have.
# STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

**Name:** Ferguson, Jr.  
**First:** Roger  
**Middle:** Walton  
**Other:**  

**Position to which nominated:** Governor of Federal Reserve Board  
**Date of nomination:** July 11, 1997  

**Date of birth:** 28  
**Month:** 10  
**Year:** 51  
**Place of birth:** Washington, D.C.  

**Marital status:** Married  
**Full name of spouse:** Annette LaPorte Nazareth  

**Names and ages of children:**  
- Roger Walton Ferguson III  
  **Son:** 6 years  
- Caroline Lawson Ferguson  
  **Daughter:** 2 years  

**Education:**  

<table>
<thead>
<tr>
<th>Institution</th>
<th>Dates attended</th>
<th>Degrees received</th>
<th>Dates of degrees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvard Graduate School of Arts</td>
<td>9/79 - 6/81</td>
<td>Ph.D.</td>
<td>6/81</td>
</tr>
<tr>
<td>and Sciences</td>
<td>9/75 - 6/77</td>
<td>A.M.</td>
<td>6/77</td>
</tr>
<tr>
<td>Harvard Law School</td>
<td>9/77 - 6/79</td>
<td>J.D. (cum laude)</td>
<td>6/79</td>
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<td>9/74 - 6/75</td>
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<td></td>
<td></td>
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<tr>
<td>Pembroke College</td>
<td>9/73 - 6/74</td>
<td>No degree granted</td>
<td></td>
</tr>
<tr>
<td>Harvard College</td>
<td>9/69 - 6/73</td>
<td>A.B. (magna cum laude)</td>
<td>6/73</td>
</tr>
<tr>
<td>Sidwell Friends School</td>
<td>9/68 - 6/69</td>
<td>High School diploma</td>
<td>6/69</td>
</tr>
</tbody>
</table>

**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.  

- National Achievement Award  
- B.A. Magna Cum Laude, Harvard University  
- 1972 Richard Perkins Parker Award  
- 1972-73 CFIA Undergraduate Associate and Traveling Fellowship  
- 1972-74 Frank Knox Memorial Fellowship
Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Office held</th>
<th>Dates</th>
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<tbody>
<tr>
<td>Harvard Alumni Association</td>
<td>Elected Director</td>
<td>1996 to present</td>
</tr>
<tr>
<td>Friends of Education (Trustee's)</td>
<td>Treasurer and</td>
<td>1994 to present</td>
</tr>
<tr>
<td>Committee of the Museum of Modern Art</td>
<td>Vice Chair</td>
<td></td>
</tr>
<tr>
<td>Harvard Club of New York City</td>
<td>None</td>
<td>1992 to present</td>
</tr>
<tr>
<td>Wykagyl Country Club</td>
<td>None</td>
<td>1993 to present</td>
</tr>
<tr>
<td>Larchmont Yacht Club</td>
<td>None</td>
<td>1997 to present</td>
</tr>
<tr>
<td>St. John's Episcopal Church</td>
<td>None</td>
<td>1998 to present</td>
</tr>
<tr>
<td>New York Museum of Natural History</td>
<td>None</td>
<td>1992 to present</td>
</tr>
<tr>
<td>New York Zoological Society</td>
<td>None</td>
<td>1992 to present</td>
</tr>
<tr>
<td>Museum of Modern Art</td>
<td>None</td>
<td>1991 to present</td>
</tr>
<tr>
<td>New York Botanical Gardens</td>
<td>None</td>
<td>1997 to present</td>
</tr>
<tr>
<td>Norwalk Maritime Aquarium</td>
<td>None</td>
<td>1993 to present</td>
</tr>
<tr>
<td>New York Science Museum</td>
<td>None</td>
<td>1994 to present</td>
</tr>
<tr>
<td>Greenwich Nature Center</td>
<td>None</td>
<td>1993 to present</td>
</tr>
<tr>
<td>Badger Sports Club, Inc.</td>
<td>None</td>
<td>1995 to present</td>
</tr>
</tbody>
</table>

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

10/84 - present, Consultant and Director of Research and Information Systems (Partner), McKinsey & Company, Inc., 55 East 52nd Street, NY, NY
9/81 - 9/84, Attorney, Davis, Polk & Wardwell, 450 Lexington Avenue, NY, NY
9/79 - 6/80, Assistant Senior Tutor, Leverett House, Harvard University, Cambridge, MA
6/79 - 9/79, Assistant Director, Program on Regulation, Kennedy School of Government, Harvard University, Cambridge, MA
9/78 - 6/79, Assistant Senior Tutor, Leverett House, Harvard University, Cambridge, MA
6/78 - 9/78, Summer Associate, Davis, Polk & Wardwell, 450 Lexington Avenue, NY, NY
9/77 - 6/78, Economics Tutor and Pre-law Adviser, Leverett House, Harvard University, Cambridge, MA
9/77 - 9/77, Summer Associate, Debevoise, Pllimpton, Lyons & Gates, NY, NY
9/76 - 9/77, Economics Tutor and Pre-law Adviser, Leverett House, Harvard University, Cambridge, MA
9/75 - 9/78, Non-resident Economics Tutor, Leverett House, Harvard University, Cambridge, MA


6/73 - 9/73, Summer Intern, Congressional Research Service, Washington, DC

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.

Summer jobs: - Department of Agriculture

- Congressional Research Services

- International Trade Commission

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


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

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

None

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

See Attachment A

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

Yes

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

I have no current plans to resume employment with my previous business firm

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
My training and experience in economics, law and management consulting qualify me for this position.

I have worked as a securities and banking lawyer, representing securities firms and banks in their underwriting and lending activities. I have also served as a consultant to banks and other financial institutions. In that role, among other projects, I have worked with money-center and regional banks on payment system issues, regional bank strategy, merger evaluation and post-merger integration, organizational structure and cost reduction. I have also worked with a full-line brokerage firm in developing an information technology strategy. These consulting assignments have given me a direct understanding of the daily and longer term management challenges faced by banks and other financial institutions.

In addition, for several years I have been responsible for research and information systems for McKinsey & Company, a management consulting firm. Through that role, I have both a background in information technology and the management of research professionals.

I was an Associate with Davis Polk and Wardwell, a law firm located in New York City, between 1981 and 1984. I have been with McKinsey & Company, Inc., a management consulting firm, since 1984 and became a shareholder of the firm in 1992. I received my B.A. in economics (magna cum laude) in 1973, my J.D. (cum laude) in 1979 and my Ph.D. in economics in 1981. All of these degrees are from Harvard University. I have also studied at Pembroke College, Cambridge University. In addition to studying macro-economics, money and banking, and international trade and development, I have also studied industrial organization, the economic discipline that is the basis for evaluating the competitive effects of mergers and acquisitions.

This broad background prepares me to analyze the wide range of monetary policy, regulatory and managerial issues confronting the Federal Reserve Board.
1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None

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

I have been advised that the following could present an actual or apparent conflict of interest with my position as a Board member: my investments in First USA Inc., Morgan Stanley Dean Wittes Discover & Co., U.S. dollar increase warrants on Japanese yen, Compass Global Private Equity Capital Fund, Compass Global Equities Fund, Compass Global Opportunities Fund, Compass Strategic Investments Fund, Income Arbitrage Partners Class A, Income Arbitrage Partners Class B and Partners Income Fund and also Oppenheimer & Co. Arbitrage Partners, LP; and my position as a shareholder in McKinsey & Company, Inc., a management consulting firm, and as Treasurer of the Museum of Modern Art's Friends of Education Committee.

In addition, a potential conflict of interest could arise as a result of my wife's employment by Smith Barney Inc. and her future stock interest in the Travelers Group. In order to address these potential conflicts of interest, I have agreed to recuse myself from certain matters as set forth in my letter to the Board's General Counsel dated July 15, 1997. (See answer to question 5, below.)

None

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.

None

5
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.

I will sell these investments and resign from McKinsey & Company, Inc. and from the Friends of Education.

In addition, I will recuse myself from any particular matter that could have a direct and predictable effect on my wife's employment with Smith Barney, and from any particular matter specifically involving Smith Barney or its parent, the Travelers Group, unless I receive authorization from the Board's Ethics Officer. I also have agreed that I will not obtain knowledge of the composition of Smith Barney's portfolio.

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

6
RESPONSE TO WRITTEN QUESTIONS OF SENATOR ENZI
FROM LAURA S. UNGER

Q.1. The Securities Litigation Reform Act of 1995, as you are well aware, was passed to discourage frivolous Federal lawsuits resulting from the disclosure of “rosy” forecasts and corporate information. Do you feel, as SEC Chairman Arthur Levitt does, that it is too early to make a definitive assessment of the Act’s impact and effectiveness, and therefore urge Congress to wait until this impact can be determined?

A.1. The Commission staff’s Report to the President and the Congress on the First Year of Practice Under the Private Securities Litigation Reform Act of 1995 has identified several areas in which the Act appears to be working as intended and others which need further analysis. Its preliminary findings are helpful in assessing whether the Act is achieving its intended purpose of curbing frivolous litigation.

Certain provisions of the Act appear to be working as intended. The heightened pleading standards, along with the discovery stay, are making it harder to bring securities class actions in Federal court, where the stay is strictly applied. The heightened pleading standards also seem to have resulted in better drafted complaints. Plaintiffs are suing secondary actors, such as accountants and lawyers, less frequently.

Other provisions do not yet appear to have had their intended effect. Apparently, the safe harbor for forward-looking statements has not yet resulted in much additional disclosure. The lead plaintiff provision has not yet encouraged institutional investors to take charge of securities class actions. While the discovery stay is being applied strictly in Federal court, it appears that some plaintiffs are filing parallel States cases to obtain discovery in a Federal case.

Both the House and the Senate are planning to hold hearings on this issue later this month. The evidence presented at those hearings should shed additional light on whether the Reform Act is working as intended or whether legislation is needed.

Further, many important provisions of the Reform Act have not yet been interpreted by the courts, including the appellate courts. The Ninth Circuit soon will hear two cases on the proper interpretation of the pleading standards under the Reform Act. The outcome of these cases could significantly impact any evaluation of the effectiveness of the Act.

Q.2. State laws against securities fraud have served to complement the enforcement of Federal laws. Do you believe that States should still be allowed the flexibility to design and implement their own antifraud securities laws?

A.2. When Congress enacted the first Federal securities laws in the 1930’s, the laws were intended to supplement, rather than displace, the existing laws of the States. State laws have coexisted with the Federal securities laws for over 60 years now, and State regulators continue to play an important role in investor protection. State regulators can identify and respond quickly to local problems, supplementing the Commission’s enforcement program.

Because State antifraud laws have played an important role to date, it seems to me that any decision to shift the balance between
State and Federal law should be made only after careful study and consideration. For example, State antifraud law has played an important role in individual (non-class action) cases. In addition, corporations are created under State law, and there very often is an interplay between State corporate law and State antifraud laws. If Congress determines that the filing of securities class action fraud suits in State court undermines the Reform Act, this issue will require careful consideration and a carefully crafted response.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES FROM LAURA S. UNGER

Priorities

Q.1. What do you believe the priorities of the Securities and Exchange Commission should be at this time? What developments in the marketplace should the SEC be responding to or preparing for?

A.1. As the Commission heads toward the 21st century, it must be prepared to address a variety of issues, including those involving market structure, technology, internationalization, the continuing growth in the mutual fund industry, and financial modernization.

Technology and Market Structure

Technology has and will continue to have the most significant impact on the marketplace. Technology changes the way securities markets operate. As a result, our regulatory framework must be flexible enough to accommodate these changes. Just recently, the Commission issued for public comment a concept release on market structure and the appropriate regulation of new trading systems. This concept release will enable the Commission to have input from market participants in its review and determination of how to ensure that our regulatory scheme remains viable well into the 21st century.

The Year 2000 conversion also should be a high priority for the financial markets. I understand that the Commission is monitoring the progress of SRO's, broker-dealers, and investment companies in their preparations and identifying any other critical actions the industry must take to prepare for the year 2000.

Internationalization

As markets become increasingly globalized, the SEC should continue to develop ways to enhance international mechanisms for effective market surveillance and for cooperation in the investigation and prosecution of cross-border fraud and market manipulation. In particular, the SEC should continue to forge strong relationships with its foreign counterparts.

Maintaining the high standards of the U.S. markets—including standards for accounting and disclosure—is critical to the continued global preeminence of our markets. The Commission should be careful not to give preferential treatment to foreign companies over American companies, and should focus its efforts on making the markets more accessible for all issuers, U.S. as well as foreign.

Growth in the Mutual Fund Industry

Investments in mutual funds have topped $4 trillion—a reflection of the strength and importance of the mutual fund industry.
The industry has suffered no major problems in over two decades, and the Commission should work with the industry to continue this excellent record.

The Commission should encourage fund investors to become educated; to make sure fund information, including risk, is communicated clearly to investors; and to maintain the industry's record of compliance in the face of the pressures of increasing competition.

**Financial Modernization**

In general, I believe that legislative action in this area is necessary. We need an effective system of regulation that permits market innovation. We also need to update financial regulation to fit the current marketplace and to prepare for further changes in the future.

Financial services modernization should provide for true functional regulation which would require a financial services provider to conduct banking and securities activities in separate entities, subject to oversight by the specialized regulator of that function. It should also include a true “two-way street” that would permit securities firms to own banks and banks to own securities firms.

**Private Rights of Action**

**Q.2.** Do private rights of action for securities fraud serve an important function in our securities markets? Do they deter fraud? Do they supplement the SEC’s antifraud enforcement activities?

**A.2.** The Commission has historically taken the view that private rights of action for securities fraud are an important supplement to its own enforcement activities. To the extent that the threat of litigation effectively deters fraud, private lawsuits would play an important role because of the SEC’s limited resources. Private suits also enable defrauded investors to seek compensation.

**Federal vs. State Regulation**

**Q.3.** For over 60 years, we have had both Federal and State regulation of securities offerings and the securities industry. In some respects, the dual regulation is complementary; in other respects, it may be duplicative.

Does State regulation perform an important function in the regulation of securities? How should the duties of Federal and State regulators be further defined?


In the NSMIA, Congress recognized that the Federal Government had a stronger interest and expertise in regulating nationally traded securities and that these securities did not need the extra layer of State regulation. Congress also determined that the States play an important role in protecting investors. Consequently, the NSMIA split regulation so that States regulate smaller corporate offerings, broker-dealer licensing, and smaller investment advisers and the Federal Government regulates larger corporate offerings, larger investment advisers, and financial responsibility and record-keeping for broker-dealers. I agree with this conclusion and think
the NSMIA strikes a balance that will benefit issuers and investors alike.

The NSMIA was enacted just 1 year ago. In assessing whether the role of State and Federal regulators should be further defined, it would be helpful to observe the effectiveness of the NSMIA. I would also want to review the Commission’s uniformity studies on capital formation and State licensing requirements which will be submitted to Congress shortly. Irrespective of whether additional changes should be made to the State–Federal regulatory structure, the regulators and the industry should work together to achieve greater uniformity in these areas.

Shareholder Proposals

Q.4. Do the SEC’s current proxy rules provide adequate opportunities for investors to bring important matters to the attention of their fellow shareholders? What steps should be taken to increase the ability of the shareholders to communicate with corporate managers and influence corporate policy through the proxy system? Is it important to achieve a consensus between the shareholders and the managers on this issue?

A.4. The Commission recently delivered its report on the results of a congressionally-mandated study of shareholder access to proxy materials. The report includes a formal release proposing a package of amendments, including a reversal of the Cracker Barrel position. I intend to very carefully study these proposals to determine whether revised rules will provide sufficient opportunity for shareholder communications.

The proxy process is an important means by which investors in a corporation can make their views known to management and to other shareholders. It is very critical to strike a balance between investor communication and management’s ability to conduct the corporation’s business. Shareholders should have input in certain issues affecting the company in which they invest. However, management should be able to conduct the corporation’s day-to-day business without substantial interference. I understand the Commission intended the proposals to be a solid, balanced approach.

In my view, consensus between management and shareholders on this issue would be admirable but not necessarily practical considering the differing objectives.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD FROM LAURA S. UNGER

Q.1. Do you believe that frivolous and abusive private securities class actions could undermine public confidence in the system of private rights of action?

If the private securities class action system is abused, please explain the possible negative consequences for a company that is the target of the abusive lawsuit.

If a company must use its time and money to defend against frivolous and abusive private securities class actions, please detail any consequences of such expenditures to company shareholders who are not plaintiffs in the frivolous or abusive litigation.

A.1. The Commission has traditionally endorsed private securities class actions as an important supplement to the Commission’s en-
forcement efforts. The Commission has also recognized frivolous lawsuits as contrary to investors' interests. I believe that evidence of abusive and frivolous securities class actions sufficiently undermined public confidence in the system of private actions to cause Congress to enact the Securities Litigation Reform Act of 1995. Notably, the Private Securities Litigation Reform Act subjects frivolous suits to a mandatory sanctions inquiry.

A frivolous suit could have a disruptive effect on the company targeted. Responding to abusive litigation can be particularly burdensome to start-up, high-tech companies—which are often targets of these lawsuits—because the defendant company is forced to divert resources to defend the lawsuit that would otherwise be used for research and development or other business growth activities. Generally, a company defending such a suit would incur the cost of legal fees, as well as management time and energy spent in responding to the lawsuit.

Unfortunately, shareholders often pay the litigation costs for actions that occurred before they ever owned a stake in the company. Further, these same shareholders are not entitled to any recovery from the litigation. This issue has been the subject of legal commentaries and was discussed before the Reform Act of 1995 was adopted. As the Commission continues to monitor the Reform Act’s implementation, this issue deserves further attention.

Q.2. The “Year 2000” problem is one of the biggest challenges facing all Federal financial regulators. Please explain your views on the seriousness of this subject, your understanding of the role that your agency is playing in addressing and remediating this problem, and any suggested changes or improvements to that role that you would advocate if confirmed.

A.2. The U.S. securities markets and market participants are dependent on computer systems—making the Year 2000 problem particularly sensitive. Many applications used by the industry are date sensitive, which compounds the potential impact of the Year 2000 problem on the financial markets.

The Commission is monitoring the progress of the SRO’s, broker-dealers, and investment companies in their efforts at remediation. To accomplish this, the Commission has been receiving documents from Nasdaq, the exchanges, and clearing agencies detailing their Year 2000 efforts. The Division of Market Regulation has recently written these entities asking for updates on this information, and informing them that the Commission expects their participation in industry-wide testing in 1999.

The Commission is working closely with industry groups such as the Securities Industry Association and with the SRO’s to monitor the progress of the broker-dealer community. The SIA has taken a lead role in getting information to its members on Year 2000 and in coordinating industry-wide testing.

The industry has also expressed concern about whether their foreign counterparties will be prepared for Year 2000. If confirmed, I would encourage the Commission to consider encouraging foreign market participants to take part in U.S. industry testing in 1999.

The Commission is also working on making its internal systems Year 2000 compliant. The Commission is reviewing all of its data-
bases, applications, systems, and user interfaces that are dependent on dates and taking the steps needed to correct any problems found. The Commission believes its electronic filing system, Electronic Data Gathering, Analysis, and Retrieval system (EDGAR), is already Year 2000 compliant.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR ENZI FROM PAUL R. CAREY

Q.1. The Securities Litigation Reform Act of 1995, as you are well aware, was passed to discourage frivolous Federal lawsuits resulting from the disclosure of "rosy" forecasts and corporate information. Do you feel, as SEC Chairman Arthur Levitt does, that it is too early to make a definitive assessment of the Act's impact and effectiveness, and therefore urge Congress to wait until this impact can be determined?

A.1. The Reform Act has been on the books for less than 2 years. Many important provisions of the Reform Act, such as its proportional liability provision and requirement of a mandatory sanctions inquiry for dismissed cases, have not yet been interpreted by the courts. Once appellate courts have an opportunity to interpret key provisions of the Reform Act, there will be more information regarding how well the Act is working, and whether it is achieving its stated purposes.

I understand that congressional hearings on the Reform Act are planned sometime this month. Those hearings should provide additional information on whether the Reform Act's intent is being achieved or whether additional legislation is needed.

Q.2. State laws against securities fraud have served to complement the enforcement of Federal laws. Do you believe that States should still be allowed the flexibility to design and implement their own antifraud securities laws?

A.2. Since the 1930's, State and Federal antifraud laws have complemented each other and both are very important to investor protection. Any changes made to this balance should be undertaken with caution. If Congress finds evidence that the purposes of the Reform Act are being undermined by the filing in State court of securities class action fraud suits that were traditionally filed in Federal court, Congress may wish to consider whether a legislative response is needed. Any move to preempt State law in this area needs to be sensitive to critically important corporate governance issues, which are largely governed by State law, and also needs to consider the important role played by State antifraud laws in individual, non-class action cases.

Q.3. I understand that you have potential conflicts of interest as two of your siblings are employed by Goldman, Sachs & Co. How do you plan to keep an arm's-length distance from any decision you make as Commissioner that will directly or indirectly impact Goldman, Sachs & Co.?

A.3. As you note, I have two siblings who are employed by Goldman, Sachs & Co., a firm directly regulated by the Securities and Exchange Commission. Neither one has an ownership interest in the firm. Nevertheless, I am concerned about the appearance that I might lack impartiality were I to participate in matters which
would directly affect the specific departments in which they work. Therefore, when matters specifically involving those departments come before the Commission, I will consult closely with the agency ethics officials to determine whether there are any particular circumstances that would cause my participation in such matters to violate the Office of Government Ethics regulation regarding impartiality in performing official duties, 5 CFR §2635.502. Under this regulation, I am not in a “covered relationship” with the firm. I do have a “covered relationship” with my two siblings, and would, consequently, not participate in any matter affecting either of them individually. In this regard, I have personally adopted a policy which exceeds the requirements of applicable law and regulations to avoid even an appearance of a conflict of interest.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES FROM PAUL R. CAREY

Priorities

Q.1. What do you believe the priorities of the Securities and Exchange Commission should be at this time? What developments in the marketplace should the SEC be responding to or preparing for?

A.1. The Commission is facing numerous challenges as it moves toward the 21st century. It has the important dual role of encouraging capital formation and vigorously maintaining investor protection. Developments in the marketplace should be viewed with both of these goals in mind. Among the most important are: (i) technology’s impacts on the markets; (ii) the globalization of the securities markets; and (iii) the influx of new investors into our markets and the protections we must provide to them.

How the Commission responds to technological change in the securities industry will be one of the most important issues facing the Commission as we move into the 21st century. Advancing technology provides tremendous benefits and opportunities for both the investors and industry participants alike, and the Commission’s actions should encourage and support innovation and competition in this area. The Commission’s regulatory framework needs to be flexible enough to accommodate these changes, and it has begun to re-examine securities regulation in light of advancing technologies. This is evidenced by its interpretive releases on the electronic delivery of mandated disclosure documents such as prospectuses, and its willingness to examine its regulation of markets in light of the ways technology has changed the ways in which securities markets operate. At the same time, the Commission must remain vigilant in monitoring the use of technology to assure that investor protections remain in place. The Commission must also continue its efforts on encouraging securities industry participants to address the Year 2000 computer problem so that industry-wide Year 2000 compliance can be ensured.

Many of the challenges to face the Commission in the future are in the relationships between our markets and those of other nations. The Commission should continue to open our exchanges to U.S. as well as foreign issuers. The Commission’s ongoing efforts to arrive at high-quality international accounting standards, as well as cooperation with foreign regulators on enforcement matters,
should permit the Commission to accommodate the growth of cross-border transactions without diminishing investor protection.

The increase in the number of investors moving their funds from bank deposits to the markets, particularly mutual funds, creates new challenges for the Commission. This heightens the need to provide as much information as possible to recent or inexperienced investors to help them adequately assess risk and reasonable rates of return. In addition, the integrity of our markets and the confidence it has produced is owed in large measure to the vigorous enforcement efforts of the SEC. Its enforcement initiatives, including its surveillance of trading activities over the Internet, its efforts to combat fraud in the penny stock and micro-cap markets, its cooperation with criminal authorities and other regulators, and its investor education programs, must be continued.

**Private Rights of Action**

Q.2. Do private rights of action for securities fraud serve an important function in our securities markets? Do they deter fraud? Do they supplement the SEC's antifraud enforcement activities?

A.2. The Commission's traditional position is that private rights of action for securities fraud augment the Commission's enforcement activities. In more recent years, the Commission's resources have not kept pace with the significant growth of U.S. and foreign markets and of investment company assets under management. Thus, private rights of action continue to be important. This system allows defrauded investors to obtain redress from the perpetrators of fraud, something the Commission alone cannot always provide.

I am, however, sensitive to the concerns that have been raised regarding abusive private litigation. As you know, the President asked the Commission to monitor developments under the Private Securities Litigation Reform Act and the Commission has recently issued a report to the President and Congress on the Act's effect on private securities litigation. These are serious issues that deserve further study. If confirmed, I look forward to working with the Committee as this process moves forward.

**Federal vs. State Regulation**

Q.3. For over 60 years, we have had both Federal and State regulation of securities offerings and the securities industry. In some respects, the dual regulation is complementary; in other respects, it may be duplicative.

Does State regulation perform an important function in the regulation of securities? How should the duties of Federal and State regulators be further defined?

A.3. The National Securities Market Improvements Act of 1996 affected a significant realignment in the regulatory partnership between Federal and State securities regulators. By continuing to preserve important functions for the States, Congress recognized that the States play an important role in protecting investors in our capital markets. I agree that the States perform an important function.

I understand that under the provisions of the Act, States continue to play an important role in smaller offerings and in licensing broker-dealers. Larger, national offerings by companies, and finan-
cial responsibility and recordkeeping requirements for the broker-dealers, are regulated only at the Federal level. While I will want to study this further, at this point, this strikes me as a very good balance.

I think we need to see how this new realignment works before deciding whether, or how, the duties of Federal and State regulators should be further defined. I would like to see more developments under the new approach before reconsidering what Congress just accomplished. The Commission’s studies on uniformity, both in the capital formation and broker-dealer areas, will be submitted to Congress soon. I look forward to reviewing these reports and monitoring this area closely in the future.

Shareholder Proposals

Q.4. Do the SEC’s current proxy rules provide adequate opportunities for investors to bring important matters to the attention of their fellow shareholders? What steps should be taken to increase the ability of the shareholders to communicate with corporate managers and influence corporate policy through the proxy system? Is it important to achieve a consensus between the shareholders and the managers on this issue?

A.4. The Commission has recently proposed changes to its current proxy rules. The Commission’s proposals are intended to balance the sometimes conflicting concerns expressed by various participants in the process. It is premature for me to have reached any conclusions on the proposals, and I intend to examine them closely and to monitor their progress as the Commission moves toward the adoption of any final rules.

Of course, it is far better that any solution reflect a consensus among different participants—that is, among different types of individual and institutional shareholders, as well as the corporations that receive proposals each year. I will monitor the progress of the proposals with great interest and the manner in which consensus can be reached.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD FROM PAUL R. CAREY

Q.1. Do you believe that frivolous and abusive private securities class actions could undermine public confidence in the system of private rights of action?

If the private securities class action system is abused, please explain the possible negative consequences for a company that is the target of the abusive lawsuit.

If a company must use its time and money to defend against frivolous and abusive private securities class actions, please detail any consequences of such expenditures to company shareholders who are not plaintiffs in the frivolous or abusive litigation.

A.1. Whenever the public perceives that lawsuits are brought for reasons other than the merits of the complaint—for example, to secure a “nuisance-value” settlement, or to harass or stifle a business competitor—the legitimacy of our system of civil justice can be brought into question. Similarly, if the public were to perceive that investors with genuine complaints were effectively precluded from pursuing a fraud claim because of onerous procedural obstacles,
similar concerns about the legitimacy of the system could arise. That is why it is so important to work to achieve the appropriate balance in any legislation involving the public's right to bring suit. It is my hope that the key provisions of the Private Securities Litigation Reform Act of 1995 will be interpreted by the courts in a manner that deters frivolous cases while still permitting meritorious ones.

It is well established that a frivolous securities class action can be disruptive and potentially costly to a company that is the target of the litigation. Like many other types of civil lawsuits, these cases can involve burdensome discovery requests that can absorb the time of company management and perhaps other key personnel. Unlike most other civil lawsuits, however, the potential damages alleged in a securities fraud class action are almost always quite substantial, often amounting to tens of millions of dollars. Thus, it can be argued that even in a case where the company believes it only has a small risk of losing, the small risk can be offset by the fear of a huge damage award, and the company reluctantly agrees to settle. While settlements are and should continue to be an important part of the civil justice system, they should be driven by the merits of the case and not by economics.

Finally, I understand that there is an apparent anomaly built into our system of private securities class actions that was discussed at the time the Reform Act was being considered by Congress. The anomaly is that there are often shareholders who will have to shoulder a share of responsibility for a recovery and other costs even though they acquired their holdings long after the alleged misconduct occurred. As the Commission continues to examine the effects of the Reform Act on securities litigation, it should continue to take this issue into account.

Q.2. The “Year 2000” problem is one of the biggest challenges facing all Federal financial regulators. Please explain your views on the seriousness of this subject, your understanding of the role that your agency is playing in addressing and remediating this problem, and any suggested changes or improvements to that role that you would advocate if confirmed.

A.2. I believe Year 2000 remediation is critical for the securities industry, and that facilitating this process should be one of the Commission’s top priorities. The U.S. securities markets are highly computerized, and market participants—investors, broker-dealers, markets, clearing agencies—rely on computer systems for their operations as well. The Commission is taking this problem very seriously. The Commission and other agencies will report to the Senate Banking Committee monthly on Year 2000 progress.

I understand that the Commission staff is closely monitoring the Year 2000 efforts of regulated entities (such as Nasdaq and other exchanges) and has contacted and will continue to contact any of these entities that appears to be lagging. The Commission also is working with the self-regulatory organizations to evaluate their members’ Year 2000 efforts, and with the Securities Industry Association, which has taken a leading role in Year 2000 remediation. The Commission has informed all markets and clearing agencies
that it expects them to participate in industry-wide testing of systems during 1999.

Despite the Commission’s efforts, there will be problems. I understand the Commission staff will work with the industry and other agencies to develop contingency plans for different scenarios. I have also heard some talk of a “holiday” December 31 or January 3 to fix any unanticipated problems. The Commission is already very active in this area—what I would change is to raise the profile of our efforts, and to work even harder to bring foreign markets and counterparties to the same level of awareness and effort.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR ENZI
FROM DENNIS DOLLAR

Q.1. Do you feel a credit union should be allowed to offer loans to businesses? If they can make loans to businesses, should they be able to keep their tax-exempt status?

A.1. Credit unions’ commercial lending powers are now already extremely limited. Loans made for commercial purposes constitute less than 1 percent of total credit union assets. However, I strongly believe that credit unions should have the flexibility to provide small, business-purpose loans to individual credit union members. NCUA’s regulations safeguard the insurance fund while maintaining this flexibility.

In any case, credit unions’ tax exemption is not based on the nature of the services they offer, but on their structure as not-for-profit financial cooperatives, owned and managed by the consumer/members they serve. Instead of paying out profits to stockholders like banks, credit unions return their earnings to their members. This structure, unique among financial institutions, remains the same regardless of the services they offer.

Finally, it is important to note that whatever the purpose of a loan, credit unions will never be able to lend to the general public. Rather, credit unions must limit their services to consumers within their defined fields of membership.

Q.2. How will a Supreme Court decision against credit unions (the AT&T case) affect the institutions?

A.2. At this time, it is very difficult to predict the outcome of a negative decision. In the event of a negative outcome, NCUA would consider regulatory changes in order to allow credit unions to expand beyond a single employer while still complying with the law. We would also continue to urge that Congress amend the Federal Credit Union Act to allow multiple employee group credit unions. Thus, the effect of a negative Court decision would depend on many variables, including whether: (1) the Court orders credit unions to divest all of the select employee groups that they presently have; (2) credit unions are permitted to continue to add new members from select employee groups that they presently have; (3) banks are successful in seeking to prevent NCUA from providing some relief through regulation in this area; and (4) Congress passes legislation to overrule a negative decision.

A significant proportion of Federal credit unions could be affected by the Court’s decision. About half of all Federal credit unions have
multiple-group fields of membership, and these credit unions have
about 79 percent of total Federal credit union assets.

It is also important to note that the effects will not be felt by
credit unions alone. Consumers who work for employers with less
than 500 employees (the absolute minimum number needed for a
credit union to be viable) would be unable to join credit unions. As
small businesses represent the largest and fastest growing segment
of the U.S. economy, a significant portion of the work force would
be denied access to credit union services if the current injunction
stands. With less competition in the financial services industry,
consumers will pay the price in higher bank fees, higher loan rates,
and lower interest on their savings.

If I am confirmed, my highest goal will be to preserve and pro-
tect the safety and soundness of credit unions within the confines
of whatever it is that the Courts and Congress decide about the
field of membership issue.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD
FROM DENNIS DOLLAR

Q.1. The “Year 2000” problem is one of the biggest challenges fac-
ing all Federal financial regulators. Please explain your views on
the seriousness of this subject, your understanding of the role that
your agency is playing in addressing and remediating this problem,
and any suggested changes or improvements to that role that you
would advocate if confirmed.

A.1. As a credit union executive, I understand that the issue of
Year 2000 (Y2K) compliance is crucial to the continued functioning
of our financial system. I am happy to report that NCUA is not
waiting for disaster to strike, but is taking action now, both to as-
sist credit unions in becoming Y2K-compliant, as well as ensuring
that its own systems are equipped to handle the change to the 21st
century.

From my briefings, it is my understanding that NCUA is work-
ing with both credit unions and their vendors to assure Y2K readi-
ness. Y2K preparations are assessed as part of every credit union
examination. The NCUA’s Letter to Credit Unions No. 97–CU–6 in-
structs credit unions to have their modified systems in place before
December 31, 1998, in order to allow for time to test and debug the
systems before December 31, 1999.

As one who manages a credit union and is daily responsible to
my board for maintaining compliance with all of the regulatory ini-
tiatives, I assure you that the message has gotten through to credit
unions. Credit unions of all sizes are taking actions to assure that
services to their members will continue uninterrupted after Janu-
ary 1, 2000. For example, in my credit union, we are preparing for
the year 2000 by testing all systems in both 1997 and 1998, as well
as auditing our third-party vendors in their compliance efforts. I
know that my peers in the credit union industry are taking similar
actions.

As a Member of the NCUA Board, I promise to monitor the agen-
cy’s own compliance efforts, as well as the efforts we take to ensure
that credit unions are Y2K compliant.
Q.1. Recently, I invited the heads of all the major financial regulatory bodies to a hearing on how prepared we are to deal with the Year 2000 conversion. Since you have been nominated to head one of these agencies, let me pose some of the same questions to you. How prepared is OTS to deal with the Year 2000 change? How prepared are the firms that OTS regulates? Does OTS have adequate examination and supervisory authorities in order to monitor and ensure Year 2000 compliance? How serious a concern will this be to you in your new capacity as Director of OTS?

A.1. Permit me to answer the final part of the question first: The Year 2000 conversion is an extremely serious, complex, and difficult issue that will be of highest concern to me should I be confirmed as Director of OTS. Not only is smooth conversion critical to the safety and soundness of the institutions OTS regulates, it is a serious issue for the global financial system. As to the other parts of your question, my response is based on the public testimony of OTS and on limited discussions I have had with OTS staff in connection with my current position and in preparation for my confirmation hearing. In particular, I have felt it inappropriate to have any conversations with OTS supervisory or examination staff prior to confirmation and therefore have not had any such discussions.

My impression is that OTS, over the course of the last 2 years, has been working to prepare both the agency and the institutions it regulates for as smooth a transition as possible. For example, OTS completed the assessment of its national systems and developed a conversion plan, which is fully budgeted, by the end of 1996. It is my understanding that OTS expects all modifications to be completed during 1998, allowing time for the testing that is essential to a smooth conversion.

With respect to the institutions OTS supervises, the agency has been raising awareness of Year 2000 conversion as a major strategic and business issue since 1996. Further, in May of this year, as part of the coordinated work of all the depository institution regulators participating in the Federal Financial Institutions Examination Council (FFIEC), the OTS distributed to those institutions it supervises a policy statement, examiner questionnaire, and examination guidelines that highlight the risks posed by the conversion, the steps that need to be taken, and an appropriate timetable that allows time for testing and debugging, especially of inter-connected systems. OTS has recently put on its Web site a spreadsheet-based checklist that helps institutions to understand and prioritize the steps that need to be taken, and to keep track of what has been done and what remains outstanding. I understand the agency was on schedule to complete off-site supplemental conversion examinations. The agency's goal—in coordination with that of the other FFIEC members—is that all institutions should have completed the conversion of all critical systems by the end of 1998, to allow for testing.

In discussions with OTS personnel, they have indicated that they have adequate examination and supervisory authorities in all but one area—examination of service providers. Many small institutions do not do the bulk of their systems work in-house, but rather
rely on outside service providers. It is critically important that these vendors not only be fully compliant by the year 2000, but that their systems be tested in integration with the systems that reside in the thrift. Simple representations of compliance are insufficient to provide confidence that the financial system will not be adversely affected. In contrast to the other Federal banking regulators, OTS does not have statutory authority to examine service providers, and must instead rely on contractual arrangements between the individual thrift and the institution’s service provider. This is at best inefficient and at worst potentially dangerous. I believe it is important that Congress move quickly to enact legislation that will fix this flaw in agency authority. (It is my understanding that OTS staff is working with Senate Banking Committee staff to draft legislation to resolve this matter.)

In conclusion, I believe that—with the one potential exception of service providers—OTS is well positioned with respect to the year 2000. However, as the Basle Committee on Banking Supervision recently pointed out in its technical paper for banks on Year 2000 compliance, “the Year 2000 issue is potentially the biggest challenge ever faced by the financial industry. . . . Unlike most automation projects that can be staggered as to schedule and delayed if problems are encountered, all critical renovations must be addressed at once with no possibility for extending roll out deadlines.” In other words, January 1, 2000 will come on time whether we’re ready or not. It is extremely critical that OTS remain focused on this top priority and ensure that the institutions it regulates are equally focused.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR ENZI
FROM ELLEN SEIDMAN

Q.1. I am sure you are aware of the Federal Home Loan Bank reform legislation which is included in the House Banking reform bill, H.R. 10. Do you feel that voluntary membership would be detrimental to Federal thrifts?
A.1. Membership in the Federal Home Loan Bank System provides thrifts—particularly small institutions—with an important source of liquidity and tools with which to better manage the relationship between their assets and liabilities. This in turn helps them safely perform their traditional function of portfolio lending for housing. In addition, the Community Investment and Affordable Housing programs of the Bank System are valuable tools for housing and community development for low- and moderate-income families and communities.

The vast majority of Federal savings associations value their Bank System membership. It is unlikely that few, if any, would actually leave the System. Nevertheless, the choice whether to belong to the System should properly be the institution’s, and voluntary membership should be a component of Home Loan Bank reform legislation.

Q.2. What do you see as the greatest challenge facing Federal thrifts and how do you propose to remedy the problem?
A.2. I believe the greatest challenge facing thrifts over the long term is adapting to a changing financial services marketplace while
maintaining their individual and collective safety and soundness in all economic conditions. On a more immediate basis, the Year 2000 transition poses a serious challenge for all institutions.

I view these challenges more as opportunities than as problems. But OTS has an important role in both. With respect to adaptation to a changing marketplace, the agency must make certain it reduces unneeded regulatory barriers to evolutionary developments. Last week, for example, OTS took a step in this direction by publishing a proposed electronic banking rule that clarifies that thrifts may engage in any activity through electronic means that they can do in a more traditional way. Moreover, the agency has started a series of seminars on small business lending, so that thrifts which are considering using the greater authority they received from Congress in 1996 have a better understanding of both the opportunities and risks. At the same time, OTS must make certain its examination and supervision staff is fully able to understand and examine for the risks of these new ways of doing business, and the agency must be willing to make difficult decisions to protect safety and soundness if things start to go awry. The agency must also make certain its processes fully support this endeavor.

With respect to the Year 2000 issue, this is an extremely serious, complex, and difficult issue that will be of highest concern to me should I be confirmed as Director of OTS. Not only is smooth conversion critical to the safety and soundness of the institutions that OTS regulates, it is a matter of highest concern for the global financial system. My impression is that OTS, over the course of the last 2 years, has been working to prepare both the agency and the institutions it regulates for as smooth a transition as possible. For example, OTS completed the assessment of its national systems and developed a conversion plan, which is fully budgeted, by the end of 1996. It is my understanding that OTS expects all modifications to be completed during 1998, allowing time for the testing that is essential to a smooth conversion.

With respect to the institutions OTS supervises, the agency has been raising awareness of Year 2000 conversion as a major strategic and business issue since 1996. Further, in May of this year, as part of the coordinated work of all the depository institution regulators participating in the Federal Financial Institutions Examination Council (FFIEC), the OTS distributed to those institutions it supervises a policy statement, examiner questionnaire, and examination guidelines that highlight the risks posed by the conversion, the steps that need to be taken, and an appropriate timetable that allows time for testing and debugging, especially of inter-connected systems. OTS has recently put on its Web site a spreadsheet-based checklist that helps institutions to understand and prioritize the steps that need to be taken, and to keep track of what has been done and what remains outstanding. I understand that agency was on schedule to complete off-site supplemental conversion examinations. The agency's goal—in coordination with that of the other FFIEC members—is that all institutions should have completed the conversion of all critical systems by the end of 1998, to allow for testing.
Q.1. Last week, an article appeared in The Wall Street Journal titled “Brokers, Insurers Queue Up for Thrift charters.” According to the article, so far this year, the Office of Thrift Supervision has received 23 applications for new Federal thrift charters, including six from insurance companies or from securities firms. The agency projects that it will receive a total of 32 charter applications this year, which is more than twice the number it received 4 years ago. The article states, “The applications, coming less than a decade after the savings and loan crisis nearly wiped out the industry, are fueling a resurgence of interest in the lowly thrift, once considered a backwater of American finance.”

One implication of this resurgence is that thrifts are now beginning to affiliate with other types of financial institutions and are forming more complex and vast financial arrangements. These new arrangements may impose safety and soundness concerns of a magnitude that the OTS has not been presented with before. Not only are new financial affiliations possible, but the unitary thrift holding company model permits a thrift to engage in unlimited affiliations with commercial enterprises.

Is it your view that there are safety and soundness implications which are associated with a thrift’s affiliations with other financial institutions?

A.1. Affiliations between insurance or securities firms and thrifts are not new, but there clearly is an increase in interest in thrift ownership by such firms. Moreover, the changing financial services marketplace may mean that such affiliations will have qualitatively different characteristics in the future than they have in the past. OTS must be able to fully understand how these affiliations function and how the thrift and its customers benefit or are put at risk from such affiliations, and must have in place a reporting and examination system that provides sufficient warning and enforcement action if any problems begin to arise. I regard this to be a top priority, not only with respect to the new charter applications, but also in connection with supervision and examination of existing thrifts.

That said, however, it is important that the affiliation transaction protections provided by Congress in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the OTS rules and regulations implementing those statutes, have greatly enhanced OTS’s regulatory authority to manage the risks involved when a thrift affiliates with a financial or a commercial institution. In particular, based on the capitalization and earnings of a thrift, OTS imposes restrictions to the extent to which the thrifts may make capital distributions (including, but not limited to, dividends) to its holding company and imposes what appear to be very stringent transaction restrictions on a thrift’s dealing with its holding company and affiliates. In addition, if a holding company or affiliate is engaged in activities that would not be permissible for a bank holding company or affiliate, the thrift may not make any loans or extensions of credit to the holding company or affiliate. In the event that the thrift’s safety
and soundness appear to be threatened by the activities of a holding company or affiliate, OTS may examine the holding company or affiliate and take appropriate action to protect the safety and soundness of the thrift.

Q.2. It is my understanding that the OTS has the statutory ability to set capital standards for the holding company of a thrift and its various financial affiliates. This statutory authority is the same authority as that provided to the Federal Reserve. However, the Federal Reserve has chosen to exercise its authority over the holding companies of banks and the OTS has refrained from exercising its authority over the holding companies of thrifts.

Why is it not appropriate to exercise authority for determining the financial responsibility of the holding companies of the insured thrifts, particularly when given this country's experience with the thrift crisis?

A.2. Completely aside from whether OTS has statutory authority to impose capital requirements on unitary thrift holding companies (multiple thrift holding companies and thrift holding companies that also own banks are regulated by the Federal Reserve), it is important to determine whether imposition of such requirements would be either practical or effective to protect the safety and soundness of the thrift, and whether other tools could better accomplish the same result. I understand that to date, OTS has found that focusing on the thrift, and on its interactions with both its holding company and its affiliates, has been a productive way to examine and supervise thrifts that are members of a unitary holding company. As discussed in my answer to the previous question, FIRREA and FDICIA, as well as OTS regulations and rules, place significant limitations on such interactions. In addition to the limitations mentioned above, OTS's regulations provide that if a thrift becomes undercapitalized, it must submit a capital restoration plan which, under FDICIA, must include a guarantee by the holding company that will assure the thrift's performance of the plan.

I am, of course, open to considering whether holding company capital requirements might be an appropriate addition to the regulatory system for unitary thrift holding companies in general or for classes of institutions or situations. However, I think it is important in considering this issue to take into account that, unlike a bank holding company, a thrift holding company may not only be subject to a variety of capital regulations under other regulatory systems, but may be part of an industry in which capital structures typically include substantially more equity and less debt than is the case with banks, bank holding companies, and thrifts.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD
FROM ELLEN SEIDMAN

Q.1. The “Year 2000” problem is one of the biggest challenges facing all Federal financial regulators. Please explain your views on the seriousness of this subject, your understanding of the role that your agency is playing in addressing and remediating this problem, and any suggested changes or improvements to that role that you would advocate if confirmed.
A.1. The Year 2000 conversion is an extremely serious, complex, and difficult issue that will be of highest concern to me should I be confirmed as Director of OTS. Not only is smooth conversion critical to the safety and soundness of the institutions OTS regulates, it is a serious issue for the global financial system.

My impression is that OTS, over the course of the last 2 years, has been working to prepare both the agency and the institutions it regulates for as smooth a transition as possible. For example, OTS completed the assessment of its national systems and developed a conversion plan, which is fully budgeted, by the end of 1996. It is my understanding that OTS expects all modifications to be completed during 1998, allowing time for the testing that is essential to a smooth conversion.

The OTS has been raising awareness of Year 2000 conversion as a major strategic and business issue since 1996. In May of this year, as part of the coordinated work of all the depository institution regulators participating in the Federal Financial Institutions Examination Council (FFIEC), the OTS distributed to those institutions it supervises a policy statement, examiner questionnaire, and examination guidelines that highlight the risks posed by the conversion, the steps that need to be taken, and an appropriate timetable that allows time for testing and debugging, especially of inter-connected systems. The OTS recently put on its Web site a spreadsheet-based checklist that helps institutions to understand and prioritize the steps that need to be taken, and to keep track of what has been done and what remains outstanding. I understand the agency was on schedule to complete off-site supplemental conversion examinations. The agency’s goal—in coordination with that of the other FFIEC members—is that all institutions should have completed the conversion of all critical systems by the end of 1998, to allow for testing.

In discussions with OTS personnel, they have indicated that they have adequate examination and supervisory authorities in all but one area—examination of service providers. Many small institutions do not do the bulk of their systems work in-house, but rather rely on outside service providers. It is critically important that these vendors not only be fully compliant by the year 2000, but that their systems be tested in integration with the systems that reside in the thrift. Simple representations of compliance are insufficient to provide confidence that the financial system will not be adversely affected. In contrast to the other Federal banking regulators, OTS does not have statutory authority to examine service providers, and must instead rely on contractual arrangements between the individual thrift and the institution’s service provider. This is at best inefficient and at worst potentially dangerous. I believe it is important that Congress move quickly to enact legislation that will fix this flaw in agency authority. (It is my understanding that OTS staff is working with Senate Banking Committee staff to draft legislation to resolve this matter.)

In conclusion, I believe that—with the one potential exception of service providers—OTS is well positioned with respect to the year 2000. However, as the Basle Committee on Banking Supervision recently pointed out in its technical paper for banks on Year 2000 compliance, “the Year 2000 issue is potentially the biggest chal-
lenge ever faced by the financial industry. ... Unlike most automation projects that can be staggered as to schedule and delayed if problems are encountered, all critical renovations must be addressed at once with no possibility for extending roll out deadlines.” In other words, January 1, 2000 will come on time whether we’re ready or not. It is extremely critical that OTS remain focused on this top priority and ensure that the institutions it regulates are equally focused.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR ENZI
FROM EDWARD M. GRAMLICH

Q.1. We are now entering one of the longest periods of economic growth since World War II. However, when this type of expansion occurs, there are always those who become nervous. There are some trends in the economy that are not easily understood. For example, personal bankruptcies have been on an upward trend even though we have been in an almost unprecedented period of economic growth and expansion. Associated with the increase in bankruptcies is the increase of delinquencies in some categories of loans. What are the reasons for these high numbers and what can be done to curb these delinquencies and bankruptcies?

A.1. I do not believe that anyone has a satisfactory explanation for the rapidity of the increase in bankruptcies since early 1995. However, it is not unprecedented that personal bankruptcies rise during an economic expansion. For example, personal bankruptcies more than doubled between 1983 and 1989, also a period of vigorous expansion.

Some rise in bankruptcies and loan delinquencies seems to be an inevitable consequence of the growth of debt that occurs in an expanding economy. This expanded debt leaves people more vulnerable to serious injuries and health problems (or other factors that might cause bankruptcies). Moreover, even when the economy is strong, some people may borrow more than they can reasonably handle. Still, analysts feel that bankruptcies have increased lately by more than such factors would normally explain. Perhaps some of the extra increase stems from the declining social stigma that now seems to be associated with bankruptcy. In addition, liberalizations in State laws might have played a role.

It is not clear that there are desirable legislative options. As long as sound macroeconomic policies create a stable environment where credit participants can realistically assess their own risks, lenders themselves are likely to adjust their standards to curb the uptrend in personal bankruptcies. Beyond that, it is hard to think of sensible legislative alternatives.

Q.2. To what do you attribute this almost unprecedented growth period in our economy? What impact have the projections of the budget being in or near balance through the year 2002 had? Do you believe that a balanced budget amendment is needed to provide more fiscal responsibility for the Federal Government?

A.2. Some of the principal contributors to the healthy economic expansion seem clear. Both the public and private sector have done their part. I think the Federal Reserve has played a role, by stabilizing prices and avoiding distortions. Fiscal policy has also been
much more responsible in recent years. As for the private sector, both business and labor have weathered large and painful adjustments to improve their efficiency and competitiveness.

As I'm sure you know, it is very difficult to forecast into the future, and even more difficult to understand the impacts of these forecasts. I'm sure there are benefits from the general belief that the budget deficit is declining. But in the future, once the Baby Boom generation retires, it will be difficult to hold down budget deficits, and hold up national saving. We must be mindful of this long-run prospect.

It is very difficult to comment on a balanced budget amendment. While it may discourage fiscal excesses, such an amendment is extremely difficult to write. There are difficult problems of definition and enforcement. Perhaps both the Administration and Congress can agree on the value of sound fiscal policies, and obviate the need for such an amendment.

Q.3. The saving and investing trends of consumers have been noticeably changing in the past few years. I know there are many Americans out there who believe they have a much better chance of spotting an UFO than of receiving all or even some of what they contributed to Social Security. Mr. Gramlich, you served as Chair of the 1994 Quadrennial Advisory Council on Social Security. What are your thoughts on how we can improve upon the Social Security system and keep our promise to the seniors of this country?

A.3. While the long-run financial situation of the Social Security system is certainly worthy of concern, young Americans need not fear that Social Security will close down before their retirement. Even if present-day legislators do nothing at all about Social Security, the full, or nearly full, benefits implied by present law can be paid for many years.

But because of the aging of the U.S. population and the slowdown in rates of economic growth, it is clearly time to change the system. Our Council suggested three different approaches, but I believe only one approach makes sense, the one I suggested. It is the only approach that preserves present social protections (including the benefits of present-day retirees), but yet still raises overall national saving for retirement.

The approach is basically a two-fold approach. On the one hand, the growth in present benefits should be scaled back in the long run to bring the system into balance. These cuts should be focused on younger, high-income workers. Present retirees should be protected, low-wage workers should be protected, and disabled workers should be protected. My plan (on which I can supply details) satisfies these criteria.

But that alone may not be sufficient. A large number of Americans do not save nearly enough for retirement, and my plan tries to help them by mandating compulsory defined contribution individual accounts alongside Social Security. Individuals would have constrained choices on how to allocate the funds—to a small number of stock and bond index funds. Administrative costs would be low and the individual accounts would raise overall saving for retirement, giving people more of a stake in their own retirement.
There are many variants of such a plan, but somehow or other the growth in benefits must be scaled back and there must be new saving for retirement.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD
FROM EDWARD M. GRAMLICH

Q.1. The “Year 2000” problem is one of the biggest challenges facing all Federal financial regulators. Please explain your views on the seriousness of this subject, your understanding of the role that your agency is playing in addressing and remediating this problem, and any suggested changes or improvements to that role that you would advocate if confirmed.

A.1. The Year 2000 problem is indeed a major challenge for the financial industry, in the United States and globally. It will be a matter of the highest priority for the Federal Reserve over the coming months.

The Fed has a crucial responsibility to monitor the progress of institutions it supervises and to take other appropriate actions to ensure their Year 2000 compliance. I believe that the Fed and the other bank regulators have taken important steps to raise the issue within the banking community, to set target dates for assessment and remediation, and to commit all institutions to completion by mid-1998.

As the Nation's central bank, with responsibility for maintaining financial stability, it is crucial that the Fed correctly assess the potential for problems and have plans in place to deal with them. I understand that the Fed does plan to have its own systems ready for testing with customers by mid-1998, and that such efforts are proceeding. On the international level, the Fed’s work within the Basle Committee on Banking Supervision resulted in last month's press release and paper highlighting the global importance of the issue. I regard the Fed’s efforts within the BIS and other international bodies as extremely important to make sure that global financial markets are not disrupted.

Oversight of project work and clear communication to the public are important components of the Fed’s role. This matter will be high on my list of priorities once I take office.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR ENZI
FROM ROGER W. FERGUSON, JR.

Q.1. We are now entering one of the longest periods of economic growth since World War II. However, when this type of expansion occurs, there are always those who become nervous. There are some trends in the economy that are not easily understood. For example, personal bankruptcies have been on an upward trend even though we have been in an almost unprecedented period of economic growth and expansion. Associated with the increase in bankruptcies is the increase of delinquencies in some categories of loans. What are the reasons for these high numbers and what can be done to curb these delinquencies and bankruptcies?

A.1. The reasons for the recent increase in bankruptcies and delinquency rates are many and varied. Financial setbacks owing to accidents, illnesses, or other calamities, no doubt, lie behind many bankruptcy cases. But society’s attitudes toward bankruptcy have
changed greatly over the years so that bankruptcy is no longer seen as a last resort to debt payment problems, and that probably has boosted the number of bankruptcy petitions, as have the more liberal asset exemptions now available to the bankrupt under State and Federal laws. Some people make mistakes and borrow more than they should, and creditors tend to relax lending standards when the economy is strong, accommodating riskier borrowers who have a higher incidence of delinquency and bankruptcy.

High levels of delinquencies in credit card loans during this period of solid economic performance is of concern and should be monitored closely by regulators. Fortunately, the excesses in credit markets are usually addressed by the markets themselves, when lenders respond to rising losses by tightening up their lending practices. This is exactly what has been happening in the credit card area over the past year or so, and the results are beginning to show up in a leveling off in credit card delinquency rates this year; some measures, in fact, suggest that these rates are actually declining. The credit market can do little to reduce the number of bankruptcies caused by catastrophic events of one sort or another. However, I understand that there is an effort underway to reform the Bankruptcy Code, which may reduce somewhat the number of bankruptcy filings.

Q.2. To what do you attribute this almost unprecedented growth period in our economy? What impact have the projections of the budget being in or near balance through the year 2002 had? Do you believe that a balanced budget amendment is needed to provide more fiscal responsibility for the Federal Government?

A.2. The economic expansion which began in the spring of 1991 is now the third longest of the postwar period, and there are few signs of any imminent interruption in this remarkable performance. In an economy as large and complex as ours, there are likely many factors that have contributed to this period of steady growth. Many businesses have reorganized their operations and are investing heavily in capital equipment, especially high-technology equipment, that offers opportunities for considerable gains in efficiency. Moreover, the increased flexibility of labor markets in the United States has contributed to the substantial job creation that we have witnessed in recent years—a performance that is unmatched by any other major industrial country.

Economic policy also has contributed to the favorable outcomes in recent years. Fiscal restraint by the Federal Government has allowed resources to be shifted to private investment and, in part, has supported the current capital spending boom. Meanwhile, monetary policy has been directed at achieving and maintaining a low inflation environment. The benefits of this policy are clear: There are fewer inflation-induced distortions, a more smoothly functioning price system, and a more stable economic environment that encourages long-term planning by households and businesses.

If the current budget projections, which show the Federal budget moving into balance by the year 2002, come to pass, we can reasonably expect several benefits. With the Federal Government creating fewer demands on the Nation’s resources through the credit markets, interest rates will likely be lower than they otherwise would
have been. This, in turn, should stimulate capital spending by businesses, make housing more affordable for many families, and ease the burdens on many individuals of financing the investment in higher education that will be increasingly important for participation in our rapidly changing economy.

I do not believe a balanced budget amendment to the Constitution is necessary. Although the task was daunting, the efforts by Congress and the Administration this last year to reach agreement on legislation that will produce over time a balanced budget strike me as a fundamentally more sound approach to dealing with fiscal matters. In addition, I believe it would be very time consuming to draft and pass a constitutional amendment that responds to the various contingencies that would have to be considered in making future fiscal policy a matter of constitutional law. From a personal perspective, I believe that legislative effort would be better spent in achieving the goals set forth in last year’s legislation and in planning for future challenges to maintaining a sound fiscal policy.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD FROM ROGER W. FERGUSON, JR.

Q.1. The “Year 2000” problem is one of the biggest challenges facing all Federal financial regulators. Please explain your views on the seriousness of this subject, your understanding of the role that your agency is playing in addressing and remediating this problem, and any suggested changes or improvements to that role that you would advocate if confirmed.

A.1. The Year 2000 issue is an enormous challenge for the banking industry. The resolution of this problem requires focused and concerted attention on the part of regulators, senior level bank officers, and technical personnel. By some estimates, U.S. commercial banks will spend about $7 to $10 billion to deal with this issue. The magnitude of the resources, both personnel and financial, required to resolve this problem means that many banks will find that becoming Year 2000 compliant will force a delay in other important strategic endeavors.

The Year 2000 issue is an enterprise-wide business problem that calls for the commitment of senior officers in banks as well as superior project management skills to implement a technical business solution. It is also a problem that will require solutions that cross from financial institutions to their vendors, correspondents, and customers, with whom the institutions often have automated linkages and interdependencies.

Complicating the challenge of the resolution of the Year 2000 issue are other projects, such as the Euro and domestic merger and acquisition activity, that are placing significant competing demands on scarce technical resources. Finally, for many U.S. financial institutions with international operations, this is also a global interdependency problem crossing national boundaries.

My understanding is the Federal Reserve System has developed and is executing a comprehensive plan to ensure its own Year 2000 readiness. I believe the Federal Reserve is giving the Year 2000 its highest priority, commensurate with its goal of maintaining the stability of the Nation’s financial markets and payments systems, preserving public confidence, and supporting reliable Government
operations. All Federal Reserve computer program changes, as well as system and user-acceptance testing, are scheduled to be completed by year-end 1998. Critical financial services systems that interface with customers will be Year 2000 ready by mid-1998, permitting approximately 18 months for customer testing.

In its role as supervisor and regulator, the Federal Reserve has undertaken a comprehensive program to promote increased awareness, establish targets and benchmarks for the industry, develop industry-wide status assessments, and utilize proactive supervisory pressures.

Financial institutions are expected to have identified mission critical applications by the end of the third quarter of 1997, and programming changes should be largely completed and testing well underway by December 31, 1998. The Federal Reserve will have examined every bank subject to its jurisdiction by mid-1998 and it has a variety of supervisory tools that can be used to encourage institutions to achieve Year 2000 compliance.

My initial perspective is that the Federal Reserve has undertaken a rigorous effort to ensure that it and the institutions for which it has responsibility will be Year 2000 compliant. However, in a challenge of this magnitude, there is certainly room for change and improvement.

For example, if I am confirmed, I would advocate that the Federal Reserve, perhaps in conjunction with private industry-wide organizations, identify institutions that have done a particularly good job in becoming Year 2000 compliant so that those leading institutions might serve as models of better practice in this area. I would also encourage the senior Federal Reserve staff and officials to have direct and ongoing contact with senior officers, both line and technical support, at major institutions in each Reserve District to assure that senior management understands that this problem is of a strategic nature, and not merely a technical issue. Finally, I would expect the Federal Reserve supervisory staff to follow up its Year 2000 examination program with a focus on those institutions that are likely to have trouble becoming Year 2000 compliant and then work with them, in groups or individually, to determine the sources of their difficulties and to assist them in identifying creative solutions.

In all of this, the main goal is for the Federal Reserve to be a supervisor that adds to the solution, not one that substitutes its judgment for that of senior management at any bank.