

NOMINATIONS OF LAEL BRAINARD AND SANDRA THOMPSON

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

ON

NOMINATIONS OF:

LAEL BRAINARD, OF THE DISTRICT OF COLUMBIA, TO BE VICE CHAIRMAN
OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SANDRA THOMPSON, OF MARYLAND, TO BE DIRECTOR OF THE FEDERAL
HOUSING FINANCE AGENCY

JANUARY 13, 2022

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



Available at: <https://www.govinfo.gov/>

U.S. GOVERNMENT PUBLISHING OFFICE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

SHERROD BROWN, Ohio, *Chairman*

JACK REED, Rhode Island	PATRICK J. TOOMEY, Pennsylvania
ROBERT MENENDEZ, New Jersey	RICHARD C. SHELBY, Alabama
JON TESTER, Montana	MIKE CRAPO, Idaho
MARK R. WARNER, Virginia	TIM SCOTT, South Carolina
ELIZABETH WARREN, Massachusetts	MIKE ROUNDS, South Dakota
CHRIS VAN HOLLEN, Maryland	THOM TILLIS, North Carolina
CATHERINE CORTEZ MASTO, Nevada	JOHN KENNEDY, Louisiana
TINA SMITH, Minnesota	BILL HAGERTY, Tennessee
KYRSTEN SINEMA, Arizona	CYNTHIA LUMMIS, Wyoming
JON OSSOFF, Georgia	JERRY MORAN, Kansas
RAPHAEL WARNOCK, Georgia	KEVIN CRAMER, North Dakota
	STEVE DAINES, Montana

LAURA SWANSON, *Staff Director*

BRAD GRANTZ, *Republican Staff Director*

ELISHA TUKU, *Chief Counsel*

DAN SULLIVAN, *Republican Chief Counsel*

CAMERON RICKER, *Chief Clerk*

SHELVIN SIMMONS, *IT Director*

PAT LALLY, *Hearing Clerk*

C O N T E N T S

THURSDAY, JANUARY 13, 2022

	Page
Opening statement of Chairman Brown	1
Prepared statement	45
Opening statements, comments, or prepared statements of:	
Senator Toomey	3
Prepared statement	46

NOMINEES

Lael Brainard, of the District of Columbia, to be Vice Chairman of the Board of Governors of the Federal Reserve System	6
Prepared statement	48
Biographical sketch of nominee	49
Responses to written questions of:	
Chairman Brown	83
Senator Toomey	86
Senator Menendez	105
Senator Warnock	106
Senator Rounds	111
Senator Tillis	112
Senator Daines	113
Sandra Thompson, of Maryland, to be Director of the Federal Housing Finance Agency	7
Prepared statement	67
Biographical sketch of nominee	68
Responses to written questions of:	
Chairman Brown	114
Senator Toomey	116
Senator Menendez	134
Senator Sinema	135
Senator Warnock	137
Senator Scott	139
Senator Tillis	142
Senator Hagerty	145
Senator Daines	145

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Letter submitted in support of nominee Lael Brainard	152
--	-----

NOMINATIONS OF LAEL BRAINARD AND SANDRA THOMPSON

THURSDAY, JANUARY 13, 2022

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

The Committee met at 10 a.m., via Webex and in room 106, Dirksen Senate Office Building, Hon. Sherrod Brown, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN SHERROD BROWN

Chairman BROWN. The Senate Committee on Banking, Housing, and Urban Affairs will come to order.

Today's hearing again is a hybrid format. Our witnesses are in person, as we see, but Members have the option to appear both in person or virtually.

We consider the nominations of two highly qualified nominees today, Dr. Lael Brainard to be Vice Chair of the Board of Governors of the Federal Reserve System, and Acting Director Sandra Thompson to be Director of the Federal Housing Finance Agency.

It is amazing what a difference a year makes. We have today safe and effective vaccines that are saving lives and getting people back to work—207 million Americans are now fully vaccinated.

Our economy has weathered the storm and rebounded. In 2021, we added a record 6.4 million new jobs, more than any year since 1939.

And it is not just the jobs numbers. It is the quality of those jobs. Workers are demanding raises and they are finally getting them. They are changing jobs at record rates because people finally have some options.

The past year has illustrated how our economy works best, when it works for everyone. Not just Wall Street. Not just the top 1 percent. Everyone. Whether you punch a clock or swipe a badge, whether you earn a salary or make tips. Whether you are raising children or caring for an aging parent. No matter who you are, where you live, or what kind of work you do.

Economic growth will not mean much if it does not reach all workers—families in Steubenville and Scranton and communities of all sizes, all over the country.

The President has nominated Dr. Brainard and Acting Director Thompson to important roles in our Government and our economy, to put those workers and their families at the center of our Government and the center of our economy, to deliver results that actually improve their lives.

Dr. Brainard is a leading economist who understands that a strong economy is one where workers have power. She is committed to a worker-centered monetary policy that boosts employment and lifts wages, something that every member of the Fed's rate-setting committee has reaffirmed. She has led the way in modernizing and strengthening the Community Reinvestment Act, something that Senator Warner has been particularly interested in, a landmark civil rights law passed to begin to undo the shameful legacy of redlining and lending discrimination, and spur investment in all neighborhoods and communities.

Through her leadership, the Fed listened to the people whose lives and livelihoods are affected—civil rights leaders, affordable housing advocates, local officials, and banks of all sizes. She brought everyone to the table and she is working to ensure banks meet the needs of all our communities. During this pandemic, she has served as a steady hand, working shoulder to shoulder with Chair Powell to stabilize our economy and steer the country out of our abyss.

Dr. Brainard has a distinguished record of bipartisan service in Government. She joined the Fed in 2014. From 2009 to 2013, she was Under Secretary for International Affairs at the Department of Treasury. She worked in the first Bush administration as a staff economist at the Council of Economic Advisers and as deputy national economic adviser in the Clinton administration. She was a professor at the Massachusetts Institute of Technology.

As Vice Chair, she will be tasked with supporting efforts—efforts that are already underway—to empower workers and refocus our economy on Main Street, and make sure that all Americans have good jobs with growing paychecks and an affordable cost of living.

That also means supporting efforts to close the racial wealth and income gaps that have barely shrunk in decades. As the Fed has noted, quote, “The average Black and Hispanic or Latino households earn about half as much as the average White household and own only about 15 to 20 percent as much net wealth.” As one of our colleagues once said, when we all do better, we all do better.

With Governor Brainard as Vice Chair of the Fed, Americans will have someone who understands that workers—not corporations, not Wall Street—that workers create economic growth. Her commitment to the success of all Americans, from all walks of life and every region of the country, is clear in all the work she has done throughout her distinguished career.

Acting Director Thompson has a similarly long and distinguished career in public service. In her time as Acting Director, she has taken meaningful steps to put renters, homeowners, and families first.

Over the past 6 months, Acting Director Thompson has directed the GSEs to strengthen their plans to preserve affordable housing and support manufactured housing and housing in rural areas; she has expanded opportunities for middle class and low-income homeowners to save money on their mortgages through refinancing; and she has increased the focus on fair housing at the GSEs.

I can think of no other nominee as qualified to work to make homes more available and affordable for families throughout the country while strengthening the financial standing of the GSEs.

More than two dozen consumer advocates, civil rights organizations, and housing advocates have all written to this Committee supporting her.

Before being designated as Acting Director in June 2021, she served for 8 years as the Deputy Director for the Division of Mission and Goals at FHFA. There she led an office responsible for the mission activities of the GSEs and housing and regulatory policy under directors of both parties to ensure the safety and soundness of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.

Prior to joining FHFA, she spent 18 years at the FDIC, where she worked for seven different chairpersons from each of the political parties, and in senior-level positions, including Director of the Division of Supervision and Consumer Protection and the Director of the Division of Risk Management and Supervision, helping to stabilize our Nation's banks.

Earlier in her career, she served at the Resolution Trust Corporation, cleaning up and restoring faith in our financial system after the savings and loan crisis. In a nutshell, you can see how qualified she is.

She will be in a position at FHFA to tackle some of the most pressing issues facing homeowners and renters to ensure the stability of our housing finance system. Whether you are looking to rent or to buy, housing had become too expensive and too hard to find long before the pandemic began.

More than 50 years after passage of the Fair Housing Act, people of color are far more likely to be denied a mortgage, far less likely to own their own home, far more likely to pay more in rent than they could afford. And in just the past week, tragic fires in the Ranking Member's home State and in the Bronx have reminded us of how far we need to go to ensure that everyone has safe, affordable places to live.

FHFA has an important role to play in addressing these challenges, and Acting Director Thompson has distinguished herself as the person we need to lead this critical work.

These nominees, each of them understands the challenges our economy faces. They understand the people who make our economy work, like so many of this President's nominees. It is notable that as we recover from a pandemic that laid bare just how hard women especially work—at paid jobs in the labor market and at unpaid jobs taking care of their families—we have two women poised to take leading roles in our recovery.

I want to thank both nominees for their exceptional and their lengthy years of commitment to public service.

Ranking Member Toomey.

OPENING STATEMENT OF SENATOR PATRICK J. TOOMEY

Senator TOOMEY. Thank you, Mr. Chairman. Governor Brainard and Ms. Thompson, welcome. You both have very extensive experience in your respective fields, and I commend you both for your commitment to public service.

Governor Brainard has been nominated to serve as Fed Vice Chair. The Fed has been granted significant independence to isolate it from political influence. However, Congress has given the Fed very narrowly defined monetary and regulatory missions.

First, the Fed has been tasked with conducting monetary policy to promote stable prices and maximum employment. But the Fed's recent actions have failed to maintain price stability.

Last year, Governor Brainard repeatedly insisted that inflation was transitory. We have now had 9 consecutive months where inflation has been more than two times the Fed's 2 percent target. That makes it pretty clear that inflation is not transitory. Yesterday's CPI release of 7 percent, the highest in 40 years, confirms that further.

Inflation is a tax that is eroding Americans' paychecks every day. Even though wages are growing, inflation is growing faster, and that is causing workers to fall further and further behind.

I appreciate that the Fed has pivoted toward normalizing monetary policy to tackle inflation, but the Fed also needs to learn from its mistakes, and I think that begins with the Fed's new monetary policy framework, of which Governor Brainard was an author and an outspoken advocate. The framework really subordinated the Fed's price stability mandate to try and maximize employment by allowing inflation to run hot.

Under this approach, the Fed looked beyond employment as a whole to consider whether employment was, quote, "broad based and inclusive," end quote. What this meant was the Fed would sacrifice stable prices to see if it could achieve higher employment gains in certain demographic groups.

As Governor Brainard explained last year, the Fed should look at employment numbers on a, quote, "disaggregated basis," end quote, and use monetary policy to narrow employment gaps between different, quote, "racial and ethnic groups," end quote. This framework risks keeping in place an inflation tax on all Americans while the Fed decided which subgroups of people should have faster job growth than others.

One of the problems is that monetary policy can never equalize employment rates amongst different groups. In the end, the Fed would run the risk of failing on both fronts of its dual mandate because you need stable prices in order to achieve a strong economy and maximum employment. Given this fact, the Fed should re-evaluate its new framework.

The Fed also has the mission of monitoring the safety and soundness of certain major financial institutions. Under Chairman Powell, the Fed enacted modest, sensible reforms that reduced regulatory burdens and helped spur economic growth. But Governor Brainard was the sole dissenter over 20 times on regulatory matters, an unprecedented number at the Fed.

For example, she argued that the Fed's reforms of capital, liquidity, and stress tests for smaller, less complex banks would, quote, "weaken the safeguards at the core of the system," end quote. Yet though the economy nearly collapsed at the start of the pandemic, the banking system emerged exceptionally well-capitalized and served as a source of strength for the economy, demonstrating the sensibility of these reforms.

In addition to opposing these reforms, Governor Brainard has urged the Fed to take an activist role on global warming, which is beyond the Fed's expertise and mission. According to the *New York Times*, she has, and I quote, "endorsed the use of supervisory guid-

ance, the Fed's recommendations to banks, to encourage financial institutions to curb their exposures," end quote.

I am particularly concerned that she has advocated for the Fed to shape environmental policy through so-called climate scenario analysis. Not only does the Fed lack expertise in environmental matters, but there is no reason to believe that global warming poses a systemic risk to the financial system.

As I have noted before, we have not found a single bank that has failed in the modern era due to a severe weather event. There is a "transition risk" for banks associated with global warming, but that is political and regulatory in nature. It is the risk that unelected bureaucrats will attempt to impair the value of energy-related assets by cutting off credit to the energy sector.

This is not about whether climate change is a significant threat to our society. It is about the fact that climate policymaking requires tradeoffs between costs and benefits. And these are inherently political decisions, which is why they belong firmly in the domain of officials who are elected and directly accountable to voters.

Now turning to Ms. Thompson, she has been nominated to serve as the Director of the FHFA, where she has had a busy 6 months as Acting Director. In that time, she has proposed reductions in capital requirements for Fannie Mae and Freddie Mac, suspended restrictions on the GSEs' acquisitions of high-risk loans, required the GSEs to develop plans to further what Democrats call, quote, "racial equity," end quote, but it just really looks like affirmative action in the housing space, and increased the GSEs' affordable housing goals. Unfortunately, she has not prioritized ending the GSEs' conservatorships.

I am concerned the Administration is seeking to use FHFA and the GSEs to take on more risk for taxpayers and expand affirmative action into housing. That makes Ms. Thompson's nomination, notwithstanding her extensive experience, a referendum on the Administration's radical housing policy.

This policy contemplates more mortgages for higher-risk borrowers, repurposing the GSE as instrumentalities of social policy, and a disappointing embrace of the failed GSE model. In a break from decades of bipartisan housing finance reform efforts, this Administration is using the power of the GSEs' conservatorships to command and control a huge swath of the American economy. And we are now asked to ratify this radical housing policy, and to take ownership of the bailouts and foreclosures that I am afraid are likely to follow. Especially given where we might be in the housing cycle, we should be reluctant to do so.

Mr. Chairman, I look forward to hearing from today's nominees.

Chairman BROWN. Thank you, Senator Toomey.

Would the witnesses please rise and raise your right hands.

Do you swear or affirm that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Ms. BRAINARD. I do.

Ms. THOMPSON. I do.

Chairman BROWN. Do you agree to appear and testify before any duly confirmed committee of the U.S. Senate?

Ms. BRAINARD. I do.

Ms. THOMPSON. I do.

Chairman BROWN. Please be seated. Thank you.

Governor Brainard and Acting Director Thompson, welcome to the Committee. If you would like to introduce family members or friends in your testimony I invite you to do that, at the beginning or whenever you want to.

Governor Brainard, please begin.

STATEMENT OF LAEL BRAINARD, OF THE DISTRICT OF COLUMBIA, TO BE VICE CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Ms. BRAINARD. Chairman Brown, Ranking Member Toomey, and other Members of the Committee, thank you for this opportunity to appear before you. I am greatly honored to be nominated by President Biden to serve as Vice Chair of the Board of Governors of the Federal Reserve, and I am delighted to be here alongside Acting Director Thompson. If confirmed to this position, I look forward to continuing to work with Members of this Committee.

We are seeing the strongest rebound in growth and decline in unemployment of any recovery in the last five decades. Over the past year, unemployment has fallen by 2.8 percentage points, and growth is estimated to be around 5.5 percent, according to a variety of private forecasts.

But inflation is too high, and working people around the country are concerned about how far their paychecks will go. Our monetary policy is focused on getting inflation back down to 2 percent while sustaining a recovery that includes everyone. This is our most important task.

When the pandemic struck in 2020, I worked closely alongside Chair Powell, Secretary Mnuchin, and many others, with the support of Congress, to calm financial market turmoil and save American jobs and businesses. When markets stabilized, I worked to responsibly wind down the emergency facilities that were established, and today the economy is making welcome progress, but the pandemic continues to pose challenges. Our priority is to protect the gains we have made and support the recovery.

Since 2014, as a member of the Federal Open Market Committee, I have supported monetary policy that is responsive to economic conditions as they evolve. Our approach helped sustain the longest recovery on record with low inflation and millions of jobs.

More broadly, I have worked to safeguard and grow our economy during the Administrations of five Presidents from both parties. I have worked on the U.S. policy response to every major financial crisis over three decades. In some foreign countries, I saw up close how high inflation hurts workers and families, especially the most vulnerable.

I am committed to pursuing the Federal Reserve's congressionally mandated goals of price stability and maximum employment and to maintaining the strength and resilience of our financial markets. I am committed to the independent and nonpartisan status of the Federal Reserve.

If confirmed, I look forward to supporting Chair Powell in carrying out the responsibilities assigned to the Federal Reserve and in fostering transparent communication and accountability to you

and the American people, more broadly. I will bring a considered and independent voice to our deliberations, drawing on insights from working people, businesses, financial institutions, and communities, large and small, across the country.

Before closing, I want to thank my husband, Kurt, my daughters, Caelan, Ciara, and Chloe, for their steadfast support of my work. And I would like to commend the outstanding efforts of the many individuals across the Federal Reserve System who work so hard every day to serve the American public.

Senators, I thank you for your consideration and I look forward to answering your questions. Thank you.

Chairman BROWN. Thank you, Dr. Brainard.

Acting Director Thompson.

**STATEMENT OF SANDRA THOMPSON, OF MARYLAND, TO BE
DIRECTOR OF THE FEDERAL HOUSING FINANCE AGENCY**

Ms. THOMPSON. Chairman Brown, Ranking Member Toomey, and Members of the Committee. I first want to thank President Biden for nominating me to serve as the Director of the Federal Housing Finance Agency (FHFA). It is the greatest honor of my career to appear before you today.

Thank you to the Senators and the staff members with whom I have met in advance of this hearing. If I am fortunate enough to be confirmed, I look forward to working with all of you on the important issues at FHFA.

I would like to introduce my sons, Jarrett and Aaron, who are here with me today, and I would like to recognize and thank my parents, Herman and Helen Lathan. While due to COVID considerations they are not able to be here in person, the fact that my parents are still alive to witness today's hearing is very meaningful to me.

I was born and raised on the South Side of Chicago to my extraordinary parents, who came to Chicago from Mississippi as part of the Great Migration. My parents and family, along with the Chicago Public School system, and my beloved Howard University right here in Washington, taught me hard work, dedication, determination, and perseverance. I would like to specifically recognize the schools in Chicago that helped me succeed: McDade Elementary School, Gillespie Junior High School, and Lindblom Technical High School, all on the South Side.

My nomination for Director of the FHFA is a great privilege. I recognize that it is rare for a career public servant to have the opportunity to lead a Federal agency, and, as the first African-American woman nominated for this position I appreciate the opportunity to demonstrate my expertise, good judgment, and leadership in this position.

I am proud of the work we have done at FHFA in my 8 years there. The agency plays a vital role in both promoting access to mortgage credit nationwide and protecting the safety and soundness of the housing finance system through our supervision of Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System.

Throughout my 40-year career, with experience in mortgage markets and financial regulation at multiple agencies, I have seen

what it takes to lead a Federal agency and be effective in that role. In my work at FDIC and FHFA, I have demonstrated leadership, management ability, and an understanding of the secondary mortgage markets and industry, a fair and balanced perspective, and a strong belief in the importance of the safety and soundness of America's financial institutions.

During my time in Federal financial institution regulation I have witnessed and worked to end several financial crises. These crises exposed some truths in housing finance. When I served as the FDIC's head of supervision and consumer protection throughout the 2008 financial crisis, I witnessed firsthand the consequences of irresponsible lending when hundreds of banks across the country were closed and a record number of homes went into foreclosure. I saw how the borrowers who received unsustainable loans and predatory loan products were devastated in the downturn, and historically underserved and disadvantaged communities were hit especially hard. Years of progress in closing the home ownership and wealth gaps were erased as a result. In fact, today the Black-White home ownership gap is wider than it was in the 1960s, when lending discrimination that was based on race was still legal.

As a financial regulator, I have long believed that safety and soundness and access to credit are not mutually exclusive. Broad, fair access, and the stability of financial institutions work together as pillars of the Nation's housing finance system. Indeed, sustainable access to credit requires sustainable lending standards.

FHFA will continue to promote sustainable and equitable access to credit in a safe and sound manner. We will responsibly focus our efforts on the safety and soundness mission Congress gave to the FHFA and on the mission that Congress gave the housing GSEs under our supervision, providing liquidity across the Nation and especially supporting underserved markets like rural and tribal areas, manufactured housing, and preserving affordable housing. If confirmed, it would be an honor for me to serve as the FHFA Director, and I will continue to be fair, balanced, and transparent.

Thank you for the opportunity to testify before you today, and I am happy to answer any of your questions.

Chairman BROWN. Thank you, Acting Director. I appreciate both of you came in under your 5 minutes, and I ask you to continue to be. Rarely do people do that, that are witnesses. I ask you to continue to be brief.

I have two questions for each of you, so as briefly as you can. Governor Brainard, I will start with you. Thank you for your work during the pandemic. The Fed took extraordinary action, as we know, to support the economy. Some of my colleagues seem to have forgotten what a critical state our economy was in when the pandemic first hit. Workers and small businesses in this country certainly have not forgotten.

Why were those actions necessary, and did you support all of them, Governor?

Ms. BRAINARD. Thanks for asking the question. So I worked day in and day out, alongside Secretary Mnuchin at Treasury, Chair Powell, Vice Chair Quarles, and other colleagues to stand up the necessary facilities to calm financial markets. As you no doubt recall, our financial markets were in turmoil as they absorbed the

news of the pandemic. A lot of workplaces had to shut down because of the risk of infection before vaccines were available, and millions of Americans overnight were placed on layoff. And we really risked losing small businesses around the country. We risked losing medium-sized businesses and the tens of millions of Americans that those businesses employed.

And so I think due to the very important actions that Congress took we worked closely with Treasury to make sure that there was financing available for small banks and CDFIs and MDIs to get loans to small businesses in communities around the country. We worked to make sure that Main Street financing was available. We made sure to ensure that financial market turmoil was calmed, and we provided a lot of support to the economy.

And here we are, 2 years later, and we have regained all of that massive loss of GDP. We have businesses that are thriving around the country. People are back to work. So I was proud to work on that alongside all of my colleagues. I did not disagree with any of the actions that we took. In fact, I strongly supported them and worked hard to make them work.

Chairman BROWN. Thank you, Governor.

Acting Director, you know better than almost anyone how critical it is that financial institutions have appropriate capital to be transparent about their risk. What have you done so far, and what more needs to be done to make sure GSEs have the capital they need to continue providing access to housing in good and bad times?

Ms. THOMPSON. Thank you for the question, Senator. I firmly believe in the safety and soundness of the housing GSEs, Fannie Mae and Freddie Mac specifically. They have just been allowed to build capital and retain earnings, and we think that that is very important.

One of the steps that we have taken is to encourage the use of the credit risk transfer program which, as you well know, Fannie Mae and Freddie Mac are the largest holders of mortgage credit risk in the United States, I daresay the world. And one of the things that we like to do is facilitate moving that credit risk off the backs of the taxpayers and into the hands of the private sector. And we believe that some of the changes that we have made to the capital rule will help facilitate the credit risk transfer program and move credit risk away from the GSEs and the taxpayers and into the hands of private investors.

Chairman BROWN. Thank you, Acting Director.

Dr. Brainard, second question for you. For the first time in decades workers are starting to see a bit more power in our economy—record job gains, record wage increases. We need to continue that progress to catch up to all the costs that have been rising for decades. You will work closely with Chair Powell, if you are both confirmed, and oversee the Fed's monetary policy.

How does the Fed's monetary policy framework allow us to ensure we have stable prices and an economy where all workers have a good job and reap the benefits of economic growth?

Ms. BRAINARD. So our monetary policy framework puts stable prices and maximum employment on an equal footing, and I think we are taking actions on the monetary policy front that I have confidence will be bringing inflation down while continuing to allow the

labor market to return to full strength over time. So we are going to achieve that maximum sustainable employment while we bring inflation down to 2 percent.

Chairman BROWN. Thank you, Governor Brainard.

Last question, Acting Director Thompson. GSEs have reported about 4 percent of their new mortgages over the past 2 years went to Black borrowers and fewer than 11 percent went to Latino borrowers. For refinanced loans the shares are even lower. Compare that to FHA, which most recently reported that 17 percent of loans went to Black borrowers, and more than 25 percent to Latino borrowers.

What should GSEs do to make sure that they are serving borrowers of color equally?

Ms. THOMPSON. Thank you for the question, Senator. Certainly we believe that every American ought to have sustainable and affordable housing and also places to live if they are renters.

With regard to the Black ownership gap, one of the things that we have done is we have asked the enterprises to come up with some equitable housing plans, and they are supposed to focus on and identify barriers that underserved communities, particularly in communities of color, have as it relates to getting a mortgage. They are supposed to identify barriers and then come up with specific plans to execute the requirements that they have developed.

We also have a focus, as you well know, on all underserved communities, whether they are rural or tribal and other areas around the country. But we think that these housing equity plans will go a long way to help minority home ownerships in underserved communities across the country have access to mortgage credit.

Chairman BROWN. Thank you, Acting Director. Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. Governor Brainard, thanks again for your continued willingness to continue in public service. I know this is not always easy.

I was encouraged to hear you say that you are committed to the independent and nonpartisan status of the Federal Reserve. It is very important that Fed decisions on monetary and regulatory policy are entirely free from political interference.

So I think this is a simple yes or no question. Will you commit to considering yourself independent from the White House, regardless of which party occupies it?

Ms. BRAINARD. Yes.

Senator TOOMEY. Thank you. And will you commit to make your decisions without regard to political or electoral consequences?

Ms. BRAINARD. Yes.

Senator TOOMEY. Thank you. So I think you have acknowledged the importance of the independence of the Fed, how crucial that is for maintaining the trust and confidence of the American people. In light of that, I wonder if you could tell me how you view the coup by three men, including one who is serving on a term that expired 3 years ago, that forced out Jelena McWilliams, a well-respected regulator, from the once independent FDIC.

Ms. BRAINARD. So I cannot speak to the FDIC. I can tell you that I have enjoyed working with Jelena, continue to work with her, Jelena McWilliams, Chair McWilliams, on issues such as Community Reinvestment Act.

We have a very different institution and it is a very collegial institution. It is nonpartisan. And I can tell you a little bit about how I work in that institution, just to give you a sense.

Senator TOOMEY. Well, I am very limited on time here so let me just say, I know you commented on Jelena McWilliams, and I appreciate that, and I do understand you to have had a good working relationship with her. But I would suggest then and ask you to reflect on what happened there, and I think it is relevant.

The Fed, as you know, is also a multimember agency. It has prided itself on operating free from political interference and following norms of governance for many years. That used to describe the FDIC, and unfortunately it does not anymore, and there are people on the left and in this Administration who want the Fed to become more political, to become advocates for the causes and agenda that they support. And I have warned, and I am concerned that the Fed's dalliance with those issues, totally irrelevant to the dual mandate, will undermine the Fed's credibility and threaten its independence, and I think that is very important.

Let me move on to climate risk. As you know, the Fed has consistently stated that there are two categories of climate-related financial risk. The first is physical risks and the second is transition risks. Now the actual data shows that physical risk, that is actual severe weather events, do not threaten financial stability. This week, Chairman Powell said the possibility of financial stability disruptions from physical risks, quote, "doesn't seem likely in the near term," end quote. Well that is obvious. There was a recent report from the New York Fed that backs this up. According to the report, weather disasters from the last quarter century had insignificant or small effects on U.S. banks' performance.

So do you acknowledge that the likelihood of weather events leading to systemic risk during your term as Fed Governor is virtually zero, based on historical data?

Ms. BRAINARD. So to be honest, I think it is very important for us just to understand potential implications of tail risks. Tail risks are risks that have very, very low probability of happening but have extreme damage. And, of course, I would not have expected us to need to study pandemics 5 years ago either, and yet a lot of our policymaking over the last 2 years has been really under the cloud of a very complicated set of economic conditions and financial risks associated with a natural event.

So, you know, it is our job just to be very attentive to potential risks to the financial system.

Senator TOOMEY. So here is my concern, and I am certainly not alone in this. The actual evidence shows that there is no real physical risk. The transition risk, though, is real, and Chairman Powell explained the source of that. The source of transition risk is really Government policy. And this is what is concerning. There are lots of risks out there. There could be a trade war with China. There could be geopolitical turmoil coming from a Russian invasion of Ukraine. We could have the Government engage in shutdowns again in response to a pandemic, for instance.

Actually, I would argue each of those poses a greater risk to the financial system than some sort of climate event, which has never resulted in the failure of a major bank. But you have not advocated

doing stress tests around those other risks. The only one I know of that you have advocated is stress tests for the less likely risk, which is the climate-related risk. And the concern that many of us have is that this whole construct, unique to climate risk, even though it is really not a threat certainly in the foreseeable future to the financial system, it is all about a precursor for using the regulatory power of the Fed to direct capital away from politically disfavored industries.

So Sarah Bloom Raskin is, by some accounts, might be President Biden's next nominee to be the Vice Chair for Supervision. Now she has been explicit on this point, and she has argued regarding the implementation of the CARES Act that the Fed, and I quote, "should not be directing money to further entrench the carbon economy," end quote. So she is explicitly advocating that the Fed allocate capital by denying it to this disfavored sector.

And my question is, do you agree with Ms. Raskin that the Fed should play that role?

Ms. BRAINARD. So let me just respond to your question, Senator. Thanks for asking. I have not suggested that we should do stress tests for climate. Stress tests are very specific. They are related to the capital planning of large financial institutions. We do actually include geoeconomics risks in those stress tests, so we have included things like Brexit in our stress tests. But I certainly have not stated that we should do climate stress tests.

In terms of supervisory guidance, what we tend to do is ask large institutions, in particular, "Do you have a good risk management framework for assessing all of your material risks?" We would not tell banks which sectors to lend to or which sectors to not lend to, but we do want to make sure that they are measuring, monitoring, and managing their material risks, and many large financial institutions—

Senator TOOMEY. So then just to be clear then, you disagree with Ms. Raskin on this point.

Ms. BRAINARD. So I honestly have not studied her positions, and I would simply say I can speak to what we do in our supervisory guidance. And, you know, it is pretty meat and potatoes. It is very well known to the large institutions and really not that different from what they are doing today.

The one thing I would also just want to clarify is I do not think that is appropriate for small institutions. I think small institutions do not have as big a footprint. I think, you know, they will decide what their risks are. But I am really more focused on the large institutions, who themselves come in to tell us that they would like to have more consistent expectations in this area across jurisdictions.

Senator TOOMEY. I have run out of time.

Chairman BROWN. Thank you, Senator Toomey.

Senator Menendez, of New Jersey, is recognized.

Senator MENENDEZ. Thank you. Governor Brainard, let me first thank you for your leadership on reforming the Community Reinvestment Act rule over the past several years. In the middle of 2020, when the Trump administration was ramming a flawed rule to the OCC, civil rights advocates, banks, and other affected parties looked to you as a serious voice in the room, and if confirmed, I

have no doubt that you will continue in that spirit. As we approach Dr. King's birthday commemoration this coming week I think about this as one of the essential elements of a move toward a more just society.

So let me first ask, during the past few years, as you were engaging in that work, what did you hear from minority-led organizations about the CRA changes needed to further incentivize investments in minority communities who were disproportionately impacted during the pandemic?

Ms. BRAINARD. Well thank you for your question, and yes, I was very pleased that the Board unanimously put out an Advanced Notice of Proposed Rulemaking that I think, you know, really does provide a nice foundation for community groups and banks to give us feedback on what would be some good modernization measures.

So what we hear still from many communities around the country is that they still do not have similar access to credit. There are still barriers in terms of getting that access. They really like having bank branches in their neighborhoods, but particularly in rural areas that is not always the case. And they want to be able to have more interaction with financial institutions. They want minority depository institutions and community development financial institutions, which do tend to be very good at serving those underserved communities, to be strengthened. And they just really care deeply about the Community Reinvestment Act, as do many banks.

Senator MENENDEZ. So would you commit to making it a top priority to work with the other regulators to issue a strong, new rule in a timely fashion?

Ms. BRAINARD. I will certainly support that effort at the Board and with the other regulators, yes.

Senator MENENDEZ. OK. I appreciate that because minority communities are hurting right now, and this needs to be a priority. The pandemic has brought to light how severe the lack of credit and investment dollars problems are for minority small business owners, and I think it is past time for our regulators to work together and issue updated and effective CRA rule, so I look forward to your leadership.

Ms. Thompson, New Jersey is what I call a blue-chip State, a State that spurs innovation and drives the Nation's economy. According to U.S. News and World Report, New Jersey has the second-best public school system in the country and the highest per capita income in the country. In other words, we do a great job of educating our kids and giving them the ability to reach their potential. That is just not because New Jerseyans are smarter than their fellow Americans, but it is because we invest in our people.

So this is a State that is part of a region that generates 20 percent of GDP for the entire Nation, so we make money for the Federal treasury. But as we met yesterday, and I appreciated our visit, I explained how many New Jersey homeowners are being hit with a one-two punch of rising flood insurance rates, unfair cap on State and local tax deduction, the oldest deduction in the Federal Internal Revenue Code, and thanks to the Trump tax bill, which we are fighting to reverse both of those bad policies.

But I want to make sure that as Director of the FHFA you are sensitive to the concerns of homeowners, not just in New Jersey

but other high-cost States. Yes, we want to be fiscally responsible to the entities, the GSAs that are under your purview, but we cannot simply do it on the backs of those that are actually generating revenue for the Federal treasury. Can you comment on that?

Ms. THOMPSON. Sure, Senator, and thank you for the question. Certainly we care very much about the high-cost loans. As you know, last year we had a historic increase in home prices, and that hit States that have high-cost areas probably harder than most. One of the actions that we undertook was to increase the fees for some of the higher-balance loans, and that may unduly impact a number of counties across the country. I think most of the country is not impacted, but there are about 121 counties across the country that are.

Having said that, we do recognize that there is a difference between buying a home in New Jersey versus buying a home in Aiken, South Carolina. And we have excluded from this fee first-time home buyers with area median incomes less than 100 percent, and we have also excluded our affordable products so that there is no fee associated with first-time home buyers who live in high-cost areas.

But we know that there is a huge affordability issue, especially with first-time home buyers, and we did not want to exacerbate that problem.

Senator MENENDEZ. Thank you. Finally, Governor Brainard, the Fed has a serious diversity problem, something I keep pressing. I had it with Chairman Powell and I am compelled to raise it with you as well. If you are confirmed, what steps are you going to take to improve minority representation, particularly Latino representation, which is among the worst of the diversity that exists at the Federal Reserve?

Ms. BRAINARD. Well thank you for your question. So I think the Federal Reserve was actually founded on a recognition of the importance of bringing a diversity of perspectives to the table. That is why we have 12 reserve banks all across the country and we have branches in communities all across the country. So we have regional diversity, we have always valued sectoral diversity. It is very important to have different kinds of backgrounds.

But we really have lagged on racial and ethnic diversity. We are seeing some very important changes that we have worked very hard on at the reserve banks in terms of the boards of directors. If you look there at Latino representation it has gone up threefold just in the last 4 years, and so now we have about 25 percent of our Class C directors are Latino. We have about a third that are Black, and we have now more than half who are minorities of one sort or another. So we have made progress there.

But in terms of actual leadership positions we have only ever had one Black President. We have never had a Latino President. And so, you know, that remains a very high priority. Many of those boards have spent a great deal of time making sure that we have more diverse pools of candidates and that our procedures in hiring are as good as best practices everywhere. And why? Because we know, as those who wrote the Federal Reserve Act knew, is that having more diverse perspectives at the table, diversity of every type, leads to less group think and better outcomes.

Senator MENENDEZ. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Menendez.

Senator Rounds, of South Dakota, is recognized.

Senator ROUNDS. Thank you, Mr. Chairman. Let me begin by saying thank you to both of you for your continued participation in public service.

Ms. Thompson, in September, the FHFA, under your leadership, proposed a capital framework which offers a stronger incentive for the GSEs to create credit risk transfer, or CRT, relative to the current capital regime. I think you began and you visited a little bit about that with the Chairman of the Committee here.

I would like to explore that a little bit more, because I believe that this is a legitimate tool, and I am just curious, can you share with me briefly your philosophy on the CRT and how you might utilize it further, if confirmed?

Ms. THOMPSON. Sure. Thank you for the question, Senator. I firmly believe that the credit risk transfer program is very important for the enterprises. As I mentioned earlier, Fannie and Freddie are the largest holders of mortgage credit risk in the world, and right now Fannie and Freddie, they are able to retain capital but they are not able to—they do not have enough capital to withstand a severe event.

And so if something really, really bad happens, the event will have to be paid for, once again, by the taxpayers, and it is important for us to continue to encourage the credit risk transfer program so that the taxpayers are not on the hook for any extreme events and that private investors have to engage in the credit risk decisions.

We just believe that it is critical for the enterprises, especially while they are undercapitalized, to continue to transfer credit risk away from the taxpayers and into the hands of private investors.

Senator ROUNDS. Thank you.

Governor Brainard, first of all thank you for the meeting the other evening in my office. I most certainly appreciated our conversation. I think a number of the concerns that our Ranking Member has shared with you, you have had an opportunity to respond.

I am curious specifically on an item that you and I spoke on very briefly but I would like to have a conversation here as well, and I made a similar request like this to Chairman Powell on Tuesday. I believe the adjustments to the supplementary leverage ratio, or the SLR, are necessary in order to account for the large influx of cash that has become challenging for banks to manage. Would you be willing to work with my office to look at ways to address the liquidity issues through the calculation of the SLR?

Ms. BRAINARD. Yeah, well thank you, Senator, and I certainly share that view that because of the need to respond to the pandemic there are a lot more reserves in the system. And I supported the removal of the reserves from the leverage ratio for custodial banks, and I think it makes good sense to look for ways, while keeping capital strong, to find a way to adjust that supplemental leverage ratio because of the much larger amount of reserves in the system.

Senator ROUNDS. Thank you.

Ms. BRAINARD. I do commit to working with you.

Senator ROUNDS. Thank you. Also, let's talk a little bit about inflation. This is critical. We are at 7 percent right now. The stated goal is 2 percent. We have 5 percentage points—critical. I think in our discussion with Chairman Powell he made it pretty clear that the Fed could manage the demand side, and I think you would agree with that. Demand is where you work at, not necessarily on the supply side. Fair enough?

Ms. BRAINARD. Absolutely. I think over the medium term inflation is a monetary phenomenon, and we have tools that operate on the demand side.

Senator ROUNDS. OK. In order to move that back, and I know that you have made it very clear that this is a critical priority, how much of the inflationary trends that we see today do you think you can actually manage with demand side policy only?

Ms. BRAINARD. So I think, you know, we have a set of tools. They are very effective and we will use them to bring inflation back down. Sector to sector, there are microeconomic market structure, other issues at work, supply disruptions at work. That is not where our tools are effective. That lies elsewhere. But we are committed to using the tools that we have to deal with inflation, which is fundamentally a monetary phenomenon.

Senator ROUNDS. What I am trying to get at, and this is not a gotcha question. My question really is, with inflation where it is at we know it is both supply side and it is demand side. But clearly there have been discussions, and clearly you have research done as to how much of the inflationary trends that we have are attributable to demand side policy. Can you share with us what you believe the percentage, or at least the amount of inflation would be attributable to demand side?

And the reason why I ask is because if you overreach or if you do not do enough you are never going to get it down, but at the same time with supply side—and we both recognize that you cannot do much about supply side, and this is critical—the price of gasoline is going up because we have got restrictions on the availability of new gasoline being put into the system and high demand for gas. But simply telling a consumer that the price has gone up and so we are going to make it more restrictive for you to buy it, they are still going to buy gas because they have got to get to work.

So in this particular case, as we look at food prices going up and we look at gasoline going up, the price of rents is going to be going up, the price of housing is going up, how much of that interest on inflation do you have the responsibility, or should you be looking at in terms of the demand side of the equation?

Chairman BROWN. Governor, be as brief as you can in your answer, please. Thanks.

Ms. BRAINARD. Well, I will certainly, just looking at prices at the pump, prices at the grocery store, that is clearly hurting Americans all over the country. That is about a quarter of the very high inflation that we see. So I think you are certainly right to focus in on those areas as particularly difficult and very rooted in supply side constraints.

Senator ROUNDS. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Rounds.

Senator Tester, from Montana, is recognized from his office.

Senator TESTER. Well thank you, Chairman Brown, and I want to thank Director Thompson and Governor Brainard for being here today.

You know, Director Thompson, you said something in your opening statement that is something we need to pay attention to and that is the ownership gap today is wider than it was in the 1960s when discrimination was legal. This is a question for you, but then if Governor Brainard wants to add to this I would certainly like to hear her opinion too.

But what can you do about closing that ownership gap in the position that you are going to be hopefully confirmed for?

Ms. THOMPSON. Thank you for the question, Senator. Access to credit is really important especially in underserved communities generally. And I mentioned earlier that we have asked the enterprises to develop equitable housing plans that focus on some of the inequities that have taken place. They are supposed to identify barriers for underserved communities, particularly Black and Brown communities, to engage in home ownership. And we are looking over those plans now, and some of them focus on education and making sure that opportunities are available for people to understand what the home ownership process is, how it works, what it does, and then if there are other issues, like appraisals that come into play in terms of bias that may or may not exist.

And we want to make sure that the enterprises are focused on identifying barriers and focusing on coming up with plans to address and identify those barriers, to really close the home ownership gap. Because as you know, Senator, a home is the greatest asset that most people own, and we believe that home ownership will go a long way toward closing the racial equity gap.

Senator TESTER. Governor Brainard, would you like to respond to that same question? What can you do in the position that you are going in for to solve this ownership gap?

Ms. BRAINARD. Thanks for the question, Senator. So we are well aware of that home ownership gap. We collect those statistics, and it is has been very, very stubborn.

We do work with banks, trying to provide help and incentives under the Community Reinvestment Act to increase the supply of affordable housing, workplace housing. We know there are shortages in all of the communities represented by Members of this Committee. I have visited many of them.

And in particular we have community development financial institutions who are very good at using LIHTC subsidies and other subsidies together with bank financing, and that is really where the Community Reinvestment Act comes in, to expand the supply. We are looking also at naturally occurring affordable housing. That is one of the questions we asked in the CRA. Native CDFIs, for instance, are very good at working on very particular issues affecting tribal nations. So getting incentives for banks to partner with those institutions can help on the margins.

Senator TESTER. Thank you for that. I would also that—you know this; I think you both know this—there is an incredible supply problem out there across this country, which has caused housing prices to go up. If you have any ideas, any recommendations, about what Congress can do to help solve this problem I would cer-

tainly love to hear them. I know the Build Back Better proposal that may or not be going anywhere at this moment in time had some housing initiatives in it, but I think could have been positive if they were passed in the way that I saw them, to solving some of the supply problems.

Governor Brainard, I want to continue with you for a second. You and Chairman Powell have clearly worked pretty well on a partnership during your time together at the Fed, and I know this will continue. I gave Powell the opportunity to share his view earlier this week and I want to give you the same.

I remember very clearly the pressure that President Trump put on the Fed for his own political gain, not the well-being of the economy, and I am grateful for you and your colleagues' commitment to the independence that you maintained in the Fed through that intensive pressure. So can you tell me briefly why is this independence so very important?

Ms. BRAINARD. Well I think it is a long-established tradition at the Federal Reserve, and, you know, it is certainly important to be able to set monetary policy in a way that is closely related to the goals that Congress set for us, and we need to make judgments in the Committee free from political pressures, and that is what we have been able to do under the independence of the Fed, and it is important to keep doing that. I will certainly continue to support Chair Powell in that.

Senator TESTER. Thank you both.

Chairman BROWN. Thank you, Senator Tester.

Senator Kennedy, from Louisiana, is recognized.

Senator KENNEDY. Thank you, Mr. Chairman. Governor, Director, congratulations on your nominations.

Governor, I realize at the Federal Reserve that you have a big staff that advises you on inflation. And based on their track record my guess is they also advised people to buy condos in Las Vegas in 2007. But you do not have to accept their advice. So with respect to your predictions on inflation, how did you get it so wrong?

Ms. BRAINARD. Well, Senator, thank you for—

Senator KENNEDY. Could you move closer to the mic for me?

Ms. BRAINARD. Yes, of course. Thank you for your question, Senator.

Senator KENNEDY. You are welcome.

Ms. BRAINARD. So I think, you know, nobody got the pandemic right. The pandemic is unprecedented.

Senator KENNEDY. But I am asking you about inflation.

Ms. BRAINARD. Yeah. So I think as forecasters, private forecasters, certainly the forecasters, the SEP, the whole Committee, we thought that perhaps we would see a more rapid resolution of the pandemic and the supply demand mismatches, in particular cars—

Senator KENNEDY. Excuse me for interrupting—

Ms. BRAINARD. —energy—

Senator KENNEDY. —but I do not have much time. Are you saying that inflation as caused by the pandemic?

Ms. BRAINARD. So we certainly have seen the perpetuation, for instance, of the Delta variant leading to—

Senator KENNEDY. Excuse me. But are you saying that inflation is caused by the pandemic?

Ms. BRAINARD. I certainly think the supply demand imbalances that have been the biggest contributors to the very high inflation we have seen are directly attributable to supply chain issues, distortions in demand.

Senator KENNEDY. But here is what troubles me about that. I will agree that inflation is spreading, but I do not see people going around coughing inflation on each other. And I understand supply chains matter, but so does the demand side, and so does too much money chasing too few goods. And I do not think, and I do not think any fair-minded person thinks that inflation is solely the result of the pandemic.

Let me move on. Do you think that Federal regulatory authorities should use their considerable power, not just the Federal Reserve but Federal regulatory authorities, do you think they should use their considerable power to discourage private banks from lending money to oil and gas companies?

Ms. BRAINARD. No.

Senator KENNEDY. Ma'am?

Ms. BRAINARD. No.

Senator KENNEDY. OK. Do you think that those Federal regulatory authorities should use their power to discourage private banks from lending money to gun manufacturers and dealers?

Ms. BRAINARD. It is not our job. We do not tell banks what sectors to lend to. We just ask them to risk manage and we make sure they have good processes—

Senator KENNEDY. Well, I agree with you and I thank you for that. Will you issue a statement to that effect, if you are confirmed?

Ms. BRAINARD. Well I certainly have made that statement, will continue to make that—

Senator KENNEDY. Yes, ma'am, but would you issue a separate statement saying, "I want to make it clear, for what it is worth, to all of my colleagues in Government, I do not think that you should use your power to discourage private banks from lending money to oil and gas companies and to gun manufacturers"? Will you do that?

Ms. BRAINARD. Well I will not tell other regulators what to do but I will be happy to talk about what we do at the Federal Reserve, what our statutory authorities require us to do.

Senator KENNEDY. OK. I am going to follow up with you on that. OK?

Ms. BRAINARD. Senator.

Senator KENNEDY. I take that as a yes, and I am looking forward to that statement.

Director—gosh, this is America's debt. I am not going to have time to ask you about it because I want to ask Director Thompson a quick question. I mean, yes, Director Thompson. Madam Director, are you familiar with President Biden's Risk Rating 2.0 pricing scheme for the National Flood Insurance Program?

Ms. THOMPSON. Sir, I am not familiar with the details of that program.

Senator KENNEDY. Well I need you to take a look at it. You talked about affordability. President Biden is about to make housing for at least 5 million Americans unaffordable, by raising their flood insurance from \$1,000 a year to \$5,000 and \$6,000 a year, and you are going to have a problem.

Real quickly, Governor, do you think—we have got four big banks. They have market share between 30 percent and 50 percent. In the greatest economy in all of human history they are not really banks; they are countries. Do you think power, economic power is too concentrated in those four banks?

Ms. BRAINARD. Well I certainly think that from a financial stability point of view, when you have very, very large institutions that are systemic, you need to have very, very big capital buffers and liquidity buffers and risk management, because it would be very, very difficult to resolve those banks in a moment of financial stress.

Senator KENNEDY. OK. Thank you, Mr. Chairman. You have been very, very kind with your time.

Chairman BROWN. Thank you, Senator Kennedy.

Senator KENNEDY. My office will work with you on that statement about oil and gas and gun manufacturers.

Ms. BRAINARD. Thank you, Senator.

Senator KENNEDY. OK?

Chairman BROWN. Senator Warner, from Virginia, is recognized.

Senator WARNER. Thank you, Mr. Chairman. I want to first of all take a moment. I know normally in the Banking Committee we do not introduce our witnesses, but I want to take a moment to add to your comments about Dr. Brainard. I have known Lael and her family for more than 20 years. I think she has done a great job on the Federal Reserve. She has been the representative from the Federal Reserve Bank of Richmond's Fifth Federal Reserve District. She cares deeply, and as you indicated in your opening statement about working families, she is ready to roll up her sleeves to take on the challenges that our economy faces.

And I think a prime example of that is what happened during the last year of the Trump administration, when we got hit with COVID, and candidly, if that Administration had responded quicker we might not be in as deep a hole as we were. But she worked the Fed. She and Chairman Powell worked very closely with Secretary Mnuchin, and I think in many ways prevented what would have been an economic catastrophe. So I very much look forward to supporting her.

I would say, to my good friend from Louisiana, that when we were passing unprecedented amounts of money to put that capital into American families' pockets I did not hear anybody complain about inflation. I think the first \$3 trillion, \$2.2 trillion was 100 to nothing [inaudible]. I think the next couple trillion was 96. I will give Senator Kennedy credit on that. But the vast majority of us on both teams said that was the right thing to do, and I think history will treat it as the right thing to do. And I hope that that moves aggressively on dealing what it can do on monetary policy.

But I would say, and I wish we had all been a little more prescient about the challenge of inflation, and we know when gas prices go up, but if we were looking at the indicators, and if we

were looking at the indicator, for example, that President Trump always used as his best weathervane—when he stuck his finger in the air and said, “How is the economy doing?”—he would look at the stock market. Well, inflation hit the 7 percent number the other day. What did the market do? It went up. So again, I am not saying that the market makers are smarter than us Senators, but the markets weighed in on this.

If we look back, as well, to like the early '80s or late '70s, when we saw the kind of inflationary pressures, when inflation, I think, hit 7 percent, 7, 8 percent, before it went up even higher, interest rates were about 16 percent. They went higher than that, but they were at 16 percent. Right now interest rates, for 30-year mortgage are about 3 percent. So the market, at least—and boy, oh boy, I bet Dr. Brainard and I bet Jay Powell, wish they had never heard of the word “transitory,” because we are going to probably continue to fry them on using that term.

But I would say that the market indicators—the market, interest rates, and candidly, the fact that most of us, on both sides, were all in on making the investments to deal with COVID—I want inflation to go down, and I do think we will start to see movement down. And incrementally, if you look at the rise and you look at slow declines, but I do hope the Fed will act.

I do want to raise one issue, and again I want to come back and compliment my friend, the Senator from Louisiana, and my friend, the Senator from North Carolina, because one of the things that I think we did that was really bold, along with help from all the folks on this side of the aisle, was we said we need to get more capital out to disadvantaged communities during COVID. I think, Director Thompson, I want to commend her. I may not get to my question on her but I want to thank her and the fact around I am not going to get the GSE reform but I commend you for saying you are still open to that and the fact that in-housing finance reform, I know how challenging that area can be, as somebody who worked with my friend, Bob Corker, or GSE reform and still has got the scars to prove it. The fact that you have got the bankers and the civil rights community supporting you, I look forward to supporting you as well.

But I do want to get my one question in, which is, one of the things that we came up with, actually working with Secretary Mnuchin, was trying to put more capital into minority depository institutions and CDFIs. And again, I want to thank my Republican friends for helping on that. We put about \$12 billion out, and we are almost going to double the amount of tier one capital in that sector, that, by definition, lends to low- and moderate-income individuals, more than 60 percent.

And Director Brainard, if you could just weigh in on what other things we can do, because there are certain things. There are private capital that wants to go into these institutions but cannot because they are afraid of the change of control rules. Will you commit to work with me, and others on this Committee, on a bipartisan way, to make sure that this piece of our financial sector, CDFIs and MDIs, get the kind of regulatory relief and capital they need to continue to perform critical, critical services?

Ms. BRAINARD. Yes, we will, Senator.

Senator WARNER. That was a pretty quick answer. Thank you, Mr. Chairman.

Chairman BROWN. Both witnesses are good at quick answers.

Senator TILLIS, from North Carolina, who always stays within his 5 minutes.

Senator TILLIS. Thank you, Mr. Chairman. I do, and I will. Congratulations to both of you on your nominations. It should be a proud moment.

Ms. Brainard, consensus has long been a top priority of the Fed Board as it works on an apolitical and largely unified front on monetary policy and regulatory decisions. If confirmed, you are going to be elevated to the position as Vice Chair. So with this in mind, would you believe the elevation of your role to Vice Chair provides you with any special power or authority to set Board agenda items?

Ms. BRAINARD. No. Quite the reverse. The Vice Chair role traditionally is a role that supports the Chair in the formulation of monetary policy and achieving consensus at the FOMC, communicating that, and I look forward, if confirmed, to taking on those responsibilities.

Senator TILLIS. That is good to hear. I agree.

In your time on the Board you have been called the Fed's great dissenter. Your initial dissent in 2018 was the first time in over 6 years that a Governor has issued a dissent. You have since set a new precedent with more than 20 dissents, none of which, I believe, were joined by another Fed Governor.

The Fed is meant to be a collaborative institution. I think we all know that. Governors have to convince other members of the benefits of proposed changes or reforms. So given the longstanding precedent consensus had on Board activities prior to your term, as Vice Chair would you push for policy changes you know lack Board consensus?

Ms. BRAINARD. No. I always work really hard. In fact, I have put forward a number of rules that did achieve consensus. It is always my preference. I dissented rarely. I always supported implementation of the law, especially of S.2155. There were some provisions that I particularly liked in that, and I have said that publicly.

You know, I only dissented on areas where I thought they went to the resilience of the largest institutions, because of the potential financial stability implications, and only in areas that were outside the implementation of the law and really in the judgment of the Board. And when I did I always worked with Vice Chair Quarles, Chair Powell to let them know what concerns I had, you know, to see if we could arrive at an agreement. I would always give them my statements ahead of time, to let them correct me if I got something wrong and to rebut it.

So, you know, I always tried to be extremely collegial. I did not relish dissenting at all and only did it in a few cases that were around those core issues around the largest institutions.

Senator TILLIS. I want to get on your political activity. I think that you may have said that your behavior would be different going forward. We know that you gave a max contribution to the Presidential campaign for Hillary Clinton in 2016. And I think that is probably the only Fed Governor that has done that in nearly 22 years. I know of some who were politically active but after they

were confirmed as Governor they eliminated their political activities.

So why did you think donating to the Clinton campaign outweighed the importance of maintaining Fed's independence?

Ms. BRAINARD. I actually did that in consultation with our ethics officer. Of course, we, you know—

Senator TILLIS. Did they make it clear that that had not occurred in quite some time?

Ms. BRAINARD. No, unfortunately. You know, it is rare. It has occurred. It is certainly not something I have done since then. You know, I do not think the appearances issue, you know, is a good one for the Fed, so I have not done it. But yes, it is clearly permissible, not something that I would have done had I been there longer and understood that that was not customary.

Senator TILLIS. Thank you.

Ms. Thompson, could you provide more clarity about the prospect of FHFA eventually releasing Fannie Mae and Freddie Mac from conservatorship? Is there an anticipated timeframe, and are you concerned about any negative market impacts?

Ms. THOMPSON. Senator, that is a great question. Certainly we would defer to Congress on the exit from conservatorship for the GSEs. But in the meantime there are a number of things that we are doing. The enterprises are building capital. We are encouraging the credit risk transfer program, and we are establishing pricing. So we are also supervising them in a safe and sound manner and making sure that they meet their mission so that whenever they exit from conservatorship they will be ready.

I would also mention that there are a number of stakeholders that would likely need to be involved and engaged in a discussion before that ever happened. The Treasury certainly, as the majority owner of the GSEs, and we certainly want to make sure that the taxpayers are adequately compensated. We would probably have conversations with the Fed and also the Justice Department on outstanding litigation. So just a number of steps that would have to take place before the enterprises would be able to exit conservatorship, and they would have to meet their capital targets, which are quite vast.

Senator TILLIS. Thank you. Again, congratulations.

Thank you, Mr. Chair.

Chairman BROWN. Thank you, Senator Tillis.

Senator Warren, from Massachusetts, is recognized.

Senator WARREN. Thank you, Mr. Chairman, and congratulations, Governor Brainard, and congratulations, Ms. Thompson, on your nominations.

So I would like to talk a little bit about inflation and about the Fed's tools to deal with it.

Governor Brainard, let's start at the beginning. If the economy is overheated, what is the Fed's primary tool to cool it off?

Ms. BRAINARD. The Federal funds rate.

Senator WARREN. Yeah, so increasing interest rates, in other words.

But what if inflation is caused by kinks in the supply chain? Prices jump because the supply chain is just not functioning. Does the Fed have a tool to deal with that?

Ms. BRAINARD. No. We have a tool that operates on the demand side, which is the Federal funds rate.

Senator WARREN. OK. In other words interest rate adjustment is your tool, and it does not work on things like supply chain kinks.

When Chair Powell was here on Tuesday we discussed how market concentration can lead to increasing prices. While consumers are facing higher inflation, profit margins for corporations have surged to their highest levels in 70 years.

Now inflation has not gone up because, one day, corporations woke up and said, "Hey, today we are going to be greedy." No. Inflation has gone up at this moment because of the way that prices are passed on in a more concentrated market.

In a highly competitive market, when costs go up businesses pass those costs along to their customers, but they cannot expand their profit margins because other competitors are just going to beat them down on prices. But in a very concentrated industry, one with only a few competitors, a dominant corporation can use the excuse of inflation for passing along rising costs and then add in an extra bonus for themselves to increase their profit margins. As Chair Powell put it on Tuesday, those firms are, quote, "raising prices because they can."

So, Governor Brainard, would you agree that increased market concentration has allowed some corporations to profit off pandemic disruptions by raising prices on consumer beyond the increased costs that the corporations have to deal with?

Ms. BRAINARD. Well certainly a lot of economic research would suggest that in concentrated industries individual producers have more pricing power, so that kind of dynamic is certainly possible.

Senator WARREN. OK. So I know that the Fed has a role in approving bank mergers, but with respect to broader concentration, throughout the rest of the economy, does the Fed have the tools to deal with increased concentration there?

Ms. BRAINARD. No.

Senator WARREN. No. And that is really the point here. Dealing with inflation requires the Fed to act if the problem is an overheated economy, but dealing with rising consumer prices also involves the FTC, the Department of Justice in breaking up monopolies and investigating crooked price-fixing schemes that also increase costs for hard-working families. And that is why it is so important that the Biden administration is taking action to fight corporate power by enforcing antitrust laws and boosting competition.

Now, Governor Brainard, do you think that the steps that the Administration is taking to address market competition and price fixing have a role to play in helping families that are facing rising prices?

Ms. BRAINARD. Well I certainly think that, you know, we are hearing from working families around the country about inflation, and some of it is in areas where we are seeing those kinds of supply dynamics. But again, you know, we do have a powerful tool and we are going to use it to bring inflation down over time.

Senator WARREN. Good. And look, I understand that, but price stability is a core part of the Fed's mandate, and I know you care about that. And I just want to make sure that we keep our eye on all of the things that affect prices for consumers. Today's price in-

creases have many causes, and I hope that the Fed treads carefully in using its tools to help lower prices for American families. I am glad to see that the Administration is using all the tools that it has to bring down prices over a longer arc. That is our collective job, and I appreciate your help in this and your thoughtful comments here.

Thank you, and again congratulations to both of you. I am sorry, Ms. Thompson, that I did not get to questions with you, but I am looking forward to supporting both of you. Thank you.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Warren.

Senator Hagerty, from Tennessee, is recognized.

Senator HAGERTY. Thank you, Chairman Brown, Ranking Member Toomey, for holding this important hearing, and I would like to congratulate our nominees, Governor Brainard, Acting Director Thompson. Congratulations on your nominations today. It is good to be with you and I appreciate your time.

Before we start I would just like to highlight the fact that we are in an unprecedented time. Governor Brainard and I talked about this yesterday. But if you look at the consumer price index that was released for this month, December over the prior December, we are at a high that has not been seen in almost four decades. The median age in America is 38 years old, when you think about it. The average American has never seen inflation at this level. So I want to underscore the fact and appreciate the confidence you reflected, Governor Brainard, in your ability to deal with this very carefully as we try to undertake the challenge and get price stability back under control.

For both of you I have a housekeeping question to ask before we get started, for both Governor Brainard and Acting Director Thompson. As a matter of housekeeping, have either of you ever, currently or in the past, embellished any part of your resume, your background, your publications, or any other aspect of your accomplishments? Just a yes or no answer would suffice.

Ms. BRAINARD. No.

Ms. THOMPSON. No.

Senator HAGERTY. I expected that to be the case. Thank you.

Governor Brainard, I would like to turn to you. Again, I appreciated the conversation that we had yesterday. And one of the topics that we discussed is also one that I raised with Chairman Powell on Tuesday, when he and I discussed, and that is regarding the actions of CFPB Director Rohit Chopra and interim FDIC Director Martin Gruenberg, in their attempt to force out the FDIC Chairman before her term expired. This destruction, both of institutional norms and historical precedent, undermines the independence and the integrity of our financial regulators, and I want to ensure that a similar situation does not occur at the Fed.

So my question, Governor Brainard, is slightly different from that you answered with Senator Tillis. Do you believe that the Fed Chair has the ultimate discretion to set the Fed's regulatory agenda?

Ms. BRAINARD. It is certainly the case that the Vice Chair for Supervision and the Chair work together. But yes, the Chair determines what goes to the Board for votes.

Senator HAGERTY. Thank you. I appreciated your answer yesterday and thank you for being clear today.

Acting Director Thompson, I would like to turn to you about the stewardship of the FHFA, if I might. As Director of the FHFA, you are meant to carry out the law, not to be a policymaker. The Housing and Economic Recovery Act does not permit indefinite conservatorships. By definition, no conservatorship is meant to be permanent.

So my question to you is will you commit to do everything in your power to fulfilling your statutory mandate to end the conservatorships?

Ms. THOMPSON. Senator, that is a great question, and certainly no one ever expected the enterprises or any financial institution to be in conservatorship for 13 years, and certainly we believe that Congress has a role and we will be working to help in any way that we can to facilitate any questions that you have. But we think that this is something that Congress needs to work on as well.

Senator HAGERTY. Well, is there any point in the law that says that Congress must approve an exit conservatorship?

Ms. THOMPSON. I do not know that they must approve an exit from conservatorship, but there are a number of issues that Congress will have to address, specifically if the enterprises exit conservatorship will the companies be private? Will they be public? What form will they be in? There are just a host of issues that would have to be considered, that Congress must weigh in on. But certainly FHFA can get the enterprises ready.

Senator HAGERTY. Well, Acting Director, if you are concerned that the HERA Act does not provide adequate clarity I hope that you will get back to me and my team as quickly as possible with the areas that you see inadequacy in the legislation, because my expectation is that the legislation is clear and that an exit is called for.

I want to get to another point, though, and that has to do with the recent reductions in GSE capital requirements and how you see that reduction fit with the mission of working toward exiting conservatorship.

Ms. THOMPSON. It is a great question, Senator, and I can assure you, I firmly believe in safety and soundness of the GSEs, and that would be really backed by the capital requirements. I made two minor changes to the capital rule that was finalized at the end of December 2020, and those changes were really designed to promote the utilization of the credit risk transfer program, and again, the credit risk transfer program transfers mortgage credit risk from the enterprises to the private sector.

We also made a change to not the leverage requirement but the leverage buffer so that the buffer would not be static. It would be more dynamic. And I believe the banking regulators are also looking at the supplementary leverage ratio on the banking side as well.

The changes that I made, just for context, before the crisis the required capital for the enterprises was about \$55 billion. Right now, even with the proposed changes that I have recommended, the required capital is about \$300 billion, which is over five times what it was before the enterprises went into conservatorship.

Senator HAGERTY. I just think we need to be careful in this regard, because in my home State of Tennessee housing prices are up 20 percent. That is the case across the board, and again, back to your overarching objective of getting these out of conservatorship, I applaud a careful balancing act, an independent perspective on that as well, and I look forward to very conservative management there.

Chairman BROWN. Thank you, Senator Hagerty.

Senator Van Hollen, of Maryland, is recognized.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Congratulations to both of your on your nominations. You are both eminently qualified for the positions you have been nominated to, and I look forward to supporting your nominations.

Dr. Brainard, let me thank you for your leadership in getting the Fed to adopt a real-time payment system through FedNow. As you know, people living paycheck to paycheck are spending billions of dollars in overdraft fees or payday loans because of the lack of a real-time payment system, and they are bearing the costs of this inefficiency in our system.

So I have a very simple question. Are we on target for launching FedNow next year?

Ms. BRAINARD. We are on target, and as you say it is something that many community banks, other payments providers, and community groups are very supportive of, and I think larger banks are very supportive now as well.

Senator VAN HOLLEN. Good. No, I am glad that more and more people are supporting the effort.

As Chairman Powell acknowledge in his testimony before this Committee on Tuesday, because of the American Rescue Plan we have been able to lower unemployment in the country way ahead of projections. At the 3.9 percent unemployment levels we saw in December, that was a full year hitting that target, a full year before what the Fed had projected, and 4 years before what the Congressional Budget Office said projected. So that is the good news.

On the other hand, we see disparities behind that number. Black American unemployment is at 7.1 percent, and while long-term unemployment has been cut in half over the past year we still have about two million Americans who are long-term unemployed, looking for work and not finding it for over 27 weeks. So how will these facts factor into your analysis in considering whether we have achieved one of the main Fed goals of full employment?

Ms. BRAINARD. Well as you noted, unemployment has come down very rapidly, which is very welcome, but we still have between 3.5 and 5 million fewer jobs than we would have in the absence of the pandemic, and some of those re going to come back more slowly. So as we look at labor force participation we just really have not seen the improvements there. It is between 1.5 percentage points looking at the total labor force, 1.1 percentage points looking at the prime-age labor force behind where it was prepandemic. So that unemployment rate is higher when you take into account non-participation.

Where are those people? Well, we see very big concentration of missing jobs in leisure and hospitality, despite a lot of openings. I think, you know, you have a lot of parents there of young children,

when we look at the data, who still cannot quite go back because you have got school closures, and particularly for young children still very, very limited childcare options, and of course that hits Black and Brown parents more, in terms of those statistics. And also concerns about the virus, some sectoral reallocation.

So we are going to see that participation cycle lag the unemployment cycle, but I have really strong confidence that we are going to see that improve more slowly over coming quarters and years.

Senator VAN HOLLEN. Thank you, Dr. Brainard. As you know, when we look at those figures, over 7 percent for Black American employment, those are people who are looking for jobs and unable to find them. On top of that, we have the issue of people who are not looking for various reasons, and many of us are pushing very hard to pass legislation to dramatically lower the cost of childcare for those families.

Ms. Thompson, thank you for your current stewardship at FHFA, and as you know, and we have been back and forth on this, one of the major household costs faced by moderate- and low-income families are their energy costs. In fact, for low-income households the share of their budget on energy is three times higher than for higher-income households. And if we can make energy efficiency improvements we can cut those bills by 35 percent.

I wrote to you last August about this issue, urging you to take actions to encourage more loans for energy efficiency. Thank you for the actions you took in October. Can you just elaborate a little bit on the importance of this issue and whether there are other measures we can take to reduce these costs for households?

Ms. THOMPSON. So thank you for the opportunity, Senator. We believe that the energy standards have come a very long way since the enterprises started engaging and ensuring that the affordable housing units, in particular, on the multifamily side, had these energy efficiencies.

We are encouraging the enterprises to, especially in the low-income and affordable space, make sure that the loans that they purchase have a component of energy efficiencies, and I do believe that they give discounts for purchasing those loans.

Senator VAN HOLLEN. I continue to work with you on that and other aspects of affordable housing. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Van Hollen.

Senator Lummis, from Wyoming, is recognized.

Senator LUMMIS. Thank you, Mr. Chairman, and congratulations on your nominations, both of you. Acting Director Thompson, we have not met. I hope we will have an opportunity to do so in the near future. Governor Brainard, thank you very much for the time you have spent with me and the conversations we have had in the past year. I appreciate that very much.

Governor Brainard, my questions are for you. As we have discussed, Wyoming is the largest exporting State of energy in the Nation, and that is because of our small population. We do not consume very much of the energy we produce. We export it. It is critically important to our economy and to our job base and to American energy independence.

Do you believe the Federal Reserve has the authority, either through rules or guidance, to broadly curtail community banks' investments in oil, coal, or gas exploration?

Ms. BRAINARD. No. No, Senator.

Senator LUMMIS. Thank you. Do you understand the regulatory burden that incorporating climate risk into bank regulation may have on community banks in Wyoming?

Ms. BRAINARD. I do, and I do not favor asking community banks to put in place those kinds of risk management. I think to the extent that supervisory guidance is appropriate, it is really appropriate for the large banks that have a big imprint, not for small banks. We do not want to burden community banks, in particular.

Senator LUMMIS. Thank you very much. Community banks in my State are the backbone of banking, again because of our very small population, so thank you so much.

As you know, I have a keen interest in Wyoming's special purpose depository institution's applications, and is it a fair characterization to state that the Federal Reserve is currently making progress on the important legal and supervisory issues surrounding the Wyoming special purpose depository institution?

Ms. BRAINARD. Yes, I think that is an accurate characterization, Senator.

Senator LUMMIS. Thank you. Tell me why you believe responsible financial innovation is important to both monetary policy and bank regulation.

Ms. BRAINARD. Well we are seeing quite a bit of innovation associated with technology. Consumers now have access to their ability to make transactions using their mobile phones. These kinds of things, I think, are very important. They are going to continue to evolve. The financial sector has been a very dynamic sector. I think it will continue to be, and we just want to make sure that that is done within the existing guardrails so that like activities are regulated in a like manner, consumers are protected, and that is really our focus on responsible innovation.

Senator LUMMIS. Do you believe it is important that innovative financial technologies, like digital assets and distributed ledgers, be inside the regulatory perimeter?

Ms. BRAINARD. Yeah, I do believe that, again, you know, the focus should be on like activities, like risks being treated in a like manner, and, of course, our existing regulatory structure was designed for different kinds of charters and institutions, and so that needs to be evolved. And of course we welcome Congress taking a very important role in updating that statutory framework.

Senator LUMMIS. OK. China has produced a digital yuan, a central bank digital currency, but it seems to be available to the retail customer, allowing the Communist Party of China to surveil the uses of its central bank digital currency. As the Fed and the Congress considers a central bank digital dollar, do you believe it should be available to the retail customer, or should the Fed CBDC be available only as it is now, to the banking industry?

Ms. BRAINARD. Well this question about digital currency is a big question, and we really are looking to Congress, in the first instance, and the Administration to give us guidance in this area. We want to make sure that we do the requisite research on policy and

technology so we are in a position to move forward if Congress decides it is important to be able to compete with China in this regard. Of course, privacy protections are very important in any kind of approach that might be taken.

Senator LUMMIS. Thank you very much. Again, congratulations to you both on your nominations.

Mr. Chairman, I yield back.

Chairman BROWN. Thank you, Senator Lummis.

Senator Smith, from Minnesota, is recognized.

Senator SMITH. Thank you, Mr. Chair and Ranking Member, and welcome to both of you. It is wonderful to have a chance to see you in person after our virtual meetings, and I want to thank you so much for your willingness to serve our country.

Ms. Thompson, I am going to start with you. As I said when we spoke on the phone, it warms my heart to see a career public servant have the opportunity to, and for us to have the opportunity, of you leading this agency, so thank you so much.

I want to follow up on a question that Senator Brown started with, touching on issues of gaps in home ownership, and in Minnesota we have much to be proud of. We also face significant challenges around racial equity, which is essentially the proposition that prosperity in our State should be equally shared. And the reality is that in the Minneapolis metro area, as you may know, the home ownership rate for White families is one of the highest in the country, about 70 percent, while home ownership for Black families is closer to barely 20 percent. This is the largest gap in the whole country.

And I might just note that this is the legacy of old Federal policies that contributed to this, in addition to old redlining. University of Minnesota has done a fascinating study which tracks specifically that legacy in home values. Today you still see the legacy of disparities in home values because of this.

So Director Thompson, could you just talk to us, if you are confirmed, which I hope you will be, how you see the work that we have to do ahead to address this home ownership gap which contributes directly, of course, to wealth inequality that we face in our country?

Ms. THOMPSON. Thank you for the question, Senator, and there is quite a bit of work that needs to be done in that area. We do believe that qualified borrowers ought to be able to, if they can, afford a home mortgage loan.

One of the things that has taken place at Fannie Mae, in particular, is many potential homeowners are now renters, and when you are looking at credit scores one of the things that the traditional credit score does not take into consideration would be rent payments. And typically a rent payment or a mortgage payment is the largest payment that most people have for their households.

And so Fannie Mae has taken the step to incorporate 12 months of positive rental payment into their credit scoring so that the typical requirement of something being a debt as opposed to an expense, which is what a rental payment is, is now taken into consideration in a positive way, to help improve the credit scoring process.

So we think there are a lot of little things around the edges, looking at, you know, nontraditional credit scores, and not using them as sole factors but as additional factors in really providing access, sustainable access to credit and to home ownership.

Senator SMITH. I look forward to working with you on these things. I think you are pointing out how we have sort of old, systemic ways of doing things that end up having the discriminatory impact, and if we look at them we can change them and then start to change the path, create a much better path for people in this country, which is why we are here. So thank you.

Dr. Brainard, you and I had a chance to talk about a variety of things when we spoke on the phone the other day. Many of my colleagues have also just raised some of the questions that you and I were discussing around full employment and the disparities in employment amongst Black families versus some White families in this country. And I want to just drill down on a bit of what Senator Van Hollen was asking about. As you pointed out, the Fed has limited tools in this category. But could you just tell me, if we were to see interest rates increase, would impact would we anticipate that having on employment, particularly as we try to look at getting broad-based employment?

Ms. BRAINARD. Well certainly today we see an economy that has grown about 5.5 percent over the last year, and we have seen those broad unemployment numbers coming down really quickly, so there is a lot of underlying momentum in the economy.

And so, you know, as we go forward on our plans to end asset purchases, to begin to raise interest rates at some time beyond that, to shrinking the balance sheet, I think we will do it in a well-communicated way, a transparent way, to allow markets to react in a measured way to it.

You know, I believe we will be able to see inflation coming back down to target while the employment picture continues to clear. There are some short-term constraints there that I think are limiting people from coming back into the labor market. As those are lifted I think we will have continued gains on employment.

Senator SMITH. Thank you. I am out of time. I just want to take a moment to say that one of the biggest constraints, as you and I have talked about, is that people do not have any access to affordable childcare, and so they are left not being able to work, even though they want to. That is one of the things that we would address in the Build Back Better Act, which I hope we pass.

Thank you. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Smith.

Senator CRAPO is recognized from his office.

Senator CRAPO. Thank you, Mr. Chairman, and let me start out with you, Director Thompson. First of all, I very much appreciated our visit last Tuesday. I just have one quick question for you, which we discussed then, housing finance reform, which, as you know, is a top priority of mine. And it has been my view that Congress must find a pathway forward to resolve the conservatorship of our GSEs and do so expeditiously.

In that context I applaud Ranking Member Toomey for releasing his housing finance reform principles last March, which reflect many of the goals that I outlined when I was addressing this issue

as the Chairman of the Committee. These principles include establishing stronger levels of taxpayer protection, preserving the 30-year fixed-rate mortgage, increasing competition among mortgage guarantors, ensuring a level playing field for lenders of all sizes, and promoting access to affordable housing.

And my question to you is, if confirmed as the FHFA director, would you be willing to support legislation that is consistent with these principles?

Ms. THOMPSON. Absolutely, Senator. Thank you.

Senator CRAPO. Thank you. Nice, brief answer, and the right answer. I appreciate it.

Let me move on to you, Governor Brainard. Again, welcome to you too. I appreciated our visit the other day as well. The first question I have for you is on inflation, which you have already talked about today, but I, like all of us here, are concerned about December's 7 percent rise in consumer prices and today's record high producer price inflation reading of 9.7 percent. These high and persistent inflation numbers are, I think, the greatest threat to our economic recovery and household budget. And now it's clearly [inaudible] more Federal deficit spending or taxing.

The question I have for you on this is, if I understood you earlier in your testimony you said that you were confident that we were going to get back to the 2 percent rate. The question I have is how quickly do you see that happening? Is that something that could be done in months, or are we talking years, or what is the timeframe you expect to see us face in trying to get control brought back to about a 2 percent target?

Ms. BRAINARD. Well thank you, Senator, for your question. So I certainly also am very concerned about the high level of inflation, and we are committed at the Federal Reserve to bringing it back down to target, and we are taking a number of actions. We have already decided to end asset purchases in the first quarter. You have seen that the Committee has projected several hikes over the course of the year. Of course we, you know, will be in a position to do that I think as soon as asset purchases are terminated, and we will simply have to see what the data requires over the course of the year. And, you know, we started to discuss shrinking our balance sheet.

In terms of the projections on inflation I think it will remain high throughout the first two quarters. Certainly in the Committee's projections you saw it coming down closer to 2.5 percent by the end of the year. But I think we should also take these projections, you know, with a fair amount of caution, and we will obviously try to bring it down, you know, as quickly as we can but consistent with a sustained and strong recovery.

Senator CRAPO. All right, thank you. And I realize it is hard to predict these kinds of things but I appreciate your projections.

Last question, and you have been asked about this also. Senator Toomey talked to you about the pressure to choke off credit to traditional energy companies, and I know Senator Kennedy talked about the same thing. And I understood your answers to that. I personally believe that choking off credit to industries viewed as unfavorable or politically unacceptable and controlling the allocation of capital is not a new concept. You will recall Operation

Choke Point from the Obama administration years, and I certainly hope that President Biden will consider this as he nominates those who deal with regulatory policy at the Fed.

You have already indicated you do not believe that the Federal Reserve should act in a way to try to choke off credit to traditional energy companies. My question, though is, if policies such as those Senator Toomey were talking about you are utilized in our stress testing processes, does that not, in and of itself, select specific types of industries if they are going to be selected in that way and subject them to the potential for increased capital requirements or some other type of regulatory burden that would not be there had they not been in that particular business?

Ms. BRAINARD. Yeah. So I think about supervisory guidance as simply asking institutions, large institutions, to be measuring, monitoring, and managing their risk. This is what we ask them to do across the board. So I do not think it has a particular sectoral cast to it.

And similarly on scenario analysis, you know, if I think about concentrations of areas where, you know, wildfires are becoming more frequent, or flooding is becoming more frequent, if insurers are pulling back from covering those properties our scenario analysis would simply allow us to see where are those risks building up and are there certain counterparties that are very exposed in terms of covering those risks, and might they be subject to shock that could amplify financial instability throughout our system?

So that is how I think about climate scenario analysis. It is quite different than the stress tests that banks have undergone under the traditional capital planning framework.

Senator CRAPO. All right. Thank you.

Chairman BROWN. Thank you, Senator Crapo.

Senator Reed, from Rhode Island, is recognized.

Senator REED. Thank you very much, Mr. Chairman. First let me commend the President for his nomination. Governor Brainard, congratulations on your elevation to Vice Chair, and also Ms. Thompson, congratulations for nomination as permanent Director of the FHFA.

You all touched upon, in response to previous questions, the critical role of housing in our economy, and I know Ms. Thompson has already talked about some steps she would take going forward to help expand the supply. But one of the interesting things is this ties in also to the inflation problem we are seeing right now. I believe, Governor Brainard, that 30 percent of the consumer price index is based on housing prices. As a result, if we do not get a handle on housing we will not get an effective handle on inflation.

And with that in mind, raising interest rates, will that help us? Hurt us? Will it make it more affordable for working families to get good housing?

Ms. BRAINARD. So I think the question about workforce housing and affordable housing, to the extent that we look at it at the Federal Reserve, is really very much a supply side question. You know, we do meet regularly with the home builders, and, you know, they have been telling us, even before the pandemic, that shortage of lots is an acute problem. So we went into the pandemic with a shortage of affordable and workforce housing, and of course the

pandemic has exacerbated materials delays and skilled tradesman availability. So all of those things, I think, on the supply side are exacerbating these issues.

Our tools are very limited on the supply side. You know, we have some incentive under the Community Reinvestment Act, and we are trying to improve the credit that we give there for naturally occurring affordable housing as well as shoring up those really important institutions that use housing subsidies in partnership with banks. But our tools are limited on the supply side.

Senator REED. Thank you. Governor Brainard, are you aware of an announcement made yesterday that Bank of England is incorporating climate as part of their stress testing for all their institutions?

Ms. BRAINARD. So I have not studied their most recent statement there, no.

Senator REED. But I would presume that their major motivation is the economic impact, not on anything else, or least—is that your view?

Ms. BRAINARD. So when we have talked to counterparts, regulators in other countries such as the Bank of England and the Europeans, Canadians, Australians, and others, there are certainly taking on board just the financial risks associated with climate change and trying to incorporate that into their supervisory frameworks.

Senator REED. And we have already seen some aspects of the financial industry, particularly insurers, incur significant losses, particularly in California and wildfires, so there is definitely an economic effect that is being generated, I think with more frequency, by climate. Is that your sense?

Ms. BRAINARD. Well I think the statistics that I saw recently were about \$630 billion worth of damages over the last 5 years from severe weather, and that is a historic high, and of course we all see it in our home areas.

Senator REED. One of the other aspects of inflation, which is one of the most obvious ones, is at the gas pump, and that is something—again, that is really beyond the specific control of any agency in the United States Government because basically pricing is set by a cartel. But what struck me is that the production is not even up to the levels that they have set for themselves. So do you have any insights on what is going on in that market?

Ms. BRAINARD. So we do not have a lot of insights. Our Dallas Reserve Bank tends to be, you know, closely studying trends there. It is certainly true that about a quarter of consumer inflation over the last year has come from food and energy, but really disproportionately from energy. Those prices at the pumps are hurting working Americans across the country.

Senator REED. Thank you. And a quick question, Ms. Thompson. One of the things we have seen recently is a trend for private equity to buy up lots of homes—they have the resources to do that—and take them out of the purchase market and put them into their rental market, and in some cases with the ability to dictate higher prices. Is there anything you can do at your agency to look at that?

Ms. THOMPSON. Sure. Thank you for the question, Senator, and we are taking a look at the private equity participation in a couple

of different areas, in the manufactured housing communities where we are very insistent that they have protections, and Fannie and Freddie will not purchase loans unless there are protections for the communities, the owners, and the renters.

We are also looking at our REO inventory, between Fannie and Freddie there are probably 9,000 properties. But we have established this first-look program that allows owner-occupants and non-profits to have the very first look at all the REO properties that are available. And we have increased the number of days from 30 to 45.

And we have been looking at the nonperforming loan sales as well, and what we require is that any buyer has to go through a waterfall where they have to offer borrowers in these pools loan modification. And some of these borrowers have been delinquent 3 or 4 years, but they still have to offer these borrowers loan modifications.

We have also asked the enterprises to structure smaller pools so that nonprofits can start buying and working with these loans.

Senator REED. Thank you, and I apologize for running over, Mr. Chairman.

Chairman BROWN. Thank you, Senator Reed.

Senator Cramer, from North Dakota, is recognized.

Senator CRAMER. Thank you, Mr. Chairman, Ranking Member Toomey. Thank you both and congratulations to both of you on your nominations. And Governor Brainard, thank you for the discussion yesterday. I enjoyed it very much. I found it interesting. I liked most of your answers, quite honestly, so now I am going to try to reconcile them a little bit after yesterday's meeting.

And given today's conversation you have been quite consistent, particularly in the last couple you referenced, in response to climate scenario analysis as opposed to climate stress tests, the example you used yesterday and that is fire. So if you have a forest fire situation and there are insurers backing out, that represents a risk.

But you used that in response to a climate question, not a fire question. I think it was Senator Reed's question that you referenced the record weather events.

I want to be really definitive about this issue, maybe as definitive as you were with me yesterday. Are you in sync with Chairman Powell's position, and he stated it a couple of times a couple of days ago. You watched that. Would you say you are pretty well in sync with his analysis, or his assessment of climate and where it belongs in your mandates?

Ms. BRAINARD. Yes, Senator. Thanks for the question. Yes, I am.

Senator CRAMER. So he said that to the degree it fits within your mandates, climate is one of many factors, basically, and he said important but a very narrow one. So how is it that you get so much more—now I am asking you to analyze yourself, or your supporters—but I am trying to reconcile why so many of our friends on the other side of the aisle think you are wonderful on climate but they are not going to support Chairman Powell for some of the same reasons. And I am just wondering, how can I reconcile that in my mind? I am not asking you to be my psychologist necessarily, but do you have any thoughts or theories on why that might be?

Ms. BRAINARD. You know, we do operate within our statutory mandates, and we talk a lot about what those are and what those mean. So I think, generally speaking, those are the guardrails that we operate within. You know, I do try to be aware of emerging risks generally. You know, I thought it was important to develop research in the area of digital finance, for instance, several years ago. So I am looking out over the horizon sometimes, and perhaps, you know, talk more about the research. But we are very in sync in terms of what we actually think our responsibilities as an institution are.

Senator CRAMER. I want just—just a little bit of opining on the recent question Senator Reed asked you on the supply side and particularly gasoline, fuel. You rightly recognized that that represents probably a quarter of the inflation. And, by the way, it is going up as fast as inflation, the rest of inflation, if not faster, as you probably know.

I, of course, come from a State that is now producing about 400,000 barrels of oil less than it did before. It has a lot of capacity for more. The Bakken is cash starved, quite honestly, and some of that is because of the signals that they are getting banks, and banks are getting from others, that investing in oil production is *persona non grata*.

Now, the demand is going up. The supply is being held down by both rhetoric and policy. Most of it is not your policies but it is the President's. And I worry that, frankly, we want to transfer our climate guilt by suggesting that we should not produce so much in the United States while global demand goes up and our adversaries, who are not nearly as environmentally friendly as we are, produce.

Does that matter, do you think, in these climate scenarios, that we may very well be hurting our own economy and our own production and our own job creation while transferring both the opportunity and the guilt to another polluting country?

Ms. BRAINARD. So, you know, the question that you are raising is a very big one that I do not study in terms of energy policy. Generally I would just say that, you know, when we do supervise institutions to see that they are managing their material risks it is pretty pedestrian stuff. It is, "Do you have a risk management committee? Is that risk management committee well informed? Do you have the right data? Do you have the right models? Do you have the right controls?" You know, it is really not specific in any way to particular to, you know, borrowers or sectors.

So, you know, I understand the concern that you are raising, but our supervisory guidance is very much around making sure those guardrails are there.

Senator CRAMER. Thank you. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Cramer.

Senator Cortez Masto, from Nevada, is recognized from her office.

Senator CORTEZ MASTO. Mr. Chairman, Ranking Member, thank you very much. Welcome to both of the nominees and thank you for your service, and thank you for your commitment to serve, moving forward.

Let me start with Acting Director Thompson of the Federal Housing Finance Agency. Thank you so much for taking the time to talk with me earlier about this particular issue. As you well know, and we have discussed this, the third GSEs regulated by the Federal Housing Finance Agency are the Federal Home Loan Banks. In our discussion I noted that my office's research discovered that the Federal Home Loan Bank that serves Nevada has long neglected investments in our State, and as you well know, this has been an issue for me.

So my question, Director Thompson, is will you commit to working with my office to ensure that the Federal Home Loan Bank of San Francisco improves on its record of investment in Nevada?

Ms. THOMPSON. That is a great question, Senator, and thank you for bringing this issue to my attention. It is my expectation that the Federal Home Loan Banks would serve each State within their districts, and I would mention to you that the Home Loan Bank of San Francisco did change the scoring mechanism so that Nevada is able to get their portion of an affordable housing program. But there should not be a case where there is a State that does not get a portion of the affordable housing program from the banks.

Senator CORTEZ MASTO. That is right. Thank you. And I know they have made that change, and that was at my request. They have been working with me, and I appreciate that, but I know there is a role for you to play as the director. And in that role I also know that in reviewing each Federal Home Loan Bank's community lending plans only one included investments in Native American communities.

So my next question is will you ensure that the community lending plans are reviewed and appropriate to the needs of their communities?

Ms. THOMPSON. Yes. Thanks again, Senator, for the question. So as I committed to you, I will have conversations with all of the bank presidents and the community investment officers that reside in each of the Federal Home Loan Banks to talk to them about filling the specific needs in their respective communities. There should not be a case where there is a tribal community that is not being recognized in the community lending plans for the Federal Home Loan Banks, and we are going to have those conversations and that will not be the case.

Senator CORTEZ MASTO. Thank you. And Director, just one final thing, beyond the affordable housing programs and other voluntary programs. Thank you for your commitment there. I am curious, do you have any other priorities with respect to the oversight over the Federal Home Loan Banks?

Ms. THOMPSON. Sure. Yes. So we are looking at, right now, after the—well, I should say the Federal Home Loan Banks play a huge role in the financial system, and during the pandemic they certainly were very much utilized. But the advances right now are relatively low, and so we are looking at ways to just oversee the home loan banks and make sure that the advances and the earnings are appropriate. So I have got my supervisory team working very closely with the home loan banks to make sure that they are supervised in a safe and sound manner.

Senator CORTEZ MASTO. Great. Thank you. I look forward to working with you as well as we move through this process.

Governor Brainard, let me go back to you as well, and thank you again, as always, for speaking with me. It is a pleasure to welcome you back to the Committee. I know, in your decades-long career in public service that you represented our interests on an international stage. I also know, over the last few years, that Chair Powell also has entrusted you to work closely with former Secretary of Treasury Mnuchin and other appointees under the former Administration in setting up the Federal Reserve's response to the COVID-19 pandemic.

Clearly you have played a critical role at the Federal Reserve, and I also know the committees you chair for. And so, very briefly because my time is running out, can you tell me how you work with the other Board members, the regional bank presidents, and other agency heads to not only respond to the pandemic and other monetary policy but also bank regulatory challenges as well?

Ms. BRAINARD. Well, you know, we were as surprised, I think, as everybody by the just incredible turmoil we saw in the Treasury markets. I have never seen anything like that, and so we needed to respond very quickly. And I think, you know, we just worked seamlessly across the regulatory agencies. We did need to relax some bank safeguards to make sure that they could continue lending, to make sure that their existing loans would not be considered impaired, and we stood up facilities very quickly, and we also, once the turmoil passed, we were very quick to wind them down.

And I think, generally speaking, we are in a much better place today. As a result we have many Americans have jobs and, you know, balance sheets that are much healthier, and many more businesses are thriving today because of the efforts you did here in Congress and the efforts that we did to carry out those programs you asked us to undertake.

Senator CORTEZ MASTO. Thank you. Thank you both again. Mr. Chair, thank you.

Chairman BROWN. Thank you, Senator Cortez Masto.

Senator Daines, from Montana, is recognized.

Senator DAINES. Chairman, thank you. Welcome, Governor Brainard. We had quite the CPI report yesterday, inflation rising at the fastest pace in four decades. It takes me back to when I graduated from high school.

In Montana and other mountain States annual inflation is actually 8.6 percent, which is significantly higher than the national average of 7 percent. Needless to say, I think this report adds to the continuing string of bad news for Montanans and Americans. On a year-over-year basis, real average weekly earnings declined by 2.4 percent.

I have heard many of my colleagues on the other side of the aisle say that inflation is nearing a peak. I distinctly remember being right here, not long ago, challenging this notion that inflation was transitory. We heard from very smart people who were sitting right where you are, rejecting that notion, and we were forcefully pushing back and saying we do not think so.

Now, granted, forecasts are forecasts. You do not always get them right.

I hope that inflation is nearing its peak, but I did not see anything in this recent report that provides any sort of confidence that inflating is fading in a meaningful way. In fact, to the contrary, peeling it back, with what is going on right now in China with the zero-COVID policy from Xi Jinping, I think the supply chain disruptions will only increase.

I met with Montana grain growers just an hour ago. They told me that one of the trucking companies that they depend on just fired 14 employees because of the vax mandate. They cannot get fertilizer back and forth across the Canadian border. Fertilizer prices have doubled. This is a huge issue right now for farmers, not talked about enough, but one more contributing factor to the inflationary forces currently in this economy.

Chairman Powell told the Committee on Tuesday that high inflation is a, quote, “severe threat to the labor market.” I agree with that and I hope you do as well, Governor Brainard.

Turning to my questions, I would like to follow up on Ranking Member Toomey’s points regarding climate-related financial risks. Over the past year you have delivered a number of speeches suggesting that the Fed may take a more active role in environmental policy. Specifically, you announced that the Fed is, quote, “developing scenario analysis to model the possible financial risks associated with climate change,” end quote.

However, the Fed lacks both the experience and the expertise in environmental matters. Further, actual climate researchers have found that current climate models cannot be used to provide financially meaningful information. This raises the troubling prospect for many of us here today that the Fed’s work in this area is politically motivated rather than based on actual data or expertise. And I say that respectfully as a chemical engineer by degree.

My question for you, Governor Brainard, on what basis do you believe the Fed is positioned to shape environmental policy, given its lack of experience and expertise in this area?

Ms. BRAINARD. Well thank you very much for your questions. First on inflation, I could not agree with you more. It is very higher, and we have a responsibility to bring inflation down. We are orienting monetary policy to do that. We have accelerated the tapering of asset purchase so that we can be in a position to move on increasing the Federal funds rate, and we have projected several increases this year and also talked about having the balance sheet starting to shrink sometime thereafter. So we are very focused on that, as Chair Powell said.

With regard to the issues surrounding climate, we do not do environmental policy at the Federal Reserve. As you say, it is not our expertise. What we do have responsibility for is making sure that supervised institutions are properly risk managing, and we do have some sort of responsibility for understanding potential financial stability implications, of a host of different kinds of things, and that is where scenario analysis comes in. You know, we do not have any expertise in disease and pandemics, but certainly it turned out that the pandemic had enormous financial stability consequences.

So it is just incumbent on us to be doing research to understand how shocks could affect our financial system, and that could include severe weather events and other aspects—

Senator DAINES. And speaking of shocks, I think we all remember the War of Yom Kippur. I mean, some of us are old enough to remember what happened back in 1973, when we were dependent on the Middle East for oil, and the shocking effect that had when oil prices quadrupled, and the inflationary effects, and in 1981, seeing 18.6 percent 30-year fixed mortgages. It was devastating for so many Americans, including farmers and ranchers and folks working hard every day to make ends meet.

And speaking of politically motivated, with my distinguished colleague here from North Dakota sitting next to me, when we watched this President, with one stroke of a pen, stop the Keystone XL pipeline, which actually reduces carbon emissions because it is the most environmentally sound, minimal amount of carbon emissions way to transport oil versus using rail cars or trucks. Count us all in here as skeptics that there has not been political motivation, and I hope that you will guard the Fed, and I hope you will ensure that they stick with their dual mandates.

So I asked this question to Chairman Powell this week, and I would like to ask it to you as well. Do you think that rolling blackouts—and I had just come from a hearing before I came to this hearing on Tuesday, when Powell was here, where we literally had folks talking about breaching dams in this country. These are radical ideas. Do you think that rolling blackouts due to a lack of stable baseload power poses a more tangible, near-term threat to the stability of the financial system?

Ms. BRAINARD. We try to take into account a whole host of different risks to the system, so we are trying always to kind of look out over the horizon and take into account a whole host of risks, including from abroad. So we do try to do that. We are not very successful always, but we certainly try.

Senator DAINES. Yeah, well thank you, and again, my final comment here. On the one hand we have our colleagues who are sending the strongest message possible that we should stop production of oil, natural gas, coal, even breaching dams in some cases here. You cannot have it both ways, what this would do with energy prices, what it is going to do to this economy and inflation. That is why this car is spinning out of control right now on the highway. And the Fed has its role, but I am just very concerned about the policies coming from this Administration that are having severe, creating severe harms now for the American people. And we are seeing it at the gas pump. We are seeing it with inflation in this economy. Thank you.

Chairman BROWN. Senator Ossoff, from Georgia, is recognized from his office.

Senator OSSOFF. Thank you, Mr. Chairman. Thank you to our nominees.

What tools would you have at your disposal, at the Federal Housing Finance Agency? What tools might Congress be able to strengthen or offer to the agency to increase the supply of housing in communities where there is an acute housing shortage and a housing affordability crisis? Do you agree that increasing supply, adding units, adding density is key to resolving the crisis of affordable housing?

And, you know, when I look around the State of Georgia, speak with community leaders, look at the housing market, 48 percent of folks in the city of Augusta say that affordable housing is a very high need. Georgia has lost 11,000 affordable housing units through the qualified contract exception, the low-income housing tax credit, in recent decades. In Atlanta, in Rome, in Savannah, in Albany, in rural communities, the rents and the prices of homes are increasing at an alarming rate.

So the question is what tools will you have at the agency to increase housing supply, and do you believe increasing housing supply is essential? And finally, will you work with me and community leaders in those cities and communities across the State of Georgia to identify solutions particular to the needs of my State to help bring more housing supply online, add units, and help folks afford homes?

Ms. THOMPSON. It is a great question, Senator, and absolutely, supply is a major, major issue in housing, and the supply issue really is exacerbated with respect to affordable housing.

We certainly are an indirect—we do not have any direct influence on supply, but one of the things that we have done is through the Federal Home Loan Bank's affordable housing program they are able to contribute to affordable projects around the country, and we have also increased the enterprises' allotment for low-income housing tax credit, and we increased their allotment to help with the affordable housing supply and affordable housing preservation.

We are really focused on working with our regulated entities to do whatever we can in this space. We also have allowed the enterprises to purchase manufactured housing, and we also have allowed them to purchase these accessory dwelling units. But in many cases there are local zoning ordinances that get in the way of some of the affordable houses that could be built or the types of affordable housing.

But we are very much committed to working with you and all members of this Congress to try to do what we can to address this issue.

Senator OSSOFF. Thank you, Ms. Thompson. My time is limited but just briefly I mentioned Atlanta, Albany, August, Columbus, Savannah. This is a serious issue in communities across the State. Will you commit to working with my office, elected officials, community leaders, in those communities and others to identify specific solutions, work collaboratively to bring down the cost of housing, to bring down rents, and add more housing supply in those communities?

Ms. THOMPSON. Absolutely, Senator.

Senator OSSOFF. Thank you, Ms. Thompson.

Dr. Brainard, congratulations on your nomination for this position. I would like to ask you a question about the prevalence of retail investing and stock trading in the leadership at the Federal Reserve. I want commend Chairman Brown for his leadership, offering legislation to address this.

Is there a cultural problem? Is there widespread stock trading potentially on the basis of proprietary or nonpublic information

with the expectation of upcoming policy announcements at any level in the Federal Reserve, in your opinion?

Ms. BRAINARD. I do not believe there is, but I think we have all been surprised and dismayed by some of the financial disclosures.

Senator OSSOFF. Dr. Brainard, will you help to ensure that the Fed complies with any lawful requests or commands for records, documents, or information pertaining to stock trading by current or former Federal Reserve officials, should Congress wish to review those trades and their propriety?

Ms. BRAINARD. Yes.

Senator OSSOFF. Thank you, Dr. Brainard, and a policy question for you. What is your view of the distributional effects of quantitative easing, over the long run, the relative benefit to employment against the exacerbation of inequality by driving up asset prices in a way that may favor those who hold equities, hold assets, own homes as liquidity is added to financial markets? Have you conducted any research? Has the Fed conducted any research? Can you provide that research to the Committee, and what is your personal view?

Ms. BRAINARD. I know there is some research on this. It is not clear-cut. It tends to be the case that during recessions wealth inequality diminishes and then it tends to increase during recoveries. You know, we use quantitative easing only when we have run out of room on the interest rate, and the alternative of allowing unemployment rates to skyrocket would be very, very bad, I think, for working Americans who really rely primarily on their jobs for income.

So we stay very focused on that dual mandate and try to protect employment in downturns, to the greatest extent possible, using whatever tools we have.

Senator OSSOFF. Thank you, Dr. Brainard. My time is up. I will send you some additional questions for the record and look forward to your responses. Congratulations again to you both for your nominations.

I yield back, Mr. Chairman.

Chairman BROWN. Thank you. Senator Toomey has some closing questions and remarks, as do I, and we will wrap up.

Senator TOOMEY. Thank you, Mr. Chairman. I first want to respond quickly to our colleague from Massachusetts who seemed to be suggesting that inflation is the result of greedy companies in highly concentrated industries. In fact, I do not think the data supports the contention. I do not think that is well correlated, that is to say the rate of inflation and the extent to which an industry is consolidated. And, in fact, one that I can think of that might be among the least concentrated industries that I know of, the retail sale of used cars, is one that has experienced one of the highest rates of inflation, 37 percent over the last year.

I also want to respond to Governor Brainard's statement that the climate scenario analysis that she has been advocating is not a stress test. It seems to me that is little more than a semantic difference. Of course, the whole purpose is to test whether banks are prepared to address perceived risks associated with climate change, and then if the Fed determines they are not to promulgate new

regulatory requirements. That sounds exactly like stress testing, whether or not you call it by a different name.

And I am not alone in that view. The *New York Times*, not exactly a conservative paper, said the same thing when it reported on a speech that Dr. Brainard gave last October about climate scenario analysis at the Fed's annual stress testing conference. The *Times* wrote, and I quote, "Ms. Brainard said the Fed was developing climate-related scenarios for use in bank safety checkups, which are often called stress tests," end quote.

The concern is there are many categories of risks to banks and the financial system that nobody is advocating a separate scenario analysis for, but there is an advocacy for the scenario analysis for even lower risk, lower probability risk problems in the climate space. The fact is the transition risk associated with climate change is a political risk, and the danger is this becomes a self-fulfilling prophecy. And the Fed says do a scenario analysis, and the scenario you need to analyze is the scenario in which we impose new regulations on you that are problematic for your portfolio.

Finally let me just turn to Ms. Thompson. You and I may have a different understanding of the HERA statute and other statutes, because it is my view that HERA clearly does authorize the FHFA to take the GSEs out of conservatorship. So can you tell me specifically, is there something that is lacking in legislation that you think is required for you to move in that direction?

Ms. THOMPSON. Sure. Thank you for the question, Senator. So it is my belief that the enterprises—actually, FHFA is going to have to have a conversation with Treasury.

Senator TOOMEY. I agree with that.

Ms. THOMPSON. At the end state of the enterprises is something that Congress would have to legislate. So if the enterprises reach their capital requirements that we have established we certainly would be having conversations with lots of different stakeholders. But the end state, if Congress wants the enterprises to come out as is, then that is, I think, doable within the statute, but if there is another outcome, if they wanted to be a utility or if they want other charters, those are things that Congress is going to have to determine.

Senator TOOMEY. Well sure, if we wanted to change the existing statutes and exchange existing charters then we would have to pass legislation to do so. But my point is, that is not the only option available. Would you commit to going as far as you legally can in moving in the direction of coming out of the conservatorship?

Ms. THOMPSON. Senator, that is a great question, and I will commit to positioning the enterprises and working with the Congress to do whatever is necessary to move them out of conservatorship in a responsible and timely way. Now we would certainly be wanting to work with Congress and other stakeholders on this issue.

Senator TOOMEY. Well I appreciate that and I look forward to working with you toward that very end.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Toomey.

A few comments. A few closing comments. Thank you both, by the way, for being here. For a moment about GSE reforms, something where I hope we can reach consensus in this Committee.

Many of my colleagues have talked about the importance of that, of housing finance reform. Before the pandemic, as you know, Acting Director, we had a series of hearings on GSE reform. Consensus was emerging on what the system should look like. Like I would like to put out a list of priorities where I think we can reach agreement, and there will be some differences of agree, I am sure, between and among all of us.

One, protecting access to affordable, 30-year, fixed-rate mortgages; providing a catastrophic Government guarantee; structuring loan guarantees like public utilities; providing a regulated rate of return; serving the broad national markets; serving lenders of all types and sizes equitably; maintaining a duty to serve all markets, all borrowers; maintaining affordable housing goals and metrics; expanding investments in affordable housing; and maintaining the GSEs' successful multifamily business models and ensure continued or better access for financing of affordable rental housing.

These reforms would create a safe and sound system that meets the needs of renters and homeowners across the country.

I am certainly happy to engage with the Ranking Member and others on the Committee of both parties and getting, as we spoke on the phone, getting the kind of technical assistance that you are so good at, Acting Director, to provide to us.

I would also make one comment that Chair Powell raised the same distinction on Tuesday as Governor Brainard today on climate stress tests and climate stress scenarios.

Thank you. It was a full and productive discussion. I applaud the Biden administration for the nomination of these two eminently qualified women to these vitally important positions in our Government. I look forward to supporting the nominations of each of you. I urge my colleagues on both sides to join me.

For Senators who wish to submit questions, these questions are due at noon on Tuesday, the 18th of January. To the nominees, we need your responses by Friday, January 24th.

Thank you for your testimony and appearing today. The Committee is adjourned.

[Whereupon, at 10:52 a.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF CHAIRMAN SHERROD BROWN

It's amazing what a difference a year makes.

Today, we have safe and effective vaccines that are saving lives and getting people back to work. 207 million Americans are now fully vaccinated.

And our economy has weathered the storm and rebounded. In 2021, we added a record 6.4 million new jobs—more than any year since 1939.

And it isn't just the jobs numbers—it's the quality of those jobs. Workers are demanding raises, and they're finally getting them. They're changing jobs at record rates, because people finally have some options.

The past year has illustrated how our economy works best—when it works for everyone.

Not just Wall Street. Not just the top 1 percent. Everyone.

Whether you punch a clock or swipe a badge, earn a salary or make tips. Whether you're raising children, or caring for an aging parent.

No matter who you are, where you live, or what kind of work you do.

Economic growth won't mean much if it doesn't reach all workers—families in Steubenville and Scranton and communities of all sizes, all over the country.

The President has nominated Dr. Brainard and Acting Director Thompson to important roles in our Government and our economy to put those workers and their families at the center of our Government and the center of our economy—to deliver results that actually improve their lives.

Dr. Brainard is a leading economist who understands that a strong economy is one where workers have power.

She is committed to a worker-centered monetary policy that boosts employment and lifts wages—something that every member of the Fed's rate setting committee has reaffirmed.

She has led the way in modernizing and strengthening the Community Reinvestment Act—a landmark civil rights law passed to begin to undo the shameful legacy of redlining and lending discrimination, and spur investment in all neighborhoods and communities.

Through her leadership, the Fed listened to the people whose lives and livelihoods are affected—civil rights leaders, affordable housing advocates, local officials, and banks of all sizes. She brought everyone to the table and is working to ensure banks meet the needs of all our communities.

And during this pandemic, she has served as a steady hand—working shoulder to shoulder with Chair Powell to stabilize our economy and steer the country out of the abyss.

Dr. Brainard has a distinguished record of bipartisan service in Government and academia. She joined the Federal Reserve in 2014. From 2009 to 2013, she served as Under Secretary for International Affairs at the Department of Treasury. There, she played an instrumental role in helping support the country's recovery from the global financial crisis.

She has served in Administrations of both parties, serving as a staff economist at the Council of Economic Advisers during the George H.W. Bush administration and as deputy national economic adviser in the Clinton administration. She was a professor of applied economics at the Massachusetts Institute of Technology.

As Vice Chair, she will be tasked with supporting efforts—efforts that are already underway—to empower workers and refocus our economy on Main Street, and make sure that all Americans have good jobs with growing paychecks and an affordable cost of living.

That also means supporting efforts to close the racial wealth and income gaps that have barely shrunk in decades. As the Fed has noted, “the average Black and Hispanic or Latino households earn about half as much as the average White household and own only about 15 to 20 percent as much net wealth.”

When we all do better, we all do better.

With Governor Brainard as Vice Chair of the Fed, Americans will have someone who understands that workers—not corporations, not Wall Street—create economic growth. Her commitment to the success of all Americans—from all walks of life and every region of the country—is clear in all the work she's done, throughout her distinguished career.

Acting Director Thompson has a similarly long and distinguished career in public service.

In her time as Acting Director, Ms. Thompson has taken meaningful steps to put renters, homeowners, and families first.

Over the past 6 months, Ms. Thompson has:

- Directed the GSEs to strengthen their plans to preserve affordable housing and support manufactured housing and housing in rural areas;

- Expanded opportunities for middle class and low-income homeowners to save money on their mortgages through refinancing; and
- Increased the focus on fair housing at the GSEs.

I can think of no other nominee as qualified to work to make homes more available and affordable for families throughout the country while strengthening the financial standing of the GSEs.

More than two dozen consumer advocates, civil rights organizations, and housing advocates have all written to this Committee supporting her.

Before being designated as Acting Director in June 2021, Ms. Thompson served for 8 years as the Deputy Director for the Division of Mission and Goals at FHFA.

There, she led an office responsible for the mission activities of the GSEs and housing and regulatory policy under both Republican and Democratic Directors—ensuring the safety and soundness of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.

Prior to joining FHFA, she spent 18 years at the Federal Deposit Insurance Corporation, or FDIC. At the FDIC, where she worked for seven different chairpersons from both political parties—and in senior-level positions, including Director of the Division of Supervision and Consumer Protection and Director of the Division of Risk Management and Supervision, helping to stabilize our Nation's banks.

Earlier in her career, she served at the Resolution Trust Corporation, cleaning up and restoring faith in our financial system after the Savings and Loan Crisis.

At FHFA, she will be in a position to tackle some of the most pressing issues facing homeowners and renters, and to ensure the stability of our housing finance system.

Whether you're looking to rent or to buy, housing had become too expensive and too hard to find long before the pandemic began.

More than 50 years after passage of the Fair Housing Act, people of color are far more likely to be denied for a mortgage, are far less likely to own their own home, and are far more likely to pay more in rent than they could afford.

And in just the past week, tragic fires in Philadelphia and the Bronx have reminded us of how far we need to go to ensure that everyone has a safe, affordable home.

FHFA has an important role to play in addressing each of these challenges, and Acting Director Thompson has distinguished herself as the person we need to lead this critical work.

Both of these nominees understand the challenges our economy faces. They understand the people who make our economy work, like so many of this President's nominees.

It's notable that as we recover from a pandemic that laid bare just how hard women work—at paid jobs in the labor market, and at unpaid jobs taking care of their families—we have two women poised to take leading roles in our recovery.

I want to thank both nominees for their many years of exceptional public service and their willingness to continue to serve our country.

PREPARED STATEMENT OF SENATOR PATRICK J. TOOMEY

Thank you, Mr. Chairman.

Governor Brainard and Ms. Thompson, welcome. You both have very extensive experience in your respective fields. And I commend you for your commitment to public service.

Governor Brainard has been nominated to serve as Fed Vice Chair. The Fed's been granted significant independence to isolate it from political influence. However, Congress has given the Fed very narrowly defined monetary and regulatory missions.

First, the Fed's been tasked with conducting monetary policy to promote stable prices and maximum employment. But the Fed's recent actions have failed to maintain price stability.

Last year, Governor Brainard repeatedly insisted that inflation was transitory. We have now had 9 consecutive months where inflation has been more than two times the Fed's 2 percent target. That makes it pretty clear that inflation is not transitory. Yesterday's CPI release of 7.0 percent—the highest in 40 years—confirms that.

Inflation is a tax that is eroding Americans' paychecks every day. Even though wages are growing, inflation is growing faster and causing workers to fall further and further behind.

I appreciate that the Fed has pivoted towards normalizing monetary policy to tackle inflation. But the Fed must also learn from its mistakes.

That begins with the Fed's new monetary policy framework, of which Governor Brainard was an author and an outspoken advocate. The framework subordinated the Fed's price stability mandate to try and maximize employment by allowing inflation to run hot.

Under it, the Fed looked beyond employment as a whole to consider whether employment was "broad based and inclusive." What this meant was the Fed would sacrifice stable prices to see if it could achieve higher employment gains in certain demographic groups.

As Governor Brainard explained last year, the Fed should look at employment numbers on a "disaggregated basis" and use monetary policy to narrow employment gaps between different "racial and ethnic groups." This framework would keep in place an inflation tax on all Americans while the Fed decided which sub-groups of people should have faster job growth over others.

The problem is monetary policy can never equalize employment rates amongst different groups. In the end, the Fed would run the risk of failing on both fronts of its dual mandate because you need stable prices to achieve a strong economy and maximum employment. Given this, the Fed should reevaluate its new framework.

The Fed also has the mission of monitoring the safety and soundness of certain financial institutions. Under Chairman Powell, the Fed enacted modest, sensible reforms that reduced regulatory burdens and helped spur economic growth. But Governor Brainard was the sole dissenter over 20 times on regulatory matters, an unprecedented number at the Fed.

For example, she argued that the Fed's reforms of capital, liquidity, and stress tests for smaller, less complex banks would "weaken the safeguards at the core of the system." Yet, even though the economy nearly collapsed at the start of the pandemic, the banking system emerged exceptionally well-capitalized and served as a source of strength for the economy, demonstrating the sensibility of these reforms.

In addition to opposing these reforms, Governor Brainard has urged the Fed to take an activist role on global warming, which is beyond the Fed's expertise and mission. According to the *New York Times*, she has "endorsed the use of supervisory guidance—the Fed's recommendations to banks—to encourage financial institutions to curb their exposures."

I'm particularly concerned that she has advocated for the Fed to shape environmental policy through so-called climate scenario analysis. Not only does the Fed lack expertise in environmental matters, but there is no reason to believe that global warming poses a systemic risk to the financial system.

As I have noted before, we haven't found a single bank that has failed in the modern era due to a severe weather event. There is a "transition risk" for banks associated with global warming, but it's political and regulatory in nature. It's the risk that unelected bureaucrats will attempt to impair the value of energy-related assets by cutting-off credit to energy companies.

This isn't about whether climate change is a significant threat to our society. It's about the fact that climate policymaking requires tradeoffs between costs and benefits. These are inherently political decisions, which is why they belong firmly in the domain of officials who are elected and directly accountable to voters.

Now turning to Ms. Thompson. She has been nominated to serve as the Director of the FHFA, where she has had a busy six months as Acting Director.

In that time, she has proposed reductions in capital requirements for Fannie Mae and Freddie Mac, suspended restrictions on the GSEs' acquisitions of high-risk loans, required the GSEs to develop plans to further what Democrats call "racial equity," but what is really just affirmative action in the housing space, and increased the GSEs' affordable housing goals. Unfortunately, she hasn't prioritized ending the GSEs' conservatorships.

I'm concerned the Administration is seeking to use FHFA and the GSEs to take on more risk for taxpayers and expand affirmative action into housing. That makes Ms. Thompson's nomination—notwithstanding her extensive experience—a referendum on the Administration's radical housing policy.

This policy contemplates more mortgages for higher risk borrowers, repurposing the GSE as instrumentalities of social policy, and a disappointing embrace of the failed GSE model. In a break from decades of bipartisan housing finance reform efforts, this Administration is using the power of the GSEs' conservatorships to command and control a huge swath of the economy.

We are now asked to ratify this radical housing policy, and to take ownership of the bailouts and foreclosures that will likely follow. Especially given where we might be in the housing cycle, we should be reluctant to do so.

Mr. Chairman, I look forward to hearing from today's nominees.

PREPARED STATEMENT OF LAEL BRAINARD

TO BE VICE CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE
SYSTEM

JANUARY 13, 2022

Chairman Brown, Ranking Member Toomey, and other Members of the Committee, thank you for this opportunity to appear before you. I am greatly honored to be nominated by President Biden to serve as Vice Chair of the Board of Governors of the Federal Reserve System. If confirmed to this position, I look forward to continuing to work with Members of this Committee.

We are seeing the strongest rebound in growth and decline in unemployment of any recovery in the past five decades. Over the past year, unemployment has fallen by 2.8 percentage points, and growth is estimated to be around 5½ percent, according to a variety of private forecasts.

But inflation is too high, and working people around the country are concerned about how far their paychecks will go. Our monetary policy is focused on getting inflation back down to 2 percent while sustaining a recovery that includes everyone. This is our most important task.

When the pandemic struck in 2020, I worked closely alongside Chair Powell and Secretary Mnuchin and many others, with the support of Congress, to calm financial market turmoil and save American jobs and businesses. When markets stabilized, I worked to responsibly wind down the emergency facilities we established. Today the economy is making welcome progress, but the pandemic continues to pose challenges. Our priority is to protect the gains we have made and support a full recovery.

Since 2014, as a member of the Federal Open Market Committee, I have supported monetary policy that is responsive to evolving economic conditions. Our approach helped sustain the longest recovery on record with low inflation and millions of jobs.

More broadly, I have worked to safeguard and grow our economy during the Administrations of five Presidents from both parties. I have worked on the U.S. policy response to every major financial crisis over three decades. I served at the Department of the Treasury as part of the team responsible for supporting America's recovery from the Global Financial Crisis and responding to the euro-area financial crisis. I served at the White House as part of the team helping to safeguard the American economy from the Asian financial crisis as well as financial crises in Mexico, Brazil, and Russia. In some foreign countries, I saw up close how high inflation hurts workers and families, especially the most vulnerable.

I am committed to pursuing the Federal Reserve's congressionally mandated goals of price stability and maximum employment and to maintaining the strength and resilience of our financial system. I am committed to the independent and non-partisan status of the Federal Reserve.

If confirmed, I look forward to supporting Chair Powell in carrying out the responsibilities assigned to the Federal Reserve and in fostering transparent communication and accountability to you and the American people. I will bring a considered and independent voice to our deliberations, drawing on insights from working people, businesses, financial institutions, and communities—large and small—across the country. I will support policies that are in the interests of the American people and based on the law and careful analysis of the evidence.

Before closing, I want to thank my husband and daughters for their steadfast support of my work. And I would like to commend the outstanding efforts of the individuals across the Federal Reserve System who work so hard every day to serve the American public.

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

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Brainard Lael
(Last) (First) (Other)

Position to which nominated: Vice Chairman, Federal Reserve Board

Date of nomination:

City of Residence: Washington, DC

Education*:	Institution	Dates Attended	Degrees Received	Dates of Degree
	Harvard University	09/85 – 06/89	MA, PhD	1989
	Wesleyan University	09/79 – 05/83	BA	1983

*Nominees should provide information for all institutions attended, whether or not the nominee was granted a degree by the institution

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.

2021 National Association for Business Economics (NABE) Fellow, NABE
 2019 Harvard University GSAS Centennial Award, Harvard University
 2019 New York Association for Business Economics (NYABE) William F. Butler Award, NYABE
 2018 Council for Economic Education (CEE) Visionary Award, CEE
 2013 Alexander Hamilton Award, Department of the Treasury
 2012 Women Shaping the Global Economy Award, Women's Foreign Policy Group
 2011 Asia Society Public Policy Award, Asia Society
 1994-5 White House Fellowship, White House Fellows
 1990 Review of Economic Studies Tour, Review of Economic Studies
 1986-9 National Science Foundation Graduate Fellowship, Harvard University
 1983 University Honors, Wesleyan University
 1983 High Honors, Wesleyan University
 1981-3 Phi Beta Kappa, Wesleyan University
 1982-3 Gilbert Clee Scholarship, Wesleyan University

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

Organization	Office Held (if any)	Dates of Membership
Council on Foreign Relations	Member	2000-present

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

2014-present	Board of Governors of the Federal Reserve System, Washington, D.C. Governor
2009-13	Department of the Treasury, Washington, D.C. Under Secretary of the Treasury for International Affairs Counselor to the Secretary
2001-09	Brookings Institution, Washington, D.C. Vice President and Senior Fellow, Bernard L. Schwartz Chair
1994-2000	White House National Economic Council, Washington, D.C. Deputy National Economic Adviser, Deputy Assistant to the President, G-8 Sherpa Special Assistant to the President White House Fellow
1990-1996	Massachusetts Institute of Technology, Cambridge, Massachusetts Associate Professor of Applied Economics and MIT Class of 1956 Chair Assistant Professor of Applied Economics, Sloan School of Business
1989-90	Council of Economic Advisers, Washington, D.C. Staff Economist
1987	Harvard, Kaolack, Senegal Consultant
1986	Ford Foundation, Dakar, Senegal Consultant
1983-1985	McKinsey and Co., New York, NY and London, UK Business Analyst
1982	Gilbert Clee Scholar, London, UK

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

	Name of Government Entity	Position	Dates of Service
2014-present	Board of Governors of the Federal Reserve System, Washington, D.C.	Governor	
2009-13	Department of the Treasury, Washington, D.C.	Under Secretary of the Treasury for International Affairs Counselor to the Secretary	
1994-2000	White House National Economic Council, Washington, D.C.		

Deputy National Economic Adviser, Deputy Assistant to the President, G-8 Sherpa
Special Assistant to the President
White House Fellow

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

Published writings: List the titles, publishers and dates of books, articles, reports and other published materials you have written. The list should include any publicly accessible publications on the internet in the past ten years, including appropriate URLs for any posts on blogs you maintained or contributed to, and URLs for any other significant internet-based postings during that same period. If available, provide the Committee with **one digital copy** of each of the writings you list.

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

"Perspectives on Fintech: A Conversation with Governor Lael Brainard," Consumer Compliance Outlook, Federal Reserve System, Third Issue 2016, <https://consumercomplianceoutlook.org/2016/third-issue/perspectives-on-fintech-a-conversation-with-governor-lael-brainard/>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Building Common Ground on Trade Demands More Than a Name Change," with Hal Shapiro, *The George*

Washington International Law Review, 2003.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Speeches and presentations: List all of the formal speeches and presentations (e.g., PowerPoint) you have delivered during the past ten years which are on topics relevant to the position for which you have been nominated, including dates. If available, provide the Committee with **one digital copy** of each formal speech and presentation. If text is no longer available, list the date, place, and organization or group to whom you made the speech or presentation.

Financial Inclusion and Economic Challenges in the Shadow of the Pandemic: A Conversation with Tribal Leaders, At Fed Listens: Roundtable with Oklahoma Tribal Leaders, Oklahoma City, Oklahoma, October 13, 2021.

Building Climate Scenario Analysis on the Foundations of Economic Research, At the 2021 Federal Reserve Stress Testing Research Conference, Federal Reserve Bank of Boston, Boston, Massachusetts (via webcast), October 7, 2021.

Navigating Delta Headwinds on the Path to a Full Recovery, At "Shocks, Shifts, and the Emerging Economic Landscape" 2021 NABE Annual Meeting, Arlington, Virginia, September 27, 2021.

Assessing Progress as the Economy Moves from Reopening to Recovery, At "Rebuilding the Post-Pandemic Economy" 2021 Annual Meeting of the Aspen Economic Strategy Group, Aspen, Colorado, July 30, 2021.

Remaining Steady as the Economy Reopens, At The Economic Club of New York, New York, New York (via webcast), June 1, 2021.

Private Money and Central Bank Money as Payments Go Digital: an Update on CBDCs, At the Consensus by CoinDesk 2021 Conference, Washington, D.C. (via webcast), May 24, 2021.

Patience and Progress as the Economy Reopens and Recovers, At "The Road to Recovery and What's Next," a virtual conference sponsored by the Society for Advancing Business Editing and Writing (via webcast), May 11, 2021.

Remaining Patient as the Outlook Brightens, At the National Association for Business Economics Virtual 37th Annual Economic Policy Conference, Washington, D.C. (via webcast), March 23, 2021.

Financial Stability Implications of Climate Change, At "Transform Tomorrow Today" Ceres 2021 Conference, Boston, Massachusetts (via webcast), March 23, 2021.

U.S. Economic Outlook and Monetary Policy: An Update, At the C. Peter McColough Series on International Economics, Council on Foreign Relations, New York, New York (via webcast), March 2, 2021.

[*Some Preliminary Financial Stability Lessons from the COVID-19 Shock*](#), At the 2021 Annual Washington Conference, Institute of International Bankers (via webcast), March 1, 2021.

[*How Should We Think about Full Employment in the Federal Reserve's Dual Mandate?*](#), At the Ec10, Principles of Economics, Lecture, Faculty of Arts and Sciences, Harvard University, Cambridge, Massachusetts (via webcast), February 24, 2021.

[*The Role of Financial Institutions in Tackling the Challenges of Climate Change*](#), At the "2021 IIF U.S. Climate Finance Summit: Financing a Pro Growth Pro Markets Transition to a Sustainable, Low-Carbon Economy" hosted by the Institute of International Finance, Washington, D.C., February 18, 2021.

[*Full Employment in the New Monetary Policy Framework*](#), At the Inaugural Mike McCracken Lecture on Full Employment Sponsored by the Canadian Association for Business Economics (via webcast), January 13, 2021.

[*Supporting Responsible Use of AI and Equitable Outcomes in Financial Services*](#), At the AI Academic Symposium hosted by the Board of Governors of the Federal Reserve System, Washington, D.C. (Virtual Event), January 12, 2021.

[*Strengthening the Financial System to Meet the Challenge of Climate Change*](#), At "The Financial System & Climate Change: A Regulatory Imperative" hosted by the Center for American Progress, Washington, D.C., December 18, 2021.

[*Modernizing and Strengthening CRA Regulations: A Conversation with the Consumer Bankers Association*](#), At the Consumer Bankers Association Community Reinvestment Act Committee Meeting, December 17, 2020.

[*Modernizing and Strengthening CRA Regulations: A Conversation with the Chicago Community Trust*](#), At the Chicago Community Trust, Chicago, Illinois, December 1, 2020.

[*Strengthening Diversity and Inclusion in Economics*](#), At "Exploring Careers in Economics," Federal Reserve Board, Washington, D.C. (via webcast), November 17, 2020.

[*Modernizing and Strengthening CRA Regulations: A Conversation with the National Congress of American Indians*](#), At the National Congress of American Indians 77th Annual Convention & Marketplace (via webcast), November 10, 2020.

[*Achieving a Broad-Based and Inclusive Recovery*](#), At the "Post-COVID—Policy Challenges for the Global Economy" Society of Professional Economists Annual Online Conference (via webcast), October 21, 2020.

[*Modernizing and Strengthening CRA Regulations: A Conversation with the Housing Community*](#), At the National Housing Conference National Advisory Council Meeting, October 20, 2020.

[*Modernizing and Strengthening CRA Regulations: A Conversation with Minority Depository Institutions*](#), To the National Bankers Association (via webcast), October 15, 2020.

[*Modernizing and Strengthening CRA Regulations: Hearing from Community Banks*](#), To the Independent Community Bankers of America Fall Leadership Meeting (via webcast), October 1, 2020.

[*Strengthening the CRA to Meet the Challenges of Our Time*](#), At the Urban Institute, Washington, D.C. (via webcast), September 21, 2020.

Bringing the Statement on Longer-Run Goals and Monetary Policy Strategy into Alignment with Longer-Run Changes in the Economy, At "How the Fed Will Respond to the COVID-19 Recession in an Era of Low Rates and Low Inflation," an event hosted by the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution, Washington, D.C. (via webcast), September 1, 2020.

An Update on Digital Currencies, At the Federal Reserve Board and Federal Reserve Bank of San Francisco's Innovation Office Hours, San Francisco, California (via webcast), August 13, 2020.

The Future of Retail Payments in the United States, At the FedNow Service Webinar, Washington, D.C. (via webcast), August 6, 2020.

Navigating Monetary Policy through the Fog of COVID, At the Perspectives on the Pandemic Webinar Series, hosted by the National Association for Business Economics, Washington, D.C. (via webcast), July 14, 2020.

Introductory remarks for the Fed Listens panel on the COVID-19 pandemic, At "A Fed Listens Event: How Is COVID-19 Affecting Your Community?," sponsored by the Board of Governors of the Federal Reserve System, Washington, D.C., (via webcast), May 21, 2020.

Welcoming Remarks for Investment Connection – Response to COVID-19: Colorado, At the "Investment Connection – Response to COVID-19: Colorado" webinar series hosted by the Federal Reserve Bank of Kansas City, Kansas City, Missouri, May 5, 2020.

Monetary Policy Strategies and Tools When Inflation and Interest Rates Are Low, At the 2020 U.S. Monetary Policy Forum, sponsored by the Initiative on Global Markets at the University of Chicago Booth School of Business, New York, New York, February 21, 2020.

The Digitalization of Payments and Currency: Some Issues for Consideration, At the Symposium on the Future of Payments, Stanford, California, February 5, 2020.

Strengthening the Community Reinvestment Act by Staying True to Its Core Purpose, At the Urban Institute, Washington, D.C., January 8, 2020.

Update on Digital Currencies, Stablecoins, and the Challenges Ahead, On the Monetary Policy, Technology, and Globalisation Panel at "Monetary Policy: The Challenges Ahead," an ECB Colloquium Held in Honour of Benoît Coeuré, Frankfurt, Germany, December 18, 2019.

Federal Reserve Review of Monetary Policy Strategy, Tools, and Communications: Some Preliminary Views, At the Presentation of the 2019 William F. Butler Award New York Association for Business Economics, New York, New York, November 26, 2019.

Why Climate Change Matters for Monetary Policy and Financial Stability, At "The Economics of Climate Change" a research conference sponsored by the Federal Reserve Bank of San Francisco, San Francisco, California, November 8, 2019.

Digital Currencies, Stablecoins, and the Evolving Payments Landscape, At The Future of Money in the Digital Age, Sponsored by the Peterson Institute for International Economics and Princeton University's Bendheim Center for Finance, Washington, D.C., October 16, 2019.

Delivering Fast Payments for All, At the Federal Reserve Bank of Kansas City Town Hall, Kansas City, Missouri, August 5, 2019.

Perspectives on the Economy from Scranton, At the Community Bankers Roundtable, Scranton, Pennsylvania, July 11, 2019.

Fed Listens in Cincinnati: How Does Monetary Policy Affect Your Community?, At Policy Summit 2019: Connecting People and Places to Opportunity, Federal Reserve Bank of Cleveland, Cincinnati, Ohio, June 21, 2019.

The Disconnect between Inflation and Employment in the New Normal, At "Certain Uncertainty: Tax Policy in Unsettled Times" National Tax Association 49th Annual Spring Symposium, Washington, D.C., May 16, 2019.

Is the Middle Class within Reach for Middle-Income Families?, At "Renewing the Promise of the Middle Class" 2019 Federal Reserve System Community Development Research Conference, Washington, D.C., May 10, 2019.

"Fed Listens" in Richmond: How Does Monetary Policy Affect Your Community?, At the Federal Reserve Bank of Richmond, Richmond Community Listening Session, Richmond, Virginia, May 8, 2019.

The Community Reinvestment Act: How Can We Preserve What Works and Make it Better?, At the 2019 Just Economy Conference, National Community Reinvestment Coalition, Washington, D.C., March 12, 2019.

Navigating Cautiously, At the Julis-Rabinowitz Center for Public Policy and Finance and the Bendheim Center for Finance, Woodrow Wilson School of Public and International Affairs, Princeton University, Princeton, New Jersey, March 7, 2019.

Is Economics for Me? Increasing the Participation of Black Women in Economics, At the Sadie T. M. Alexander Conference for Economics, Washington, D.C., February 23, 2019.

Strengthening the Community Reinvestment Act: What Are We Learning?, At "Research Symposium on the Community Reinvestment Act" hosted by the Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania, February 1, 2019.

Assessing Financial Stability over the Cycle, At the Peterson Institute for International Economics, Washington, D.C., December 7, 2018.

Celebrating Excellence in Community Development, At the Inaugural Janet L. Yellen Award for Excellence in Community Development, Washington, D.C., December 3, 2018.

The Structure of the Treasury Market: What Are We Learning?, At "The Evolving Structure of the U.S. Treasury Market" Fourth Annual Conference Hosted by the Federal Reserve Bank of New York, New York, New York, December 3, 2018.

What Are We Learning about Artificial Intelligence in Financial Services?, At Fintech and the New Financial Landscape, Philadelphia, Pennsylvania, November 13, 2018.

FinTech and the Search for Full Stack Financial Inclusion, At the FinTech, Financial Inclusion -- and the Potential to Transform Financial Services Hosted by the Federal Reserve Bank of Boston and the Aspen Institute Financial Security Program, Boston, Massachusetts, October 17, 2018.

Community Investment in Denver, At the Federal Reserve Bank of Kansas City, Denver Branch, Denver, Colorado, October 15, 2018.

Supporting Fast Payments for All, At the Fed Payments Improvement Community Forum, Sponsored by the Federal Reserve Bank of Chicago, Chicago, Illinois, October 3, 2018.

What Do We Mean by Neutral and What Role Does It Play in Monetary Policy?, At the Detroit Economic Club, Detroit, Michigan, September 2, 2018.

Sustaining Full Employment and Inflation around Target, At the Forecasters Club of New York, New York, New York, May 31, 2018.

Keeping Community at the Heart of the Community Reinvestment Act, At the Association of Neighborhood and Housing Development Eighth Annual Community Development Conference Build.Community.Power, New York, New York, May 18, 2018.

Cryptocurrencies, Digital Currencies, and Distributed Ledger Technologies: What Are We Learning?, At the Decoding Digital Currency Conference sponsored by the Federal Reserve Bank of San Francisco, San Francisco, California, May 15, 2018.

Safeguarding Financial Resilience through the Cycle, At the Global Finance Forum, Washington, D.C., April 19, 2018.

Community Development in Baltimore and A Few Observations on Community Reinvestment Act Modernization, At the Federal Reserve Bank of Richmond Baltimore Community Development Gathering, Baltimore, Maryland, April 17, 2018.

An Update on the Federal Reserve's Financial Stability Agenda, At the Center for Global Economy and Business, Stern School of Business, New York University, New York, New York, April 3, 2018.

Navigating Monetary Policy as Headwinds Shift to Tailwinds, At the Money Marketeters of New York University, New York, New York, May 6, 2018.

Workforce Development in Today's Economy, At "Leading the Way: A Workforce Development Video Campaign" awards ceremony hosted by the Federal Reserve Bank of New York and Pathways in Technology Early College High Schools in the Greater Rochester Area, Rochester, New York, December 13, 2017.

Where Do Consumers Fit in the Fintech Stack?, At "FinTech Risks and Opportunities: An Interdisciplinary Approach," a conference sponsored by the University of Michigan, Ann Arbor, Michigan, November 16, 2017.

Regional Food Systems and Community Development, At a Federal Reserve Bank of Boston Regional Food Systems Meeting, Boston, Massachusetts, November 15, 2017.

Rethinking Monetary Policy in a New Normal, At the Panel on Monetary Policy "Rethinking Macroeconomic Policy," a conference sponsored by the Peterson Institute for International Economics, Washington D.C., October 12, 2017.

Labor Market Disparities and Economic Performance, At "Banking and the Economy: A Forum for Minority Bankers," hosted by the Federal Reserve Bank of Kansas City, Kansas City, Missouri, September 27, 2017.

Why Persistent Employment Disparities Matter for the Economy's Health, At "Disparities in the Labor Market: What Are We Missing?" a research conference sponsored by the Board of Governors of the Federal Reserve System, Washington, D.C., September 26, 2017.

Understanding the Disconnect between Employment and Inflation with a Low Neutral Rate, At The Economic Club of New York New York, New York, September 5, 2017.

Strengthening Diversity in Economics, At the Conference for the 2017 Summer Training and Scholarship Program sponsored by the American Economic Association and the National Science Foundation and hosted by the Department of Economics, Michigan State University, East Lansing, Michigan, July 28, 2017.

Cross-Border Spillovers of Balance Sheet Normalization, At the National Bureau of Economic Research's Monetary Economics Summer Institute, Cambridge, Massachusetts, July 13, 2017.

Cross-Border Spillovers of Balance Sheet Normalization, At "Normalizing Central Banks' Balance Sheets: What Is the New Normal?" a conference sponsored by Columbia University's School of International and Public Affairs and the Federal Reserve Bank of New York, New York, New York, July 11, 2017.

Navigating the Different Signals from Inflation and Unemployment, At the New York Association for Business Economics, New York, New York, May 30, 2017.

Why Opportunity and Inclusion Matter to America's Economic Strength, At the Opportunity and Inclusive Growth Institute Conference, sponsored by the Federal Reserve Bank of Minneapolis, May 22, 2017.

Where Do Banks Fit in the Fintech Stack?, At the Northwestern Kellogg Public-Private Interface Conference on "New Developments in Consumer Finance: Research & Practice," April 28, 2017.

Transitions in the Outlook and Monetary Policy, At the John F. Kennedy School of Government, Harvard University, Cambridge, Massachusetts, May 1, 2017.

Monetary Policy in a Time of Uncertainty, At the Brookings Institution, Washington, D.C., January 17, 2017.

The Opportunities and Challenges of Fintech, At the Conference on Financial Innovation at the Board of Governors of the Federal Reserve System, Washington, D.C., December 2, 2016.

The "Gig" Economy: Implications of the Growth of Contingent Work, At "Evolution of Work," a convening cosponsored by the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, and the Freelancers Union, New York, New York, November 17, 2016.

Distributed Ledger Technology: Implications for Payments, Clearing, and Settlement, At the Institute of International Finance Annual Meeting Panel on Blockchain, Washington, D.C., October 7, 2016.

The "New Normal" and What It Means for Monetary Policy, At the Chicago Council on Global Affairs, Chicago, Illinois, September 12, 2016.

The Economic Outlook and Implications for Monetary Policy, At the Council on Foreign Relations, Washington, D.C., June 3, 2016.

The Use of Distributed Ledger Technologies in Payment, Clearing, and Settlement, At the Institute of International Finance Blockchain Roundtable, Washington, D.C., April 14, 2016.

An Update on the Outlook, Liquidity, and Resilience, At the Institute of International Bankers Annual Washington Conference, Washington, D.C., March 7, 2016.

What Happened to the Great Divergence? At the 2016 U.S. Monetary Policy Forum, New York, New York, February 26, 2016.

Normalizing Monetary Policy When the Neutral Interest Rate Is Low, At the Stanford Institute for Economic Policy Research, Stanford, California, December 1, 2015.

Unconventional Monetary Policy and Cross-Border Spillovers, At the "Unconventional Monetary and Exchange Rate Policies," 16th International Monetary Fund Jacques Polak Research Conference, Washington, D.C., November 6, 2015.

Identifying Opportunities for Reducing Regulatory Burdens on Community Banks, At the Economic Growth and Regulatory Paperwork Reduction Act Outreach Meeting, Federal Reserve Bank of Chicago, Chicago, Illinois, October 19, 2015.

Economic Outlook and Monetary Policy, At the "North America's Place in a Changing World Economy," 57th National Association for Business Economics Annual Meeting, Washington, D.C., October 12, 2015.

Community Banks, Small Business Credit, and Online Lending, At the Community Banking in the 21st Century, The Third Annual Community Banking Research and Policy Conference, Cosponsored by the Federal Reserve System and Conference of State Bank Supervisors, Federal Reserve Bank of St. Louis, St. Louis, Missouri, September 30, 2015.

Dodd-Frank at Five: Assessing Progress on Too Big to Fail, At the "Dodd-Frank at Five: Looking Back and Looking Forward" Bipartisan Policy Center and Managed Funds Association, Washington, D.C., July 9, 2015.

Recent Changes in the Resilience of Market Liquidity, At the Policy Makers' Panel on Financial Intermediation: Complexities and Risks for "The Future of Financial Intermediation: Banking, Securities Markets, or Something New?" Salzburg Global Forum on Finance in a Changing World, Salzburg, Austria, July 1, 2015.

The U.S. Economic Outlook and Implications for Monetary Policy, At the Center for Strategic and International Studies, Washington, D.C., June 2, 2015.

Coming of Age in the Great Recession, At the "Economic Mobility: Research and Ideas on Strengthening Families, Communities, and the Economy" Ninth Biennial Federal Reserve System Community Development Research Conference, Washington, D.C., April 2, 2015.

The Federal Reserve's Financial Stability Agenda, At the Hutchins Center on Fiscal and Monetary Policy, The Brookings Institution, Washington, D.C., December 3, 2014.

The Federal Reserve's Financial Stability Agenda, At the Federal Reserve Bank of Cleveland and Office of Financial Research Conference, December 4, 2014.

Opening Remarks, At the Economic Growth and Regulatory Paperwork Reduction Act Outreach Meeting, Los Angeles, California, December 2, 2014.

Remarks at the Council on Foreign Relations, May 16, 2013, <https://www.treasury.gov/press-center/press-releases/Pages/j11946.aspx>

Remarks at the 2013 Annual Economic Policy Conference of the National Association for Business Economics (NABE), March 5, 2013, <https://www.treasury.gov/press-center/press-releases/Pages/j11870.aspx>

Remarks on China at the Center for American Progress (CAP), July 18, 2012, <https://www.treasury.gov/press-center/press-releases/Pages/tg1643.aspx>

Remarks by Under Secretary For International Affairs Lael Brainard before the Women's Foreign Policy Group, June 25, 2012, <https://www.treasury.gov/press-center/press-releases/Pages/tg1623.aspx>

Remarks on the Outcomes of the U.S.-China Strategic and Economic Dialogue (S&ED) before the Washington International Trade Association, May 8, 2012, <https://www.treasury.gov/press-center/press-releases/Pages/tg1573.aspx>

Remarks before the Society for International Development, May 5, 2012, <https://www.treasury.gov/press-center/press-releases/Pages/tg1600.aspx>

Opening Remarks to the Carnegie Endowment for International Peace, November 9, 2011, <https://www.treasury.gov/press-center/press-releases/Pages/tg1359.aspx>

Public statements: List all public statements you have made during the past ten years which are on topics relevant to the position for which you have been nominated, including dates. Whenever possible, provide the Committee with finding aids (such as citations, internet URLs, etc.) for each statement.

Statement on Review of Merger Guidelines for Banks above \$250 Billion in Assets, May 14, 2021, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20210514.htm>

Statement on Financial Stability Report, November 9, 2020, <https://www.federalreserve.gov/publications/brainard-comment-20201109.htm>

Statement on Final Rule Reducing NSFR Liquidity Requirement for Banks in the \$250 to \$700 Billion Size Category, October 20, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20201020a.htm>

Statement on Advance Notice of Proposed Rulemaking on Community Reinvestment Act, September 20, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20200921.htm>

Podcast interview with Center for Disability-Inclusive Community Development, July 15, 2021, <https://www.nationaldisabilityinstitute.org/press/new-podcast-episode-features-governor-lael-brainard-federal-reserve-board/>

Statement on Large Bank Capital Distributions during the COVID Financial Shock, June 25, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20200625c.htm>

Statement on Final Rule Removing Volcker Rule Restrictions on Large Bank Investments in Risky Funds, June 25, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20200625a.htm>

Statement on Final Rule Eliminating Requirement that Dealer Banks Collect Initial Margin from Affiliates, June 25, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200625b.htm>

Statement on Final Rule Reducing Stress Capital Requirements for Large Banks, March 4, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20200304a.htm>

Statement on Proposed Changes Removing Volcker Rule Restrictions on Large Bank Investments in Risky Funds, January 30, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20200130b.htm>

Statement on Final Rule Reducing Liquidity, Capital, and Resolution Planning Requirements for Banks in \$250 to \$700 Billion Asset Size Category, October 10, 2019, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20191010.htm>

Statement on Proposed Rule Eliminating Requirement that Dealer Banks Collect Initial Margin from Affiliates, October 28, 2019, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20191028.htm>

Statement on Final Rule Reducing Volcker Rule Protections against Speculative Trading by Large Banks, October 8, 2019, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20191008.htm>

Statement on Proposed Rule Exempting US Branches of Large Foreign Banking Organizations from the Liquidity Coverage Ratio, April 8, 2019, <https://www.federalreserve.gov/newsevents/pressreleases/3B1F641BEB4A485B994EBC38165F0F3B.htm#aboutMenu>

Statement on Proposed Changes Reducing Capital and Liquidity Requirements for Banks in the \$250 to \$700 Billion Size Category, October 31, 2018, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20181031.htm>

Statement on Final Rule Strengthening Total Loss Absorbing Capital for the Largest Banks, December 15, 2015, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20161215.htm>

Written Testimony before the Senate Foreign Relations Committee on "United States-European Union Economic Relations: Crisis and Opportunity," May 23, 2013, <https://www.treasury.gov/press-center/press-releases/Pages/t11954.aspx>

Written Testimony before the Senate Committee on Banking, Housing, and Urban Affairs on "International Harmonization of Wall Street Reform: Orderly Liquidation, Derivatives, and the Volcker Rule" March 21, 2012, <https://www.treasury.gov/press-center/press-releases/Pages/tg1460.aspx>

Social media usernames: Please provide a list of all of your currently active social media usernames (e.g., Facebook, Instagram, Twitter, etc.), and any usernames for any inactive accounts you have used within the previous ten years.

None.

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

List all public offices, if any, for which you have been a candidate in the past ten years.

Name of Office	Elected/Appointed Candidate Only	Year(s) Election Held or Appointment Made	Terms of Service (if applicable)
----------------	-------------------------------------	--	-------------------------------------

None.

Political contributions: Itemize all political contributions which exceed \$200 or which aggregate to over \$200 in a calendar year to any individual, campaign organization, political party, political action committee or similar entity during the last ten years and identify specific amounts, dates, and names of recipients.

2016	Clinton, Hillary	2700.00
2012	Obama, Barack	2000.00

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

My work has focused on promoting a strong, resilient economy and financial system for American workers, families, businesses, and farmers. This work experience will be valuable as I help carry out the Federal Reserve's responsibilities for achieving price stability and maximum employment and safeguarding financial stability.

Over three decades, I have worked on the U.S. policy response to several major financial crises. During my service at the Treasury Department from 2009 through 2013, I was part of the team responsible for supporting America's recovery from the Global Financial Crisis and promoting an effective response to the Euro Area Financial Crisis. During my service at the White House from 1994 through 2000, I was part of the team helping to safeguard the American economy from spillovers associated with the Asian Financial Crisis of 1997-8, the Mexican Financial Crisis of 1994-5, and the Brazilian and Russian Financial Crises of 1998-9. My experience in crisis response proved valuable in responding to the market turmoil from the COVID-19 crisis, when I worked tirelessly to protect American workers, businesses, and families from the COVID financial shock, support the flow of credit, and restore orderly functioning in financial markets, alongside colleagues from the Federal Reserve, Treasury, and financial regulatory agencies, and with the support of Congress.

In navigating the recovery as it continues to be buffeted by the pandemic, I will draw on my experience with monetary policy in the United States over the past 7 years, as well as my prior international experience, which ranges from foreign economies confronting high inflation to those confronting disinflation. I am committed to putting working Americans at the center of my efforts at the Federal Reserve, which means getting inflation down at a time when people are focused on their jobs and how far their paychecks will go, and supporting a growing economy that includes everyone. To that end, I have sought the perspectives of working people, small businesses, and community members through community visits in Federal Reserve districts around the country, as well as through innovations such as FedListens and the Community Advisory Council.

The Federal Reserve Board plays an important role in safeguarding financial stability, along with the Department of Treasury and financial regulatory agencies. To ensure our financial system is resilient and the international

playing field is level, I have worked with foreign officials to make sure that all major foreign financial jurisdictions implement strong financial safeguards in parallel with the United States.

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.

N/A.

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 anyone made a commitment to employ you after you leave government service?

No.

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

Yes.

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

None.

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

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

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last ten 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.

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

Tax compliance and bankruptcy:

1. In the past ten years, have you and your spouse (if applicable) filed and paid all taxes (federal, state, and local) as of the date of your nomination? Indicate if you filed as 'married filing separately.'

Yes.

2. In the past ten years, have you been required to make any back tax payments? If so, indicate if you have made any back tax payments and provide full details.

No.

3. Has a tax lien or other collection procedure(s) been instituted against you or your spouse (if applicable) by federal, state, or local authorities? If so, provide full details.

No.

4. In the past ten years, have you or your spouse (if applicable) ever been the subject of any audit, investigation, or inquiry for federal, state, or local taxes? If so, provide full details.

No.

5. Were all your Federal, State, local, and other tax returns and tax liabilities of any kind current (filed and paid when due) as of the date of your nomination? If not, provide details.

Yes.

6. Have you ever filed for bankruptcy? If so, provide details.

No.

Civil, criminal and investigatory

1. Have you ever been the subject of a complaint or been investigated, disciplined, or otherwise cited for a breach of ethics for unprofessional conduct before any court, **actions:** administrative agency (e.g. an Inspector General's office), professional association,

disciplinary committee, or other ethics enforcement entity at any time? If so, provide details, regardless of outcome.

No.

2. Have you ever been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so, provide details.

No.

3. Have you ever been involved as a party in interest in any administrative agency proceeding, or civil litigation other than a divorce proceeding? If so, provide details.

No.

4. Have you ever been convicted (including pleas of guilty or nolo contendere) of any criminal violation other than a minor traffic offense? If so, provide details.

No.

Other information: Please advise the Committee of any additional information, favorable or unfavorable, which you believe should be considered in connection with your nomination.

Public records Do you consent to allow Committee staff to conduct a public records search on you **search:** using appropriate search tools? (including Westlaw, Lexis, etc.)

Yes.

The undersigned certifies that the information contained in the public statement to the Committee is true and correct.



Signed: _____ Date: December 7, 2021

PREPARED STATEMENT OF SANDRA THOMPSON
TO BE DIRECTOR OF THE FEDERAL HOUSING FINANCE AGENCY

JANUARY 13, 2022

Chairman Brown, Ranking Member Toomey, and Members of the Committee. I first want to thank President Biden for nominating me to serve as the Director of the Federal Housing Finance Agency (FHFA), it is the greatest honor of my career to appear before you today.

Thank you to the Senators and the staff members with whom I have met in advance of this hearing. If I am fortunate enough to be confirmed, I look forward to meeting with and working with all of you on the important issues at the FHFA.

I would like to introduce my sons, Jarrett and Aaron Nobles, who are here with me today. And I would like to recognize and thank my parents, Herman and Helen Lathan. While due to COVID considerations they are not able to be here in person, the fact that my parents are still alive to witness today's hearing is very meaningful to me. I was born and raised on the South Side of Chicago to my extraordinary parents who came to Chicago from Mississippi as part of the Great Migration. My parents and family, along with the Chicago Public School system, and my beloved Howard University right here in Washington, DC, taught me hard work, determination, commitment, and perseverance. I would like to specifically recognize the schools I attended that helped me succeed: McDade Elementary School, Gillespie Jr. High School, and Lindblom Technical High School, all on the South Side.

My nomination for Director of the FHFA is a great privilege. I recognize that it is rare for a career public servant to have the opportunity to lead a Federal agency, and, as the first African-American woman nominated for this position, I appreciate the opportunity to demonstrate my expertise, good judgement, and leadership in this position.

I am proud of the work we have done at FHFA in my 8 years there. The Agency plays a vital role in both promoting access to mortgage credit nationwide and protecting the safety and soundness of the housing finance system through our supervision of Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (housing GSEs).

Throughout my 40-year career, with experience in mortgage markets and Federal financial regulation at multiple agencies, I have seen what it takes to lead a Federal agency and be effective in that role. In my work at FDIC and FHFA, I have demonstrated leadership, management ability, an understanding of the secondary mortgage markets and industry, a fair and balanced perspective, and a strong belief in the importance of the safety and soundness of America's financial institutions.

During my time in Federal financial institution regulation, I have witnessed and worked to end several financial crises. These crises exposed some truths in housing finance. When I served as the FDIC's head of supervision and consumer protection throughout the 2008 financial crisis, I witnessed firsthand the consequences of irresponsible lending when hundreds of banks across the country were closed and a record number of homes went into foreclosure.

I saw how the borrowers who received unsustainable loans and predatory loan products were devastated in the downturn. And historically underserved and disadvantaged communities were hit especially hard. Years of progress in closing the home ownership and wealth gaps were erased as a result. In fact, today the Black-White home ownership gap is wider than it was in the 1960s, when lending discrimination based on race was still legal. As a financial regulator, I have long believed that safety and soundness and access to credit are not mutually exclusive. Broad, fair access, and the stability of financial institutions work together as pillars of the Nation's housing finance system. Indeed, sustainable access to credit requires sustainable lending standards. FHFA will continue to promote sustainable and equitable access to credit in a safe and sound manner. We will responsibly focus our efforts on the safety and soundness mission Congress gave to FHFA and on the mission that Congress gave the housing GSEs under our supervision—providing liquidity across the Nation and especially supporting underserved markets like rural and tribal areas, manufactured housing, and preserving affordable housing. If confirmed, it would be an honor for me to serve as the FHFA Director, and I will continue to be fair, balanced, and transparent. Thank you for the opportunity to testify before you today. I am happy to answer any of your questions.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name:	Thompson	Sandra
Position to which nominated:	Federal Housing Finance Agency Director	
Date of nomination:	January 3, 2022	
City of Residence:	Mitchellville, Maryland	
Education*:	Howard University 1976-1980; Howard University-1990 Bachelor of Business Administration, Finance	

*Nominees should provide information for all institutions attended, whether or not the nominee was granted a degree by the institution

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 Real Estate Investors: '10 Disrupters A Look at Key Figures Shaping the Commercial Real Estate Industry". (http://nreionline.com/names-news/10-disrupters-look-key-figures-shaping-cqe-industry#slide-0-field_images-45601)

The Mortgage Reports- Interview with Sandra Thompson
(<http://themortgagereports.com/17951/themortgagereports-com-interview-series-sandra-thompson-deputy->)

Heart and Soul Magazine Woman of Substance (2011).

Black Enterprise People on the Move (2006)

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

Organization	Office Held (if any)	Dates of Membership
--------------	----------------------	---------------------

Organization:	Reid Temple AME Church Glenn Dale, MD
Office Held:	Steward. (The Stewards are the spiritual leaders of the church.)
Date:	2002- 2021 (Officer)

Member since 2000-present. I was an officer of the church for over 17 years where I served in several leadership positions. I retired from my position in April 2021 after helping the newly assigned pastor transition. I am still a member of the church, but I am not currently an officer.

Office Held: 2002-2006 Commissioner of Public Relations (responsible for marketing and communication activities within the church.)

Office Held: 2006-2021 Commissioner of Stewardship and Finance (responsible for developing and executing the financial transactions and activities of the church including the annual audit.)

Also, in my role as Commissioner of Stewardship and Finance, I worked with Reid Temple Community Development Corporation and New Life Church, both affiliates of Reid Temple Church.

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

Northwestern Mutual Life (Milwaukee, Wisconsin – 1980-1984)

Programmer (1980-1982).

Senior Programmer: (1982-1984).

Systems Analyst: (1984).

Mutual of New York (MONY)

Systems Analyst (1984-1985). Travelled to Syracuse each week to transition mortgage systems operations from Syracuse to home office in New York City.

Anchor Systems Inc / Anchor Mortgage Services

Anchor Systems Inc: Business Systems Liaison (1985-1986). Worked as a liaison between the mortgage department staff and the mortgage application computer personnel in the IT department.

Anchor Mortgage Services: Mortgage Analyst secondary market (1986). Transferred to the business unit working on secondary market activities.

Goldman Sachs 1986-1989

Associate Mortgage Finance (1986-1989). Worked on mortgage loan data to prepare for loan sales or loan securitizations for clients ("tape cracker"). Worked with rating agencies on subordination levels for private label residential mortgage securitizations.

Resolution Trust Corp- (Washington, D.C)

Senior Securitization Specialist (1990–1992). Started government program to securitize mortgage loans without a government guarantee.

Assistant Director Securitization (1992-1994). Promoted to executive position in the Securitization Department.

Director of Securitization (1994-1995). Promoted to lead the department responsible for securitizing \$41 billion of residential, multifamily and commercial loans for FDIC and RTC.

FDIC Washington, D.C (1995-2013)

Capital Markets Specialist-Division of Receiverships (1996-1998). Sold all the capital markets instruments from the failed savings and loan crisis (assets from RTC that were not sold by the end of 1995 transferred over to FDIC)

Assistant Director, Capital Markets: Division of Resolutions and Receiverships (1998-2000). Promoted to head of branch after merging the separate FDIC and RTC Capital Markets Branches into one.

Assistant Director Electronic Banking, Division of Supervision (2000-2002). Selected to serve as the head of IT supervision activities for the FDIC's Division of Supervision.

Deputy Director, Division of Supervision and Consumer Protection, (2002-2005). Selected to serve as the Deputy Director responsible for the divisions budget, information technology and administrative responsibilities for the largest division in the agency.

Deputy to Vice Chairman/Acting Chairman (2005-2006). Selected to serve as the Deputy to the Vice Chairman of the FDIC. Reviewed and briefed the Vice Chairman on all matters that were presented to the Board of Directors for consideration. The Vice Chairman became the Acting Chairman of the Agency when the Chairman was selected to serve as the Gulf Coast Coordinator after Hurricane Katrina. My duties changed from serving the Vice Chairman to serving the Acting Chairman.

Acting Director, Division of Supervision and Consumer Protection (2006). Selected to serve as the Acting Director of the Division of Supervision and Consumer Protection where I led the FDIC's bank examination, enforcement programs and policy development for risk management and consumer protection. I directed over 3,000 employees located throughout the United States and managed and executed an operating annual budget of over \$500 billion.

Director, Division of Supervision and Consumer Protection, (2006-2011), Selected to serve as the permanent Director of the Division of Supervision and Consumer Protection where I was responsible for safety and soundness and consumer protections activities for the Agency during the height of the banking crisis.

Director, Division of Risk Management Supervision (2011-2013), After the implementation of the Dodd-Frank Act, consumer protection activities were separated from risk management activities and implemented into a separate division. I continued to serve as the head of bank supervision (safety and soundness) in the new division of risk management supervision.

Federal Housing Finance Agency**Deputy Director, Division of Housing Mission and Goals (2013-June 2021).**

Responsible for all housing mission related policy, analytic, regulatory, legislative, and research activities for the agency, including the mission activities for the Federal Home Loan Banks.

Acting Director FHFA (June 2021-present).**Government Experience:**

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

Name of Government Entity	Position	Dates of Service
Please see my Employment History		
Washington Suburban Sanitary Commission	Commissioner	October 2019-June 2021

Published writings: List the titles, publishers and dates of books, articles, reports and other published materials you have written. The list should include any publicly accessible publications on the internet in the past ten years, including appropriate URLs for any posts on blogs you maintained or contributed to, and URLs for any other significant internet-based postings during that same period. If available, provide the Committee with **one digital copy** of each of the writings you list.

May 1, 1998: Managing the Crisis: The FDIC and RTC Experience - Volume One: History, Chapter 14

<https://archive.fdic.gov/view/fdic/6694>

May 1, 1998: Managing the Crisis: The FDIC and RTC Experience - Volume Two: Symposium

<https://archive.fdic.gov/view/fdic/6695>

Speeches and presentations:

List all of the formal speeches and presentations (e.g., PowerPoint) you have delivered during the past ten years which are on topics relevant to the position for which you have been nominated, including dates. If available, provide the Committee with **one digital copy** of each formal speech and presentation. If text is no longer available, list the date, place, and organization or group to whom you made the speech or presentation.

Testimony before Congress representing various federal agencies as a witness for the Agency:

July 23, 2013, Statement of Sandra L. Thompson, Deputy Director for Housing Mission and Goals, Federal Housing Finance Agency on Creating a Housing Finance System

Built to Last: Ensuring Access for Community Institutions, Committee on Banking, Housing, and Urban Affairs, Subcommittee on Securities, Insurance, and Investment, United States Senate
<https://www.banking.senate.gov/imo/media/doc/ThompsonTestimony72313SII.pdf>

February 1, 2012 Statement of Sandra L. Thompson, Director, Division of Risk Management Supervision, Federal Deposit Insurance Corporation on H.R. 3461: The Financial Institutions Examination Fairness and Reform Act before the Subcommittee on Financial Institutions and Consumer Credit Committee on Financial Services; 2128 Rayburn House Office Building
<https://archive.fdic.gov/view/fdic/1796>

February 4, 2011 Statement of Sandra Thompson, Director, Division of Supervision and Consumer Protection, Federal Deposit Insurance Corporation on The Current State of Commercial Real Estate Finance and Its Relationship to the Overall Stability of the Financial System before the Congressional Oversight Panel, Washington, DC
<https://archive.fdic.gov/view/fdic/1700>

July 15, 2010 Statement of Sandra L. Thompson, Director, Division of Supervision and Consumer Protection, Federal Deposit Insurance Corporation on the Federal Government's Role in Empowering Americans to Make Informed Financial Decisions before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia; Committee on Homeland Security and Governmental Affairs; United States Senate; Room 342, Dirksen Senate Office Building
<https://archive.fdic.gov/view/fdic/1654>

Public Speeches:

Prepared Remarks of Sandra L. Thompson, Acting Director of FHFA, at Financial Stability Oversight Council Principals Meeting, 10/21/2021
<https://www.fhfa.gov/Media/PublicAffairs/Pages/Prepared-Remarks-of-Sandra-L-Thompson-Acting-Director-of-FHFA-at-FSOC-Principals-Meeting-10212021.aspx>

Prepared Remarks of Sandra L. Thompson, Acting Director, FHFA, at the 2021 Mortgage Bankers Association Annual Convention and Expo, 10/18/2021
<https://www.fhfa.gov/Media/PublicAffairs/Pages/Prepared-Remarks-of-Sandra-L-Thompson-Acting-Director-FHFA-at-the-2021-MBA-Annual-Convention-and-Expo.aspx>

Prepared Remarks of Sandra L. Thompson, Acting Director, FHFA, at FHFA Virtual Listening Session: "Enterprise Duty to Serve 2022-2024 Proposed Plans: Manufactured Housing, 7/14/2021
<https://www.fhfa.gov/Media/PublicAffairs/Pages/Prepared-Remarks-of-Sandra-Thompson-Acting-Director-FHFA-Virtual-Listening-Session-7142021.aspx>

Prepared Remarks of Sandra L. Thompson, Acting Director, FHFA, at FHFA Virtual Listening Session: "Closing the Gap to Sustainable Homeownership", 7/1/2021

<https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Virtual-Listening-Session-Closing-the-Gap-to-Sustainable-Homeownership.aspx>

Other public speaking engagements:

2012-July 2013	Records during my time at FDIC are not available to me
August 13, 2013	Federal Home Loan Bank Chicago Small and Mid-Sized Mortgage Lenders Forum
August 13, 2013	Independent Community Bankers Association Meeting, Chicago, IL
August 19, 2013	NeighborWorks, Philadelphia, VA
September 10, 2013	Fannie Mae Credit Overview, Dallas, TX
September 13, 2013	Freddie Mac Customer Symposium, Tyson Corner, VA
September 18, 2013	NASP 8 th Annual Legislative Symposium, Washington, DC
October 3, 2013	National Bankers Association 86 th Annual Convention, Atlanta, GA
October 18, 2013	National Asian Coalition, 10 th Annual Economic Development and Empowerment Conference, San Diego, CA
October 21, 2013	American Banking Association Annual Convention, New Orleans
November 5, 2013	CRA Fair Lending Colloquium
November 13, 2013	Federal Reserve Bank of Chicago
December 9, 2013	NeighborWorks Training Institute, Kansas City, MO
February 4, 2014	Mortgage Bankers Association Commercial Real Estate Finance/Multifamily Housing Convention, Orlando, FL
June 24, 2021	The Warren Group Mid-Year Mortgage Conference
June 26, 2021	Federal Home Loan Bank of Chicago Board Meeting
August 14, 2014	FHFA Atlanta HARP Town Hall
October 2, 2014	FHFA Detroit HARP Town Hall Meeting
November 4, 2014	18 th Annual CRA and Fair Lending Colloquium, San Diego, CA
December 16, 2014	FHFA Neighborhood Stabilization Initiative, Chicago, IL
December 2, 2014	Home Preservation Hill Conference, Washington DC
February 20, 2015	National Association of Real Estate Brokers 68 th Mid-Winter Conference, Tampa, FL
March 23, 2015	Urban Financial Services Coalition 5 th African American Briefing for Financial Professionals, Washington, DC
March 25, 2015	Vanderbilt University Owen Graduate School of Management, Nashville, TN
March 31, 2015	U.S. Environment Protection Women's History Month, Washington, DC
April 23, 2015	Women in Housing Finance Spring Symposium, Washington, DC
May 4, 2015	Women in Diversified Services (WinDS) 6 th Annual Conference, Newport Beach, CA
October 6, 2015	National Bankers Association 88 th Annual Convention, Savannah, GA
October 16, 2015	Freddie Mac Multifamily Customer Conference, Chicago, IL

October 29, 2015	National Association of Affordable Housing Lenders Annual Policy Conference, Washington, DC
October 27, 2015	Federal Home Loan Bank Advisory Council Leadership Meeting, Chicago, IL
November 19, 2015	National Community Investment Fund Annual Development Banking Conference, Federal Reserve Bank of Chicago
May 20, 2016	National Association of Home Builders Mortgage Roundtable, Washington, DC
February 2, 2016	FHFA Future of Loss Mitigation Symposium, Washington, DC
June 2, 2016	FHFA Neighborhood Stabilization Initiative Florida Visit
October 6, 2016	Credit Risk Transfer and Policy, New York, NY
November 4, 2016	Realtors Conference & Expo, Orlando, FL
November 10, 2016	Financial Services Roundtable, Executive Council, Washington, DC
January 25, 2017	FHFA Duty to Serve Listening Session, Federal Reserve Bank of Chicago, Chicago, IL
February 2, 2017	Freddie Mac Black History Month Event, Mclean, VA
March 9, 2017	Orrick's Women's Initiative Fireside Chat Women in Finance, New York, NY
April 5, 2017	HomeFree USA Event Outstanding Leader, Riverdale, MD
May 11, 2017	Five Star Institute Diversity Symposium, Dallas, TX
September 13, 2017	JP Morgan Chase Housing Summit, New York City, NY
September 20, 2017	Home Free USA Annual Reaching Millions Leadership Conference, Philadelphia, PA
October 5, 2017	Women in Housing Finance, Washington, DC
November 3, 2017	National Association of Realtors The Sky's the Limit, Chicago, IL
November 14, 2017	Home Preservation Exchange/National Faith Homebuyers 2017 Fall Revitalizing Neighborhoods Gathering, Washington, DC
April 19, 2018	The Euromoney/ECBC North America Covered Bond Forum, Vancouver, Canada
April 9, 2018	National Community Reinvestment Coalition Just Economy Conference, Washington, DC
May 10, 2018	Fannie Mae Risk Summit for Approved Mortgage Insurers, Washington, DC
May 22, 2018	Mortgage Bankers Association's National Secondary Market Conference and Expo, New York, NY
September 12, 2018	National Association of Federal Credit Unions Congressional Caucus, Washington, DC
September 25, 2018	National Association of Securities Professionals Government De-Risking Forum, Washington, DC
October 3, 2018	Freddie Mac RPL & NPL Seminar, Mclean, VA
October 5, 2018	National Bankers Association Annual Convention, Washington, DC
October 12, 2018	National Asian American Coalition 15 th Annual Economic Development Conference, Los Angeles, CA
November 2, 2018	National Association of Realtor's 2018 Annual Convention, Boston, MA

December 6, 2018	Walker Dunlop Commercial Real Estate Symposium, New York, NY
February 11, 2019	Mortgage Bankers Association Commercial/Multifamily Housing Convention and Expo, San Diego, CA
March 11, 2019	Mortgage Bankers Association Mid-Winter Housing Finance Conference, Avon CO
April 16, 2019	Bisnow's Multifamily Annual Conference Tri-State, New York, NY
April 23, 2019	Tenth Annual Five Star Government Forum, Washington, DC
June 26, 2019	Housing Partnership Network Policy Meeting, Washington, DC
November 5, 2019	National Property Preservation Conference, Washington, DC
January 9, 2020	Federal Home Loan Bank Community Development Financial Institution Forum, Chicago, IL
August 13, 2020	National Association of Real Estate Brokers Growing Black Homeownership CEO's Roundtable (Virtual)
April 30, 2021	Federal Housing Finance Agency (FHFA) Multifamily Small Lender Access Listening Session (Virtual)
May 13, 2021	Consumer Financial Protection Bureau COVIC Borrower Assistance Listening Session (Virtual)
June 29, 2021	FHFA Homeownership Gap Listening Session (Virtual)
July 14, 2021	FHFA Duty to Serve Listening Session: Enterprises' 2022-2024 Plans on Manufactured Housing (Virtual)
July 20, 2021	FHFA Public Listening Session on Radon (Virtual)
September 15, 2021	National Association of Federal Credit Unions Congressional Caucus Fireside Chat (Virtual)
September 17, 2021	National Association of Minority Mortgage Bankers of America (NAMMBA) Connect Conference (Virtual)
September 16, 2021	NAMMBA Connect "College Life to Corporate Life: Women and Minorities in the Financial Services Industry" (Virtual)
September 20, 2021	Fireside Chat at The Mortgage Collaborative Summer Conference (Virtual)
September 21, 2021	Council of Federal Home Loan Banks Board meeting, Washington, DC
September 24, 2021	Fireside Chat at National Multifamily Housing Council Fall Meeting with Jim Schloemer & CEO of Continental Properties, Washington, DC
September 27, 2021	National Council of State Housing Agencies (NCSHA) 50 th Annual Conference Fireside Chat with Ralph Perry & NCSHA Board of Directors (Virtual)
September 28, 2021	FHFA Equitable Housing Finance Plan Policy Listening Session (Virtual)
September 30, 2021	National Housing Council Affordable Housing Virtual Convening – Fireside Chat with David Dworkin (Virtual)
October 14, 2021	Mortgage Bankers Association/American Bankers Association Mortgage Markets Committee Meeting (Virtual)
October 18, 2021	Mortgage Bankers Association Annual Convention and Expo, San Diego, CA

October 26, 2021	FHFA Fall Economic Summit (Virtual)
October 27, 2021	Federal Home Loan Bank Affordable Housing Advisory Council (Virtual)
October 28, 2021	Fannie Mae Affordable Housing Advisory Council (Virtual)
November 5, 2021	National Association of Real Estate Brokers Black Homeownership Summit, Houston, TX
November 8, 2021	Blend Forum Fireside Chat with Tim Mayopoulos, Limited Access to Home Ownership, Pebble Beach, CA
December 2, 2021	2021 National Virtual Black & Latino Economic Summit (Virtual)
December 9, 2021	Consumer Federation of America Financial Services Conference (Virtual)

Public statements: List all public statements you have made during the past ten years which are on topics relevant to the position for which you have been nominated, including dates. Whenever possible, provide the Committee with finding aids (such as citations, internet URLs, etc.) for each statement.

December 27, 2021, FHFA Acting Director Sandra L. Thompson's Statement on Climate Change

<https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Acting-Director-Sandra-L-Thompsons-Statement-on-Climate-Change.aspx>

December 20, 2021, FHFA ACTING DIRECTOR SANDRA L. THOMPSON'S STATEMENT ON SPECIAL PURPOSE CREDIT PROGRAMS AS A REMEDY FOR DISPARITIES IN ACCESS TO HOMEOWNERSHIP

<https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Acting-Director-Sandra-L-Thompsons-Statement-on-Special-Purpose-Credit-Programs-as-a-Remedy-for-Disparities-in-Access-to-Homeownership.aspx>

November 30, 2021, FHFA ACTING DIRECTOR SANDRA L. THOMPSON'S STATEMENT ON INCREASED CONFORMING LOAN LIMITS FOR 2022

<https://www.fhfa.gov/Media/PublicAffairs/Pages/Acting-Director-Thompson-Statement-on-Increased-Conforming-Loan-Limits-for-2022.aspx>

September 22, 2021, HUD AND FHFA ANNOUNCE CLARIFICATIONS TO FREDDIE MAC'S POLICIES ON PURCHASING MORTGAGES SECURED BY GROUP HOMES

https://www.hud.gov/press/press_releases_media_advisories/HUD_No_21_154

September 1, 2021, FHFA Acting Director Sandra L. Thompson's Statement on Executive Branch Housing Supply Initiative

<https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Acting-Director-Sandra-L-Thompsons-Statement-on-Executive-Branch-Housing-Supply-Initiative.aspx>

August 12, 2021, HUD AND FHFA ANNOUNCE COLLABORATION TO ADVANCE FAIR HOUSING AND FAIR LENDING ENFORCEMENT

https://www.hud.gov/press/press_releases_media_advisories/HUD_No_21_121

July 30, 2021, Secretaries of USDA, HUD, VA, Treasury, and FHFA Acting Director Release Joint Statement on Agency Actions to Prevent Evictions

<https://www.fhfa.gov/Media/PublicAffairs/Pages/Agencies-Joint-Statement-on-Agency-Actions-to-Prevent-Evictions.aspx>

July 16, 2020, MISMO® Launches Initiative to Facilitate Servicing Transfers
<https://www.mba.org/2020-press-releases/july/mismo%C2%AE-launches-initiative-to-facilitate-servicing-transfers>

November 8, 2018, Bureau of Consumer Financial Protection and Federal Housing Finance Agency Release National Survey of Mortgage Originations Dataset for Public Use
<https://www.consumerfinance.gov/about-us/newsroom/bureau-consumer-financial-protection-and-federal-housing-finance-agency-release-national-survey-mortgage-originations-dataset-public-use/>

December 14, 2016, Statement of FHFA Deputy Director Sandra Thompson on New Loan Modification Offering for Delinquent Borrowers
<https://www.fhfa.gov/Media/PublicAffairs/Pages/Statement-of-FHFA-Deputy-Director-Sandra-Thompson-on-New-Loan-Mod-Offering-for-Delinquent-Borrowers.aspx>

December 15, 2015, Blog post: 2016 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions, authored jointly with Bob Ryan, Acting Deputy Director for the Division of Conservatorship
<https://www.fhfa.gov/Media/Blog/Pages/2016-Scorecard-for-Fannie-Mac-Freddie-Mac-and-Common-Securitization-Solutions.aspx>

December 1, 2015, Blog post: Expansion of FHFA's Neighborhood Stabilization Initiative Effective Today
<https://www.fhfa.gov/Media/Blog/Pages/Expansion-of-FHFAs-Neighborhood-Stabilization-Initiative-Effective-Today.aspx>

December 17, 2012, FDIC Report Provides Overview of Mobile Payments Services
<https://www.fdic.gov/news/press-releases/2012/pr12147.html>

September 26, 2012, FDIC Names Vogel New York Regional Director
<https://www.fdic.gov/news/press-releases/2012/pr12110.html>

July 6, 2012, Second Session: Challenges and Opportunities for Community Banks
<https://www.fdic.gov/news/events/communitybanking/group2.pdf>

June 7, 2012, FDIC Publication Focuses on Community Banks and the Supervisory Process
<https://www.fdic.gov/news/press-releases/2012/pr12063.html>

Social media usernames: Please provide a list of all of your currently active social media usernames (e.g., Facebook, Instagram, Twitter, etc.), and any usernames for any inactive accounts you have used within the previous ten years.

Social Media

- a. Twitter- Sandra Thompson @SandraLThomp
- b. Facebook – Sandra Thompson
- c. Instagram – Sandra Lathan
- d. Pinterest -Sandra Thompson username salathan

e. LinkedIn- Sandra Thompson (FHFA Bowie, Maryland)

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

List all public offices, if any, for which you have been a candidate in the past ten years.

Name of Office	Elected/Appointed Candidate Only	Year(s) Election Held or Appointment Made	Terms of Service (if applicable)
None			
Political contributions:	Itemize all political contributions which exceed \$200 or which aggregate to over \$200 in a calendar year to any individual, campaign organization, political party, political action committee or similar entity during the last ten years and identify specific amounts, dates, and names of recipients.		
None			
Qualifications:	<p>State fully your qualifications to serve in the position to which you have been named.</p> <p>As a long-time civil servant, with experience in mortgage markets and Federal financial regulation at multiple agencies, I am well qualified for the Federal Housing Finance Agency (FHFA) Director position for which I have been nominated. Throughout my 40-year career, I have demonstrated an understanding of the market and industry, a fair and balanced perspective, and a strong belief in the importance of the safety and soundness of America's financial institutions. (Please see the attached employment history for more details.)</p> <p>Prior to my Federal government service, I worked my way up from an entry level position at an insurance company to Associate for Mortgage Finance at Goldman Sachs, focusing on financial institutions' data and systems related to mortgage finance.</p> <p>My experience in Federal financial institution regulation is unique in that I have witnessed and worked to end several financial crises during my career. My service with the Federal government started at the Resolution Trust Corporation (RTC), which was created to resolve failing Savings and Loans and sell their mortgage assets. In this position I worked to create a government-issued securitization program for mortgage loans from failed institutions. Mortgage securitizations are the core of Fannie Mae's and Freddie Mac's business. My work led to the securitization of \$41 billion of residential, multifamily, and commercial loans for FDIC and RTC.</p> <p>Over my 18 years at the Federal Deposit Insurance Corporation (FDIC), I worked for seven different Chairpersons from both political parties and held significant leadership positions, including serving as Deputy to the Acting Chairman of FDIC, Director of Risk Management Supervision, and Director of the Division of Supervision and Consumer</p>		

Protection. This direct experience as a Federal financial regulator is invaluable in my work regulated Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (regulated entities). The financial crisis of 2008, from my perspective as a financial regulator, firmly established the importance of safety and soundness and appropriate regulation. I served as the FDIC's head of supervision throughout most of the 2008 financial crisis, and I witnessed firsthand the consequences of irresponsible lending when hundreds of banks across the country were closed and a record number of homes went into foreclosure. I led our work to restore the solvency of financial institutions, but also to restore public confidence in our financial system and to ensure that U.S. banks could survive the next crisis.

My eight years of experience as the Deputy Director for Housing Mission and Goals at FHFA is the most relevant to the FHFA Director position. I have responsibility for housing and regulatory policy, capital policy, financial analysis, fair lending, and all mission activities for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. My job is to ensure that FHFA establishes policies that are safe and sound for the regulated entities while also facilitating their mission of mortgage market liquidity and support for affordable housing. This requires that I balance considerations from all stakeholders, including industry groups and advocacy groups, with the need for appropriate risk management and mitigation in every policy decision. At FHFA I have strategically managed the Agency's resources through periods of change and uncertainty to ensure that the American people can continue to rely on the regulated entities going forward.

I hold a Bachelor of Business Administration degree in Finance from Howard University.

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.

If confirmed by the Senate, I will take whatever actions are applicable to transition from the Acting Director of FHFA to serve as the permanent Director.

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 am currently a federal employee, and I believe this will be my last federal government position.

3. Has anyone made a commitment to employ you after you leave government service?

No

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

Yes

Potential conflicts of interest:

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

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

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

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

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last ten 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.

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

Tax compliance and bankruptcy:

1. In the past ten years, have you and your spouse (if applicable) filed and paid all taxes (federal, state, and local) as of the date of your nomination? Indicate if you filed as 'married filing separately.'

Yes

2. In the past ten years, have you been required to make any back tax payments? If so, indicate if you have made any back tax payments and provide full details.

No

3. Has a tax lien or other collection procedure(s) been instituted against you or your spouse (if applicable) by federal, state, or local authorities? If so, provide full details.

No

4. In the past ten years, have you or your spouse (if applicable) ever been the subject of any audit, investigation, or inquiry for federal, state, or local taxes? If so, provide full details.

No

5. Were all your Federal, State, local, and other tax returns and tax liabilities of any kind current (filed and paid when due) as of the date of your nomination? If not, provide details.

Yes

6. Have you ever filed for bankruptcy? If so, provide details.

No

Civil, criminal and investigatory actions:

1. Have you ever been the subject of a complaint or been investigated, disciplined, or otherwise cited for a breach of ethics for unprofessional conduct before any court, administrative agency (e.g., an Inspector General's office), professional association, disciplinary committee, or other ethics enforcement entity at any time? If so, provide details, regardless of outcome.

No

2. Have you ever been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so, provide details.

No

3. Have you ever been involved as a party in interest in any administrative agency proceeding, or civil litigation other than a divorce proceeding? If so, provide details.

I was identified as a named official in a pending 2020 EEO complaint. I have not been involved as a party of interest in any other administrative agency proceeding or in civil litigation.

4. Have you ever been convicted (including pleas of guilty or nolo contendere) of any criminal violation other than a minor traffic offense? If so, provide details.

No

Other information: Please advise the Committee of any additional information, favorable or unfavorable, which you believe should be considered in connection with your nomination.

None

Public records search: Do you consent to allow Committee staff to conduct a public records search on you using appropriate search tools? (including Westlaw, Lexis, etc.)

Yes

The undersigned certifies that the information contained in the public statement to the Committee is true and correct.

Signed: 8/1/2021 Date: 12/30/2021

**RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN BROWN
FROM LAEL BRAINARD**

Q.1. Where have you excelled in past positions in attracting, hiring, and promoting people of color in positions in your organization? Where might there be room for improvement?

A.1. Research suggests, and my own experiences have shown, that having greater diversity at the table—diversity of every type—leads to less groupthink and better outcomes. I have made increasing diversity and inclusion a priority in my career, including focusing on hiring and promoting people of color. And I have benefited, as have the organizations for which I have worked, from the views of people of different backgrounds.

From the time of my service at the Department of Treasury (Treasury), I have been pleased to see the diverse and highly qualified team that worked with me at Treasury excelling and making important contributions as they have advanced.

In my tenure at the Board of Governors (Board), I have worked to ensure that Reserve Bank boards increasingly reflect the communities that they serve. Our Class C directors, who are selected by the Board, are noticeably more diverse than they were 5 years ago. Minority representation among Class C directors has increased by 31 percentage points over the past 5 years. Currently nearly two-thirds of Class C directors are minorities. At present, more than half of Class C directors are women, 33 percent of whom are minorities. The leadership of Reserve Bank boards is also highly diverse. Among the 24 Reserve Bank Chairs and Deputy Chairs, 20 are diverse in terms of race or ethnicity and/or gender. Of course, there remains substantial room for improvement. To promote transparency and accountability, information on gender, racial and ethnic, and sectoral characteristics of the Boards of directors is posted on the Board's website and updated annually.

Among the many benefits of having a diverse board is that the Class B and C directors, those selected to represent the public, lead the process to appoint presidents and other senior Reserve Bank leaders. Over the past several years, the professional, gender, and racial diversity of first vice presidents and chief operating officers of the Reserve Banks has increased. But further progress is necessary. In over 100 years, there has been one Black Reserve Bank president, two Asian American presidents and no Latino president. We have invested considerably in adopting best practices in outreach and engagement to identify slates of highly qualified candidates that are more diverse as well as in ensuring more diverse interview panels. I work with the Board's Director of the Office of Minority and Women Inclusion (OMWI), the Chief Human Capital Officer, the Chief Operating Officer, and the Directors of the Board's divisions to hire, retain, and promote a diverse staff. This is a priority for the Board's Executive Committee. I meet regularly with the OMWI Director to review progress and to understand challenges and how we are addressing them. As hiring decisions are made, I check to make sure the OMWI has been involved to ensure implementation of best practices.

We have been increasing our outreach in order to increase diversity of Board economists, by building relationships with students and schools at all levels to introduce them to the Federal Reserve,

through involvement in minority recruitment events, partnering with the American Economic Association and Howard University, and recruiting economists with more varied research specializations. I have personally participated in a variety of recruiting events, including the Conference for the 2017 Summer Training and Scholarship Program sponsored by the American Economic Association and the National Science Foundation, the Sadie T.M. Alexander Conference for Economics, and the Board's Exploring Careers in Economics program.

If confirmed, I will continue to work with my colleagues at the Board and with senior leaders throughout the System to make further improvement.

Q.2. What specific measures will you use to evaluate the success of the Federal Reserve in understanding and addressing the needs of Black, Indigenous, and people of color (BIPOC)? And, will you work with the Chair and Board to keep Congress apprised, as appropriate, on the progress being made on these measures?

A.2. If confirmed, I will work with the Chair and Board to keep Congress apprised, as appropriate, on the progress being made on these issues.

I will work to ensure the Federal Reserve carries out its statutory responsibilities with regard to understanding and addressing the needs of Black, Indigenous, and people of color (BIPOC). The Federal Reserve has tools and responsibilities with regard to monetary policy, as well as supervision and regulation, which make important contributions to prosperity that is widely shared among all groups.

By pursuing our statutory mandate, the Federal Reserve's monetary policy actions promote maximum employment and price stability—two foundations that improve economic outcomes for all Americans—with those who have historically been left behind standing the best chance of prospering in a strong, stable economy with good job opportunities and low inflation.

The lengthy expansion that was brought to a close by the pandemic showed the immense benefits that a strong labor market with low inflation can provide to all communities, and especially to low- and moderate-income (LMI) communities and communities of color. But the COVID-19 crisis exacerbated racial disparities as minority workers and small businesses experienced disproportionate harm. The pandemic is a reminder that these communities are the most vulnerable to economic downturns and also that the Federal Reserve has powerful tools to help support a strong recovery that includes everyone. Currently we are seeing the strongest recovery in five decades with strong growth and the creation of millions of jobs, but inflation is too high. Monetary policy is focused on getting inflation down to target, which is important for working people from all communities who are concerned about how far their paychecks will go, while sustaining a recovery that includes everyone.

In support of its statutory responsibilities, the Federal Reserve staff undertake important data collections on consumer and small business finances and the economic wellbeing of households broken out by wealth and income as well as race and ethnicity. If con-

firmed, I will support this work, which provides an important window into how well our policies are achieving their goals.

The Federal Reserve also has important supervisory and regulatory responsibilities that promote fair and equal access to credit and financial services.

The Community Reinvestment Act (CRA) is an essential regulation and supervisory tool to promote access to credit investment in LMI communities. I have worked to strengthen CRA regulations and evaluations to increase the effectiveness, transparency and accountability in how banks are rated on their affirmative obligation to meet the investment, credit and banking services needs of their local communities, including through improved access to home mortgage, small business, and student lending for LMI households and communities. The CRA evaluations are public and are taken into consideration in the review of banks' applications for merger and acquisitions. Currently, staff at the Board, Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) are working together to propose for public comment revisions to the regulations that implement CRA.

Further, the Federal Reserve examines banks for compliance and helps enforce the Fair Housing Act and the Equal Credit Opportunity Act. In implementing our statutory responsibilities, the Federal Reserve works to make sure that the State member banks we examine have credit policies and practices in place that are fair and do not prevent any creditworthy consumer from getting access to credit, do not result in discrimination in the pricing of credit, or redline neighborhoods based on their racial and ethnic composition. If examiners identify a pattern or practice of illegal discrimination on any of the prohibited factors defined in the laws, staff cite it and refer the case to the Department of Justice for further enforcement.

To further support access to economic opportunity for people of all levels of wealth and income, the Federal Reserve has a long-standing program to promote the viability of minority depository institutions (MDIs), which are mission-oriented and dedicated to serving the banking and credit needs of minority consumers and communities. As the COVID-19 pandemic made clear, mission-oriented lenders, such as MDIs, Women's Depository Institutions (WDIs), and community-development financial institutions are important actors in serving the financial needs of minority customers and small businesses, as well as providing development resources to invest in minority communities. We found that during the crisis these institutions were highly effective at getting the smallest business loans to the business borrowers that are hardest to reach. Through the Federal Reserve System's "Partnership for Progress" (PFP) program, we provide technical assistance and training in collaboration with the FDIC and OCC to help MDI leaders overcome the challenges inherent in providing banking services to low- and moderate income and minority communities and consumers. To further support financial institutions dedicated to serving harder to reach market segments, we expanded our PFP program to include WDIs.

Q.3. What is your plan for creating an inclusive working environment for employees within your office?

A.3. An inclusive environment welcomes and values different views and experiences. It is one in which people feel comfortable to speak up—especially when offering views contrary to those of colleagues and of leadership. It provides everyone an opportunity to make an impact and improves decision making and outcomes. To inform my own decision-making process, I seek out input from a wide range of sources. And I make clear that I benefit from hearing different views.

Generally, I think it is critical to remain engaged with staff and create opportunities for dialogue. I make it a priority to participate in division town halls and events sponsored by employee resource groups. This provides me an opportunity to get to know more of the Board's employees, better understand their individual contributions, hear the challenges they are facing as well as what they think is working well and where there is room for improvement. It also provides staff an opportunity to raise concerns with me directly, increasing transparency and accountability.

As noted above, I work closely with the Director of the Board's OMWI, Human Capital Officer, Chief Operating Officer, and our division directors to hire, retain, and promote a diverse staff. We have made this a priority for the Executive Committee. I meet regularly with the OMWI Director to discuss progress on priorities and to understand challenges and how we are addressing them. As hiring decisions are made, I also consult with her to ensure conformance with best practices. In a culture and environment where employees feel supported and valued. To hold ourselves accountable for advancing diversity and inclusion, we have introduced the practice of Diversity and Inclusion Scorecards.

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

Q.1. At your nomination hearing, Senator Tillis asked you about the fact that you donated the maximum allowable individual amount—\$2,700—to Hillary Clinton's 2016 Presidential campaign while you were a sitting Fed Governor. In your response to Senator Tillis' question you asserted that other Fed Governors have made political donations while they were serving on the Fed Board of Governors. You said: "it is rare, it has occurred." Who are the other Fed Governors that have made political donations while they were serving on the Fed Board of Governors, when did they make these donations, what were the amounts of their donations, and what are the names of the recipients of these donations?

A.1. As I noted, I consulted with an ethics official who informed me such donations are permissible, but I came to recognize the concerns regarding appearances, and for those reasons I have not made nor will I make any other donations while a member of the Board of Governors of the Federal Reserve System (Board). Regarding members of the Federal Reserve more broadly, I am not aware of a comprehensive list; however, I understand that publicly available sources reference donations made by other Federal Reserve officials over time.

Q.2. In a 2019 testimony to the House Financial Services Committee, Rep. Roger Williams asked if you were a capitalist or a so-

cialist. By his count, it is a question he has asked nominees over 20 times before. All others—including your cowitness at the hearing—have said capitalist. You refused to answer the question, saying you don’t “think about in those terms.” The question is not complicated or abnormal. Both capitalism and socialism are long traditions in the history of economic thought. In the early 20th century, many influential economists—including Abba Lerner and Oskar Lange—advocated for Government-run economies. They sought to “rationalize” economic production, replacing markets with centralized planning to improve economic efficiency. Notably, Paul Samuelson praised the economic performance of the Soviet Union—right up until it collapsed. Some continue to advocate for socializing industries, including socialized banking via the Federal Reserve.

Are you a capitalist or are you a socialist?

A.2. Capitalist.

Q.3. Please describe your role in updating the Federal Reserve’s Guidance on System Community Development (CD) Function and CD Program Expectations in or around 2017.

Did you help draft the 2017 S-Letter on the Fed’s CD Function (S-2668)?

A.3. I was the Chair of the Committee on Consumer and Community Affairs in 2017. In that capacity, I provided feedback to Board staff on the System letter (S-Letter) they drafted (S-2668). Other Board members also had an opportunity to provide such feedback. Board members voted unanimously to approve S-2668 in December 2017. Governor Bowman took over as Chair of the Committee on Consumer and Community Affairs in 2018.

Q.4. Who else was involved in drafting this S-letter (S-2668)?

A.4. Board staff were involved in drafting S-2668, which is an internal operating document providing guidance to the Federal Reserve Banks on implementation of their community development functions. The letter sought to update the guidance to reflect existing practice to improve consistency across the Federal Reserve System in support of the statutory mandates of the Board, including supervisory and regulatory mandates for the Community Reinvestment Act (CRA).

Q.5. Why did the Fed Board decide it was necessary to update the Federal Reserve’s Guidance on System CD Function and CD Program Expectations in or around 2017?

When was this determination made, and who was involved in making this determination?

A.5. Given the time that had passed since the last issuance of the Community Development S-Letter (S-2473) in 1984, there was broad agreement among Board members and members of the Conference of Presidents that it was prudent to update the S-Letter to better reflect existing practice. Board members voted unanimously to approve the update to the S-Letter in December 2017.

Q.6. What changes did S-2668 make to the Fed Board’s prior guidance the Community Development/Community Affairs function?

A.6. The 2017 letter (S-2668) updates S-2473, which was originally issued in 1984. The letter acknowledges that community development is a core business function of the Federal Reserve and describes how that function aligns with the Board's purposes and functions. Specifically, S-2668 sets expectations regarding (i) analysis and dissemination of information regarding local financial needs and effective approaches for attracting and deploying capital in support of the Federal Reserve's CRA mandate; (ii) conducting applied research and collecting data on local economic conditions and on effective strategies for improving them; and (iii) soliciting diverse views on issues affecting the economy and financial markets in support of the Federal Reserve's financial stability, supervisory, and regulatory responsibilities.

Q.7. S-2688 superseded prior Fed Board guidance set forth in S-2442 (1981) and S-2473 (February 24, 1984). In order to put S-2668 in context, please provide copies of S-2442 and S-2473.

A.7. I understand that Board staff have been coordinating with your staff on this request.

Q.8. Did you or any other Federal Reserve Governor (including the Chair) have any meeting(s) (or any other form of communication) that discussed updating or broadening the Community Development Function with anyone in the White House prior to the 2017 release of S-2668?

If so, where was the meeting held and who was in attendance?
What was the meeting about?

A.8. S-2668 is internal guidance to help facilitate the Federal Reserve's implementation of its CRA responsibilities. The Board of Governors approved S-2668 by a unanimous vote. I did not consult with anyone in the White House on this matter.

Q.9. Did you or any other Federal Reserve Governor (including the Chair) have any meeting(s) focused on updating or broadening the Community Development Function with any outside groups prior to the 2017 release of S-2668?

If so, where was the meeting held and who was in attendance?
What was the meeting about?

A.9. I did not have any meetings to discuss S-2668 with any outside groups prior to the Board's transmittal of the letter to the Federal Reserve Banks.

Q.10. In December 2021, the 12-month CPI inflation rate was +7.0 percent.

How much of this inflation can be attributed to the Fed's interest rate policy?

How much of this inflation can be attributed to the Fed's \$4.6 trillion of asset purchases in 2020 and 2021?

How much of this inflation can be attributed to supply chain disruptions?

How much of this inflation can be attributed to other factors and what are they, if any?

A.10. As you note, inflation is too high, which hurts working people and families, especially the most vulnerable. It is difficult to undertake a precise quantitative decomposition of the effects that the various factors you mention are having on consumer price inflation,

in part because we lack direct information on the way that supply disruptions are contributing to firms' costs, and how those costs are being passed through to prices. The evidence that households, businesses, and market participants appear to expect that the current high inflation readings will subside over time and that the Federal Reserve will meet its longer-term price stability goal of 2 percent PCE price inflation provides some evidence that the bulk of the recent increase in inflation is attributable to these pandemic-related factors.

The Federal Reserve's interest rate policy actions and asset purchases in response to the COVID-19 shock, combined with rapid and sizeable fiscal support, helped to calm financial turmoil, save American jobs and businesses, and support a strong recovery. One way to get at the question about isolating the contribution of aggregate demand from other contributors is to compare inflation at similar levels of unemployment before and after the pandemic. At 3.9 percent, the current level of the unemployment rate is somewhat higher than the 3.5 percent rate that was achieved on the eve of the pandemic, when inflation was running around 2 percent, which suggests that the contribution of aggregate demand—and hence of monetary policy *per se*—to the recent increase in inflation has probably not been large.

The recent high rates of consumer price inflation other than food and energy mostly stem from an extraordinary and sustained shift in the composition of consumer spending away from in-person services and towards durable goods, combined with supply-related constraints in those same sectors, resulting from multiple waves of COVID-19. U.S. consumers shifted spending toward goods—particularly durable goods—and away from in-person services due to the pandemic. At the same time, the availability of some of those same goods that are in high demand has been curtailed by supply chain disruptions here and especially abroad, as well as shipping constraints—due to COVID-related or weather-related disruptions. At the same time, labor shortages in many industries have exacerbated the restricted supply of both goods and services in some sectors. These labor shortages are themselves partly attributable to the effects of the pandemic, as caregiving needs and ongoing fears of the virus have weighed on labor force participation.

Q.11. Economists often describe quantitative easing (QE) as working through a “term premium effect.” QE pushes down long-term yields by reducing the supply of Treasury debt and mortgage bonds.

To the best of your understanding, how much do the Fed's portfolio holdings reduce the current 10-year Treasury yield? If uncertain, provide a plausible range.

What models or analyses inform your estimate of the Fed portfolio's TPE?

A.11. The effect of quantitative easing (QE) on financial conditions and the macroeconomy is the subject of active academic research, and a number of different channels have been identified in that literature. The mechanism by which QE affects the macroeconomy is generally through longer-term interest rates, which are affected by the expected path of the policy rate and by term premiums. QE can

actually affect both of those components of longer-term yields. QE can affect the expected path of the policy rate through a signaling channel if the public perceives the Federal Open Market Committee's (FOMC) actions or communications about the balance sheet to imply a different future path of the policy rate than they were currently expecting. QE can directly affect term premiums in part through a duration-risk channel by changing the total amount of duration risk available to be held by private investors.

There is a wide range of estimates of how much asset holdings affect the 10-year yield through a term-premium effect. One study¹ that used data from early in the asset purchase program in 2008–2009 after the onset of the global financial crisis found effects that are equivalent to a 0.15 percentage point effect from net purchases that were equal to 10 percent of GDP, while another study² found the equivalent of a 2.4 percentage point effect for the same amount of net purchases using different methods and a different sample period. These are just two of the studies collected in Gagnon (2016),³ which compares the estimates from a number of papers in a consistent manner and illustrates the wide range of estimates found in the literature. Importantly, many things affect term premiums and the effect of an identical amount of additional purchases is likely to be different in different macroeconomic conditions, or under different shapes or slopes of the yield curve.

The range of estimates reinforces the uncertainty around the precise magnitude of the term premium effects of these purchases. While I retain a healthy level of humility about the precision of the balance sheet tool, there is good evidence that in both of the recent periods in which our policy rate reached its effective lower bound, asset purchases helped generate accommodative financial conditions in line with our statutory objectives of achieving price stability and maximum employment.

Q.12. Traditional monetarist analysis suggests a different transmission mechanism for QE: the money supply. QE increases the amount of reserves in the banking system. A greater level of reserves earning a near-zero return drags down return on equity, incenting banks to increase lending. Lending boosts bank deposits, and therefore the money supply. In turn, all else equal, the greater money supply increases aggregate demand—and in the long run, prices.

Do you believe this mechanism is important for explaining the transmission of monetary policy? Please explain your view and share any relevant research.

Or if you do not yet have an informed view, will you commit to studying it further and briefing me and my staff?

A.12. Traditional monetarist models emphasize the connection between reserves and bank deposits. In such models, when banks have excess reserves that are not earning interest, they reallocate

¹ Christensen, Jens, and Glenn Rudebusch. 2016. “Modeling Yields at the Zero Lower Bound: Are Shadow Rates the Solution?” *Advances in Econometrics* 35: 75–125.

² D’Amico, Stefania, and Thomas King. 2013. “Flow and Stock Effects of Large-Scale Treasury Purchases: Evidence on the Importance of Local Supply”. *Journal of Financial Economics* 108, no. 2: 425–48.

³ Gagnon, Joseph (2016), “Quantitative Easing: An Underappreciated Success”, Peterson Institute for International Economics, Policy Brief, April.

these funds into interest-bearing activities like loans and investments. This activity in turn creates deposits held by the public, and these deposits form part of measures of the money supply like M2. This “money multiplier” paradigm—in which the growth of reserves corresponds more or less directly with the growth of the money supply as measured by M2—does not appear to have been a very accurate description of the relationship between bank reserves and the money supply in recent decades. This likely reflects the fact that the modern financial landscape contains elements not traditionally included in money-multiplier-style models, including interest on reserves and a binding lower bound on short-term interest rates.

In recent decades financial innovation has loosened the historical linkage between the M2 monetary aggregate and economic variables like nominal GDP, real GDP, and inflation. As I noted in my testimony, it remains the case that inflation is fundamentally a monetary phenomenon. But M2 has diminished in usefulness as an indicator of monetary policy and, consequently, and monetary aggregates have not figured prominently in the FOMC’s monetary policy deliberations for some time.

Q.13. FOMC participants have reevaluated their views on the appropriate path of policy in light of recent inflation. In the December 2021 Summary of Economic Projections, the median FOMC participant projected three rate hikes in 2022, up from one rate hike. All participants see inflation slowing. However, three rate hikes would only raise overnight rates to between 0.75 percent and 1.00 percent. In real terms, interest rates would still be sharply negative. While these projections are not a committee forecast, these numbers suggest that participants generally believe that inflation will fall despite real interest rates remaining in negative territory.

How can the Fed curtail inflation while real interest rates remain negative?

Does this imply that the neutral interest rate is now negative, and so a less negative rate can be contractionary?

A.13. A mix of supply and demand factors are responsible for the level of inflation that we are currently experiencing. Our monetary policy tools work on the demand side, and are not effective at addressing supply constraints. An important component of my expectation that inflation will slow even as rates remain below their longer-run level is the expectation that supply constraints will ease during 2022. As constraints ease and supply increases in the affected sectors, inflation in these sectors should decelerate even if the level of demand remains the same. This is the case for new and used motor vehicles, where semiconductor supply constraints have been significant, and inflation has been unusually high over the past year. In addition to these supply-driven effects, the steps we have taken recently to bring net asset purchases to a close, as well as the projection you referenced for multiple increases in the policy rate this year, will tighten the stance of monetary policy and slow aggregate demand, also slowing inflation.

Importantly, demand and inflation are influenced not just by the present setting of monetary policy vis-a-vis the neutral interest rate, but also by expectations regarding future monetary policy.

Monetary policy influences broader financial conditions, through short- and longer-term interest rates, as well as through their effects on other asset prices and the broad value of the dollar. Longer-term interest rates, which are affected by both the expected path of the policy rate and the size of the balance sheet, are particularly important. As expectations about the future of the policy rate and the balance sheet shift, so too will broader financial conditions, with attendant macroeconomic effects.

Q.14. In the past, you have spoken about the important role of fiscal policy in supporting monetary policy when the Fed is constrained by the zero lower bound. As I understand your view, fiscal policy can support aggregate demand when the Fed's primary tool (the overnight interest rate) is constrained. As you said in an October 2020 speech, "Further targeted fiscal support will be needed alongside accommodative monetary policy to turn this K-shaped recovery into a broad-based and inclusive recovery."^[1] We have now seen the troubling result of that support: tremendous inflation. And rather than fix our long-term budget issues, my Democrat colleagues want to continue deficit spending. Others have proposed radical changes to the Fed's framework for monetary policy, such as allowing for negative nominal interest rates, or purchasing corporate bonds and equities. None of these radical proposals address the root issue: the neutral interest rate has fallen close to zero.

[1] "Achieving a Broad-Based and Inclusive Recovery" (October 21, 2020), available at <https://www.federalreserve.gov/newsevents/speech/brainard20201021a.htm>.

Do you agree that the potential growth rate is closely connected to the neutral rate?

All else equal, for each percentage point increase in the potential growth rate, how much would the neutral rate increase? If uncertain, provide a plausible range.

In your view, what is the current neutral rate? If the neutral rate were to rise, at what level would the zero lower bound no longer be a salient concern for monetary policy?

What models or analysis informs your estimate of the neutral rate, as well as the relationship between the neutral rate and the potential growth rate?

A.14. Yes, the potential growth rate of the economy and the neutral rate are closely connected and appear to share some important drivers. That said, research results are mixed on the overall strength of the relationship, and estimating the neutral rate is challenging—a situation reflected in a wide range of reported values.

Recent research⁴ shows that demographic factors are likely important drivers of both the potential growth rate and the neutral rate. That paper shows that demographic factors can account for a little more than a 1 percentage point decline in the equilibrium real interest rate since 1980, a magnitude comparable to the roughly 1¼ percentage point decline in trend real GDP growth over the same period. This empirical finding indicating nearly 1-for-1 movements in trend growth and the neutral rate mirrors the 1-for-1 con-

⁴Gagnon, Etienne, Benjamin K. Johannsen, and David Lopez-Salido. 2021. "Understanding the New Normal: The Role of Demographics". *IMF Economic Review* 69 (2):357–90.

nection between potential output growth and the neutral rate in the frequently cited model,⁵ which made the 1-for-1 relationship between the two variables a feature of the estimates. Other researchers⁶ come to different conclusions, namely that the empirical correlations between longer-run average GDP growth and longer-run average real interest rates in both U.S. and international data are not as strong as would be suggested by the strength of the connections between the two series in theoretical models. In sum, there are structural factors, such as demographics, that are likely important drivers of both potential output growth and the neutral rate—but this relationship is more complicated than can be captured by simple models. An increase in potential output growth is very likely to result in an increase in the neutral rate, but the relationship is unlikely to be one-to-one.

A variety of evidence suggests the neutral rate it has materially declined in recent decades. In the December Summary of Economic Projections (SEP), the median longer-run level of the nominal Federal funds rate was 2.5 percent, while the median longer-run inflation expectation was 2 percent, which would imply a real neutral rate of 0.5 percent. The level of uncertainty around that estimate is significant.

It is difficult to say with certainty how much the neutral rate would have to rise in order for the effective lower bound to cease being a salient monetary policy concern. In prior decades, the policy rate was cut by 4.5 to 5 percentage points in an average recession—2 percentage points above the SEP median longer-run level of the nominal Federal funds rate.

Q.15. Since 2020, the Fed has purchased about \$4.6 trillion of bonds.

With the benefit of hindsight, do you agree that the Fed's QE program went on for too long?

A.15. Consistent with the Federal Reserve's statutory responsibilities for achieving price stability and maximum employment, the FOMC's purchases of longer-term Treasury securities and of agency mortgage-backed securities were an important tool in the Federal Reserve's response to the pandemic. A significant fraction, \$2.4 trillion of the \$4.6 trillion you cite above, were purchased during the 3-month window from mid-March to mid-June 2020, at the height of the financial turmoil related to the onset of the pandemic. These purchases were intended to restore orderly financial market functioning in the early stages of the pandemic, thereby supporting the flow of credit to households and businesses and saving American jobs and businesses.

Subsequently, the Federal Reserve's asset purchases provided necessary monetary accommodation consistent with our statutory responsibilities for price stability and maximum employment during a time when the Federal funds rate was at its effective lower bound. As such, they helped reduce the severity of the 2020 recession and supported the strongest recovery we have seen in five dec-

⁵ Thomas Laubach, John C. Williams; "Measuring the Natural Rate of Interest". *The Review of Economics and Statistics* 2003; 85 (4):1063–1070.

⁶ Hamilton, James D., Ethan S. Harris, Jan Hatzius, and Kenneth D. West. 2016. "The Equilibrium Real Funds Rate: Past, Present, and Future". *IMF Economic Review* 64 (4):660–707.

ades. In December 2020, the FOMC established outcome-based guidance indicating that asset purchases would continue at their existing pace until substantial further progress toward our statutory goals of maximum employment and price stability had been met. In the fall of 2021, the benefits of using outcome-based guidance became clear, as the goal of substantial further progress was achieved earlier than expected. The FOMC signaled following the September 2021 meeting that the substantial further progress threshold would soon be achieved, announced the tapering of purchases in November 2021, and accelerated the pace of the taper in December 2021 such that net purchases will end in March 2022.

The FOMC's decisions regarding asset purchases have been taken in support of the dual mandate and in a way that has been transparently tied to economic outcomes on the labor market and inflation.

Q.16. Going forward, would you support the Fed announcing a specific horizon for its average inflation targeting?

A.16. Following a lengthy and considered process informed by research and outreach, the FOMC unanimously adopted a monetary policy framework. It includes a flexible average inflation targeting (flexible AIT) strategy that seeks to achieve inflation that averages 2 percent over time in order to ensure that longer-term inflation expectations are well anchored at 2 percent.

The FOMC deliberated on whether to adopt a specific horizon for its flexible AIT strategy and consulted a variety of research on this topic. A formal average inflation targeting (AIT) rule, under which the time horizon would be specified numerically is appealing in theory. But ultimately the FOMC determined that the drawbacks would likely outweigh the benefits in practice. As the FOMC noted in the Statement on Longer-Run Goals and Monetary Policy Strategy, the strategy aims to conduct policy in a way that anchors inflation expectations at 2 percent. The appropriate adjustment of monetary policy to achieve this goal will depend on a wide range of factors that could vary materially over time, depending on the economic circumstances, which could not be fully captured by a simple arithmetic formula pertaining to average inflation over a fixed time horizon. The FOMC concluded that a flexible AIT strategy is better matched to the highly uncertain and dynamic context in which policymaking takes place, and it is likely to be superior to mechanical AIT in terms of ease of communication and implementation, as well as in terms of the associated economic outcomes. Of course, the FOMC may revise its views in the future, in light of subsequent experience and research, which will also inform the evolution of my own views.

Q.17. At a Financial Stability Oversight Council (FSOC) meeting in 2021, Treasury Secretary Yellen expressed potential systemic concerns resulting from “liquidity risks” associated with open-end mutual funds and money market funds. It is concerning that this will be used to justify an overreaching regulatory regime for both products.

Do you believe that money market funds should be eliminated as an investment vehicle?

A.17. No. The incentives for investors in prime and tax-exempt money market funds to run to redeem their shares in moments of crisis contributed to waves of large redemptions in 2008 and 2020, which placed enough stress on the broader financial system to necessitate emergency actions to backstop financial markets. Such vulnerabilities can be addressed by the appropriate regulatory authority putting in place requirements to mitigate the vulnerabilities so that money market funds can continue to play an important role in the financial system. The Securities and Exchange Commission (SEC) has regulatory authority over money market funds.

Q.18. Do you support retaining the viability of open-end mutual funds as an investment vehicle?

A.18. Yes. Both the global financial crisis and the experience in 2020 demonstrated there can be vulnerabilities related to maturity and liquidity transformation. Such vulnerabilities can be addressed by the appropriate regulatory authority. The SEC has regulatory authority over such funds.

Q.19. If confirmed, will you respect the SEC's jurisdiction to regulate money market funds?

A.19. Yes.

Q.20. Do you believe that the in-kind redemption mechanism for exchange-traded funds (ETFs) presents different liquidity concerns than cash redemptions from traditional mutual funds? If you believe there is a difference, please explain how that affects your views on how to regulate ETFs.

A.20. I agree that in-kind redemption, in which securities are delivered to the redeeming party, creates less incentive for investors to run when compared with cash redemption. I defer to the SEC on the appropriate regulation of exchange-traded funds (ETFs).

Q.21. On July 12, 2016, former Federal Reserve Governor Daniel Tarullo described the term “shadow banking” as evoking a “sense of something hidden, furtive even” in a speech.

Do you believe this term should apply to open-end mutual funds registered with the SEC?

A.21. To the best of my knowledge, open-end mutual funds are registered with the SEC, and data on such funds is available.

Q.22. In 2018, the House of Representatives voted 406–4 in favor of the JOBS and Investor Confidence Act. Section 1501 of that legislation would have replaced the Dodd–Frank Act's stress test requirement applicable to SEC- and CFTC-regulated entities with an authorization to adopt rules requiring periodic analyses of financial condition, including available liquidity, of such entities under adverse economic conditions.

Do you support this modification that the JOBS and Investor Confidence Act would have made?

A.22. I defer to Congress regarding the creation of mandates, and I would defer to the respective judgements of the Commodity Futures Trading Commission and SEC regarding how they interpret their Congressional mandates. Under the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd–Frank Act), the Fed-

eral Reserve implements a stress-testing regime for the largest and most systemically important banking institutions, and I believe this regime continues to support a well-capitalized banking system and that it contributed to that system's ability to weather the financial turmoil at the outset of the pandemic. Reflecting our experience with stress testing and our responsibilities under the Dodd-Frank Act, we also have engaged in collaborative efforts among regulators—both domestic and international—to develop macroprudential stress testing for systemically important central counterparties.

Q.23. I am concerned about the FSOC's designations of Systemically Important Financial Institutions (SIFIs). A SIFI designation is troubling in part because it creates moral hazard: it formalizes an institution's "too big to fail" status and creates the expectation that the taxpayers will bail out a SIFI that falls into financial distress. Also troubling is FSOC's history of exercising its SIFI designation powers. Under the Obama administration, FSOC made overreaching SIFI designations of nonbanks in a nontransparent manner and without providing a clear path for dedesignation.

In 2019, FSOC issued a policy that made several improvements to the nonbank designation process. These included emphasizing that designation is a last resort, requiring cost-benefit analysis and an assessment not only of the impact of a risk but also the likelihood that it will be realized, as well as creating both predesignation and postdesignation "off-ramps" to help firms and regulators avoid or reverse SIFI designation by mitigating systemic risks.

Will you commit that, if confirmed, you will support ensuring that FSOC:

- Continues to treat SIFI designation as a last resort;
- Maintains a transparent process for SIFI designation;
- Conducts robust cost-benefit analysis for all designations; and
- Provides institutions with the opportunity to avoid designation and, if designated, a path to reverse such designation?

A.23. Under the Dodd-Frank Act, Chair Powell is a member of the Financial Stability Oversight Council (FSOC), and I have not participated in the FSOC's deliberations regarding systemically important financial institution (SIFI) designation.

Q.24. Under what conditions, if any, would you support the FSOC or the Financial Stability Board (FSB) designating mutual funds, ETFs, and money market funds as nonbank SIFIs?

A.24. As noted above, I have no role in FSOC designation. Regarding the Financial Stability Board (FSB), FSB outcomes are not binding on U.S. regulatory agencies, and the FSB does not engage in designating mutual funds, ETFs, and money market funds as nonbank SIFIs.

Q.25. Asset managers provide investment advice to clients. They do not bear the risk of investments made by their clients because asset managers do not own those assets.

Should asset managers be designated by the FSOC or the FSB as nonbank SIFIs? If so, under what conditions?

A.25. As noted above, I do not have a role in FSOC designation, and the FSB does not engage in designating asset managers as nonbank SIFIs.

Q.26. Over the past few years, there have been several disruptions in the U.S. Treasury market (both cash and futures), which is generally considered to be the deepest and most liquid market in the world.

Some Treasury market observers have expressed concerns about regulatory fragmentation, with responsibilities divided between five or more agencies. Others have called for specific regulatory reforms, including (1) mandatory central clearing, (2) amendments to bank capital rules, and (3) additional data collection.

Do you believe that the current regulatory framework for oversight of the Treasury market is adequate? If not, what changes do you believe should be made?

A.26. The Treasury market is one of the most important and liquid securities markets in the world. Businesses and investors treat Treasury securities as risk free assets that can be converted into cash at a moment's notice to meet liquidity demands. This higher level of liquidity has been an important property of Treasury markets for decades. However, as you note, several disruptions have occurred in the Treasury market in recent years during which the level of transactional liquidity has declined, sometimes precipitously. The Federal Reserve has been partnering with the U.S. Department of the Treasury and other regulatory agencies in the Interagency Working Group to examine the data to ascertain why Treasury market liquidity has been fragile at moments of stress, and to consider potential reforms that may help to increase Treasury market resilience in moments of stress.

Your list above represents some of the more commonly discussed reform measures. As was noted in the November 2021 report from the IAWG on Recent Disruptions and Potential Reforms in the U.S. Treasury Market, there is a lot of analysis yet to be done. The potential benefits and costs of expanded central clearing and other steps to facilitate all-to-all trading vary across market segments. Segments also differ in the mechanisms available for market participants to access the central counterparty and in the data available to the authorities. The benefits, costs, and feasibility of expanded clearing can depend on these differences between market segments.

It is important to note that the Federal Reserve does not have regulatory authorities over markets and trading venues, which is more often the purview of the SEC. For instance, the SEC's recent proposals extend the operational access, disclosure, and regulatory oversight provisions of Regulation ATS and the system integrity provisions of Regulation SCI to Treasury-market trading venues.

The Federal Reserve has taken a more active role in improving and increasing data collection within Treasury markets. The Board approved a final rule requiring depository institutions who reach certain thresholds of trading activity in Treasury and Agency debt and mortgage-backed securities transactions to report those transactions through the Financial Industry Regulatory Authority's TRACE reporting system. That requirement is scheduled to go into

effect on September 1, 2022. The Federal Reserve has previously worked closely with the Office of Financial Research on its collection of centrally cleared Treasury repo market data, and we are supportive of collecting similar data for the noncentrally cleared segment of this market.

Q.27. On September 25, 2020, the FSOC released a statement on its activities-based review of the secondary mortgage market. FSOC’s statement affirmed the overall quantity and quality of the regulatory capital required by the Federal Housing Finance Agency’s (FHFA) June 30, 2020, proposed rule to establish a new regulatory capital framework for Fannie Mae and Freddie Mac (each, a GSE).[2] Specifically, FSOC stated that “risk-based capital requirements and leverage ratio requirements that are materially less than those contemplated by the proposed rule would likely not adequately mitigate the potential stability risk posed by the Enterprises.”[3] FSOC also concluded “it is possible that *additional* capital could be required for the Enterprises to remain viable concerns in the event of a severely adverse stress.” (emphasis added).[4] FSOC also committed to “continue to monitor . . . FHFA’s implementation of the regulatory framework to ensure potential risks to financial stability are adequately addressed.” On December 17, 2020, FHFA finalized a regulatory capital framework for the GSEs that included leverage ratio requirements that were identical to those in the proposed rule.[5]

[2] 85 FR 39,274.

[3] <https://home.treasury.gov/system/files/261/Financial-Stability-Oversight-Councils-Statement-on-Secondary-Mortgage-Market-Activities.pdf>

[4] *Id.*

[5] 85 FR 82,150.

FHFA has since proposed reducing the regulatory capital required by both the risk-based capital requirements and the leverage capital requirements of FHFA’s final rule.[6]

[6] 86 FR 53,230.

In light of FSOC’s commitment to monitor FHFA’s implementation of the GSEs’ regulatory framework, which includes the regulatory capital framework, did FHFA solicit input from the Board of Governors of the Federal Reserve System (the Fed) before proposing to reduce the aforementioned capital requirements? If yes, please provide a copy of those comments.

Did the FHFA ask the Fed whether the proposed amendments to the GSEs’ regulatory capital framework would adequately address potential risks to financial stability? If yes, please provide a copy of the Fed’s response on this question.

Has the Fed otherwise reviewed the proposed amendments to the GSEs’ regulatory capital framework?

A.27. By the Dodd–Frank Act, Chair Powell is a member of the FSOC. I have not been involved in this issue.

Q.28. FHFA’s proposed amendments include a proposed reduction in the prescribed leverage buffer amount (PLBA). If finalized as proposed, the amendments would reduce each GSE’s PLBA by two-thirds (from 1.5 percent of adjusted total assets to approximately 0.5 percent) and its PLBA-adjusted leverage capital requirements

by one-quarter (from 4.0 percent of adjusted total assets to approximately 3.0 percent).

As a participant in FSOC's secondary market review, would FHFA's proposed amendments, if finalized, result in "leverage ratio requirements that are materially less than those contemplated by [June 30, 2020] proposed rule"?[7]
[7] 86 FR 53,230.

A.28. By the Dodd–Frank Act, Chair Powell is a member of the FSOC. I have not been involved in this issue.

Q.29. FSOC stated that "a meaningful leverage ratio requirement that is a credible backstop to the risk-based requirements would address potential risks to financial stability by ensuring that the capital requirements are consistent with historical loss experiences during severe stresses while mitigating model, measurement, and related risks with a simple, transparent measure of risk." Taking into account the 20 percent risk weight floor on mortgage exposures (1.6 percent of the exposure amount), the floor on the stress capital buffer (0.75 percent of adjusted total assets), and the current sizing of each GSE's stability capital buffer (1.0 percent and 0.7 percent of adjusted total assets for Fannie Mae and Freddie Mac, respectively), it appears exceedingly unlikely that a GSE's risk-based capital requirement could ever be less than the proposed leverage capital requirements of 3.0 percent and 2.9 percent for Fannie Mae and Freddie Mac, respectively, even if a substantial portion of a GSE's mortgage exposures were subject to the risk weight floor.

As a participant in FSOC's secondary market review, and in light of the apparently very remote prospect that the GSEs' risk-based capital requirements could ever be less than the proposed leverage capital requirements, would the proposed amendments to the PLBA result in "a meaningful leverage ratio requirement" and would the proposed leverage capital requirements be "a credible backstop to the risk-based requirements" within the meaning of FSOC's statement?

A.29. By the Dodd–Frank Act, Chair Powell is a member of the FSOC. I have not been involved in this issue.

Q.30. As part of its rationale for the proposed amendments to the PLBA, FHFA noted that "Basel III standards require systemically important banks to hold a tier 1 capital leverage ratio buffer in excess of a 3 percent leverage requirement equal to 50 percent of a GSIB's higher loss-absorbency risk-based requirements." FHFA also stated that it intended to amend the PLBA "in a manner similar to the U.S. banking regulators' proposal to set the eSLR buffer to one-half of the GSIB surcharge" and that "a dynamic PLBA that is tied to the stability capital buffer would further align the [Enterprise Regulatory Capital Framework] with Basel III standards." Related to this, former Fed Vice Chair for Supervision Quarles recently said "[w]ith respect to the enhanced supplementary leverage ratio (eSLR) that applies to U.S. global systemically important banks (GSIBs), the best way to address this problem is the approach endorsed by the Basel Committee: recalibrating the fixed 2-percent eSLR buffer requirement to equal 50 percent of the appli-

cable GSIB capital surcharge, with corresponding recalibration at the bank level.”[8]

[8] Governor Randal K. Quarles, “Between the Hither and the Farther Shore: Thoughts on Unfinished Business” (Dec. 2, 2021), available at www.federalreserve.gov/newsevents/speech/quarles20211202a.htm.

Importantly, a GSIB’s eSLR buffer requirement is a percent of risk-weighted assets, while a GSE’s stability capital buffer requirement is a percent of adjusted total assets. If the intent were to align FHFA’s approach to the PLBA with the Basel Committee’s approach to the eSLR buffer, would each GSE’s stability capital buffer requirement first need to be converted to an equivalent that is expressed as a percent of risk-weighted assets (e.g., by dividing the stability capital buffer requirement by the average risk weight of the GSE’s assets (currently around 33 percent))?

A.30. The Government-sponsored enterprises (GSEs) are an integral part of our housing finance system; therefore, it is essential that they are fully capitalized and subject to appropriate micro- and macroprudential standards to ensure they do not pose a threat to financial stability. Congress has charged the Federal Housing Finance Agency with oversight of the GSEs, and therefore, they are best placed to make relevant regulatory and supervisory decisions.

Q.31. You have stated that climate scenario analysis is “distinct from our traditional regulatory stress tests at banks.”[9] Given the short, nine-quarter time horizon of the Federal Reserve’s stress tests, it would be inappropriate to use this exercise to assess climate-related risk. I am concerned, however, that certain Federal Reserve officials are advocating for incorporating climate scenarios into the stress tests. For example, last year the Federal Reserve Bank of New York (FRBNY) published a staff report on climate stress testing,[10] which would seem to conflict with your statement at the hearing that the Fed was not considering stress tests. Do you wish to acknowledge that the Fed is in fact working on climate stress testing options?

[9] <https://www.federalreserve.gov/newsevents/speech/brainard20210218a.htm>

[10] <https://www.newyorkfed.org/medialibrary/media/research/staff-reports/sr977.pdf>

A.31. I am not familiar with the staff paper you reference above. The Federal Reserve System has a number of working paper series and the papers in these series are independent research by Federal Reserve staff, sometimes with outside coauthors. Papers in these series do not represent official positions of the Federal Reserve System and these papers are required to carry a disclaimer identifying that fact.

Climate scenario analysis is designed to model the possible financial risks associated with climate change and to assess the resilience of individual financial institutions and the financial system to these risks. It is a useful tool to assess the links between climate-related risks and economic and financial outcomes, which is distinct from the Federal Reserve’s regulatory stress-testing regime. Climate scenario analysis and the regulatory stress tests serve different objectives and seek to measure risks over different

time horizons. Climate scenario analysis is typically exploratory in nature, longer-term, and considers plausible but novel combinations of risks that are associated with substantial uncertainty. The analysis would be used to identify and scale risks across a range of plausible scenarios and would not be tied to regulatory capital decisions or specific supervisory or regulatory outcomes. Regulatory stress tests, by contrast, are used to assess capital adequacy relative to specific shocks in the short-term and have consequences for capital and supervisory ratings.

Q.32. I am concerned that a recent Federal Reserve Bank of New York (FRBNY) staff report on climate stress testing^[11] is predicated on numerous extreme and implausible assumptions, including a 50 percent drop in the return on a “stranded asset portfolio,” which is comprised predominantly of coal exposures and a short position in the S&P 500, over a 6-month period. The parameters of this paper raise concerns that it was intentionally constructed to overstate the climate-related risk of in-scope banks. If the Federal Reserve continues to study climate-related risk, do you commit that research informing policy decisions will be subject to public comment to ensure its accuracy and objectivity?

[11] <https://www.newyorkfed.org/medialibrary/media/research/staff-reports/sr977.pdf>

A.32. As I indicated in response to Question 25, I have not read the staff paper you reference above. I view the Federal Reserve’s responsibilities related to assessing climate-related risks through the lens of our prudential and financial stability statutory responsibilities. From a prudential perspective, the focus is on evaluating whether large supervised institutions operate in a safe and sound manner and manage all material risks, including those related to climate change. From a financial stability perspective, the focus is on identifying, assessing, and addressing climate-related risks to financial stability, such as climate-related financial shocks and financial system vulnerabilities.

Q.33. In a recent speech, Acting Comptroller of the Currency Michael Hsu stated that “[a] carbon tax can be thought of as the transition risk equivalent of the ‘severely adverse’ scenario in CCAR.”^[12]

[12] <https://www.occ.gov/news-issuances/speeches/2021/pub-speech-2021-116.pdf>

As the Federal Reserve develops its approach to climate scenario analysis, would it be appropriate for that scenario analysis to include assumptions about future actions by Congress?

If yes, please explain how the Federal Reserve would forecast the future actions of Congress?

Would it be appropriate for the Federal Reserve to consider potential future Congressional action in the context of climate scenario analysis but not in other areas of its supervision?

Would it be appropriate for the Federal Reserve to consider the pending expiration of numerous tax subsidies to green energy sources as part of its climate scenario modeling/stress tests?

A.33. Climate-related financial risks may have implications for the safety and soundness of financial institutions and the stability of the financial sector more broadly. Our role is to ensure supervised

institutions, and the financial system, are resilient to material risks, including those related to climate change.

At the Federal Reserve, we are carefully considering the potential implications of such risks for financial institutions and the financial system, with scenario analysis as a potential key analytical tool for that purpose. Through scenario analysis exercises, we can explore plausible, but novel, combinations of risks that are associated with substantial uncertainty and begin to dimension their potential effects on different asset classes, regions, and sectors. This tool can help us assess the financial system for vulnerabilities related to climate change and deepen our understanding of the interconnections between the climate, the economy, and the financial sector.

Climate scenario analysis exercises can consider a range of potential outcomes. Physical risk scenarios could, for example, include assumptions around the frequency and severity of severe weather events, the impact of sea level rise on coastal communities, or the availability or affordability of insurance. Transition risk scenarios could, for example, include assumptions related to an abrupt repricing of certain assets triggered by shifts in policy, investor sentiment, or technological innovation.

The fields of economics and risk management have a long history of estimating the potential effects of policy changes on variables such as economic growth and financial market outcomes. Incorporating the effects of potential public policy changes in this type of scenario analysis exercise is not a forecast about what will happen, but rather a tool to assess the resilience of our financial system to a range of outcomes and to promote prudent risk management across these potential outcomes.

Q.34. If the Fed receives authorization from Congress for the creation of a central bank digital currency (CBDC), the Fed will still have to make many crucial decisions regarding its design and implementation.

The ability to freely transact without transaction level Government monitoring should be a core component of any U.S. CBDC. How important do you think individual privacy protections are in the design of a CBDC? What privacy measures do you think should be included in its design?

There is absolutely nothing in the history, experience, expertise, or capabilities of the Fed that lend the Fed to being a retail bank. Do you think that the Fed should provide direct retail accounts for use with a CBDC, or for any other purpose?

If existing law were to change and the Fed was given the option by Congress to allow for retail accounts, do you believe the Fed should make them available?

If the Fed were to issue retail accounts to individuals, what could be some of the negative consequences to existing private financial institutions that serve the American public?

A.34. Individual privacy protections are critical in the design of any central bank digital currency (CBDC). It is important that any potential CBDC safeguard the privacy of households' payments transactions, a principle which was highlighted in the Board's recently published discussion paper on CBDC. Similarly, it is also funda-

mental that any potential CBDC prevent and trace illicit activity, which requires the digital verification of identities. To help us better understand possible ways to achieve both aims effectively, we are soliciting ideas from a wide range of stakeholders through our discussion paper.

It is the purview of Congress to determine whether it should authorize the Federal Reserve to offer retail accounts directly to consumers. To help us better understand the perspectives of a broad range of stakeholders with regard to CBDC, the Federal Reserve recently issued a discussion paper on CBDC. The paper notes that initial analysis suggests that a potential U.S. CBDC, if one were created, would best serve the needs of the United States by being privacy-protected, intermediated, widely transferable, and identity verified.

Q.35. Stablecoins offer tremendous potential benefits, including greater payment speed, lower costs, expanded access to the payment system, and programmability. I was disappointed that the recent President's Working Group (PWG) report on stablecoins failed to highlight these potential benefits and recommended a regulatory response that would limit innovation. Some would even go further, subjecting all stablecoins to securities regulation, or prohibiting their issuance if the Government were to issue its own digital currency that was pegged to the value of the dollar.

Is there anything in the creation of a CBDC that ought to preclude well-regulated, privately issued stablecoins from coexisting with a CBDC?

A.35. No. Any potential CBDC should be viewed as a way to expand payment options available to the public, rather than restrict them. There is good reason to expect that multiple types of digital payments will coexist, much like the variety of payment options today. As you note, the key is that privately issued stablecoins be well-regulated.

Q.36. Most stablecoins are pegged to the U.S. dollar, and many are used in international markets. Could stablecoins contribute to the dollar's use internationally?

A.36. Yes. This would depend on a variety of factors.

Q.37. Over the past year, there has been an increasing backlog of bank merger applications pending Fed review. In recent months, some have come to believe that a de facto moratorium on bank mergers and acquisitions was in place at the Fed. As this Committee has seen in another area under its jurisdiction, namely, the Committee on Foreign Investment in the United States (CFIUS) process, an informal moratorium could be put in place by regularly sending requests for additional information to applicants and claiming that the application is not yet complete.

Are you aware of any formal or informal effort at the Fed to delay the resolution of bank merger applications?

Do you believe that the Fed's current merger approval process provides clear instructions to applicants such that they can reasonably expect to submit a complete application without multiple rounds of revisions and additional questions?

Will you commit not to deliberately delay the bank merger application process, and to hold your staff accountable for doing the same?

Will you commit to consider each application on its individual merits?

A.37. I am not aware of any effort of this nature. Congress provided a statutory timeframe in which to process bank merger applications, and I have supported and will continue to support matters moving to the Board in a timely manner.

As part of the evaluation process, the Board gathers information necessary to form a complete record. Applicants are given clear and detailed instructions regarding what is required, and the staff may need to request additional information or ask for clarification from applicants. In order to make an informed decision, it is essential to have all relevant information.

Congress specified a framework to evaluate merger and acquisition applications comprised of a variety of factors that we carefully evaluate—competition and future prospects, financial and managerial resources, convenience and needs of communities to be served, Community Reinvestment Act performance, Bank Secrecy Act/Anti-Money Laundering compliance, and financial stability. For each application, I consider the specific record on those factors, and I commit to continuing that practice.

Q.38. Congress established a set of requirements for the Fed review of bank merger applications under the Bank Holding Company Act (BHCA) by establishing specific factors for consideration. The statute does not give the agency discretion to depart from them.[13] Further, BHCA sets a 91-day deadline for the Fed to approve or disapprove of the application after the record is complete.[14] To ensure the Fed cannot ignore this deadline, Congress structured the law to automatically grant any merger application the Fed fails to act on within that timeframe.[15] An express or de facto moratorium would appear to directly contravene the law.

[13] See, Bank Holding Company Act, 12 U.S.C. §1842(c)(1).

[14] Id. §1842(b)(1).

[15] Id. §1842(b)(1).

Will you commit to review complete bank merger applications expeditiously, as required by law?

Will you commit not to deliberately delay the bank merger application process, and to hold your staff accountable for doing the same?

Will you commit to consider each application on its individual merits?

A.38. Yes. As stated in my response to Question 30, I commit to reviewing matters expeditiously and on their individual merits, and I will continue to support matters moving swiftly to the Board.

Q.39. Please describe with particularity the process by which you answered these questions for the record, including identifying who assisted you in answering these questions along with a brief description of their assistance.

A.39. As is my standard practice, I have engaged with Board staff to receive their input in compiling these responses. The responses to these questions and the views expressed are mine.

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

Q.1. While there has been some progress in diversifying the Class C Directors chosen by the Fed, the Class B Directors elected by member banks remain predominantly White, male, and representative of banks and large businesses.

What specific steps would you take to help further diversify the Boards of Directors at the Federal Reserve Banks?

A.1. The Federal Reserve should reflect the communities we serve. The Federal Reserve was founded on a recognition of the importance of bringing a diversity of perspectives to the table. That is reflected in the twelve Reserve Banks, and their branches, located in different regions across the country. We have not yet achieved that standard on other dimensions. Research suggests that having more diverse perspectives at the table—diversity of every type—leads to less groupthink and better outcomes.

I have worked to increase diversity among the Federal Reserve System's boards of directors. Our Class C directors are materially more diverse than they were 5 years ago. Minority representation among Class C directors has increased by 31 percentage points, and currently nearly two-thirds of Class C directors are minorities (22 percent of which are Hispanic/Latino). Currently, more than half of Class C directors are women, 33 percent of whom are minorities.

The leadership of Reserve Bank boards is also highly diverse. Currently 20 of the 24 Reserve Bank Chairs and Deputy Chairs are diverse in terms of race or ethnicity and/or gender.

As you reference in your question, Class B directors are nominated and elected by the member banks in their respective District, as are Class A directors. Although progress has also been made among Class B directors, it is important to make further progress.

The current recruitment processes focus on outreach; tapping directors' professional networks to recruit in specific sectors; leveraging relationships with members of the Federal Reserve Board's and the Reserve Banks' numerous advisory councils; and engaging with community and business contacts to identify potential sources of candidates for director positions. We continue to look for ways to broaden our outreach efforts. I am committed to working with senior Reserve Bank leaders to build upon these practices in order to identify more diverse pools of candidates for director positions.

Q.2. One idea I believe could help is to bring greater transparency and public participation into the selection process. This would provide additional legitimacy to the Banks and promote Fed leadership that actually represents the public it oversees.

Would you support a venue for genuine public participation in the Class B and C Director selection processes?

A.2. I support genuine public engagement on the Class B and C director selection processes. As I noted in my response to question #1, the current recruitment processes for director positions involve building relationships and connecting with members of the public. Senior Federal Reserve System staff engage community, business, and labor leaders through a variety of outreach and engagement fo-

rum to expose members of the public to the Federal Reserve and its mission and to solicit their input on best practices and gaps in recruiting for director positions.

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

Q.1. How does the financial stability of lower income individuals factor into your view of the Fed’s dual mandate?

A.1. The Federal Reserve promotes maximum employment and price stability—its dual-mandate goals—and in doing so it directly and positively affects the financial health of lower income individuals. For all but the top 5 percent of the income distributions, wage income makes up around 60 to 80 percent of total income for working-age households (see, Feiveson et al., 2020, pp. 9 to 11).¹ As such, the Federal Reserve’s policy actions to promote maximum employment also support household wage income and, in turn, the financial health of lower income households. In this regard the Federal Reserve’s broad and inclusive definition of its maximum employment goal is especially important. This goal means that we do not just look at the headline unemployment rate, or any high-level aggregate, when setting policy, but rather we monitor a wide range of labor market indicators to assess whether progress toward maximum employment is broad and inclusive. Our policies to promote price stability also foster lower-income individuals’ financial health. High inflation takes a toll on families, especially those with lower incomes who are burdened by the higher costs of essentials like food, housing, and transportation.

To better understand how the Federal Reserve’s policy actions affect the financial health of households—including lower income households—the Federal Reserve has made a number of enhancements to its data collections and to its community outreach efforts. Enhancements to our data collections in recent years include the development and publication of new surveys—such as, the Distributional Financial Accounts, which reports quarterly estimates of wealth, assets, and debt by race and ethnicity, and the Survey of Household Economics and Decisionmaking (SHED), which reports on the economic well-being of American households, including among racial and ethnic groups—and the enhancement of existing surveys—such as the Survey of Consumer Finances (SCF), which in this year’s survey will include improved measures of racial disparities. Enhancements to community outreach have most notably included the launch of Fed Listens, which began in 2019 as a series of events undertaken as part of our framework review and which we have been continued since then. Fed Listens events, which take place around the country and engage with a wide range of individuals and groups—employee groups and union members, small business owners, residents of low- and moderate-income (LMI) communities, workforce development, organizations and community col-

¹ Laura Feiveson, Nils Goernemann, Julie Hotchkiss, Karel Mertens, and Jae Sim (2020), “Distributional Considerations for Monetary Policy Strategy”, Finance and Economics Discussion Series 2020-073 (Washington: Board of Governors of the Federal Reserve System). The analysis in this paper was prepared as background for the Federal Open Market Committee’s discussions at its December 2019 meeting on distributional considerations for monetary policy.

leges, retirees, and others—provide an opportunity to hear about how monetary policy affects peoples’ daily lives and livelihoods and we view the stories that we hear from these events to be a highly useful input into our policy monetary deliberations.

A better understanding of how our monetary policy actions affect different socioeconomic groups also helps us to better conduct monetary policy in order to fulfill our dual mandate. For example, Feiverson, et al. (2020), showed that the costs of recessions to the society would be larger once we consider the differences across households’ abilities to access credit; as a result, monetary policy strategies aiming to stabilize inflation over longer time horizons, along lines similar to what we adopted under the updated Statement on Longer-Run Goals and Monetary Policy Strategy, would be more successful at reducing the frequency of recessions and the severity of unemployment-rate increases during recessions.

Q.2. When considering raising interest rates to curb inflation, how does the effect of raising interest rates on low income borrowers factor your decision?

A.2. Low-income households benefit from conditions of maximum employment and low inflation, which is what our monetary policy is designed to achieve. The U.S. economic expansion that preceded the pandemic was historically unprecedented in its length. The length of the expansion benefited low-income Americans by providing a continuous increase in job opportunities and growing levels of employment in a low inflation environment. An important principle suggested both by economic theory and by the economic experience of the United States and other countries is that long expansions are facilitated by price stability and stable longer-term inflation expectations. Against this background, changes that the Federal Open Market Committee (FOMC) makes to its target range for the Federal funds rate—including rate increases when it judges these to be appropriate—are designed to put in place a monetary policy stance most consistent with achieving and sustaining our dual mandate of maximum employment and price stability. Our decisions take place in the context of our new monetary policy framework, which recognizes that maximum employment is a broad and inclusive goal, encompassing low-income workers and those traditionally on the margin of the labor force. For the reasons I indicated above, achieving our maximum-employment goal on an ongoing basis requires creating conditions consistent with long, noninflationary expansions.

Q.3. If confirmed, what steps will you take ensure that the Federal Reserve works for people of all levels of wealth and income?

A.3. If confirmed, I will work to ensure the Federal Reserve carries out its statutory responsibilities with regard to people around the country at all levels of wealth and income. The Federal Reserve has tools and responsibilities with regard to monetary policy on the one hand, as well as supervision and regulation. Both make important contributions to widely shared prosperity.

By pursuing our statutory mandate, the Federal Reserve’s monetary policy actions promote maximum employment and price stability—two foundations that improve economic outcomes for all Americans. Those who have historically been left behind stand the

best chance of prospering in a strong, stable economy with plentiful job opportunities and low inflation.

The lengthy expansion that was brought to a close by the pandemic showed the immense benefits that a strong labor market with low inflation can provide to all communities, and especially to LMI communities. The pandemic is a reminder that LMI communities are the most vulnerable to economic downturns and also that the Federal Reserve has powerful tools to help support a strong recovery.

Currently we are seeing the strongest recovery in five decades with strong growth and the creation of millions of jobs, but inflation is too high. Monetary policy is focused on getting inflation down to target, which is important for working people who are concerned about how far their paychecks will go, while sustaining a recovery that includes everyone.

The Federal Reserve staff undertake important data collections on consumer and small business finances and the economic wellbeing of households broken out by wealth and income. If confirmed, I will support this work, which provides an important window into how well our policies are achieving their goals.

The Federal Reserve also has important supervisory and regulatory responsibilities that promote fair and equal access to credit and financial services.

The Community Reinvestment Act (CRA) is an essential regulation and supervisory tool to promote access to credit investment in LMI communities. I have worked to strengthen CRA regulations and evaluations to increase the effectiveness, transparency and accountability in how banks are rated on their affirmative obligation to meet the investment, credit, and banking services needs of their local communities, including through improved access to home mortgage, small business, and student lending for LMI households and communities. The CRA evaluations are public and are taken into consideration in the review of banks' applications for merger and acquisitions. Currently, staff at the Board, Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) are working together to propose for public comment revisions to the regulations that implement CRA.

Further, the Federal Reserve examines banks for compliance and helps enforce the Fair Housing Act and the Equal Credit Opportunity Act. In implementing our statutory responsibilities, the Federal Reserve works to make sure that the State member banks we examine have credit policies and practices in place that are fair and do not prevent any creditworthy consumer from getting access to credit, do not result in discrimination in the pricing of credit, or redline neighborhoods based on their racial and ethnic composition. If examiners identify a pattern or practice of illegal discrimination on any of the prohibited factors defined in the laws, staff cite it and refer the case to the Department of Justice for further enforcement.

To further support access to economic opportunity for people of all levels of wealth and income, the Federal Reserve has a long-standing program to promote the viability of minority depository institutions (MDIs), which are mission-oriented and dedicated to serving the banking and credit needs of minority consumers and communities. Through the Federal Reserve System's Partnership

for Progress (PFP) program, we provide technical assistance and training in collaboration with the FDIC and OCC to help MDI leaders overcome the challenges inherent in providing banking services to LMI and minority communities and consumers. To further support financial institutions dedicated to serving harder to reach market segments, we expanded our PFP program to include Women's Depository Institutions (WDIs).

Q.4. How have the principles of economic inclusion changed the way you approach your job and the way you work to achieve the Fed's dual mandate since first joining the Board?

A.4. Working at the Federal Reserve, I am mindful that the history of the institution and its policy mandates were themselves shaped by the principles of economic inclusion, and it is important to broaden the application of these foundational values. Since its creation, the Federal Reserve has always seen value in, and benefited from, regional and sectoral diversity. That's why we have 12 Reserve Banks all across the country and we have branches in communities spread throughout each of the 12 districts. I see these different points of view represented each time we meet at the FOMC and when I visit Reserve Banks, and these perspectives are invaluable. Just as it is important to reflect the communities we serve in their regional and sectoral diversity, it is important to do so with respect to racial, ethnic, and gender diversity.

In addition, the call to pursue both price stability and maximum employment, our dual mandate, has its roots in the principle of economic inclusion. The 1977 introduction of the mandate was spearheaded by Senator Hubert Humphrey and Representative Augustus Hawkins. Representative Hawkins was a prominent advocate of full employment, emphasizing its importance not only for providing a job to every American seeking work, but also for reducing poverty, inequality, discrimination, and crime and improving the quality of life of all people. Representative Hawkins emphasized that "without genuine full employment it would be impossible to eliminate racial discrimination in the provision of job opportunities."² The Humphrey-Hawkins Act itself noted that ". . . full employment would greatly contribute to the elimination of discrimination based upon sex, age, race, color, religion, national origin, handicap, or other improper factors."³

The stories we heard at Fed Listens events during the review of our monetary policy framework would have sounded very familiar to Representative Hawkins, and they provided FOMC members with specific examples from communities around the country consistent with what we were seeing in the research.⁴ Having reached multidecade lows in aggregate measures of unemployment, we were told by a number of community and labor representatives that improving labor market conditions were only beginning to

² Augustus F. Hawkins (1975), "Full Employment To Meet America's Needs", *Challenge*, vol. 18 (November/December), pp. 20–28.

³ The complete original language of the act (quoted text in section 2B (4)) is available through FRASER on the Federal Reserve Bank of St. Louis website at <https://fraser.stlouisfed.org/title/full-employment-balanced-growth-act-humphrey-hawkins-act-1034>.

⁴ See, for example Stephanie R. Aaronson, Mary C. Daly, William L. Wascher, and David W. Wilcox (2019), "Okun Revisited: Who Benefits Most from a Strong Economy?"

reach their communities.⁵ Changes that we made to the monetary policy framework as a result of the review brought our longer-run goals and strategy into alignment with key longer-run changes in the economy. Those changes also recognized that a shortfalls approach to a broad and inclusive definition of maximum employment gave us the best chance to achieve full employment that includes everyone.

Finally, I would note as I did in my hearing that these principles of economic inclusion apply to both sides of our mandate. Inflation is too high and working people around the country are concerned about how far their paychecks will go. Our monetary policy is focused on getting inflation back down to 2 percent while sustaining a recovery that includes everyone. This is our most important task.

Q.5. What actions have you taken to increase staff diversity at the Fed during your time as member of the board of governors and, if confirmed, what are the staff diversity goals you would support as vice-chair?

A.5. I have made increasing diversity and inclusion a priority in my career, and I have benefited, as have the organizations for which I have worked, from the views of people of different backgrounds. Research suggests, and my own experiences have shown, that having more diverse perspectives at the table—diversity of every type—leads to less groupthink and better outcomes.

I work closely with the Director of the Board's Office of Minority and Women Inclusion (OMWI), Chief Human Capital Officer, Chief Operating Officer, and division directors to hire, retain, and promote a diverse staff. We have made this a priority for the Executive Committee. I meet regularly with the OMWI Director to discuss progress on priorities and to understand challenges and how we are addressing them. As hiring decisions are made, I also consult with her to ensure conformance with best practices. In order to attract a diverse group of high talented individuals, we need to ensure that the Board is a place that people want to work and that means focusing on everything from recruitment strategies, to ensuring we have competitive compensation and benefits, robust opportunities for advancement, and a culture and environment where employees feel supported and valued.

The Board is undertaking efforts to increase the diversity of our economists by building relationships with students and schools at all levels to introduce them to the Federal Reserve, through involvement in minority recruitment events, partnering with the American Economic Association and Howard University, and recruiting economists with more varied research specializations. I have personally participated in a variety of such student recruiting events, including the Conference for the 2017 Summer Training and Scholarship Program sponsored by the American Economic Association and the National Science Foundation, the Sadie T.M. Alexander Conference for Economics, and the Board's Exploring Careers in Economics program.

Generally, I think it is critical to remain engaged with staff and create opportunities for dialogue. I make it a priority to participate

⁵See, Board of Governors of the Federal Reserve System (2020), "Fed Listens: Perspectives From the Public".

in division town halls and events sponsored by employee resource groups. This provides me an opportunity to get to know more of the Board's employees, better understand their individual contributions, hear the challenges they are facing, as well as what they think is working well and where there is room for improvement. It also provides staff an opportunity to raise concerns with me directly, increasing transparency and accountability.

Q.6. To what extent would you credit the upward pressure on pricing that Americans are experiencing to actions taken by businesses that leave them less resilient to shocks, such as offshoring, market consolidation, and just-in-time manufacturing, and how do these supply-side constraints factor into the demand-side levers the Federal Reserve has at their disposal?

A.6. It is certainly the case that supply chain disruptions associated with the pandemic have contributed to today's high inflation. In particular, supply chain bottlenecks associated with semiconductor production in Asia have led to vehicle production bottlenecks in the U.S. that have made an outsized contribution to inflation over the past year. Similarly, foreign port shutdowns in response to COVID-19 have contributed to a substantial increase in shipping costs and shipping delays.

That said, the Federal Reserve has powerful tools that influence overall demand in the economy. The Federal Reserve is positioning monetary policy to ensure that high inflation does not become entrenched, consistent with our dual mandate goals.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR ROUNDS FROM LAEL BRAINARD

Q.1. The National Association of Insurance Commissioners completed its work on the Group Capital Calculation (GCC) and the Federal Reserve has adopted its building block approach (BBA). As you know, the International Association of Insurance Supervisors (IAIS) is proceeding with its monitoring period of the international capital standards (ICS), but its comparability analysis of the aggregation method has been delayed. Building on the work of the GCC and BBA, the aggregation method is an equivalent implementation of a group capital rule for large, internationally active insurers in the United States. To date, Team USA has advocated in favor of the IAIS treating the aggregation method as comparable. The U.S. system of State-based insurance regulation is the gold standard when it comes to protecting our insurance markets and insurance consumers in South Dakota and across the country. I believe it is imperative that Team USA get this right and forcefully advocate on behalf of this system.

As Vice-Chair, will you work with the States and the Federal Insurance Office to continue to advocate for the aggregation method to be deemed comparable to the ICS?

A.1. Yes. I will support this position (respecting that the Vice Chair for Supervision has the lead on this issue). The Federal Reserve Board (Board) continues to work alongside its U.S. partners to advocate for the Aggregation Method to be deemed an outcome-equivalent approach for implementation of the International Capital

Standards (ICS). The short delay experienced in developing the criteria that will be used to assess comparability is not expected to impact the plan to complete the assessment prior to the end of the monitoring period. As currently constructed, the ICS would not be appropriate as a capital rule for U.S. internationally active insurance groups. Accordingly, the Board, the Federal Insurance Office, State representatives, and the National Association of Insurance Commissioners, as well as other interested jurisdictions, have worked to develop the Aggregation Method, which is comparable to the ICS and therefore an equivalent implementation of a group capital rule for internationally active insurers in the U.S.

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

Q.1. You have consistently dissented near unanimous Fed decisions to roll back financial regulations, including a recent dissent in June 2020, when the Fed considered changes to the Volcker Rule. Your dissents included 12 in 2020 alone. Our economy is reeling under the Administration’s failed economic policies, inflation remains at historic highs and consumers are struggling to pay for basic necessities for their families. Banks have consistently led the way throughout this crisis, injecting trillions of dollars into the economy, lending to consumers and small businesses while holding high levels of capital. They’ve been part of the solution, not the source of the crisis; not to mention they were evidently well capitalized in 2020. What was your basis for objecting to these common sense regulatory reforms if, as we saw, they clearly didn’t negatively impact financial stability?

A.1. For S.2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act, I supported the implementation of all statutory provisions. I was pleased to support the exemption of community banks from many Dodd–Frank Wall Street Reform and Consumer Protection Act provisions, including the Volcker Rule. I was pleased to support a lower leverage ratio for community banks. I also supported the exclusion of reserves from the leverage ratio for custody banks.

During the rulemaking process, there may be several votes on the same issue—from an advance notice of proposed rulemaking to a final rule—so there are just a handful of core issues on which I dissented. S.2155 retained the requirement for automatic application of enhanced prudential standards for banks with \$250 billion or more in assets and did not make any changes specifically with regard to foreign banking organizations. I dissented on those changes that went beyond the provisions of S.2155 to reduce capital, liquidity, stress testing, and resolution planning requirements on domestic banks above \$250 billion and to reduce requirements for large foreign banking organizations. I did not see compelling legal changes or analysis to justify these changes at a time when large banks enjoyed robust profits and were the most competitive in the world. Indeed, the strong capital and liquidity buffers that had been built at the large banks in the years following the Global Financial Crisis were important contributors to their financial resilience during the COVID–19 market turmoil.

In those instances, I always worked with Vice Chair Quarles and Chair Powell in a collegial manner to make them aware of my concerns in advance.

Q.2. What is your view of the right regulatory framework for banks and do you have a view on how less regulated nonbank fintechs, offering retail banking services should be regulated by the Fed?

A.2. Banks of all sizes play a critical role in our economy—providing credit to households and businesses and serving as financial intermediaries. Given this important role, it is essential that they operate in a safe and sound manner and can be resolved without posing risks to the system.

It is vital that banks have adequate capital and liquidity buffers as well as systems to identify, monitor, and manage material risks that are commensurate with the risks posed by the institution. Community banks do not pose the same risks as larger, more complex firms, so I am supportive of appropriate relief for community banks.

With regard to nonbank fintechs, as well as financial innovation more broadly, the Federal Reserve is focused on responsible innovation and consumer protection, with a guiding principle that like activity with like risks should be subject to like regulation regardless of the legal entity. The Federal Reserve Board's regulatory and supervisory authority is generally limited to activities conducted by depository institution holding companies, State member banks, and their nonbank affiliates. I would welcome the Congress updating the statutory framework as financial innovation continues to evolve.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR DAINES FROM LAEL BRAINARD

Q.1. In a May 2021 speech, you seemed to signal support for using a Central Bank Digital Currency (CBDC) as a pathway to creating retail bank accounts at the Federal Reserve. I asked Chairman Powell about this topic in February of last year—specifically, whether the Fed was equipped to service individual retail and commercial accounts. His reply was: “No, and of course we are not permitted under current law, and that has never been our role and it’s really not been the role of other major central banks. It would be a quite dramatic change in our role in the economy, and one that I think should require very careful thought.”

Putting aside that the Federal Reserve would need approval from Congress to engage in retail banking, do you believe the Federal Reserve is equipped to service individual retail and commercial accounts? Do you believe it would be wise for the Federal Reserve to enter into this space?

A.1. The Federal Reserve recently issued a discussion paper on central bank digital currency (CBDC). The paper notes that initial analysis suggests that a potential U.S. CBDC, if one were created, would best serve the needs of the United States by being intermediated in addition to being privacy-protected, widely transferable, and identity verified. I look forward to receiving public comment on such an approach.

Q.2. You mentioned during the hearing that the Federal Reserve attempts to track both domestic and international factors that may impact inflation and the economy. Could you further detail the extent to which the Federal Reserve is tracking how China's zero-COVID policy could impact the health of global supply chains?

A.2. The Federal Reserve is closely tracking potential disruptions to global supply chains and is very focused on potential risks stemming from China's zero-COVID policy. Incoming data from manufacturing surveys continue to suggest that global supply-chain bottlenecks are elevated, with firms facing long delivery times and citing labor shortages as a factor preventing them from operating at full capacity. Auto production has been hit especially hard, with semiconductor shortages emanating from Asia still hampering output. Notwithstanding some improvement recently, ports in the United States remain highly congested as record volumes of traded goods are being transported.

Although both the supply of semiconductors and congestion in the global shipping networks have seen modest improvements of late, they remain vulnerable to further disruption. In particular, the Omicron variant of COVID-19 is now hitting Asia, with a renewed risk of disruption to labor supply in Asian factories and Chinese ports.

Given China's importance to global supply chains and its continuation of "zero-tolerance" policies, a ramping up of very stringent and widespread lockdowns in China is a key downside risk for supply chains. A number of cities and provinces have implemented public health restrictions. The city of Xi'an, which has been under lockdown for weeks, is an important supplier of memory chips (processing roughly one-tenth of the world's supply) to several multinational companies. Similarly, the key port of Ningbo was partially closed again around the turn of the year. If lockdowns become more widespread across China, particularly in the industrial port cities along the coast, disruptions in global supply chains could be exacerbated and prolonged.

RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN BROWN FROM SANDRA THOMPSON

Q.1. Where have you excelled in past positions in attracting, hiring, and promoting people of color in positions in your organization? Where might there be room for improvement?

A.1. Over the last 2 years, we have continued our success in attracting and hiring people of color. Minorities comprised 46.1 percent and 52.6 percent of our total hires in 2020 and 2021, respectively. These percentages reflect success across all occupational groups and grade levels. We are proud of this upward trend and will continue to make this a focal point of our recruitment and outreach efforts.

We have also had success retaining and promoting employees of color within FHFA. Between 2020 and 2021, the Agency saw a 9 percent reduction in the percentage of people of color and an 11 percent reduction in the percentage of women of color who left FHFA. More than 50 percent of promotions went to people of color

in 2020 and 2021, and the percentage of promotions representing women of color increased by 7 percent between 2020 and 2021.

Like other Federal agencies, we have experienced challenges in hiring people of color into economist positions. We will continue our outreach to minority organizations and use both our entry-level Economists Program and our hiring of college students and recent graduates to expose underrepresented groups to the economist opportunities at the Federal Housing Finance Agency (FHFA).

Q.2. What specific measures will you use to evaluate the success of the Federal Housing Finance Agency in understanding and addressing the needs of Black, Indigenous, and people of color (BIPOC)? And, will you work to keep Congress apprised, as appropriate, on the progress being made on these measures?

A.2. FHFA monitors fair lending data and risks presented by the activities of Fannie Mae and Freddie Mac (the Enterprises). We recently released data on Enterprise loan purchases and Enterprise automated underwriting system approvals by race and ethnicity, which will assist us in identifying whether the Enterprises' programs and products address the need of BIPOC borrowers (<https://www.fhfa.gov/DataTools/Downloads/Pages/Fair-Lending-Data.aspx>).

We plan to expand on this public data release, including as part of the implementation and evaluation of the Enterprises' Equitable Housing Finance Plans, to keep the public informed about how our regulated entities are doing in serving BIPOC borrowers.

FHFA is also an active member of the Property Appraisal and Valuation Equity (PAVE) task force, cochaired by the Department of Housing and Urban Development's Secretary Fudge and Ambassador Rice. The PAVE task force seeks to root out discrimination in the appraisal and homebuying process and includes subcommittees for data, education, enforcement, and policy. To date, FHFA has executed data sharing agreements and provided historical appraisal data to our interagency partners in support of interagency efforts to research and examine the issue of property valuation bias and support enforcement and compliance with fair lending laws.

We are committed to working with Congress and keeping you informed about these efforts.

Q.3. What is your plan for creating an inclusive working environment for employees within your office?

A.3. FHFA works to maintain an inclusive working environment and has leveraged diversity to develop an equitable and high-performing culture as we pursue our mission. The data in our response to the question above demonstrates our success in recruiting, hiring, promoting, and retaining a diverse workforce. The release of a new Agency Equal Employment Opportunity (EEO) Policy Statement in August 2021 outlined an Agency-wide commitment requiring accountability from all FHFA staff in order to have a workplace where employees can reach their potential in a safe environment based on mutual respect and the freedom to exercise their civil rights. FHFA also requires, as part of its performance evaluation process, that executives and senior-level managers demonstrate support for the Agency's diversity and inclusion initia-

tives, as well as application of and compliance with applicable EEO laws and regulations.

Q.4. Do you believe that our housing finance system must protect broad access to affordable 30-year fixed-rate mortgages; serve the broad, national market equitably; serve lenders of all types and sizes equitably; preserve a competitive primary mortgage market; maintain a duty to serve all markets and all borrowers, including through affordable housing metrics; expand investment in affordable housing; and ensure continued or better access for financing of affordable rental housing?

A.4. Yes, I believe those principles are inherent in the current structure of the housing finance system, and I support those principles in any future secondary mortgage market structure that Congress may create. Furthermore, as Acting Director of FHFA and, if confirmed, Director of FHFA, I intend to follow these principles as I carry out my responsibilities ensuring the safety and soundness of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (housing GSEs or regulated entities) and their ability to accomplish their mission.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR TOOMEY FROM SANDRA THOMPSON

Q.1. *Congressional Oversight*—Please provide your philosophy on how the Federal Housing Finance Agency (FHFA) will approach and respond to Congressional information requests (both for documentary information and oral testimony), if you are confirmed.

A.1. If confirmed, I will ensure that FHFA continues to respond to Congressional information requests in a timely and transparent manner, in accordance with applicable law and regulation.

Q.2. If confirmed, do you intend to respond to information requests differently depending on who is making the Congressional information request (whether it's the chair of the Congressional committee, the Ranking Member, or another member of Congress)? Please answer "yes" or "no." If your answer is "yes," please explain.

A.2. If confirmed, I will work to respond to Congressional information requests in a timely, consistent manner regardless of the requestor, in accordance with applicable law and regulation.

Q.3. Will you commit that, if confirmed, you will timely respond to and fully comply with all information requests from me? Please answer "yes" or "no." If your answer is "no," please explain.

A.3. If confirmed, I will respond in a timely manner to Congressional information requests, in accordance with applicable law and regulation.

Q.4. Will you commit that, if confirmed, you will make yourself and any other FHFA employee expeditiously available to provide oral testimony (including but not limited to briefings, hearings, and transcribed interviews) to the Committee on any matter within its jurisdiction, upon the request of either the Chairman or Ranking Member? Please answer "yes" or "no." If your answer is "no," please explain why.

A.4. If confirmed, I will make myself and FHFA staff available to provide oral testimony, in accordance with applicable law and regulation.

Q.5. Do you believe that FHFA may assert any privileges or other legal justifications to withhold information (whether records or oral testimony) from Congress? Please answer “yes” or “no.”

A.5. FHFA strives to be open and transparent with Congress and the public. The Agency, like other bank financial regulators takes seriously its responsibility to protect from disclosure certain information concerning its supervisory and regulatory activities. FHFA commits to assert applicable and valid privileges or other legal justifications, including the examination privilege it shares with sister regulatory agencies, only when necessary and justified after a fact-specific analysis. Should this situation arise, I will work with the appropriate Agency officials and provide responses consistent with applicable law.

Q.6. If you answered “yes” to the preceding question, please list every such privilege or other legal justification and provide the legal basis for why you believe FHFA may use such privilege or legal justification to withhold information from Congress.

A.6. FHFA strives to be open and transparent with Congress and the public. The Agency, like other bank financial regulators takes seriously its responsibility to protect from disclosure certain information concerning its supervisory and regulatory activities. FHFA commits to assert applicable and valid privileges or other legal justifications, including the examination privilege it shares with sister regulatory agencies, only when necessary and justified after a fact-specific analysis. Should this situation arise, I will work with the appropriate Agency officials and provide responses consistent with applicable law.

Q.7. In an effort to be open and transparent with Congress and the public, will you commit not to assert any such privilege or legal justification against Congress that you listed above? If not, why not? If so, please identify all such privileges or legal justifications that you will commit to not assert against Congress.

A.7. FHFA strives to be open and transparent with Congress and the public. The Agency, like other bank financial regulators takes seriously its responsibility to protect from disclosure certain information concerning its supervisory and regulatory activities. FHFA commits to assert applicable and valid privileges or other legal justifications, including the examination privilege it shares with sister regulatory agencies, only when necessary and justified after a fact-specific analysis. Should this situation arise, I will work with the appropriate Agency officials and provide responses consistent with applicable law.

Q.8. *Proposed Amendments to the Enterprise Regulatory Capital Framework (ERCF); Financial Stability Oversight Council (FSOC) Review*—On September 25, 2020, FSOC released a statement on its activities-based review of the secondary mortgage market (the FSOC statement). The FSOC statement affirmed the overall quantity and quality of the regulatory capital required by the Federal Housing Finance Agency’s (FHFA) June 30, 2020 proposed rule to

establish a new regulatory capital framework for Fannie Mae and Freddie Mac (each, an Enterprise).¹ Specifically, FSOC stated that “risk-based capital requirements and leverage ratio requirements that are materially less than those contemplated by the proposed rule would likely not adequately mitigate the potential stability risk posed by the Enterprises.” FSOC also concluded “it is possible that *additional* capital could be required for the Enterprises to remain viable concerns in the event of a severely adverse stress.”² (emphasis added) FSOC also committed to “continue to monitor . . . FHFA’s implementation of the regulatory framework to ensure potential risks to financial stability are adequately addressed.” On December 17, 2020, FHFA released a rule finalizing the ERCF (the final capital rule) that included leverage capital requirements that were identical to those in the proposed rule.³

A.8. N/A.

Q.9. Do you accept each of the findings and recommendations made by FSOC in the FSOC statement? If not, please identify each finding or recommendation with which you disagree and your rationale for the disagreement.

A.9. I generally agree with the findings in the FSOC statement. However, similar to approaches followed by other financial regulators, FHFA intends to periodically review the final capital rule and adjust various elements as necessary to ensure the safety and soundness of the Enterprises. In the 2021 proposed rule, FHFA proposed selective refinements to the leverage buffer and risk-based capital treatment of CRT, while leaving the leverage ratio requirement unchanged.

Q.10. In particular, do you accept FSOC’s finding that “risk-based capital requirements and leverage ratio requirements that are materially less than those contemplated by the proposed rule would likely not adequately mitigate the potential stability risk posed by the Enterprises”?

A.10. I generally agree with FSOC’s findings regarding the quantity of required capital at the Enterprises. In the 2021 proposed rule, FHFA proposed selective refinements to the leverage buffer and risk-based capital treatment of CRT, while leaving the leverage ratio requirement unchanged.

Q.11. Do you accept FSOC’s finding that “[t]he alignment of market participants’ credit risk capital requirements across similar credit risk exposures would mitigate risk to financial stability by minimizing market structure distortions”?

A.11. I generally agree with FSOC’s findings. In light of the business models and mission of its regulated entities, FHFA issued its final capital rule to create a going-concern regulatory capital standard to ensure that each Enterprise operates in a safe and sound manner and is positioned to fulfill its statutory mission to provide stability, liquidity, and ongoing assistance to the secondary mortgage market across the economic cycle.

¹ 85 FR 39,274.

² *Id.*

³ 85 FR 82,150.

Q.12. Do you accept FSOC's recommendation that "FHFA and other regulatory agencies . . . coordinate and take other appropriate action to avoid market distortions that could increase risks to financial stability by generally taking consistent approaches to the capital requirements and other regulation of similar risks across market participants, consistent with the business models and missions of their regulated entities"?

A.12. I generally agree that there should be coordination between FHFA and other regulatory agencies to avoid market distortions. FHFA, as the primary regulator for Fannie Mae and Freddie Mac, utilizes the same principles and approaches as other regulatory agencies to ensure that Enterprise capital requirements are appropriate for the risks the Enterprises retain, consistent with the business models and missions of the Enterprises.

Q.13. FHFA has proposed amendments (the proposed ERCF amendments) that would reduce the regulatory capital required by both the risk-based capital requirements and the leverage capital requirements set forth in the final capital rule.⁴ In light of FSOC's commitment to monitor FHFA's implementation of the Enterprises' regulatory framework, which includes the regulatory capital framework, did FHFA solicit input from the Board of Governors of the Federal Reserve System (the Fed) regarding whether the proposed ERCF amendments would adequately address potential risks to financial stability? Has the Fed otherwise reviewed the proposed ERCF amendments?

A.13. Federal Reserve officials have publicly identified binding leverage capital requirements under the Supplementary Leverage Ratio (SLR) framework as an issue that must be addressed so that banks' incentives are not skewed to seek more risk and increase risk-taking. FHFA agrees with this guiding principle for the Enterprises under the Enterprise Regulatory Capital Framework (ERCF).

Q.14. What were the Fed's comments or other input on the proposed ERCF amendments?

A.14. Federal Reserve officials have publicly identified binding leverage capital requirements under the SLR framework as an issue that must be addressed so that banks' incentives are not skewed to seek more risk and increase risk-taking. FHFA agrees with this guiding principle for the Enterprises under the ERCF.

Q.15. Do you intend to ask FSOC as a council to review the proposed ERCF amendments?

A.15. FSOC as a council does not routinely review its members' rulemakings.

Q.16. *Proposed Amendments to Capital Treatment of Credit Risk Transfers (CRT)*—The preamble to the proposed ERCF amendments states that FHFA "believes that the current CRT risk weight floor may not achieve the proper balance between permitting CRT and safety and soundness." Do you believe it is appropriate for FHFA to foster or otherwise permit CRT at the expense of safety and soundness? If not, what do you intend with respect to the prop-

⁴ 86 FR 53,230.

er balance to be achieved between permitting CRT and safety and soundness?

A.16. Fannie Mae and Freddie Mac are the largest holders of mortgage credit risk in the United States. One of FHFA's priorities is to facilitate moving that credit risk into the hands of the private sector and away from the Enterprises and taxpayers. We believe that the changes that we have proposed to the capital rule will help facilitate the credit risk transfer program and ensure that taxpayers are not at greater risk.

Q.17. The proposed ERCF amendments contemplate a 5 percent risk weight floor on retained CRT exposures. The U.S. banking regulators impose a 20 percent risk weight floor on similar retained securitization exposures. Do you think the gap between these similar credit risk exposures is consistent with FSOC's recommendation that "FHFA and other regulatory agencies . . . coordinate and take other appropriate action to avoid market distortions that could increase risks to financial stability by generally taking consistent approaches to the capital requirements and other regulation of similar risks across market participants"?

A.17. Fannie Mae and Freddie Mac are the largest holders of mortgage credit risk in the United States. One of FHFA's priorities is to facilitate moving that credit risk into the hands of the private sector and away from the Enterprises and taxpayers. We believe that the changes that we have proposed to the capital rule will help facilitate the credit risk transfer program and ensure that taxpayers are not at greater risk.

Q.18. The preamble to the proposed ERCF amendments offers no evidence that the ERCF's current 10 percent risk weight floor is excessive relative to the risk on retained CRT exposures. FHFA's primary argument is instead that the floor "reduces an Enterprise's incentives to engage in CRT."

Do you think there is evidence that the 10 percent risk weight floor is excessive relative to the risk on retained CRT exposures?

If so, what is that evidence?

A.18. We believe that CRT contributes to the safety and soundness of the Enterprises and that disincentivizing CRT can contribute to increased risk for them and taxpayers. Fannie Mae and Freddie Mac are the largest holders of mortgage credit risk in the United States. One of FHFA's priorities is to facilitate moving that credit risk into the hands of the private sector and away from the Enterprises and taxpayers. We believe that the refinements that we have proposed to the capital rule will help facilitate the credit risk transfer program and ensure that taxpayers are not at greater risk.

Q.19. In coming to a view of the question above, what is your assessment of banking organizations' 2008 financial crisis experience with securitizations as discussed in footnote 46 of the final capital rule and footnote 74 of the proposal of the ERCF, each of which sets forth the Federal banking regulators' view that the 2008 turmoil in the financial markets demonstrated the extent to which the credit risk exposure of the sponsoring banking organization to such securitization structures (and their related assets) had in fact been

greater than the agencies estimated, and more associated with non-contractual considerations than the agencies had expected?

A.19. When I served as the FDIC's head of supervision and consumer protection throughout the 2008 financial crisis, I witnessed firsthand the consequences of irresponsible lending when hundreds of banks across the country were closed and a record number of homes went into foreclosure. As a financial regulator, I have long believed that safety and soundness and access to credit are not mutually exclusive. FHFA will continue to promote sustainable and equitable access to credit in a safe and sound manner, and ensure that the Enterprises are managing and, as appropriate, transferring their credit risk to avoid any repeat of the 2008 financial crisis.

Q.20. In the spring of 2020, counterparties to some of the GSEs' so-called "fixed severity" CRT launched a vigorous campaign to persuade FHFA not to require each GSE to transfer to the counterparty losses for which the counterparty was, by contract, otherwise obligated. Historically, FHFA has not always transferred losses as permitted by CRT instruments. As FHFA's Deputy Director for Housing Mission and Goals with responsibility for those fixed severity CRT, how have these experiences impacted your assessment of the risks with respect to the effectiveness of each Enterprise's CRT in actually transferring credit risk?

A.20. "Fixed severity" CRT transactions were among the first issued by the Enterprises as they developed and refined their offerings. The Enterprises no longer execute the "fixed severity" CRTs, and these transactions represent a relatively small and diminishing segment of the Enterprises' single-family CRT programs. In the spring of 2020, FHFA instructed the Enterprises to abide by the terms of the contracts in the "fixed severity" CRTs, and no adjustment was made.

Q.21. If confirmed as FHFA Director, so long as you remain conservator for an Enterprise, can you commit that each counterparty to a CRT will incur losses to the fullest extent permitted by law and the terms of the applicable CRT?

A.21. CRT transactions have governing documents, and FHFA's goal is to ensure that the Enterprises and counterparties adhere to the terms established in those documents.

Q.22. How much has each Enterprise paid in underwriting fees on CRT since the launch of the Enterprise's CRT program?

A.22. Please refer to the CRTs' governing documents for any and all dealer fees. For example, the initial purchaser fees for each of the Fannie Mae Connecticut Avenue Securities (CAS) CRT transactions are publicly available in the respective Offering Memorandum located on the Enterprise's website. The initial purchaser fees for each of the Freddie Mac Structured Agency Credit Risk (STACR) CRT transactions are publicly available in the respective Private Placement Memorandum located on the Enterprise's website.

Q.23. *Proposed Amendments to Leverage Capital Requirements*—The proposed ERCF amendments include a proposed reduction in the prescribed leverage buffer amount (PLBA). If finalized as pro-

posed, the PLBA amendments would reduce each Enterprise's PLBA by two-thirds (from 1.5 percent of adjusted total assets to approximately 0.5 percent) and its PLBA-adjusted leverage capital requirements by one-quarter (from 4.0 percent of adjusted total assets to approximately 3.0 percent).

The FSOC statement stated that "a meaningful leverage ratio requirement that is a credible backstop to the risk-based requirements would address potential risks to financial stability by ensuring that the capital requirements are consistent with historical loss experiences during severe stresses while mitigating model, measurement, and related risks with a simple, transparent measure of risk." Taking into account the 20 percent risk weight floor on mortgage exposures (1.6 percent of the exposure amount), the floor on the stress capital buffer (0.75 percent of adjusted total assets), and the current sizing of each Enterprise's stability capital buffer (1.0 percent and 0.7 percent of adjusted total assets for Fannie Mae and Freddie Mac, respectively), it appears exceedingly unlikely that an Enterprise's risk-based capital requirement could ever be less than the proposed leverage capital requirements of 3.0 percent and 2.9 percent for Fannie Mae and Freddie Mac, respectively, even if a substantial portion of an Enterprise's mortgage exposures were subject to the risk weight floor.

In light of the apparently very remote prospect that an Enterprise's risk-based capital requirement could ever be less than the proposed leverage capital requirements, would the PLBA amendment result in "a meaningful leverage ratio requirement" and would the proposed leverage capital requirements be "a credible backstop to the risk-based requirements" within the meaning of the FSOC statement?

A.23. There are a variety of circumstances and scenarios that may lead to leverage capital requirements being binding in the future. FHFA expects that the Tier 1 capital floor created by the leverage ratio requirement plus leverage buffer will be in place as a credible backstop to the risk-based capital requirements throughout the economic cycle.

Q.24. As part of its rationale for the proposed ERCF amendments to the PLBA, FHFA noted that "Basel III standards require systemically important banks to hold a tier 1 capital leverage ratio buffer in excess of a 3 percent leverage requirement equal to 50 percent of a GSIB's higher loss-absorbency risk-based requirements." FHFA also stated that it intended to amend the PLBA "in a manner similar to the U.S. banking regulators' proposal to set the eSLR buffer to one-half of the GSIB surcharge" and that "a dynamic PLBA that is tied to the stability capital buffer would further align the [ERCF] with Basel III standards." Related to this, former Fed Vice Chair for Supervision Quarles recently said "[w]ith respect to the enhanced supplementary leverage ratio (eSLR) that applies to U.S. global systemically important banks (GSIBs), the best way to address this problem is the approach endorsed by the Basel Committee: recalibrating the fixed 2-percent eSLR buffer re-

quirement to equal 50 percent of the applicable GSIB capital surcharge, with corresponding recalibration at the bank level.”⁵

Importantly, a GSIB’s eSLR buffer requirement is a percent of risk-weighted assets, while an Enterprise’s stability capital buffer requirement is a percent of adjusted total assets. If the intent were to align FHFA’s approach to the PLBA with the Basel Committee’s approach to the eSLR buffer, would each Enterprise’s stability capital buffer requirement first need to be converted to an equivalent that is expressed as a percent of risk-weighted assets (e.g., by dividing the stability capital buffer requirement by the average risk weight of the Enterprise’s assets (currently around 33 percent))?

A.24. While the ERCF’s Stability Capital Buffer and the GSIB surcharge in the bank framework similarly attempt to quantify the amount of systemic risk posed by the Enterprises and GSIBs, respectively, they are not identical. The Enterprises and the other financial institutions have different business models. There are significant structural differences between the two buffers in both derivation and application.

Q.25. How do you reconcile FHFA’s statements that its proposed ERCF amendments to PLBA are “similar to the U.S. banking regulators’ proposal to set the eSLR buffer to one-half of the GSIB surcharge” and that “a dynamic PLBA that is tied to the stability capital buffer would further align the [Enterprise Regulatory Capital Framework] with Basel III standards” with the very significant gap between FHFA’s proposed PLBAs (0.5 percent and 0.4 percent for Fannie Mae and Freddie Mac, respectively) and the PLBAs that would result under the Basel Committee’s approach (roughly 1.63 percent and 1.05 percent for Fannie Mae and Freddie Mac, respectively)?⁶

A.25. While the ERCF’s Stability Capital Buffer and the GSIB surcharge in the bank framework similarly attempt to quantify the amount of systemic risk posed by the Enterprises and GSIBs, respectively, they are not identical. The Enterprises and the other financial institutions have different business models. There are significant structural differences between the two buffers in both derivation and application.

Q.26. Do you think that a roughly 113 basis point difference between the PLBAs for Fannie Mae under FHFA and the Basel Committee’s approaches—which amounts to more than \$45 billion as of

⁵ Governor Randal K. Quarles, “Between the Hither and the Farther Shore: Thoughts on Unfinished Business” (Dec. 2, 2021), available at www.federalreserve.gov/newsevents/speech/quarles20211202a.htm.

⁶ According to the fact sheet accompanying FHFA’s proposed amendments, Fannie and Freddie would have had a PLBA under the proposed amendments of, respectively, 0.53 percent and 0.35 percent of adjusted total assets as of March 31, 2021. That implies a stability capital buffer, expressed as a percent of adjusted total assets, of 1.06 percent and 0.70 percent of adjusted total assets for Fannie and Freddie, respectively. Those stability capital buffers can be converted to an equivalent ratio expressed as a percent of risk-weighted assets by dividing each by the Enterprise’s average risk weight. While FHFA has not disclosed the average risk weight for each Enterprise as of March 31, 2021, the data in the fact sheet accompanying the 2020 final rule suggests an average risk weight (risk weighted assets divided by adjusted total assets) for Fannie Mae and Freddie Mac of respectively 33 percent and 32 percent, as of September 30, 2020. Using those average risk weights, the stability capital buffer of Fannie Mae and Freddie Mac was, respectively, 3.27 percent and 2.10 percent of risk-weighted assets as of March 31, 2021. Dividing those by two would result in a PLBA of 1.63 percent and 1.05 percent, and a PLBA-adjusted leverage capital requirement of 4.1 percent and 3.5 percent, for Fannie Mae and Freddie Mac, respectively.

September 30, 2021—is inconsistent with FHFA’s statements that the proposed ERCF amendments to the PLBA are “similar to the U.S. banking regulators’ proposal” or “align[ed] . . . with Basel III standards”?

A.26. While the ERCF’s Stability Capital Buffer and the GSIB surcharge in the bank framework similarly attempt to quantify the amount of systemic risk posed by the Enterprises and GSIBs, respectively, they are not identical. The Enterprises and the other financial institutions have different business models. There are significant structural differences between the two buffers in both derivation and application.

Q.27. The preamble to the proposed ERCF stated that FHFA “is proposing a recalibration of the PLBA because a leverage ratio that exceeds risk-based capital requirements *throughout the economic cycle* could lead to undesirable outcomes at the Enterprises” (emphasis added) It matters whether the leverage capital requirement is binding throughout the economic cycle (potentially a problem) or instead a backstop that is binding occasionally (which is entirely the intent). Notably, the leverage capital requirements for Fannie Mae are not currently binding, even after a long period of house price appreciation that, among other causes, has resulted in more than half of its single-family mortgage exposures being subject to the 20 percent risk weight floor. What evidence did you consider that the ERCF’s leverage capital requirements actually would exceed the risk-based capital requirements “throughout the economic cycle”?

A.27. There are a variety of circumstances and scenarios that may lead to leverage capital requirements becoming the binding constraint in the future. FHFA expects that the Tier 1 capital floor created by the leverage ratio requirement plus leverage buffer will be in place as a credible backstop to the risk-based capital requirements throughout the economic cycle.

Q.28. The preamble to the proposed ERCF amendment did not explain the flaws in the methodology originally used to calibrate the PLBA. As described in the preamble to the final capital rule, “[t]he 1.5 percent PLBA is calibrated to ensure that the PCCBA and PLBA have an effective complementary relationship such that each is independently meaningful.” FHFA observed that: [T]he relative sizing of the PLBA is generally consistent with the relative sizing of similar buffers under the U.S. banking framework. A 1.5 percent PLBA for the Enterprises is *37.5 percent* of the 4.0 percent PLBA-adjusted leverage ratio requirement to avoid payout restrictions. The 2.0 percent supplementary leverage ratio requirement of the U.S. banking framework is 40 percent of the 5.0 percent buffer-adjusted leverage ratio requirement to avoid payout restrictions. (emphasis added)

A.28. FHFA also considered, among other things, that the PLBA-adjusted leverage capital requirements were consistent with the Enterprises’ historical loss experiences during the 2008 financial crisis (approximately 4.8 percent of adjusted total assets as of December 31, 2007) and that the Federal Home Loan Banks are subject to a 4 percent leverage capital requirement.

Q.29. What flaws, if any, do you see in the methodology originally used to calibrate the PLBA?

A.29. FHFA identified certain aspects of the ERCF that might incentivize risk-taking and disincentivize the Enterprises from distributing credit risk to private investors, which could result in taxpayers bearing excessive undue risk for as long as the Enterprises are in conservatorships and excessive risk to the housing finance market both during and after conservatorships. One such contributing aspect of the ERCF was the fixed leverage buffer. FHFA's proposed refinements to the capital rule sought comment on an adjustment to the buffer.

Q.30. *Minimum Credit Risk Capital Requirements*—Question 4 of the proposed ERCF amendments asks “[i]n light of the proposed changes to the PLBA and CRT securitization framework, is the prudential risk weight floor of 20 percent on single-family and multifamily mortgage exposures appropriately calibrated.” However, the preamble to the proposed ERCF amendments provides no discussion of the critical role played by this floor in ensuring that each Enterprise is appropriately capitalized. The preamble also provides no discussion of the safety and soundness risks, risks to financial stability, or other implications posed by a potential reduction in the risk weight floor on mortgage exposures. Will you commit to not change the 20 percent risk weight floor on mortgage exposures without full notice and opportunity to comment on the specific change, including a detailed preamble discussion of the implications of that change?

A.30. FHFA follows the Administrative Procedures Act and provided a 60-day comment period for the notice of proposed rulemaking with refinements to the capital rule and received 89 comments from stakeholders. As Acting Director and, if confirmed, Director, I will continue to follow the Administrative Procedure Act for all rulemakings, including requirements for public comment periods.

Q.31. The smallest possible risk weight on a mortgage exposure is 50 percent under the U.S. banking framework and 20 percent under the Basel Committee's framework (and then only for certain low-risk mortgage exposures with an original loan-to-value ratio less than 50 percent). Do you think a reduction in the 20 percent risk weight floor on mortgage exposures would be consistent with FSOC's recommendation that “FHFA and other regulatory agencies . . . coordinate and take other appropriate action to avoid market distortions that could increase risks to financial stability by generally taking consistent approaches to the capital requirements and other regulation of similar risks across market participants”?

A.31. I generally agree that there should be coordination between FHFA and other regulatory agencies to avoid market distortions. FHFA, as the primary regulator for Fannie Mae and Freddie Mac, utilizes the same principles and approaches as other regulatory agencies to ensure that capital requirements are appropriate for the risks the Enterprises retain, consistent with the business models and missions of the Enterprises.

Q.32. What percent of each Enterprise’s single-family mortgage exposures currently would have a smaller risk weight in the absence of the 20 percent risk weight floor? What percent of each Enterprise’s multifamily mortgage exposures currently would have a smaller risk weight in the absence of the 20 percent risk weight floor? Will you commit to providing periodic public disclosures as to the percent of each Enterprise’s single-family and multifamily mortgage exposures that are subject to the 20 percent risk weight floor?

A.32. The requested detailed level of disclosure in your request is generally not required of other financial institutions, and this information is nonpublic at this time. FHFA would be happy to discuss with you or your staff separately on this topic.

Q.33. Do you agree that a reduction in the 20 percent risk weight floor on mortgage exposures would increase the procyclicality of the ERCF’s risk-based capital requirements?

A.33. FHFA addressed the potential procyclicality in the ERCF risk-based capital requirement in the final capital rule. Potential procyclicality is primarily mitigated by the countercyclical adjustment, which is specifically designed to offset the benefit of house price appreciation in environments of high house price growth. FHFA has not proposed any changes to the countercyclical adjustment since the ERCF was finalized in 2020.

Q.34. *General ERCF Topics*—Do you disagree with any of the below statements in the preamble to the final capital rule that finalized the ERCF? If so, with which of these statements do you disagree and why?

- “[E]ach Enterprise should be capitalized not only to absorb losses as they are incurred in a severely adverse stress, but also so that the Enterprise would have sufficient regulatory capital after that stress to continue to be regarded as a viable going concern by creditors and other counterparties.”
- “The differences between the business models, statutory mandates, and risk profiles of the Enterprises and banking organizations, however, should not preclude the proposed rule’s comparison of the credit risk capital requirement of a large U.S. banking organization for a specific mortgage exposure to the credit risk capital requirement of an Enterprise for a similar mortgage exposure.”
- “The monoline nature of the Enterprises’ mortgage-focused businesses suggests that the concentration risk of an Enterprise is generally greater than that of a diversified banking organization with a similar amount of mortgage credit risk. That heightened concentration risk would tend to suggest that greater credit risk capital requirements, relative to banking organizations, could be appropriate for the Enterprises for similar exposures, all else equal.”
- “FHFA continues to believe that the regulatory capital framework should not assume extraordinary Government support, whether under the [Preferred Stock Purchase Agreements] or otherwise. A central tenet of the reforms following the 2008 financial crisis is that the postcrisis regulatory framework

should prevent future taxpayer rescues of financial institutions. Expectations of Government support increase risk to the Enterprises' safety and soundness and the stability of the national housing finance markets by undermining market discipline and encouraging excessive risk taking. Other regulatory capital frameworks generally would not treat a line of credit or similar arrangement, even one with a governmental actor, as a form of regulatory capital."

- "The now apparent shortcomings of OFHEO's and the Enterprises' precrisis credit models, and other well-known failures of analytical models to accurately predict risk, reinforce the need for a meaningful degree of regulatory caution regarding any modeled estimate of risk."

A.34. FHFA identified certain aspects of the ERCF that might incentivize risk-taking and disincentivize the Enterprises from distributing credit risk to private investors. This could result in taxpayers bearing excessive undue risk for as long as the Enterprises are in conservatorships and excessive risk to the housing finance market both during and after conservatorships. Contributing aspects of this potential outcome were the fixed leverage buffer and the risk-based capital requirements for CRT.

Q.35. Did FHFA staff meet or otherwise consult with either Enterprise on the proposed ERCF amendments before those were published in the *Federal Register*? Did either Enterprise play any role in the drafting or development of the proposed ERCF amendments?

A.35. Neither Enterprise played a role in drafting or developing the proposed ERCF amendments.

Q.36. Resolution Framework—In May 2021, FHFA finalized a rule that requires each Enterprise to develop a plan to facilitate its rapid and orderly resolution in the event FHFA is appointed receiver.⁷ These resolution plans are intended to, among other things, "foster[] market discipline by making clear that no extraordinary Government support will be available to indemnify investors against losses or fund the resolution of an Enterprise."⁸ Specifically, "[i]n developing a resolution plan, each Enterprise shall: . . . [n]ot assume the provision or continuation of extraordinary support by the United States to the Enterprise to prevent either its becoming in danger of default or in default (including, in particular, support obtained or negotiated on behalf of the Enterprise by FHFA in its capacity as supervisor, conservator, or receiver of the Enterprise, including the Senior Preferred Stock Purchase Agreements entered into by FHFA and the U.S. Department of the Treasury on September 7, 2008, and any amendments thereto)."⁹ Related to this, Treasury's Housing Reform Plan released in September 2019 recommended that "[a] credible resolution framework can ensure that shareholders and unsecured creditors bear losses, thereby protecting taxpayers against bailouts, enhancing market discipline, and mitigating moral hazard and systemic risk."

⁷ 86 FR 23,577 (May 4, 2021).

⁸ *Id.* at 23,580.

⁹ 12 CFR 1242.5(b)(2).

Do you agree with, or otherwise have any plans to change, the requirement that “each Enterprise shall: . . . [n]ot assume the provision or continuation of extraordinary support by the United States to the Enterprise to prevent either its becoming in danger of default or in default (including . . . the Senior Preferred Stock Purchase Agreements entered into by FHFA and the U.S. Department of the Treasury on September 7, 2008, and any amendments thereto)”?

A.36. FHFA has no current plans to modify the regulation on resolution planning. The Agency expects that credible resolution plan submissions will include, at a minimum, the scenario described in the rule where extraordinary Government support is unavailable.

Q.37. Given FHFA’s policy that, notwithstanding the Preferred Stock Purchase Agreements, unsecured creditors of each Enterprise should be at risk of loss upon an insolvency event affecting the Enterprise, do you think the Securities and Exchange Commission’s regulations governing money market mutual funds, registration requirements, or other market activity should continue to give the Enterprises special treatment (e.g., by treating them as Government securities for certain purposes)?

A.37. The Preferred Stock Purchase Agreements provide certain benefits to unsecured creditors of the Enterprises. FHFA defers to the Securities Exchange Commission (SEC) on matters associated with the application of SEC regulations and remains open to consultation with SEC staff on Enterprise-related matters.

Q.38. *Exit From Conservatorship*—At your nomination hearing, you answered in response to a question from Senator Hagerty that there are a number of issues that Congress will have to address before the Enterprises may exit conservatorship. Please itemize these issues that Congress must address in your view and any other Congressional actions that you view as a precondition to an Enterprise’s exit from conservatorship. With respect to each of these preconditions, what specific provisions of statute authorize FHFA to indefinitely continue an Enterprise’s conservatorship pending Congress satisfying the precondition? Please provide any relevant legal analysis that inform your views on this question.

A.38. There is no statutory provision in the Safety and Soundness Act that specifically addresses exit from conservatorship; however, there are several open questions that only Congress can address on the future structure and functioning of the secondary mortgage market. Key questions include whether the Enterprises should be subject to public-utility-like regulation of pricing and returns, whether additional GSEs would be chartered to compete with Fannie Mae and Freddie Mac, and any potential changes to the Enterprises’ charters which are established in statute. Congress may also want to address the Enterprises ownership structure, the issue of an explicit guarantee or continuing support of the Treasury, and other areas where FHFA has identified it lacks similar authority to that of the other financial regulators, including third-party examination authority.

As I mentioned during the hearing, there are related issues that other parties would need to be involved in working through, such as how the Senior Preferred Stock Purchase Agreements are re-

solved to ensure that taxpayers are repaid for their investment. In the absence of Congressional action, the Enterprises must be managed under current law, including building capital to meet the existing capital requirements before any exit from the conservatorships.

Q.39. FHFA's resolution authorities are modeled on, and substantially similar to, the resolution authorities of the Federal Deposit Insurance Corporation (FDIC). You previously worked in the FDIC's Division of Resolutions and Receiverships and had a long career at the FDIC. Are you aware of any conservatorship or receivership in which the FDIC deferred to Congress on the resolution of a failed insured depository institution or otherwise conditioned the completion of that conservatorship or receivership on action by Congress? If so, please identify the FDIC conservatorship or receivership and the circumstances relating to it.

A.39. The FDIC has not to my knowledge deferred to Congress on the resolution of a failed insured depository institution or otherwise conditioned the completion of a conservatorship or receivership on action by Congress. However, the Enterprises differ from FDIC-insured institutions in that they operate with congressionally granted charters, have different public policy mandates, and currently operate with the explicit backing of the U.S. Treasury.

Q.40. FHFA previously retained Houlihan Lokey as its financial advisor for purposes of developing a roadmap for each Enterprise's exit from conservatorship. Is Houlihan Lokey still retained by FHFA as a financial advisor for these purposes?

A.40. FHFA continues to retain advisors to help FHFA assess the financial positions of the Enterprises.

Q.41. Do you agree with the statement in the final capital rule finalizing the ERCF that "[p]ending legislation, FHFA, as conservator of each Enterprise, is required by statute to act 'for the purpose of reorganizing, rehabilitating, or winding up the affairs of [the Enterprise].' That definite and limited statutory purpose does not authorize an indefinite conservatorship."?

A.41. There is no statutory provision in the Safety and Soundness Act that specifically addresses exit from conservatorship. There is also no statutory provision that specifically either mandates or forbids indefinite conservatorship. As noted in the question, the conservator or receiver may be appointed "for the purpose of reorganizing, rehabilitating, or winding up the affairs of a regulated entity." In addition, the statute authorizes FHFA as conservator to "take such action as may be (i) necessary to put the regulated entity in a sound and solvent condition; and (ii) appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity." From these provisions, it is reasonable to infer that FHFA may release the Enterprises from conservatorship when they are rehabilitated and are again in sound and solvent condition. Achieving that state requires that they achieve safe and sound capital levels, which in turn requires a restructuring of the Treasury's current equity position in the Enterprises. Treasury's equity position does not count as either "core capital" under the statute or Tier 1 or Tier 2 capital under

FHFA's recently adopted capital regulation, which is based on the Basel capital regime for banks.

Q.42. *Housing Finance Reform*—At your nomination hearing, Senator Crapo asked you whether you would be willing to support legislation that calls for “increasing competition among mortgage guarantors.” In its recent annual reports to Congress, FHFA has recommended that Congress provide FHFA with chartering authority similar to that of other Federal financial regulators like the Office of the Comptroller of the Currency. Do you support Congress authorizing FHFA to charter competitors to the Enterprises?

A.42. Only Congress can grant the authority to charter competitors to the Enterprises, and I defer to Congress on the future structure of the secondary housing market. I would note that there are competing ideas circulating about the appropriate future structure, from multiple, privately held guarantors, to the Enterprises as utilities, to merging these two companies into one Government agency. I am open to all options at this time. I am not opposed to competition, as long as the organization(s) can meet the same mission and safety and soundness requirements as the Enterprises, including FHFA oversight and regulation. FHFA will provide technical assistance to Congress pursuing any structure they choose.

There are certain things that FHFA can address in reforming the Enterprises without Congressional action, and we have done so by building capital, transferring risk, strengthening underwriting, and reviewing pricing and credit policies. It is my priority and my responsibility to continue to focus on the mission and safety and soundness of the Enterprises until such time as Congress enacts housing finance reform legislation.

Q.43. Do you believe the duopoly market structure increases the systemic importance of each GSE, fosters a market perception that the Federal Government will not permit the GSE to default on its financial obligations, undermines market discipline over its risk taking, and thereby fosters excessive risk taking by the GSE and exposes taxpayers to risk of future bailouts?

A.43. Fannie Mae and Freddie Mac are a critical part of the secondary mortgage market infrastructure. FHFA currently has the authority to ensure that the Enterprises meet stringent capital requirements and other regulatory standards, and we set those standards with this level of importance in mind. I defer to Congress on the future structure of the secondary housing market and whether there should be more than two GSEs with these responsibilities.

Q.44. *Equitable Housing Finance Plans*—On which specific statutory authorities (with cites to specific statutory clauses) has FHFA relied in requiring each Enterprise to develop an Equitable Housing Finance Plan? Please provide any legal analysis that inform your views on this question.

A.44. Congress established FHFA to regulate the Enterprises to ensure that the purposes of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act), the Enterprises' statutory charters, and any other applicable law

are carried out.¹⁰ In doing so, Congress recognized that the Enterprises have important public purposes reflected in their statutory charters, and that they need to be managed safely and soundly so that they continue to accomplish their public missions.¹¹ FHFA is also currently conservator of the Enterprises.¹²

With respect to the public purposes of the Enterprises, a number of statutory and regulatory authorities that apply to FHFA and the Enterprises speak to the need to advance equity for homebuyers, homeowners, and tenants in the housing market.¹³ The Equitable Housing Finance Plan framework that FHFA has adopted as conservator is a tool for the Enterprises to undertake sustainable and meaningful actions to advance equity in the housing markets, while ensuring safety and soundness.

FHFA's principal duties include ensuring that the Enterprises operate consistent with safety and soundness and with the public interest.¹⁴ FHFA and the Enterprises also have statutory and other commitments related to the selection of equitable solutions for borrowers and tenants in the housing market. The Enterprises' Charter Acts, for example, provide that one of the Enterprises' purposes is to promote access to mortgage credit throughout the Nation (including central cities, rural areas, and underserved areas).¹⁵ The Charter Acts require the Enterprises, as part of their annual housing reports, to assess their underwriting standards, policies, and business practices that affect low- and moderate-income families or cause racial disparities, along with any revisions to these standards, policies, or practices that promote affordable housing or fair lending.¹⁶

The Housing Goals and Duty to Serve requirements are critical elements for ensuring that the Enterprises fulfill their mission and charters and serve low- and moderate-income families and underserved populations.¹⁷ The Safety and Soundness Act provides that,

¹⁰ 12 U.S.C. 4511(b)(1) and (2).

¹¹ 12 U.S.C. 4501(1) (Enterprises and Federal Home Loan Banks have important public missions), (2) (their continued ability to accomplish their public missions is important, and effective regulation is needed to reduce risk of failure), and (7) (Enterprises have affirmative obligation to facilitate financing of affordable housing for low- and moderate-income families consistent with their public purposes, while maintaining a strong financial condition and a reasonable economic return).

¹² <https://www.fhfa.gov/Media/PublicAffairs/Pages/Statement-of-FHFA-Director-James-B-Lockhart-at-News-Conference-Announcing-Conservatorship-of-Fannie-Mae-and-Freddie-Mac.aspx>; 12 U.S.C. 4617(b) (powers and duties of the conservator).

¹³ These include providing ongoing assistance to the secondary market for residential mortgages, including mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities, and promoting access to mortgage credit in central cities, rural areas, and underserved areas. 12 U.S.C. 1716(3) and (4) (Fannie Mae charter purposes); 12 U.S.C. 1451 note (b)(3) and (4) (Freddie Mac charter purposes). They also include Enterprise affordable Housing Goals, see 12 U.S.C. 4561(a), 4562, and 4563; 12 CFR part 1282, subpart B, and Enterprise Duty to Serve affordable housing needs of certain underserved markets, see 12 U.S.C. 4565; 12 CFR part 1282, subpart C. In addition, the Enterprises are required to report annually to Congress on, among other things, assessments of their underwriting standards and business practices that affect their purchases of mortgages from low- and moderate-income families, and revisions to their standards and practices that promote affordable housing or fair lending. 12 U.S.C. 1723a(n)(2)(G) (Fannie Mae charter), 1456(f)(2)(G) (Freddie Mac charter).

¹⁴ 12 U.S.C. 4513(a)(1)(B)(i), (v).

¹⁵ 12 U.S.C. 1716(4) (Fannie Mae charter); 1451(b)(4) (Freddie Mac charter).

¹⁶ 12 U.S.C. 1723a(n)(2)(G), 1456(f)(2)(G).

¹⁷ 12 U.S.C. 4561(a) (FHFA to establish annual housing goals by regulation), 4562 (establishment of required categories of single-family housing goals), and 4563 (establishment of required multifamily affordable housing goals); 12 U.S.C. 4565 (Enterprise duty to facilitate secondary

in meeting these requirements, the Enterprises are required to take affirmative steps to assist primary lenders to make housing credit available in areas with concentrations of low-income and minority families.¹⁸ The Equitable Housing Finance Plans will serve as a supplement to existing FHFA and Enterprise requirements, programs, and plans, and are designed to ensure a continued focus on housing equity that is aligned with other critical objectives including safety and soundness and other mission activities.

Under the Fair Housing Act, all Federal agencies having regulatory or supervisory authority over financial institutions, including FHFA, are required to administer their programs and activities relating to housing and urban development in a manner that affirmatively furthers the purposes of the Fair Housing Act, which includes providing for fair housing throughout the United States.¹⁹

Q.45. Please describe with specificity any virtual, telephonic, in-person, or other meetings or contacts you had with representatives of the President, the Department of the Treasury, or any other executive departments that relate to FHFA's requirement that each Enterprise develop an Equitable Housing Finance Plan.

A.45. During my 8 years at FHFA, I have discussed issues relevant to the mortgage market, the GSEs' financial condition and the Enterprises' conservatorships, and other relevant activities and issues with various offices and divisions of the executive branch. FHFA held a discussion with HUD in August 2021 to get their feedback on the Equitable Housing Finance Plan and briefed the Federal Financial Institution Examination Council (FFIEC) Joint Fair Lending Task Force in November 2021. The Joint Fair Lending Task Force includes representatives from the Federal Deposit Insurance Corporation, the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, the Federal Reserve Board, the National Credit Union Agency, the Federal Trade Commission, the Department of Justice, HUD, and FHFA.

Q.46. *Servicer Eligibility Requirements*—FHFA previously proposed increased net worth and liquidity requirements for GSE servicers. The last FHFA Director determined to repropose those requirements to incorporate the lessons learned from the spring 2020 stress.

Do you intend to repropose net worth and liquidity requirements for GSE servicers?

What is the timing for that reproposal?

A.46. FHFA is currently revisiting the seller/servicer eligibility standards and expects to post revised standards for public comment shortly.

Q.47. *GSE Mission and Footprint*—Freddie Mac's charter act provides that "[t]he volume of the [Enterprise's] lending activities and the establishment of its loan ratios, interest rates, maturities, and charges or fees in its secondary market operations under this paragraph, shall be determined by the [Enterprise] from time to time;

mortgage market for very low-, low-, and moderate-income families in certain underserved markets).

¹⁸ 12 U.S.C. 4565(b)(3)(A).

¹⁹ 42 U.S.C. 3608(d); 42 U.S.C. 3601 et seq.

*and such determinations shall be consistent with the objectives that the lending activities shall be conducted on such terms as will reasonably prevent excessive use of the [Enterprise's] facilities,"*²⁰ (emphasis added) Similarly, Fannie Mae's charter act also provides that "such determinations should be consistent with the objectives that such purchases and sales should be effected only at such prices and on such terms as will reasonably prevent excessive use of the [Enterprise]'s facilities."²¹

How do you construe the scope of each of these requirements that each Enterprise shall "reasonably prevent excessive use of the [Enterprise's] facilities"?

What steps are you taking to ensure that FHFA reasonably prevents excessive use of an Enterprise's facilities?

A.47. The charter act provisions referred to above were enacted prior to the prudential supervisory regime established by the Safety and Soundness Act in 1992 and 2008. The Fannie Mae charter act provisions were enacted in the 1950s at a time when Congress intended that Fannie Mae transition from public to private ownership and wanted to ensure that its business activities were sufficiently disciplined that the company could attract private capital. The comparable provision in the Freddie Mac Act was enacted in 1970 at Freddie Mac's creation, when Freddie Mac was initially owned by the Federal Home Loan Banks. Since then, the very general mandate in the "excessive use" provisions has been followed by much more specific and robust supervisory tools, such as the Safety and Soundness Act's capital requirements, its Prompt Corrective Action regime, FHFA's Prudential Management and Operations Standards, and the enforcement tools available to combat unsafe and unsound practices. In light of these more robust tools, the "excessive use" provisions have never been defined, interpreted, or applied by FHFA or its predecessor agencies. In conservatorship, the objectives of those provisions are furthered by FHFA's recently adopted Enterprise Regulatory Capital Framework, its proposed capital planning rule, and its mandate to the Enterprises upon entering conservatorship that they manage to positive shareholders' equity while returning to long-term profitability, and more recently that they meet various minimum return-on-equity thresholds for their business segments.

Q.48. *Independence of Regulatory Agency*—The U.S. Supreme Court has recently held that the Director of FHFA may be removed by the President without cause and at any time. Notwithstanding these recent developments, will you commit to not exceed the authorities of FHFA (including the limitations inherent in the charter act of each Enterprise) even if directed by the President to the contrary?

A.48. It is my intention to follow the law, including the Housing and Economic Recovery Act of 2008, the Enterprises' charter acts, and any other applicable law.

Q.49. Did you have any virtual, telephonic, in-person, or other contact with representatives of the President, the Department of the

²⁰ 12 U.S.C. 1454(a)(5).

²¹ 12 U.S.C. 1719(a)(1).

Treasury, or any other executive department before the Supreme Court's decision in *Collins v. Mnuchin*? If so, did any of those conversations or other contacts relate to the leadership of FHFA following the potential removal of former Director Calabria?

A.49. During my 8 years at FHFA, I have discussed issues relevant to the mortgage market, the GSE's financial condition, the Enterprises' conservatorships, and other relevant activities and issues with various offices and divisions of the executive branch. President Biden designated me as Acting Director of FHFA after Dr. Calabria was released from the Director position on June 23, 2021.

Q.50. *Answering Questions for the Record*—Please describe with particularity the process by which you answered these questions for the record, including identifying who assisted you in answering these questions along with a brief description of their assistance.

A.50. These responses were developed at my direction and with drafting assistance from FHFA employees in several FHFA Divisions and Offices, based on the subject matter. I have reviewed and approved all of the responses, and any views expressed in these responses are my own.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR MENENDEZ FROM SANDRA THOMPSON

Q.1. Nearly 5 percent of households are considered limited English proficient. In 2017 FHFA agreed to include a question on the uniform mortgage application for borrowers to indicate their preferred language, but that requirement was removed by our last FHFA Director.

If confirmed, will you make it a priority to ensure that non-English speaking families can communicate with their lenders in their preferred language?

A.1. Mortgages are one of the largest investments that many Americans make and one of most complex financial transactions. I feel strongly that it is important to have clear communication between lenders and borrowers, and servicers and borrowers. In my experience during the last financial crisis, communication between servicers and borrowers in particular was critical to ensuring that homeowners retained their homes.

Collecting language preference information would only improve that communication. However, collecting this data was not a part of the recent changes to the uniform residential lending application (URLA) implemented in March 2021. FHFA has developed a supplemental form for lenders that includes questions on language preference. Currently the form is optional to lenders to provide to borrowers, and it is the borrower's choice to provide the information on the form to the lender. There are also no channels established that would ensure that a lender who originates the loan would share language preference information with a servicer, or that the data on language preference would be submitted to the Enterprises.

We are currently addressing this issue and plan to start a workstream to ensure that the data is collected and used appro-

privately. I commit to update you and your staff as we make progress on this initiative.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SINEMA
FROM SANDRA THOMPSON**

Q.1. As Arizona begins to recover from the earlier stages of the COVID-19 pandemic, many hardworking families who were affected financially are beginning to get back on their feet. Many were able to remain in their homes due to temporary eviction moratorium and mortgage forbearance measures that have since expired. What do you see the FHFA's role being in the coming months as we recover from earlier waves of the pandemic and in light of the widespread effects of the Omicron variant? If confirmed, how will you utilize your role to advance housing security and affordability as we face emerging challenges from this variant?

A.1. Should I be confirmed as FHFA Director, my goal would be to move the ball forward to advance safe, decent, affordable rental opportunities and responsible mortgage lending. The pandemic has impacted many aspects of the housing market, including the significant increase in house prices. House price growth was nearly 18 percent nationwide for the third quarter of 2021, and there are a number of reasons for it, including supply chain issues and local zoning restrictions. While this improves the value of assets that the Enterprises own, dramatic price growth challenges affordability, especially for first time homebuyers, who are not able to afford home ownership. I believe that it is possible for the Enterprises to do more to assist potential homebuyers in underserved populations in a sustainable, safe way and, if confirmed as Director, I intend to focus the housing GSEs on their mission.

During the pandemic, one of the Agency's priorities was to ensure that homeowners and renters would not be forced out of their homes. As Acting Director of FHFA I announced changes last year to help protect homeowners and renters living with the ongoing uncertainty of the COVID-19 pandemic. This included expanding the use of interest rate reductions and term extensions for loan modifications for homeowners with a COVID-19-related hardship and extending the availability of COVID-19 forbearance for multifamily properties backed by an Enterprise. Renters in these properties are protected from eviction while the loan is in forbearance. FHFA will continue to monitor this evolving situation and adjust policies when warranted to help families remain in their homes.

Q.2. Last year Arizona's housing market saw drastic increases in prices for both buyers and renters, with demand for housing in the Phoenix metropolitan area in particular far higher than the available supply of housing. If confirmed, how will you utilize your role as FHFA director to promote the stability of housing prices and the availability of housing in Arizona?

A.2. Although there are several issues related to the supply of housing that fall outside of FHFA's jurisdiction, I agree that it is a critical issue that needs to be addressed. One particular action we have recently taken to facilitate increased supply of affordable rental housing is increasing the Enterprises' Low-Income Housing

Tax Credit (LIHTC) investment caps to \$850 million per Enterprise annually. The Enterprises are also working on revising their Duty to Serve underserved markets plans which are expected later this year. FHFA will continue to focus on and look at ways we can encourage Fannie Mae, Freddie Mac, and the Federal Home Loan Banks to support efforts to address our Nation's lack of affordable housing.

Q.3. Critical risk transfers (CRTs) are a tool that can be used for reducing economic risk for taxpayers as a result of lending in the housing market. CRT programs allow Government-sponsored enterprises to manage and reduce risk, particularly during times of severe economic stress. What benefits and challenges do you see from the use of CRT for risk management? What do you see the FHFA's role being in restoring the economics around CRTs moving forward?

A.3. Fannie Mae and Freddie Mac are the largest holders of mortgage credit risk in the country. CRT transactions transfer a meaningful amount of credit risk to a broad set of global investors, which helps to protect the Enterprises and taxpayers from losses in severely stressful economic scenarios. CRT is an important tool, especially while the Enterprises are in conservatorships and are building up their capital, to mitigate systemic risk to the housing finance market due to the Enterprises' size and monoline business model. FHFA's recent proposed changes to the capital rule will help facilitate the credit risk transfer program and move mortgage credit risk into the hands of private investors and away from the Enterprises and taxpayers.

Q.4. The 2020 GSE capital rule finalized by the previous FHFA director disincentivized GSE issuance of CRTs. This rule has since been modified. If confirmed, what additional changes to this rule will you consider, if any?

A.4. I am committed to ensuring the safety and soundness of the Enterprises, and the CRT program is an important tool for the Enterprises to manage their credit risk and protect taxpayers. In September 2021, FHFA proposed changes to the capital rule by refining the leverage buffer and the risk-based capital treatment of CRT transactions. These amendments are intended to provide the Enterprises incentives to distribute credit risk to private investors through CRT and away from taxpayers.

FHFA also introduced proposed amendments to ERF's required public disclosures and for capital planning. These rules help protect taxpayers by ensuring that the Enterprises properly assess their risks and maintain the appropriate level of capital.

If confirmed, similar to other prudential regulators, I intend to periodically review the final capital rule and adjust various elements as necessary to ensure the safety and soundness of the Enterprises.

Q.5. Home ownership is one of the primary ways in which individuals can build wealth and create greater futures for themselves and their children. Many hardworking Arizona families cannot afford to pay the 20 percent downpayment required for a mortgage.

What role do you envision mortgage insurance will play in reducing costs for homebuyers?

A.5. As the largest asset most people ever own, home ownership is part of the American dream and is key to building wealth and giving families opportunities to better their lives. Even though they have the ability to repay a mortgage, a significant downpayment can be out of reach for some borrowers. For loans with less than a 20 percent downpayment, borrowers can obtain mortgage insurance through their lenders to meet the Enterprises' requirements. The Enterprises' Charter Acts require credit enhancement for loans with loan-to-value (LTV) ratios greater than 80 percent.

The Enterprises also have affordable programs (Fannie Mae's Home Ready and Freddie Mac's Home Possible) designed to make home ownership more affordable for lower income borrowers through lower mortgage insurance requirements and limitations on delivery fees.

As FHFA Acting Director, and if confirmed as Director, my focus will be on ensuring access to affordable mortgage credit in a responsible, sustainable way.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNOCK
FROM SANDRA THOMPSON**

Q.1. Please clarify how the Federal Housing Finance Agency and Property Appraisal and Valuation Equity interagency task force intend to address racial bias within property appraisal.

A.1. FHFA is an active member of the Property Appraisal and Valuation Equity (PAVE) task force, cochaired by the Department of Housing and Urban Development's Secretary Fudge and Ambassador Rice. The PAVE task force seeks to root out discrimination in the appraisal and homebuying process and includes subcommittees for data, education, enforcement, and policy. To date, FHFA has executed data sharing agreements and provided historical appraisal data to our interagency partners in support of interagency efforts to research and examine the issue of property valuation bias and support enforcement and compliance with fair lending laws.

Q.2. If confirmed, what steps will you take to address racial bias within property valuation?

A.2. FHFA is committed to addressing racial bias in property valuation. As an initial step, FHFA recently provided additional public transparency into appraisals by publishing an Insights Blog post, "Reducing Valuation Bias by Addressing Appraiser and Property Valuation Commentary", highlighting appraiser commentary that raises fair lending risks. Also as part of this effort, Fannie Mae updated its appraisal policies addressing "problematic" phrases and code words that could indicate underlying bias and recently published two research papers on appraisal bias topics. Freddie Mac published preliminary research suggesting that 12.5 percent of homes appraised in Black communities were valued less than the contract price.

In addition, as part of the ongoing appraisal modernization project, FHFA is committed to mitigating bias through exploring valuation alternatives and updating the Uniform Appraisal Dataset

(UAD). FHFA also continues to engage interagency partners as part of the PAVE Taskforce and examine and address the root causes of racial bias in property valuation.

Q.3. Do you support efforts to utilize technology to further innovate the mortgage experience in order to provide greater credit access to consumers?

A.3. Responsible use of technology presents a number of opportunities for providing greater credit access to consumers by helping to overcome obstacles that may affect underserved populations. As an example, desktop appraisals leverage information already available to appraisers so they can complete property valuations quickly, leading to shorter closing times and other efficiency gains. Desktop appraisals can also help borrowers in rural communities more readily obtain appraisals by reducing the time it would take for the appraiser to travel distances to evaluate a property. After permitting and carefully monitoring the use of desktop appraisals as a temporary COVID-19 flexibility, FHFA recently announced that the Enterprises will be adopting policies permitting desktop appraisals in their Selling Guides. FHFA will continue to work with the Enterprises to explore other ways that careful, measured use of innovative technology can provide greater credit access or improved risk management.

Q.4. What's your view on the role of AI and machine learnings in mortgage access, and how should Federal Housing Finance Agency approach these emerging technologies in its work?

A.4. The use of artificial intelligence (AI) and machine learning (ML) among financial institutions is fairly new. The technology offers the potential to lower costs, expand access, and reduce the amount of time to originate and securitize mortgages. AI/ML tools and systems can be used to support a range of functions including customer engagement, risk analysis, credit decision making, fraud detection and information security. However, the use of AI/ML can expose consumers and financial institutions to heightened risks as well, so proper control and oversight of the technology is important.

In response to the growing role of AI/ML over the past several years, FHFA will issue an Advisory Bulletin which provides risk management guidance to Fannie Mae, Freddie Mac, and the Common Securitization Platform. As FHFA evaluates the benefits and risks associated with the evolving role of technology within the mortgage industry, we identified the need for a set of AI/ML core ethical principles such as transparency and security to manage decision making and prevent algorithmic bias. These core principles are essential for the Enterprises to ensure consistency across different business activities and functions that interact with AI/ML to avoid potential adverse outcomes.

Should I be confirmed, I intend to increase FHFA's capability to evaluate the use of AI/ML at all of its regulated entities to ensure responsible innovation, adoption, and use of AI/ML. FHFA will also continue to engage with other regulators and governmental entities to enhance understanding of AI/ML and ensure that guidance and supervisory expectations regarding AI/ML are clear and consistent.

Q.5. If confirmed, what role will Federal Housing Finance Agency play as a regulator to ensure that any innovation related policy changes with regards to Government Sponsored Enterprises is equitable?

A.5. I recognize that there is still much work to be done to make the housing finance system fairer for everyone—including Black and brown communities, rural areas, and persons living with disabilities. In September of 2021, I instructed the Enterprises to develop an annual Equitable Housing Finance Plan to identify and address barriers to sustainable housing opportunities. The Enterprises, consistent with safety and soundness, can responsibly undertake sustainable and meaningful actions to advance equity in the housing markets, while ensuring safety and soundness of the secondary housing market. These plans will include enhancements to the Enterprises current programs and products, consumer education initiatives for both renters and homeowners, and plans to leverage technology to improve sustainable underwriting. In addition, FHFA also will require the Enterprises to submit annual progress reports on the actions undertaken during the prior year to implement their plans. These plans will be published in the near future, and FHFA will continue to engage with stakeholders to identify areas of opportunity for the Enterprises to improve performance of its statutory mission.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCOTT
FROM SANDRA THOMPSON**

Q.1. Home ownership continues to become more and more unaffordable for the middle class, a trend worsened by the coronavirus pandemic. The Direct MI pilot programs, IMAGIN and EPMI, which significantly lower the cost of Mortgage Insurance for borrowers and decrease counterparty risk at the GSEs, have temporarily been put on hold.

How can these Direct MI programs be more fully utilized going forward to lower mortgage insurance costs for consumers, increase counterparty diversification for the Enterprises and reduce MI pricing disparity between large and small lenders?

A.1. The Integrated Mortgage Insurance (IMAGIN) pilot program was previously conducted by Freddie Mac to test an alternative form of mortgage insurance. Fannie Mae conducted a similar pilot known as Enterprise Paid Mortgage Insurance (EPMI). The pilots were designed to provide charter-required credit enhancement through reinsurers. Key elements addressed counterparty risk, diversification, collateralization for exposure, certainty of coverage and lower costs to consumers. As you may be aware, the pilot programs were allowed to expire in 2021. FHFA will look at all of the costs associated with purchasing a home and make responsible changes where appropriate.

Q.2. Many first-time homebuyers, low-to-moderate income borrowers, and minority borrowers use mortgage insurance, either Private MI or Government MI via FHA, to obtain a mortgage if they don't have the required 20 percent downpayment as many don't today. These borrowers are usually affected by Loan Level Price

Adjustments, or additional fees added by the GSEs that mortgage insurers already priced into the loan, increasing the cost to the borrower.

Following your recent announcement on raising prices for higher cost and second homes, is the FHFA planning on also reducing the Loan Level Price Adjustment (LLPA) fees at the GSEs that affect some borrowers, primarily First-Time Homebuyers, by placing redundant fees on these loans?

A.2. I want to ensure that all Americans who have the ability to repay and qualify are able to get an affordable loan, which is a particular challenge for first-time homebuyers and low-income borrowers. While FHFA recently adjusted loan level pricing adjustments (LLPAs) for higher cost mortgages and second homes, we also explicitly exempted from those changes both Enterprises' affordable programs, Home Ready and Home Possible, as well as first-time homebuyers with incomes at or below 100 percent of area median income. In fact, with this change, these first-time homebuyers will have lower LLPAs than before.

This year, FHFA is also undertaking a holistic review of guarantee-fee pricing and all of its components, but no decisions have been made on any specific adjustments. However, going forward I would be happy to keep you and your office updated on our work in this area.

Q.3. As you know, the "Economic Growth, Regulatory Relief, and Consumer Protection Act" (S.2155) that Congress passed and was signed into law in May of 2018 included language (Section 310) I authored and introduced with bipartisan cosponsors as the "Credit Score Competition Act" (S.1685). The provision required FHFA to establish standards and criteria for the validation and approval of credit scores that could be used by mortgage lenders intending to sell their mortgages to Fannie Mae or Freddie Mac. It's my understanding that FHFA and the GSEs have made significant progress in implementing the requirements of Section 310.

Can you provide an update on how the implementation process is proceeding and when you anticipate there may, in fact, be true credit score competition in the mortgage lending space?

A.3. I appreciate your efforts to ensure that the Enterprises are using up to date and accurate credit score models. Following the enactment of your legislation, FHFA published a rule on Validation and Approval of Credit Score Models, outlining the process as laid out in the law. The Enterprises have been proceeding through these steps, and currently the process is in its latter stages where the Enterprises conduct business assessments of the applicants' credit score models.

Although I cannot opine on future competition in the credit score space, the Enterprise Business Assessment phase does require, among other components, an assessment of possible competitive effects from using a particular credit score model. The Enterprises' will submit their analysis for approval in the first quarter of 2022, and I expect FHFA to make a decision on updating the credit score by the end of the second quarter.

Q.4. The Federal Home Loan Bank system has provided liquidity and stability for the residential mortgage markets and for community development for nearly 90 years.

As the provision of financial services and particularly mortgage finance continues to evolve, do you anticipate the FHFA under your leadership will review access to the Federal Home Loan Bank System to meet this changing landscape?

Will you provide to the Members of this Committee recommendations for modernizing the membership of the Federal Home Loan Bank System?

A.4. The FHLBanks have an important role serving as a reliable source of liquidity for housing finance, community lending, and asset-liability management for their members in all market conditions. Because the FHLBank System provides advances when needed, the FHLBanks played critical roles in the last two economic crises, making advances to their members. Despite the decrease in advances since the end of March 2020, the FHLBank System is currently in a strong financial position and overall safe and sound condition.

Congress established the eligibility for certain types of financial institutions to become members of FHLBanks in section 4(a) of the FHLBank Act. In recent years, Congress expanded FHLBank membership eligibility to include nondepository CDFIs in 2008 and nonfederally insured credit unions in 2015. FHFA also addressed membership eligibility issues related to insurance companies in a rulemaking in 2016, and the Agency continues to clarify expectations on potential member applications with the FHLBanks. We are reviewing the membership regulation to determine if further clarification is needed.

FHFA stands ready to provide technical advice on any changes that Congress may wish to propose for changes to FHLBank membership. In my view, members of the FHLBanks should have a clear nexus to housing finance, contribute to the safety and soundness of the FHLBank System, support affordable housing and community investment needs of the FHLBank districts, have strong regulatory and supervisory oversight, and have reliable resolution regimes should they encounter difficulties.

Q.5. Manufactured homes are the only form of unsubsidized affordable home ownership and can have a significant role in our affordable housing crisis. Yet, the Duty to Serve plans that were proposed by the GSEs in May for 2022 to 2024 actually reduce the number of manufactured home loans the GSEs intend to purchase. This is in complete opposition to purpose of the GSEs to facilitate access to affordable home ownership and the needs of the country.

As Director, what are your plans for the GSEs' activities with respect to manufactured housing?

I understand that FHFA is a member of a new White House Task Force on expanding access to manufactured housing financing. What do you envision as the desired outcomes for this task force? What do you see as FHFA's role with this group and how will you engage to ensure the task force is successful in expanding financing for manufactured homes as a significant resource of affordable housing?

A.5. Duty to Serve has had a measurable impact on the manufactured housing market. Since its inception, the Enterprises have increased manufactured housing financed as real property and established consumer protections in financed communities that protect renters and owners of manufactured housing units from surprise increases in costs. Manufactured housing can represent an affordable housing option for some families and is one of the markets required in the Enterprises' Duty to Serve plans. Since Duty to Serve took effect in 2018, the Enterprises have purchased more than 82,000 eligible real property manufactured housing loans for a total of more than \$11 billion in unpaid principal balance. FHFA has also worked with stakeholders and industry to develop tenant protections for manufactured homeowners and renters in Enterprise-financed manufactured housing communities. These protections are now required on all mortgage loans for these communities.

I recently asked the Enterprises to revise their Duty to Serve plans for 2022–2024 to do more in these areas in a sustainable way. The plans should explain how the Enterprises are going to serve rural areas, focus on affordable housing preservation for renters and homeowners, and expand liquidity for the manufactured housing market all while maintaining strong safety and soundness and underwriting criteria.

FHFA is participating on the White House Manufactured Housing Task Force along with nine other Federal agencies. We look forward to working across Government to support and enhance the availability of safe, affordable, and energy-efficient manufactured housing as an affordable housing option, and specifically, the availability and affordability of financing products and programs for this housing sector.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TILLIS
FROM SANDRA THOMPSON**

Q.1. I understand that former Director Mark Calabria—and you as then a key Deputy—worked on and had come very close to finalizing a new rule governing the Products and Activities of the GSEs—Fannie and Freddie. Whether in conservatorship or down the road as entities exiting conservatorship, having strong governance over what products and activities the GSEs advance is very important for all participants in the vibrant housing economy. The GSEs have very specific congressional charters and a strong Products and Activities rule ensures that the entities do not exceed those permissible activities provided by the private markets.

Can you assure me and this Committee that this rule will be a near term priority for FHFA?

A.1. Establishing and implementing a process to ensure that any new product or activity of the Enterprises is analyzed and reviewed by FHFA is an important step to complete before the Enterprises can be released from conservatorship and presents numerous challenges and regulatory considerations. FHFA is diligently reviewing comments on the proposed rule and working through the complexity of the issues raised during the public comment period. As Acting Director and, if confirmed, as Director, I can assure you FHFA will continue its work on this issue.

Q.2. Freddie Mac recently issued directives on manufactured housing projects which are in direct conflict with current law in several States. In some instances, uniform adoption of these standards would result in manufactured housing residents receiving weaker protections than they would under State law. This proposal by Freddie Mac was issued without warning, without a formal notice and comment period, and appears to reflect the priorities of activist housing organizations and progressive policymakers. Will you commit to ensuring that:

(1) No additional steps are taken by either GSE without a formal process to receive stakeholder feedback

(2) Any final proposal by either GSE is consistent with existing State law

(3) Any approach in this space is motivated by what is best for the long-term health of the manufactured housing market and the U.S. taxpayers that support this activity, rather than any politically motivated organization?

A.2. Manufactured housing is an important source of affordable housing, especially in rural communities, and is a statutorily required focus of the Enterprises' Duty to Serve. Owners and renters of manufactured housing who rent a pad in a community may face significant costs and difficulties in relocating their units if a manufactured housing community owner unexpectedly raises pad rents or cancels leases. Our analysis indicated that State laws providing tenant protections were not consistent across the country. In 2016, FHFA and the Enterprises developed a set of tenant protections for manufactured housing communities which FHFA included as part of the final rule implementing Duty to Serve. The Duty to Serve rule received significant public comment when it was proposed. FHFA also posts the Enterprises' draft Duty to Serve plans for public feedback and holds listening sessions on the Enterprises' plans. In 2021, FHFA held a public listening session specifically on manufactured housing, where we encouraged interested parties to provide feedback.

The Agency included tenant pad lease protections in manufactured housing communities in the Duty to Serve regulation to encourage those communities to adopt tenant pad lease protections or to enhance existing pad lease protections. We believe that these protections help provide stability and encourage strong manufactured housing markets. It is important to note that these tenant protections are a minimum for Enterprise manufactured housing loans and do not preempt any State law that provides additional protections or higher standards.

Q.3. During your confirmation hearing, in response to Sen. Reed, you said that FHFA is "very insistent that [manufactured housing communities] have protections and Fannie and Freddie will not purchase loans unless there are protections for the communities, the owners and the renters." This comment seems to be inconsistent with FHFA's final rule on Duty to Serve, which encourages (rather than mandates) manufactured housing communities to adopt or enhance existing tenant pad lease protections and goes against the long-standing practice of the GSEs to encourage adop-

tion through pricing incentives. Can you clarify FHFA's position on this issue?

A.3. FHFA's final Duty to Serve regulation encourages (rather than mandates) the adoption of the tenant pad lease protections. In 2021, Fannie Mae and Freddie Mac each made the decision to only purchase manufactured housing community loans with tenant pad lease protections. FHFA agrees with and encourages this approach through Duty to Serve credit and through the treatment of manufactured housing community loans with tenant pad lease protections as mission-driven under the Conservatorship Scorecard multi-family volume cap (Appendix A).

Q.4. In October 2020 your predecessor released for comment a proposed rule on "Prior Approval for Enterprise Products" that would update the process for FHFA to review new activities at the GSEs. This is a critical element of GSE oversight to ensure that they comply with their congressional charters and do not expand into areas of the housing finance system served by private market participants. Given the comment period for this proposed rule closed more than a year ago, do you have any update on the timing for FHFA to issue a final rule?

A.4. Establishing and implementing a process to ensure that any new product or activity of the Enterprises is analyzed and reviewed by FHFA is an important step to complete before the Enterprises can be released from conservatorship and presents numerous challenges and regulatory considerations. FHFA is diligently reviewing comments on the proposed rule and working through the complexity of the issues raised during the public comment period. As Acting Director and, if confirmed, as Director, I can assure you FHFA will continue its work on this issue.

Q.5. Acting Director Thompson, I understand that former Director Mark Calabria—and you as then a key Deputy—worked on and had come very close to finalizing a new rule governing the Products and Activities of the GSEs—Fannie and Freddie. Whether in conservatorship or down the road as entities exiting conservatorship, having strong governance over what products and activities the GSEs advance is very important for all participants in the vibrant housing economy. The GSEs have very specific congressional charters and a strong Products and Activities rule ensures that the entities do not exceed those permissible activities provided by the private markets. Can you assure me and this Committee that this rule will be a near term priority for FHFA?

A.5. Establishing and implementing a process to ensure that any new product or activity of the Enterprises is analyzed and reviewed by FHFA is an important step to complete before the Enterprises can be released from conservatorship and presents numerous challenges and regulatory considerations. FHFA is diligently reviewing comments on the proposed rule and working through the complexity of the issues raised during the public comment period. As Acting Director and, if confirmed, as Director, I can assure you FHFA will continue its work on this issue.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR HAGERTY
FROM SANDRA THOMPSON**

Q.1. In a Bloomberg Opinion piece from 2020, former Freddie Mac CEO, Don Layton details a specific action the FHFA can take to reduced home ownership costs for first-time homebuyers. Mr. Layton cites reducing the “unnecessarily high cost of mortgage insurance” as a way that can tangibly help this segment of the marketplace. He describes the significant built-in administrative costs in the current marketplace and how better utilizing a Direct MI program can tangibly reduce overall costs to the homebuyer. Mr. Layton also illustrates how diversifying the Enterprises counterparty base to further spread this risk will reduce risks to both Enterprises and the American taxpayers. Do you agree with Mr. Layton when he states, “The FHFA should immediately take a clear proconsumer and procompetition stance by approving the pilot for full implementation, making inexpensive and more reliable mortgage insurance available to all borrowers who need it”?

A.1. The article referenced alludes to the Integrated Mortgage Insurance (IMAGIN) pilot program that was previously conducted by Freddie Mac to test an alternative form of mortgage insurance. Fannie Mae conducted a similar pilot known as Enterprise Paid Mortgage Insurance (EPMI). The pilots were designed to provide charter-required credit enhancement through reinsurers. Key elements addressed counterparty risk, diversification, collateralization for exposure, certainty of coverage and lower costs to consumers. As you may be aware, the pilot programs were allowed to expire in 2021. FHFA will look at all of the costs associated with purchasing a home and make responsible changes where appropriate.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR DAINES
FROM SANDRA THOMPSON**

Q.1. You have stated that you will be transparent. Aside from mandated reports to Congress, what actions will you take?

A.1. If confirmed as Director, I will ensure that FHFA conducts regular outreach to stakeholders, industry, and Congress, including your office, and the offices of our authorizing Committee members in both the Senate and the House of Representatives. I have also publicly committed to stakeholders and the industry that I will give them notice before the Agency implements any decisions that involve significant changes.

FHFA will continue to provide regular updates to Congress on the Agency’s rulemaking and other regulatory actions. I also commit that FHFA will make its subject matter experts available for briefings and consultations, and when appropriate, will assist in facilitating consultations with Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.

Q.2. Why is transparency important, and what methods are most effective at maintaining it?

A.2. Transparency is a critical component of good governance. In over three decades of public service in financial services regulation, I’ve found that the most effective way of maintaining transparency and accountability is by adhering to strict legal and ethical stand-

ards. I believe that doing so is also the best way to serve the public's interest.

I intend to continue FHFA's practice of soliciting public feedback on important decisions. In addition to following the Administrative Procedures Act providing for a public comment period for rule-making, FHFA publishes Requests for Input that solicit public comment on potential policy decisions and initiatives, hosts listening sessions, and publishes detailed reports and descriptions of FHFA activities on the Agency's website.

Q.3. Will you commit to striving to consistently allow notice and comment periods that are substantially longer than 30 days?

A.3. Yes.

Q.4. What are the FHFA's weaknesses and how do you intend to address them? Please share nuanced objectives versus overarching goals.

A.4. FHFA faces a unique set of economic and environmental factors that could influence the Agency's success in achieving its mission. Before the pandemic took hold in 2020, the United States was already facing a shortage of affordable housing driven by the long-term decline in the construction of single-family homes. The share of newly built smaller homes, which are often more affordable for new or first-time homeowners, has been declining since the early 1980s and is now nearing a 50-year low. While house prices have been rising for the last decade, the number of existing single-family homes for sale has declined more than 30 percent.

The lack of affordable housing has become an even greater challenge since the COVID-19 pandemic began when demand for housing soared. In 2020, the monthly supply of new residential homes sunk to historically low levels. Over the last year, mortgage interest rates and housing inventory have both remained low even as rapid house price growth continued. This diminishing housing affordability is an additional barrier that can affect equitable access to affordable home ownership and rental housing, especially for first-time and first-generation borrowers.

Another challenge will be to ensure that external events do not negatively affect staff productivity and morale. FHFA staff have been exceptionally resilient over the past 2 years while addressing the economic impacts of the pandemic, leveraging lessons learned from prior crises to ensure that families, both homeowners and renters, were able to safely remain in their homes. As the country emerges from the pandemic, the Agency will continue to prioritize the safety of its workforce and infrastructure.

In order to overcome any challenge, I believe it is critically important to listen to FHFA's stakeholders: Congress, other regulatory institutions, stakeholder organizations, and market participants. In doing so, FHFA will be able to develop a range of options to determine the most effective policy solutions.

Q.5. Based on your 6 months experience as Acting Director please share your insights of employee morale at FHFA?

A.5. During my tenure as Acting FHFA Director, I have been inspired by the dedication, selflessness, and resilience seen from FHFA employees. As we continue to navigate the uncertainty of

the pandemic, I believe our employees' commitment to the mission is and has been unwavering. Employee morale, job satisfaction, and overall engagement are a significant focus for my leadership team and creating a culture of organizational effectiveness and work life balance is a top priority for me. During my tenure as Deputy Director for FHFA's Division of Housing Mission and Goals, I used results from the annual Federal Employee Viewpoint Survey (FEVS) to identify areas of focus for employee morale. I will continue to use the annual FEVS report as a resource for measuring employee morale and developing relevant action plans.

Q.6. How do rural and frontier communities factor into your vision for FHFA?

A.6. In my view, it is critically important that the housing GSEs support home ownership in rural areas. Often in rural areas the only lenders making loans are small community-based lenders, and we must ensure that those lenders have access to the secondary market on a level playing field with larger lenders. Rural areas have other unique challenges, like finding comparable appraisals and the complexity of lending on tribal reservations, and the GSEs must provide programs that help to address these challenges.

One of the reasons that I have focused Fannie Mae and Freddie Mac on their statutory Duty to Serve underserved markets is the rural component required by Congress. Since the implementation of Duty to Serve, the Enterprises have more than doubled the number of rural single-family loans purchased, expanded outreach to rural partners, expanded multifamily liquidity in rural areas, and worked closely with the Department of Agriculture (USDA) to allow purchases of Sec. 515 rural housing mortgages.

Despite these accomplishments, I believe that the Enterprises can do more, in a safe and sound manner, to support rural housing. Accordingly, I have asked them to improve their Duty to Serve plans for 2022. In November 2021, to provide rural areas with access to additional financing, FHFA raised the Low-Income Housing Tax Credit (LIHTC) investment limit for the Enterprises to \$850 million annually and required that half of that be for underserved areas like rural and tribal areas.

The Federal Home Loan Banks (FHLBanks) also have a responsibility to support home ownership in rural areas. Nationwide, they are a source of residential loan liquidity for depository institutions and community-based lending organizations. In addition to the FHLBanks' core financing programs, their Affordable Housing Programs provide funding for property rehabilitation projects and home ownership in rural areas. However, I believe the FHLBanks can increase their support for rural areas in each State and take additional steps to assess housing issues in tribal areas in every district.

Q.7. Please expound on your objectives for credit risk transfer. It is critical that taxpayers are not on the hook in the case of a severe market event.

A.7. The Enterprises are currently the largest holder of mortgage credit risk in the United States. Credit risk transfer (CRT) transactions are a way to transfer a meaningful amount of mortgage credit risk to private investors in severely stressful economic sce-

narios, which helps to protect taxpayers from potentially large credit-related losses.

I view the transfer of unexpected credit risk to a broad set of global investors as an important tool to reduce taxpayer exposure to the risks posed by the Enterprises and to mitigate systemic risk to the housing finance market caused by the size and monoline nature of the Enterprises' businesses. CRT is an effective mechanism for such a distribution of unexpected credit risk especially while the Enterprises are in conservatorships and have inadequate capital positions relative to their overall books of business.

I am committed to strengthening the safety and soundness of the regulated entities and believe that the modest changes we have proposed to the Enterprises' capital rule will help facilitate the CRT program and move credit risk away from the Enterprises and the taxpayers and into the hands of private investors.

Q.8. In December, a U.S. District Court ruled that trusts are "covered persons" under the Consumer Financial Protection Act. As you know, trillions of dollars worth of consumer debt is held in trust, a structure which is integral to our securitization markets, including the GSE mortgage-backed securities market.

What is the impact of this court decision?

Specifically, how will this decision impact the ability of the GSEs to issue MBS going forward? Please provide FHFA's expectations regarding any increased costs to the GSEs securitization process and whether those costs will ultimately be borne by U.S. homeowners.

A.8. The case mentioned in the question, CFPB v. National Collegiate Master Student Loan Trust, has received a great deal of attention from participants in the securitization business, and is currently being appealed by the defendants. FHFA is actively monitoring the case. We do not expect it to have a significant effect on Enterprise securitizations or on investors in Enterprise mortgage-backed securities due to the distribution of compliance responsibilities among the various participants in Enterprise securitizations, the robustness of Enterprise servicing guides and contracts, and Enterprise monitoring of servicers.

Q.9. Due to the current trade situation between China and the United States, the current tariffs are contributing to an increase of the cost of U.S. building materials, which is further exasperating the supply shortage in the housing market.

What can be done to lessen the negative impact of the increasing costs of U.S. building materials, specifically in regards to the trade war with China?

A.9. FHFA's legal authorities are limited to the regulation and supervision of the secondary mortgage market and its role as conservator of Fannie Mae and Freddie Mac. The Agency's authorities and activities are not related in any way to international trade policy or any tariffs imposed by the U.S. Government.

Q.10. Do you have any plans to change the current FHFA plans for monitoring enterprises exiting Federal conservatorship?

What are your general thoughts on ending Federal conservatorships over GSEs? What indicators (economic or otherwise) should we be monitoring?

A.10. FHFA closely supervises the Enterprises and is focused on ensuring that the Enterprises build capital and improve their safety and soundness while in conservatorship. Adequate capital is a necessary precondition for the Enterprises to exit from conservatorship; however, this is not a calendar-driven event. FHFA has taken additional steps beyond building capital to ensure that upon their exit from conservatorship, we will not have a repeat of the issues that lead to the financial crisis. These steps include facilitating CRT transactions and improving the Enterprises' transparency. There is still much more work to be done to transfer risk, strengthen underwriting, and review pricing and credit policies.

In order to end the conservatorships, it is essential that Congress determines both the role of the Enterprises and the secondary mortgage market's future structure. In addition, the Department of Treasury, which possesses a significant economic interest in the Enterprises, and other Federal agencies will need to resolve a series of outstanding issues as part of the process to end the conservatorships.

Q.11. Last year, former FHFA Director Calabria warned that "when housing markets experience a significant downturn, Fannie Mae and Freddie Mac will fail at their current capital levels".

If we experience a significant housing market downturn, would Fannie Mae and Freddie Mac have the ability to meet current obligations given their current capital levels?

How might Fannie and Freddie increase capital if they were to be removed from conservatorship?

A.11. Under FHFA's capital rule, the Enterprises would need approximately \$300 billion of capital to meet their obligations in the case of a significant housing market downturn and to continue to support the housing market through the downturn. The Enterprises currently have a net worth of approximately \$68 billion. In conservatorship the Enterprises can only build capital through retaining earnings, and I expect them to continue to build their capital levels and utilize CRT to ensure that taxpayers are not at risk. Outside of conservatorship, the Enterprises would be able to build capital through both retaining earnings and raising capital from the capital markets.

Q.12. Currently, the United States and Canada are in a trade dispute regarding softwood lumber, a common building material for homes. The U.S. Department of Commerce nearly doubled its duties on imported Canadian softwood lumber to 17.9 percent in November.

What is your opinion on this current trade disagreement?

A.12. FHFA's legal authorities are limited to the regulation and supervision of the secondary mortgage market and its role as conservator of Fannie Mae and Freddie Mac. The Agency's authorities and activities are not related in any way to international trade policy or any tariffs imposed by the U.S. Government.

Q.13. One of the GSEs main functions is to support small lenders' access to capital markets they otherwise could not. On the single-family side, FHFA has made progress creating a level playing field. On the multifamily side, you've indicated there remains work to be done. The GSEs recently put out guidelines for small multifamily lenders but it appears that they don't provide clarity and objective standards for these lenders. Independent and smaller multifamily lenders are still being shut out from serving their American communities.

As you noted in April of last year:

FHFA has nothing against the big players, but their size means that they don't have to worry about accessing the capital markets. Small lenders, on the other hand, may be able to leverage local knowledge to best serve their communities. . . . FHFA's current Duty to Serve regulation includes recognition of the role small lenders can play in serving underserved markets. But that very locality can also make it harder for them to access capital markets.

Can you give us an update on your efforts, and how you will define success in the multifamily lending side of the GSEs?

A.13. FHFA highlighted the importance of access for small multifamily lenders by including it on the Enterprises' 2022 Conservatorship Scorecard. As a financial regulator for more than 30 years, I have long been aware that smaller lenders have local knowledge and relationships and may more effectively serve underserved markets. The Enterprises will work with FHFA throughout 2022 to assess opportunities to increase access to Enterprise multifamily products for small and regional lenders. FHFA's primary goal is to make certain the Enterprises have qualified multifamily counterparties that can serve all markets in need.

In early 2021, FHFA worked with the Enterprises to publish lender eligibility requirements on their public websites. Publishing more information on the Enterprises' lender eligibility requirements is an important first step to provide transparency and allow prospective lenders to easily understand the criteria to become an Enterprise seller/servicer. I recognize that more work is needed to ensure access for qualified lenders.

Q.14. The FHFA annual performance and accountability report for 2021 reflected new priorities for the upcoming year, including strengthening the safety and soundness of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks to protect the housing finance system.

Can you offer any details of how the FHFA plans to meet that new priority?

What role as Director will you play in maintaining that priority?

A.14. As Acting Director and, if confirmed, Director of FHFA, I will continue to use the authorities of the Director to maintain strong oversight of the Enterprises as both regulator and conservator. FHFA will continue to look at ways to strengthen the safety and soundness of its regulated entities, including by finalizing proposed enhancements to the Enterprises' regulatory framework and transferring a significant amount of credit risk from the Enterprises to private investors. In November 2021, FHFA published the 2022 Conservatorship Scorecard for the Enterprises, which establishes

milestones on which Enterprise leadership is assessed. I also intend to release a new FHFA Strategic Plan this year which will further detail some of these objectives.

Q.15. According to the FHFA annual performance and accountability report for 2021, assessment teams from FHFA documented the actions that demonstrated compliance with significant laws and regulations. The assessment determined there were no material weaknesses that adversely affect the compliance with laws and regulations.

Can you provide details of what that assessment entails, and how it ensures unbiased third party compliance verifiability?

A.15. FHFA conducts its assessment of internal controls over the effectiveness and efficiency of its operations, reporting (other than financial reporting), and compliance with applicable laws and regulations in accordance with the Office of Management and Budget's (OMB) Circular A-123. FHFA's assessments for compliance with laws and regulations are reviewed by FHFA's Office of General Counsel, and the Government and Accountability Office conducts an audit of FHFA's financial statements including compliance with laws and regulations material to FHFA's financial statements.

Q.16. You mentioned that 104 counties were affected by the increased rate of second-home mortgages disproportionately when compared to counties with an increased median income. What similarities do these counties have? Are any of these counties in MT?

A.16. I would like to clarify that FHFA determined for 2022 that 121 counties in the United States are in high cost areas and have conforming loan limits higher than the \$647,200 national baseline. None of the 56 counties in Montana are above the new national baseline. In fact, the new baseline limit is higher than the highest median county home value in Bozeman which reached \$525,500 in 2021. Because of the rapid increase in house prices last year, the conforming loan limit significantly increased between 2021 and 2022 across the board. For the highest cost areas in the country, the maximum conforming loan limit is \$970,800.

The formula for calculating the loan limit is defined in the Housing and Economic Recovery Act, and FHFA does not have flexibility in setting it. FHFA has announced an adjustment in guarantee fees for "high balance" loans that are larger than the \$647,200 conforming loan limit, up to \$970,800, and for second home mortgages purchased by the Enterprises. We exempted from these adjustments the Enterprise affordable programs and first-time homebuyers with incomes at or below 100 percent the area median income. The exemption ensures that the Enterprises continue to provide strong support for affordable housing.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

LETTER SUBMITTED IN SUPPORT OF NOMINEE LAEL BRAINARD



1900 M Street NW, Suite 550
 Washington, DC 20036
 p 202 466 2121
 f 202 466 2122
www.nhc.org

January 11, 2022

The Honorable Sherrod Brown
 Chairman
 Senate Banking Committee
 United States Senate
 Washington, D.C. 25010

The Honorable Pat Toomey
 Ranking Member
 Senate Banking Committee
 United States Senate
 Washington, D.C. 25010

Dear Chairman Brown and Ranking Member Toomey:

I am writing in support of the nomination of Lael Brainard as Vice Chair of the Federal Reserve Board of Governors. Founded in 1931, the National Housing Conference is the nation's oldest and broadest affordable housing coalition in America. Our members include an ideologically and geographically diverse range of housing industry leaders, affordable housing advocates, civil and consumer rights organizations and the nation's largest financial institutions.

Ms. Brainard is an experienced financial regulator who would bring both deep technical expertise and an understanding of how the Board's actions impact American communities. The current set of economic challenges, from rising inflation to worker shortages to supply chain disruptions, require strong and experienced leaders at the Fed who are attentive to even the most subtle shifts in conditions. We are confident that Ms. Brainard has the right set of skills to succeed as one of those leaders.

Ms. Brainard has been a strong supporter of Community Reinvestment Act (CRA) modernization. She played a vital leadership role in the Board's rejection of an Office of the Comptroller of the Currency rulemaking that would have gutted this important incentive for banks to commit resource to underserved communities. She has led development of an Advanced Notice of Proposed Rulemaking that has received broad support. As Vice Chair, she would be optimally positioned to lead a joint rulemaking process that brings CRA into the 21st century, ensuring that it continues to combat inequality in a fast-changing financial industry.

Throughout her tenure on the Board, Ms. Brainard has been conscious of how the Board's policies effect ordinary Americans. In her current term, she has made dozens of trips across the country to witness firsthand the conditions that cause communities to fail or succeed, informing her ability to balance the needs of Wall Street with Main Street.

We respectfully urge you to support her confirmation.

Sincerely,

A handwritten signature in black ink that reads 'David M. Dworkin'.

David M. Dworkin
 President and CEO

About NHC: The National Housing Conference has been defending the American Home since 1931. NHC is a diverse continuum of affordable housing stakeholders that convene and collaborate through dialogue, advocacy, research, and education, to develop equitable solutions that serve our common interest. Our vision is an America where every one is able to live in a quality, affordable home in a thriving community. Politically diverse and nonpartisan, NHC is a 501(c)3 nonprofit organization.