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NOMINATIONS OF: ROGER W. FERGUSON, JR. ANGELA M. ANTONELLI, RONALD A. ROSENFELD JENNIFER L. DORN, AND DONALD E. POWELL

HEARINGS

BEFORE THE

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

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

ON

NOMINATIONS OF:

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

ANGELA M. ANTONELLI, OF VIRGINIA, TO BE CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

RONALD A. ROSENFELD, OF OKLAHOMA, TO BE PRESIDENT GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GINNIE MAE) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

JENNIFER L. DORN, OF NEBRASKA, TO BE FEDERAL TRANSIT ADMINISTRATOR, U.S. DEPARTMENT OF TRANSPORTATION

DONALD E. POWELL, OF TEXAS, TO BE A MEMBER AND CHAIRMAN OF THE BOARD OF DIRECTORS OF THE FEDERAL DEPOSIT INSURANCE CORPORATION

JUNE 13, 21 AND 26, 2001

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

WEDNESDAY, JUNE 13, 2001

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

The Committee met at 10:40 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. The Committee will come to order.

Before we turn to Governor Ferguson, I would like to take just a couple of moments to talk about the agenda of the Committee in the coming weeks.

First of all, let me say that I am appreciative to Senator Gramm for the cooperative way in which he has ensured a smooth transition. We tried to work together when things were reversed and I look forward to continuing to try to do that.

I also want to note that we reached a Memorandum of Understanding at the beginning of this Congress that we would not alter the staff or the funding ratios over the term of this Congress. And so, that will continue. We did that agreement in part I think to give the staff some sense of security as they looked ahead, I think it was wise to do it then and I continue to think it is wise. Obviously, we will adhere to that agreement.

Now, we have a short-term pressing agenda with a number of items that need to be reauthorized, and that I see is the first order of business. Let me just mention them very briefly.

First, we have to reauthorize the Export-Import Bank, which is due to expire on September 30. I have asked Senator Bayh, the Chairman of the International Trade and Finance Subcommittee to take responsibility for holding the hearing. There will be a hearing next Tuesday afternoon on reauthorizing the Export-Import Bank.

Mr. Robson, the new Chairman is now in place. Actually, I think he was sworn in yesterday at the Ex-Im Bank. He will be available to testify.

Second, we need to reauthorize the Multifamily Assisted Housing Reform and Affordability Act, the so-called mark-to-market program for multifamily housing. That authority is due to expire on

September 30. Senator Reed, Chairman of the Housing and Transportation Subcommittee, has scheduled a hearing on that reauthorization for next Tuesday morning.

Third, the Defense Production Act expires on October 12. Senator Schumer, Chairman of the Subcommittee on Economic Policy, will assume the responsibility of holding that hearing. We are trying to arrange a hearing before the end of the month.

The Iran-Libya Sanctions Act, which imposes sanctions on foreign companies which make investments directly and significantly in contributing to the enhancement of the ability of Iran or Libya to develop its petroleum resources, expires on August 5. Over 70 Members of the Senate have cosponsored its reauthorization and I hope to hold a Full Committee hearing on that again before the recess. I would very much like to do that.

These are four measures whose authorization runs out. If we can do the hearings, then we can turn to a markup sometime after the 4th of July recess. In other words, when we come back in July.

The Administration, as I understand it, is supportive of reauthorization in all four of these instances. I am not sure they have fully developed their position in detail on each issue, but it is my understanding that they do support reauthorization.

So this would be consistent with that agenda.

I also want to note, as you will recall, we also reported out the reauthorization of the Export Administration Act. That legislation is now pending in the Senate. Both Senator Gramm and I have talked to the leadership about it and we hope that there will be some opportunity to get that back up and move ahead on that. There was a 1 year temporary extension of that Act. We need to address that question. That is the one we brought out 19 to 1, as Members will recall.

Finally, last year we passed the Manufactured Housing Improvement Act. It desperately needs a technical correction, which is very time sensitive, in order to be able to spend out the funds collected under the program to run the program. I have consulted with the Administration, with Senator Gramm, and with other Members of the Committee on legislation. It is a very technical thing and we hope that we can get legislation up by unanimous consent and move that through and correct that situation.

Next Wednesday, the Committee will hold an oversight hearing on the condition of the banking system. We are doing this really as just kind of a survey of the situation. I am not prompted to do it by any sense of crisis or looming problem, but I think it would be helpful to get Alan Greenspan, Chairman of the Fed; Jerry Hawke, Comptroller of the Currency; Donna Tanoue, Chair of the FDIC; and Ellen Seidman, Director of the Office of Thrift Supervision, and have them in.

In addition, we will address nominations as they come to us and as their papers are ready for hearings. We will try to do that in an expeditious manner.

Now later in the summer, as Members know, I have some interest in the predatory lending and the financial privacy issues, and I hope to have some hearings on those issues. Money laundering, financial education, and literacy are other issues. Then, I hope we

can do a set of hearings on the state of metropolitan and rural America, the broader jurisdiction of the Committee.

I have been talking to Members. I hope to complete that process of consultation over the next couple of weeks, for any ideas they have or directions they would like to go. I am anxious to hear from them and we are very open to suggestions.

Now with that by way of preface, and if there are any questions, I would be happy to respond in that area. We need to do these reauthorizations. We were already working on doing that and we just want to carry forward that process and try to bring it to completion.

With that as a preface, I would like to welcome Roger Ferguson before the Committee this morning. He has been nominated by the President for a full 14 year term as a Member of the Board of Governors of the Federal Reserve.

Governor Ferguson was originally appointed as a Member in 1997, to complete a term which expired on January 31, 2000. He was nominated on September 14, 1999, by President Clinton for a full term as a Member of the Federal Reserve Board, as well as to be Vice Chairman. He was confirmed as Vice Chairman at the end of September 1999, and that term expires on October 5, 2003. That is a 4 year term as Vice Chairman. No action was taken in the last Congress on his nomination to be a Member of the Board. So he had the Vice Chairmanship while he continued to serve, but he had not gotten another term as a Board Member.

President Bush nominated him for a full term on April 24. His papers are all complete. They have been with the Committee now for a number of weeks. Given the importance of the position, and the period of time he has been awaiting action on his nomination, I thought we should move his nomination, and Senator Gramm and I have discussed that.

I just want to say that Governor Ferguson holds an undergraduate, a law degree, and a Ph.D. in economics, all from Harvard. After graduate school, he practiced law in New York with Davis, Polk & Wardwell, one of the leading firms. He then joined the consulting firm of McKinsey & Company, where he became a Partner in 1992 and Director of Research and Information Systems. As I said, he has served on the Federal Reserve Board since 1997.

By all accounts, Governor Ferguson has served with distinction as a Member of the Federal Reserve Board. I have a public statement that Alan Greenspan issued today:

> Roger Ferguson has been a distinguished and respected Member of the Federal Reserve Board, exercising sound judgment and benefiting our work on a wide range of domestic and international policy matters. I welcome his nomination to another term on the Board.

Governor Ferguson has chaired a working group of the Federal Open Market Committee to review its disclosure practices. Acting on a working group recommendation, the Federal Open Market Committee altered its disclosure practices, including deciding to issue a statement after every FOMC meeting announcing any action taken by the Federal Open Market Committee and indicating the balance of risks facing the economy.

I for one very much welcome this initiative. I think it is important for the Federal Open Market Committee to make its decisions

known and to try to give the country some of the rationale that lies behind its decision. I think that increases economic understanding and that is a very important objective.

Governor Ferguson oversaw the Fed's preparations for the Year 2000 computer challenge. I think Senator Bennett worked with him on that, when Senator Bennett and Senator Dodd were heading up the Special Committee. He also served as Chairman of the Joint Year 2000 Council, sponsored by the Bank for International Settlements, to provide guidance to the global financial supervisory community. He recently completed service as Chairman of the Group of Ten Working Party on Financial Sector Consolidation, which examined the causes and potential effects of consolidation in the financial sector worldwide.

As Vice Chairman, he has served as the Federal Reserve's Chief Administrative Officer. He is currently Co-Chairman of the Federal Reserve's Payments System Development Committee, which addresses public policy issues arising in connection with developments in the Nation's payments infrastructure.

Governor Ferguson has also been a careful observer of the economy, and has focused particularly on the role of information technology in productivity growth.

Actually, I think it is a commentary on the high professional standards he has set during his service on the Federal Reserve Board that he was nominated for a full term on the Board by both President Clinton and President Bush. At the time of his first confirmation, and I was taken with this, I recall that he mentioned that the appointment of Andrew Brimmer to the Federal Reserve served as an inspiration to him as a youth and focused his attention on serving on the Federal Reserve as a possible career goal. Perhaps his own service on the Federal Reserve now will serve as an inspiration to other young people to pursue public service in their careers.

I am very pleased to welcome Governor Ferguson before the Banking Committee. And Governor, before we turn to you, I will yield to any of my colleagues who may want to make a statement.

Senator BUNNING. I have a short opening statement I would like to make.

Chairman SARBANES. Indeed. Senator Bunning.

COMMENTS OF SENATOR JIM BUNNING

Senator BUNNING. Mr. Chairman, I would like to thank you for holding this hearing, and I want to thank Mr. Ferguson for testifying today.

Mr. Ferguson, I appreciate you coming to see me last week. I think we covered a lot of ground. At that time, I expressed my strong concerns with the Fed talking about the financial markets. Obviously, every time the Chairman speaks, the market listens. But I am concerned that the Fed has tried to influence market levels. That is not the Fed's job. I am very much heartened by the fact that you agreed with me that it is not the Fed's job to jawbone the equity markets.

You obviously have had a very distinguished career and I look forward to hearing your answers to the questions posed by my colleagues and myself today.

Thank you very much, Mr. Chairman.

Chairman SARBANES. Thank you, Senator Bunning.

Senator Corzine.

COMMENTS OF SENATOR JON S. CORZINE

Senator CORZINE. Thank you, Mr. Chairman. It is an honor for me to be here today with you in your first hearing as Chairman.

Like my colleagues, I look forward to working with you on ensuring financial institutions and markets in America stay on the same supreme role that they play today. Those efforts were the hallmark of the outstanding leadership provided by Senator Gramm as well in his stewardship of this Committee and I look forward to them continuing.

I am particularly pleased to hear you outline the issues that are on the agenda. Issues like predatory lending, financial privacy, housing affordability, urban economic development, and financial literacy are things that I think really can make a difference in improving the quality of life for individuals and their families. I think it is terrific that we will have this agenda.

I also want to say welcome to Vice Chairman Ferguson, who is an individual who has a sterling reputation in the financial markets. His work on all of a host of things that often are unseen is terrific testimony to his talent and wisdom and it is a pleasure to have him here today and I look forward to his testimony.

Chairman SARBANES. Senator Stabenow.

COMMENTS OF SENATOR DEBBIE STABENOW

Senator STABENOW. Thank you, Mr. Chairman.

I too want to indicate my pleasure at seeing you in the Chair and also appreciate Senator Gramm's leadership of the Committee. It has been a pleasure to work with both of you and I look forward to the opportunity for us to be working together on both sides of the aisle.

I am very appreciative of the agenda that you have put forward for the Committee and am anxious to work with you on so many things that directly affect my Michigan residents.

In terms of today, I would like to indicate that, as we know, our economy has experienced a great deal of uncertainty over the last several months. We have gone from a period of exuberant optimism to a dot com bust.

The 1990's were an unprecedented period of growth and economic expansion in our Nation. Today, however, energy prices are soaring. Many stocks have reached shocking new lows. And unemployment continues to rise.

This is not the economy of the recent past, but a new time of uncertainty and nervousness. Whether we are talking about the iron ore miners in the upper peninsula of Michigan or the high-tech executives in Oakland County, Michigan's automation alley, everybody in Michigan and everybody in the country is affected by the decisions of the Federal Reserve.

As we make the transition into the new economy, it has become all the more imperative that the Federal Reserve act aggressively to keep our economy in strong shape. Combating inflation and

fighting unemployment are critical to our country's well-being, as I know that you are aware.

The Federal Reserve has taken several steps over the last year to address the troubling economic signs. I hope that they will remain vigilant in promoting sound monetary policy, particularly with the recent massive and, I believe, ill-advised, changes in our Nation's fiscal policy.

I welcome Mr. Ferguson and I look forward to hearing your thoughts today on the state of the economy, and your work at the Federal Reserve. And we appreciate your being here.

Thank you.

Chairman SARBANES. Senator Gramm.

STATEMENT OF SENATOR PHIL GRAMM

Senator GRAMM. Mr. Chairman, thank you. I had to run out to speak to a bishop who had returned my call. I depend on the Lord's help in so many ways. When his messengers call, I don't keep them holding.

First of all, Mr. Chairman, I want to congratulate you on being the new Chairman of this Committee, and I want to thank you for your kindness in working with me over the period of time that I was Chairman. I would like to also thank Members on the Republican side for their support. I had the great good fortune of being Chairman when a lot of good things happened, and your support was critical. I want to personally thank you for your kindness to me. I want to also thank Members on the Democrat side, especially the new Members for their kindness to me at the beginning of this term. I look forward to working with all of you.

Mr. Chairman, I think you have set an example as to what a good Ranking Minority Member should be, and one that I hope to emulate. There are obviously areas where you and I will not be in total agreement, but I want to assure you that when in doubt, I intend to try to be supportive.

The outline that you have presented—a reauthorization of the Ex-Im Bank, multifamily housing, the Defense Production Act, the Iran-Libya Sanctions Act—these represent bills that have broad support, and I have no doubt that we can pass legislation fairly rapidly in reauthorizing them.

I have a few concerns about the Defense Production Act, not that I don't think the President ought to have these extraordinary powers, but I do believe in the past that they have been abused when we were not dealing with periods of national emergency. This is something I want to ask the Committee to look at, so that we might set a little higher standard and threshold for using the Defense Production Act. President Nixon used it to impose price controls in a period when we were not facing a national emergency from a conflict somewhere in the world. We have used it to allocate resources from time to time when there were no defense implications. And so, not that I believe this President would ever abuse the power, but these laws should be based on not knowing who might be President someday.

Let me also say that I think our correction on manufactured housing is something that we can do very quickly. Maybe we could

get the Committee to do it by unanimous consent on the floor, if you wanted to do it that way.

I look forward to working with you, and again, I congratulate you on your Chairmanship.

I want to congratulate Roger Ferguson. When you have Alan Greenspan on your side, you have the right man on your side. I supported confirming you as Vice Chairman, and I intend to support confirming you to a new term. I appreciate your willingness to serve. I understand that given your excellent credentials, you could make a lot more money doing something else, and I appreciate that you are willing to give that up to serve at the Federal Reserve.

I am proud of the fact that under my tenure as Chairman we raised pay for members of the Federal Reserve Board, but we did not raise it enough so that I can get the presidents of regional banks interested in being on the Board. So, I think we still have a major problem. But I appreciate your willingness to make the sacrifice to serve. It is a very important position. It is hard to overstate the importance of the Federal Reserve, and the role it has come to play in American society.

I congratulate you.

I am going to run to a Medicare meeting, but you can certainly count on my support.

Chairman SARBANES. Senator Bennett.

COMMENTS OF SENATOR ROBERT F. BENNETT

Senator BENNETT. I don't want my silence to be misinterpreted. I want to join everyone in extending my congratulations to you upon assuming this position.

You will not recall it, but I remember when Senator Riegle, who was the first Chairman of this Committee under whom I served, announced his retirement. I went over to Senator Riegle on the Senate floor to wish him well in his retirement and he was talking to you, Mr. Chairman. He said to me, meet the new Chairman of the Senate Banking Committee. And at that time, I said, actually, my preference would be Al D'Amato.

[Laughter.]

And it now turns out I got both.

[Laughter.]

My congratulations to you and I am looking forward to working with you in the same spirit as the other Senators have commented.

Chairman SARBANES. Thank you very much. I appreciate that.

Governor Ferguson, it is a standard procedure in this Committee to ask the nominees to take the oath with respect to their testimony. So if you would stand, I would like to administer it to you.

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

Mr. FERGUSON. I do.

Chairman SARBANES. Do you agree to appear and testify before any duly-constituted committee of the U.S. Senate?

Mr. FERGUSON. I agree to that, yes, sir.

Chairman SARBANES. Thank you very much. We would be very pleased to hear your statement.

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

Mr. FERGUSON. Thank you, Chairman Sarbanes.

I would like to introduce my wife, Annette Nazareth, who has joined me here.

Chairman SARBANES. We are pleased to have you. We welcome her to the Committee.

Mr. FERGUSON. Thank you.

Chairman Sarbanes, Senator Gramm, and Members of the Committee, I am pleased to appear before you today as President Bush's nominee to serve on the Board of Governors of the Federal Reserve System. I am honored that the President has nominated me to serve a full term as a Member of the Board.

As a Governor, I am particularly mindful that the policy decisions of the Federal Reserve influence the economic well-being of all Americans. It has been my privilege to serve our fellow citizens in this capacity since 1997, giving this role my undivided attention, and I hope to be able to continue in that service.

During my tenure, we have faced a rapidly changing environment in many of our areas of responsibility, and I would like to review briefly some of those developments and our responses to them.

Congress has given the Federal Reserve three monetary policy objectives: Maximum employment, stable prices, and moderate long-term interest rates. We have viewed these objectives as congruent with a goal of maximum sustainable growth, which can occur only in the context of long-run price stability. Fostering financial conditions in which Americans can realize the full productive potential of our economy has presented a number of challenges in recent years. The most important developments have been a step-up in the advance of technology—both in terms of the production of new goods and services and the more effective harnessing of past innovations—and a rapid accumulation of physical capital. These developments have made workers increasingly more productive. But faster productivity growth fed back on the demand for goods and services in ways that complicated the calibration of monetary policy. Faster growth in productivity and the reactions of businesses and households to this acceleration of productivity have combined with other forces—particularly those associated with the growing interconnectedness of the global economy—to require substantial adjustments in the Federal Reserve's policy interest rate in recent years. But those adjustments in our policy instrument have been in the service of our objective of promoting maximum sustainable growth.

Making monetary policy has been only part of the challenge. During my tenure at the Federal Reserve, we have also worked diligently to communicate to the public what we are doing with policy and why. Transparency in policymaking is a key part of the democratic process, as well as being helpful in fostering efficient decision making in the private sector. Becoming more transparent has been a goal of the central bank in recent years, keeping in mind that we must balance the need to be open and accountable with the need to maintain an effective process of decision making

by the Federal Open Market Committee. Transparency requires that we periodically review our procedures, as we did in 1999, to ensure that they appropriately balance these considerations. I do not know what future changes, if any, might be called for in how we communicate, but I am confident that the Federal Reserve will continue to look for ways to communicate clearly our policies and our supporting rationales.

While macroeconomic conditions are of overriding importance, the role of the Federal Reserve is broader than monetary policy. Financial stability is an essential precondition for maintaining a strong economy, and the Federal Reserve has important supervisory and regulatory responsibilities for our Nation's banking system. The Federal Reserve, and other regulators, must continue to foster a competitive environment that will benefit the users of financial services, while also promoting safety and soundness. I believe that we must achieve these goals with a minimum of regulatory burden and without leaving the impression that any institution is too big to fail. To minimize regulatory burden and achieve our other objectives, we should encourage what to my mind are the best regulators, namely, market discipline and management accountability. Of late, our challenge has been to meet these goals as we implement the financial modernization law. In my opinion, Congress wisely removed several antiquated barriers to a modern financial structure in the United States, and we now need to design regulatory and supervisory policies that reflect the will of Congress and deal effectively with a changing financial services industry.

Technology and deregulation, forces for change that I have just mentioned, have encouraged consolidation in the financial sector. With central bank and treasury officials from 12 other major industrial economies, I have reviewed the likely effect of the global trend toward consolidation and its implication for central banks and regulators. Because financial systems will continue to consolidate, as the forces that motivate that evolution are unabated, the regulatory community needs to monitor developments closely. But our study also found that existing policies appear adequate to allow regulators to maintain safe and sound financial industries now and in the intermediate term and for monetary policy to work through many of the same mechanisms as in the past.

More than the structure of the financial industry has changed of late. That sector has found uses for consumer information and created an array of financial products and services unimagined even a few years ago. These developments, in turn, raise some new concerns, and have re-ignited some existing ones, among consumers and legislators. Congress grappled with one of these issues, privacy, in the financial modernization law. Concerns about abusive lending practices have also reemerged of late. In all areas, but particularly in areas as sensitive as these, regulators should faithfully administer consumer protection laws as written. Any necessary regulations should adequately inform consumers and protect them against abusive practices while also not discouraging legitimate extensions of credit, especially to those who might previously have been denied access to such credit. Financial literacy will certainly play an important role in avoiding the growth of abusive or deceptive financial practices and in allowing consumers to protect their

interests. I believe legislation, careful regulation, and education are all components of the response to these emerging consumer concerns. I also hope, however, that businesses recognize that it is in their long-term interest to maintain the confidence of consumers by avoiding deceptive and abusive practices and by respecting the privacy of their customers.

Finally, our payment system affects every consumer and business. This system too has been, and will continue to be, changed greatly by emerging technologies. From the time of its very founding, the Federal Reserve has had the responsibility to foster an efficient, safe and accessible payment system. During much of 1998 and 1999, our primary objective in this regard was to help banks and other participants in the payment system maintain smooth operations as the century date change passed. Domestically, we achieved this goal by working directly with the banking sector. Internationally, I was privileged to work through multilateral groups to raise the awareness of the international regulatory community of the nature of the Y2K challenge. Now, we can take a longer-term perspective and consider how we might facilitate innovation in the payment system.

As an overseer and as a regulator, the Federal Reserve needs to approach payment system innovations with an open mind and a willingness to adapt. In a dynamic economy, markets need to play a key role in guiding the development of infrastructure. This means that innovation and competition will be central to the future development of the payment system—as they are in other areas of the economy. Regulators should strive to remove barriers to innovations when we can do so without sacrificing important public policies. We should take every opportunity to foster competition and maintain the integrity of the payment system, but public policy should not be built on a single vision or prediction in the future. Consumers and businesses, as well as service providers will determine the range of payment services that best meet their needs.

Mr. Chairman and Members of the Committee, during my years on the Board of Governors, I have done my best to contribute positively to all aspects of the Federal Reserve's many responsibilities. I look forward to the opportunity to continue to work with you and serve the Nation as a Member of the Board of Governors. Thank you for your attention and for considering my nomination. I would be pleased to respond to questions.

Chairman SARBANES. Thank you very much for your thoughtful statement. I think we will take 5 minute rounds and then we can do a second round if Members want to have further questioning.

In the June 4 *American Banker,* former Federal Reserve Board Vice Chairman Alan Blinder was quoted saying: "Everybody knows that there are institutions that are so large and interlinked with each other, that it is out of the question to let them fail." This statement contrasts with official Board policy and it contrasts with a statement you made recently before the Consumer Bankers Conference that: "No institution is too big to fail."

I think this is a subject that probably needs further exploration. But I would like to get your perspective on it, just to sharpen it up, how the Board continues to adhere to this policy in light of its

role in organizing a private-sector bail-out of the Long-Term Capital Management Hedge Fund in 1998.

There have been some proposals of ways to address the too big to fail issue, subordinated capital and so forth. Could you please address that?

Mr. FERGUSON. Certainly. I will address your question. It had many components. I will try to respond to each one.

First, on the principle, the philosophical question of too big to fail, as I have said, and you quoted me correctly, I believe that there is no institution that is too big to fail. I think it is important to remind all participants in the financial system that any institution can fail in the sense of having management changed, in the sense of being forced to divest some of its activities or cease some activities. Clearly, there is a risk to shareholders of any institution and there is a risk to uninsured depositors and other creditors of any institution.

I believe that this is an important message to continue to put out because, indeed, as you observed, there are even former officials who believe that other things are true.

Now one of the questions I should address is the activities with respect to Long-Term Capital. I think, sir, that was a prime example of what the public would expect a central bank to do. In that case, the Federal Reserve Bank of New York, which has access to information about the markets broadly and many market participants, saw that one of the major participants in the markets, Long-Term Capital, was clearly starting to have financial difficulties.

What the Federal Reserve Bank of New York did was to address their counter-parties, Long-Term Capital's counter-parties, brought them all together, explained the situation as they saw it in the Federal Reserve in New York, and left it to the private sector to determine how they wanted to respond to those challenges. They did not suggest, either directly or indirectly, any sort of potential regulatory quid pro quo. There was no Government money at stake. The private-sector participants thought that it was in their interest to help do what ended up being an important activity, which was, frankly, a very smooth wind down of Long-Term Capital.

So what we saw in that case, I believe, is an important lesson, which is, indeed, no institution is too big to fail. The management of Long-Term Capital and many of their shareholders lost money. The institutions positions were unwound, but unwound in a way that was not destabilizing to markets. There was no Federal Reserve quid pro quo of any sort express or implied.

And so I think it is important to be quite clear about that case because it strikes me as a case where an institution was large and, in fact, did get wound down in an orderly fashion.

I think it is also important to understand that there are a number of methods that are being used in the markets these days, or that are being discussed and encouraged or thought about, to try to minimize the moral hazard of this concept of too big to fail.

You have touched on one that I think is very important, which is the question of greater transparency and disclosure.

Through the Basel Capital Accord we also are considering more risk-based approaches to capital, to make the capital more risk-sensitive. And the Federal Reserve and other regulators have been

working on risk-based supervision that allows us to focus much more on the risk-management capabilities of institutions in order to reduce the probability of any institution failing.

I should finally end up by saying that, by definition, we know that in good times and in bad times, there may be institutions that are poorly managed. We are not a guarantor that no institution will ever fail. So these risk approaches that we are taking really are attempting to make the entire approach of this activity much more risk-based.

But all of these things I think are in the context of no institution being too big to fail. There are institutions that are large and complex. Their winding down could be very disorderly and has to be managed carefully. But any institution could fail in the sense of management being changed, shareholders losing money, activities being contracted, activities being sold off to others, potentially the whole institution being sold to others, and uninsured depositors and creditors potentially facing some sort of haircut.

Chairman SARBANES. Thank you. This may be a subject that the Committee may want to pursue with the regulators, particularly in ways of building more mechanisms into the market structure to control this. But my time is expired.

Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

Governor Ferguson, you made reference in your statement to the charge that the Congress has given to the Federal Reserve System, primarily that that comes out of the Humphrey-Hawkins Act—maximum employment, stable prices, and moderate long-term interest rates.

When Senator Mack was a Member of this Committee, he and I joined in saying that the Fed should concentrate exclusively—we indeed introduced legislation that would have repealed Humphrey-Hawkins—on stable prices. And if we got price stability in this country, the other things would follow, and having the Fed try to chase the unemployment numbers and try to solve unemployment problems with monetary policy was a nice dream out of the days when the Humphrey-Hawkins Act was passed. That practicality said you could not do it with monetary policy, and that if we got price stability, then moderate interest rates would be a natural byproduct. So, we sponsored legislation to have you focus primarily on price stability.

Now, Senator Mack is gone. I don't have quite the same zeal for that that he had, even though I still believe it, cosponsored his bill, and will still pump for it.

But I would like you to respond to that and talk about the goals of Humphrey-Hawkins and if you have a sense of prioritizing, that price stability is more important than the others. In your personal view, or if you are going to say, no, I have to stick to the Humphrey-Hawkins Act regardless of how I may feel because that is what the Congress has said, just simply respond to what I am saying here and give me your views.

Mr. FERGUSON. I will give you my personal view. My personal view is that the various goals laid out in Humphrey-Hawkins can best be achieved if we do it in the context of long-run price stability. I want to be clear about that.

I would be cautious about modifying the law in any way, however, because I do think that it is important for all central banks to recognize that another way to express their goal is the goal of what is called maximum sustainable growth. That can be achieved through long-term price stability, without question. But I think it is also quite important to recognize that there are costs to an economy going above potential and there are costs to an economy going too far below potential.

I think the way we best serve the economy and best serve our fellow citizens is by using our instrument to do the best we can to match aggregate demand and aggregate supply and create conditions that foster maximum sustainable growth, I want to be mindful of the cost on both sides of maximum sustainable growth.

In that sense, I am quite comfortable with the goals laid out in the Humphrey-Hawkins law. I am quite comfortable with our ability to keep our eye on the ball in terms of the underlying strength or importance of long-run price stability.

But I think it is also important to recognize that the other way of saying this is this concept of maximum sustainable growth and there are costs either above or below.

And I don't want to lose track of the costs that come from either growth that is above, and therefore, risks inflation, or growth that is below potential, and therefore risks the obvious costs that emerge in the economy when resources are underutilized.

Senator BENNETT. Thank you. We are not as far apart as some might want to make us.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much, Senator Bennett.

Senator Corzine.

Senator CORZINE. Thank you, Mr. Chairman.

Governor Ferguson, Chairman Greenspan said before the Budget Committee in January that the outlook for budget surpluses rests fundamentally on expectations of long-term trends in productivity. I think that gets at that concept of maximum sustainable growth that is built into those formulations.

At that point in time, we were looking at 2.5, 2.7 percent kinds of growth numbers. We have had actually, shockingly, negative numbers in the first quarter of 2001. It is hard to identify trends off of one quarter, but a lot of our assumptions that are built into budget surplus projections are dramatically impacted by small changes in these numbers, let alone dramatic changes that might be 3 or 4 percent, if those were to be sustained. Hopefully not.

Given your background, particularly with regard to technology and understanding of how that has impacted productivity growth, do you have comments or could we ask for your comments with regard to that, and particularly its implications for budget surpluses.

Mr. FERGUSON. I will comment on both the short-run and the longer-term perspective.

In the context of an economy that is growing as far below potential as ours currently is, it would not be surprising, and was not surprising, to see that the productivity number was negative in the first quarter.

To answer your broader question, I believe there are new things in the way of technology that will allow potential growth to return in the long run.

I think that I would put myself in the camp of being cautiously optimistic that we have not seen the end of the increases in productivity that we have experienced and benefited from.

As I talk to technologists in the world of semiconductors, for example, they point out that there is now technical capability to build larger chips. There is technical capability to etch in smaller lines—again, this is largely technical talk. We are at about 0.25 microns and there is room to make them even smaller. There is obviously a limit.

They think that will allow for potentially 30 percent reductions in the price of semiconductors. Given the fact that semiconductors are in many ways the building blocks of this high-tech revolution, recognizing that potential increase in the capability of semiconductors is important.

All of this is summarized in the shorthand called "Moore's Law" or "Moore's Curve." And what I hear basically is that the semiconductor manufacturers still believe that Moore's Law is in effect and they will continue to see increasing capabilities and decreasing prices in the world of semiconductors, which should drive some ongoing productivity.

The second part of this, however, is that it is not sufficient to have the technical capability. You need businesses to adopt these technologies.

My understanding from talking to businesses is that they believe there is still more to do in terms of becoming more productive. Some would argue that some of the low-hanging fruit has already been captured, if you will. But they are quick to say that they thought that a few years ago as well.

This productivity increase that we have benefited from, though we are in a bit of a pause now, I am cautiously optimistic will return and we will continue to see very solid productivity numbers.

I should also tell you, by the way, that if one looks at the productivity numbers, from quarter to quarter, they move around quite a bit. So it is not going to be a smooth trend. It never has been.

I think what that might imply in terms of the long-run is I can imagine a potential growth in the economy that is still in the range of around 3½ percent, maybe a bit more, maybe a bit less, but in that range.

Now, you have talked about——

Senator CORZINE. Maximum sustainable growth.

Mr. FERGUSON. Maximum sustainable growth. You have talked, however, about issues of long-term forecasts and other things.

Obviously, economists have been surprised, as others have, with respect to the ups and downs of the economy. I think if one looks at any of the forecasts from just a few years ago, you would find that they were far off. There is always some danger that these forecasts will again miss. I am always very cautious about a long-term forecast, even though I would describe myself as cautiously optimistic about the potential of the U.S. economy in the long run.

Senator CORZINE. What would be an early warning sign that you would be looking for that these productivity numbers were not

going to achieve the kinds of growth targets that would be built into the kind of projections we have, again, tying it back to the projected budget surpluses, its impact being such an important driver of those.

Mr. FERGUSON. Economists at the Fed and also in the private sector who have looked at the drivers of this productivity increase have pointed to two things.

One is just simply an increase in the productivity in the high-tech sector. The other is a concept called capital deepening, which is to say more capital per worker, which shows up in both equipment and software expenditures and what is called business-fixed investment.

Their third component is, in all honesty, what is called a residual multifactor productivity, which is the use of technology working together with individuals and changing manufacturing approaches.

Another thing that I would look for in terms of this question of are we likely to continue to have a positive trend with respect to productivity increases, is the question of do we continue to see businesses investing in equipment and software? Do we continue to see what is called capital deepening?

If it turns out over the long term that this slows down, then that I think would be a sign that perhaps productivity is not continuing to increase and that some of the forecasts for the long run may not come true. And so, there are really fundamental business activities that one can look at.

The other one obviously is the question of whether or not these comments that I made earlier about what I hear from the semiconductor industry turns out to be true.

If they cannot continue to stay on Moore's Law and, indeed, we don't get productivity increases in the manufacturing of high-tech equipment itself, then that is a second element.

The third element, frankly, would be whether or not businesses continue to restructure to take advantage of some of these new technologies.

There are at least two or three things that I would look at and many of them are what I would describe as the microeconomic underpinnings of the macroeconomic forces that we have dealt with thus far.

Senator CORZINE. Thank you.

Thank you, Mr. Chairman.

Chairman SARBANES. Senator Bunning.

Senator BUNNING. Thank you.

Governor Ferguson, hindsight being 20/20, do you think that the Fed waited too long to reduce the targeted Fed fund rate?

Mr. FERGUSON. No, sir. Even with 20/20 hindsight, I do not believe that to be the case. With the information we had at hand, we obviously, during the course of 2000, stopped and waited to see how the economy was evolving. We saw in the late fall, in particular, and going into the December meeting, that the economy was indeed slowing.

There was a legitimate question as to whether or not this was simply a very shallow slowing that was going to pick up quickly or was it something more serious?

We were quite clear as we came out of the December meeting that we would be monitoring the incoming data very closely because there was a question as to exactly what this slowing was that we were looking at, and how severe it was going to be.

The data became clearer, post the December FOMC meeting. Anecdotal data, the purchasing managers report, and some other hard data came in. We returned and moved fairly aggressively on January 3. And we have continued. We have had four other aggressive moves and we have lowered our Federal funds target rate by 250 basis points.

Even with hindsight, knowing what I knew, knowing the information was on the table, I would say we still did the right thing.

You should be mindful, as I know you are, that there are a number of forces that led to this sharp reduction and they surprised almost all economic observers.

Even in January of this year, the consensus forecasts, the so-called Blue Chip, was for growth this year of 2.7 percent. This was in January, once we had recognized that the slowing was perhaps a little deeper than others had expected.

So a number of forces came to play and many observers were surprised by the depth of the slowing that was experienced.

Senator BUNNING. I think we are pretty much familiar with that. Some of us strongly disagree with you about the Fed and the reaction to the Fed's lowering in direct relation to the Fed's tightening. But that is neither here nor there. You have given me the answer I wanted.

Do you believe that the Fed's forecasting models are up-to-date, or do you think that they need more work?

Mr. FERGUSON. I believe with all models that there is always room for improvement, by definition. I think we have some of the best models in the country for sure, and our forecasting record has been as good as others'.

I will also say that it is important to supplement the model-based forecasts with a variety of other data. Anecdotal information is important. That is one of the reasons, for example, to have the Federal Reserve Bank Presidents come and act as voting members, some of them, on the FOMC, because they bring very good real-time anecdotal information. We also look at surveys that come from a number of private-sector sources.

Personally, as I travel around, I am eager to hear from bankers, from industrialists, from farmers. I was just in Illinois recently talking to some farmers about how conditions look.

I think it is important to say that it is good to have a model. A model has rigor. It has some scientific basis to it. But models are built on past regularities and you need to update them periodically. And I think we need to supplement them, as we do, with anecdotal information and real-time information.

I will also say that, particularly now, there are a number of individuals who have come and said, "Well, this particular piece of data would have given you a better sense of what was going on." My perspective is always, tell me the data that one has seen. Let's put it into a broader context to see if it is really a good predictor over a long period of time or happens to get it right this one time.

Senator BUNNING. I only have one more minute.

Mr. FERGUSON. Yes.

Senator BUNNING. I have a bunch of questions, but I want to make sure that I get this one in.

Mr. FERGUSON. Fine.

Senator BUNNING. Do you believe that the Fed should look at the stock market when deciding monetary policy, either as an indicator of an inflationary wealth effect or as an indicator that the economy may be heading south?

Mr. FERGUSON. My view on the stock market is, as you know, because I have said it publicly and said it to you, that we should not target the stock market. However, I do believe that the stock market is an important element in creating aggregate demand in the U.S. economy and therefore we should be mindful of what is happening in the stock market.

The stock market creates wealth for individuals, which can translate into consumption over a 2 to 3 year period. It also for a number of businesses is a source of capital. And so, we should be mindful of what is occurring in the stock market, as we are with a number of indicators that indicate what might be happening to aggregate demand. But we should not target it.

Senator BUNNING. Do you believe the Fed monetary policy should react to market gains or losses?

Mr. FERGUSON. I will repeat the answer I just gave, which is we should be mindful of what is happening in the stock market because it is a source of wealth.

Senator BUNNING. Should the wealth effect or the reverse of the wealth effect, which was front page in *The Wall Street Journal* not too long ago, not effect Fed policy?

Mr. FERGUSON. What I have said, sir, is that we should be mindful of what is happening in the stock market because, in fact, it does create wealth and wealth can translate into consumption.

This has been an economic regularity that has been picked up in econometric models. And I still believe that there is evidence that there is a wealth effect. Obviously, it is controversial. I sense that you may not agree with us on this. But most economists would say that there is a wealth effect. The numbers around the wealth effect some put in the range of 3 to 5, 3 to 6, 2 to 6 percent of incremental wealth is eventually consumed. So, in that sense, we should be aware of what is happening in the market because it does play into aggregate demand.

You have heard us talk about both the positive wealth effect and also a negative wealth effect, a concern that consumers may gradually pull back on consumption because wealth has, in fact, been destroyed by events in the stock market. And so, I think we should be mindful of what is happening in the market because it plays through to consumption, to the cost of capital, and eventually, to aggregate demand.

Senator BUNNING. Thank you.

Chairman SARBANES. Thank you, Senator Bunning.

Senator Schumer.

STATEMENT OF SENATOR CHARLES E. SCHUMER

Senator SCHUMER. Thank you, Mr. Chairman.

First, let me congratulate you, Mr. Chairman, on your sitting in this Chair, not for the first time. The 17 days you were Chairman you handled the Chairmanship with intelligence, clarity, and grace—your usual attributes. I know that you will continue to do it. It is great to have you there.

Chairman SARBANES. Thank you.

Senator SCHUMER. I would also like to thank Vice Chairman Ferguson for his service at the Fed. I know both he and his wife are exemplary public servants. You are a Washington financial power couple—financial power public service couple.

That is what I want to say.

You have both done a great job. Our country needs people to go into public service. Not enough highly qualified people do these days. And the fact that you are here I think is good news for our country.

I have a bunch of questions on productivity, but I know my colleague from New Jersey has touched on those and we discussed those privately yesterday, although I am troubled by the decline in the productivity number, let the record show that the Vice Chair believes that there is still plenty of oomph left for productivity.

I know the Chairman has the same view because I have talked to him about that.

I would like to ask about consumer confidence.

With the increase in layoffs we see almost weekly, with the fact that the economy seems to have slowed down, with the decline in productivity which eventually does have an effect, even if it is short-term, but mainly with the layoffs, it seems to me that consumer confidence is at a pretty good level, considering everything that is swirling around and is probably the linchpin of the economy right now, preventing it from going further down.

What is your view as to how important consumer confidence is at this juncture in time and where do you think that it might be headed, given the fact that over the last quarter I think we have seen more layoffs than we did in previous quarters? How much of an effect do the layoffs have on consumer confidence?

Mr. FERGUSON. I believe the following. We are in a period where the economy is, indeed, growing quite slowly. As the FOMC said, and I believe is still the case, the risks are, as we say in central banking language, the risks are to the downside around this slow growth period.

One of the reasons that I am quite mindful of the downside risks to the economy is the point that you just made, Senator Schumer. At this stage, consumption has held up reasonably well. Even the most recent numbers suggest that. However, there is a risk that, as you indicate, with what I describe as a drum beat of layoff announcements and unemployment gradually rising, that consumers may decide that they want to pull in their horns a bit. And given the fact that much of the forward momentum in the economy is coming from consumption expenditures, that is a source of the downside risk. I think you are right to point to this.

I would say that many people have recognized that there has been a bit of a disconnect between consumer confidence figures as measured through surveys, which have been going down during the course of the year and have stabilized a bit now. Who knows what

the next survey will be? There has been a slight disconnect with consumer spending behavior, which has held up reasonably well.

At some point perhaps those two things will come into closer alignment and it is one of the things that we must monitor closely as we think about the state of aggregate demand.

But your concern with respect to consumers, consumer confidence and consumer spending is one of the things that underpins the statement that I have made and others that the economy is growing slowly and the risks in that slow growth are primarily to the downside.

Senator SCHUMER. Have there been times in recent economic history, where layoffs and unemployment did not affect consumer confidence and consumer spending? Or is there a pretty direct link in the past? Given your comment to Senator Bunning on models, what do you think it bodes for the future? Do you think that we can use the past as a predictor of the future on this issue?

Mr. FERGUSON. One of the things that we note and, again, back to the econometrics, there are some elements of the consumer confidence survey that do have what we describe as a little bit of information content in them. One of those is the element concerning expected employment going forward. That has actually ended up being, not a heavy predictor at all, but having some information content with respect to future consumption behavior.

History has generally shown that, as unemployment goes up, consumers tend to pull in their horns. And so, we do have to again be mindful that there are some risks to the downside here and I think we have been clear to the public about that, and you have obviously picked up on that concern.

Senator SCHUMER. Thank you, Mr. Vice Chairman.

Thank you, Mr. Chairman.

Mr. FERGUSON. Thank you.

Senator SARBANES. I have an issue I want to take up with the Governor that will probably take longer than the 5 minutes. But I will defer my round and recognize my colleagues and then pick up after the second round on this matter I have to discuss.

Senator Corzine.

Senator CORZINE. Mr. Vice Chairman, I have two questions I would love to hear your observations on.

We have seen almost an unprecedented rapid decline in short-term rates. Five 50-basis point moves in 4 or 5 months is relatively unprecedented. But we have not seen the impact in long-term rates that we have obviously seen in short-term rates and in fact, they have risen. We have a sharp upward rise in yield curve. I would love to hear your views on what information one might derive from that. And I will just get the other question out and you can think about how you might want to deal with that.

We just recently passed a tax cut which has immediate stimulus in it in the current fiscal year and in subsequent years.

I wonder if the Fed has had an opportunity to check out what kind of thrust those immediate impacts and efforts on rebates and changes in rates will have with regard to the overall growth in the economy.

Mr. FERGUSON. Okay. Let me first address your question on long-term rates.

You are right to recognize that as the short-term rate has been coming down, more recently the long-term rate has gone up. In the beginning part of the year, it indeed was coming down and now it has started to go up.

The question of information content I think is an important one.

The longer-term rates could be reflecting two or three different things. First, particularly in the corporate sector, it may reflect some optimism or expectation that the future will turn out to be relatively attractive for businesses. The economy will start to grow again, getting back to potential relatively quickly. So some think that the information content is a positive one, that the economy may have reached bottom and may be shortly turning.

There are others who think that——

Senator CORZINE. In contrast to what your weight of evidence would be with respect to how you are reading the economy.

Mr. FERGUSON. Well, as I said, I expect a period of some weakness. I have not been very explicit about how long. But certainly, you are right. This sense of turnaround that might be coming from the long-term rates is slightly different from my sense that we have not yet reached bottom, or are too early to declare that we have reached bottom.

The second piece of information content that some have taken out of these long-term rates is a concern that inflation may pick up in the intermediate term.

On this one I think there is information from surveys that suggests that inflation expectations are relatively well contained. They may have crept up just a little bit.

I think it is important, as I said to another question, that we not leave an impression that we don't have an eye on the price stability issues, even as we talk about weakness in the economy.

The third element of this, I should say, is that this has been a period in which businesses, particularly investment-grade businesses, have been issuing bonds at a relatively large pace. In May, there were over $650 billion of bonds issued at an annual rate. You have supply and demand considerations going into these rates as well. So, you have two or three different activities that are being signaled through the rates.

As I have said, it will be interesting to see if the turnaround is as the bond market seems to be expecting. It will be important for us to continue to have one eye on inflation in case that should start to become a problem. I do not currently expect it given the weakness in the economy. But one should never be complacent about it. And then you have these basic supply and demand concerns.

As to your question about the tax cut, knowing that I was coming here, I actually talked to our staff this morning. They have not yet developed a full perspective on this. But obviously, I want to give you a responsive answer.

I think the question of how much stimulus is going to emerge from this tax cut is open to a simple, but unanswerable at this stage, question of how consumers view it and respond to it. Economic history has shown that if you have a tax rebate that is perceived to be short-term, then consumers spend somewhere around 30, 40, maybe 50 percent of that, but spend it relatively quickly.

On the other hand, if it is perceived to be just the front edge of a longer-term tax cut, not just simply a one-time rebate, then what economists describe as a marginal propensity to consume out of that is much higher, eventually hitting something close to 100 percent, but starting probably around 70 percent or so.

The question of how this plays through depends first on how consumers perceive it and how much of this rebate they spend early versus holding onto.

The second question is, once we see what is called PCE, personal consumption expenditure, the question then becomes, are the goods that the consumers purchase going to be ones that are coming out of inventory or are they going to come from new production or is it going to come from imports?

Because each of those three different things have a different impact on GDP as we measure it in the United States.

Now having said that, I did look to see, since I know our staff is still working on it, what the private sector forecasters are saying. And there is a range of views. There are some who are saying that much of this will be spent and that it will go, this personal consumption expenditure will go directly to GDP, not come out of inventory, not come out of increased imports.

I saw one forecasting house that said they expect the marginal increase or the marginal impact of this to be about 6/10ths of 1 percent of GDP in the fourth quarter. I have seen others that have used numbers that are slightly smaller.

You should be aware that this will be stimulative. The exact magnitude is something that is still being discussed in the economics profession. But it depends on how consumers respond to it, in terms of how much of it they spend, and whether that spending ultimately comes out of inventory, new production, or imports.

Senator CORZINE. Ultimately, will the Federal Reserve models reflect what your perspectives are?

Mr. FERGUSON. I think, ultimately, what will happen is that the model will have the relationships built in and then there will have to be a judgmental adjustment based on other information that comes in. So the model will give a baseline answer, but it will probably need to be adjusted somewhat.

Chairman SARBANES. Thank you, Senator Corzine.

Senator Bunning.

Senator BUNNING. Thank you, Mr. Chairman.

In April of this year, you delivered a speech on the subject of transparencies in central banking in which you detailed recent trends in this area. What future trends do you envision in this area, since you have a 14 year term? Don't go out that long.

Mr. FERGUSON. It is hard to go out that long. What I said——

Senator BUNNING. Just give me a general, short-term.

Mr. FERGUSON. This is an area that I have spent a fair amount of time on. I am glad you raised the question.

What I said in that speech was that it is unclear exactly what changes are next, and I truly meant that. But I also said that the Federal Reserve, I think, will continue to look for ways to make clear to the public and to the markets what our rationale was and what our perspective is going forward.

The reason I say it is unclear is literally, I am not sure, having spent much of 1999 working with my colleagues to find a consensus and having built that, I personally want to see how this works.

I also think that it is an important part of our accountability that we can communicate to you and others what it is that we are doing and it is important for us to think about newer and different approaches to doing this.

We have obviously put out statements. We have adjusted them to reflect what we call the balance of risks. We are using the Internet as a great way to communicate and become more transparent. We will continue to come and respond to questions here.

But I don't know exactly what is next. I will simply commit to you that during my 14 years on the Board, I will continue to be a strong voice for transparency because I think it is part of what we should do in a democracy and it is an important way that we can help the markets and others understand what we are doing.

I will also say, however, that there is always a balancing in this world of transparency. You want to be as transparent as you conceivably can be without being destabilizing in any way and without undermining the ability of the FOMC to reach good decisions and to have a good and open discussion.

And so, as I go forward with a personal commitment to continue to focus on transparency, I am mindful that there will be a balancing that must go on because there are issues on both sides that have to be looked after.

Senator BUNNING. Obviously, the Fed's job is looking to see if there is inflation—current, immediate, present, and future. That is one of the main tasks you have as far as monetary policy. And I ask Chairman Greenspan this question every time he comes here and I am going to ask it to you. Do you see any short-term, intermediate inflation anywhere in the current economy?

Mr. FERGUSON. The most recent statistics over the last several months, some of the measures, the CPI, for example, have shown a little bit of an uptick in inflation. Other measures have not shown that kind of uptick in inflation.

I think much of what we saw in the CPI reflected a pass-through from oil prices, for example. Some of it reflected perhaps that the economy as we know was indeed during 1999 and 2000 growing above potential. And so some of that may have been a spill-over from a period when the economy was growing above potential.

Going forward, as I answered to Senator Corzine, some think that the markets are signaling a potential pick-up in inflation sometime out in the future.

My perspective is that, in the context of an economy that is growing below potential, and in which resource utilization is likely to ease, and pressures in resource markets are likely to ease, I do not think that inflation is likely to be the short- to intermediate-term challenge that we have to deal with. However, as I have already said, this is all in the context of an unchanged, long-term mission as you point out, to maintain long-term price stability.

So an expectation that inflation will be well contained for the short- to intermediate-term because the economy is growing below potential and resource utilization is easing, should not be taken as any sense of complacency.

Senator BUNNING. Well, I look forward to seeing Fed policy and the transparency of Fed policy in the immediate future, not only in your June meeting, but also in your meetings that come after the June meeting.

Thank you.

Mr. FERGUSON. Thank you.

Chairman SARBANES. Thank you very much, Senator Bunning.

In view of some of the questions, I would just like to note that the charge that has been given to the Fed by Congress, and the Fed after all is a creation of the Congress, and I quote:

> As the Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long-run growth of monetary and credit aggregates commensurate with the economy's long-run potential, to increase production so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.

I think you have reflected an awareness of the statutory framework in which you are operating in your testimony here today.

I also should note, when Humphrey-Hawkins was passed and they had a 4 percent unemployment goal, everyone said it could never be achieved. It was just pie in the sky. The fact of the matter is that we did achieve it. The Fed in the overall—I mean, you had some dissonant voices—rejected the notion that there was a higher level of unemployment, that if you went below it, you would automatically get inflation. The Fed kept testing that and we are now at 4½ percent unemployment without a significant inflationary problem. That is not to say we don't remain on alert or cautious. But I do think it is an interesting commentary about recent economic history.

Now the issue I wanted to discuss with you is that yesterday I received a letter from eight members of the House of Representatives. Copies were sent to all of my colleagues. The letter was sent by members of the Congressional Black Caucus and the Hispanic Caucus. In that letter—well, let me quote parts of it because they are raising the question of diversity in the Federal Reserve System. They say:

> The only statistics available indicate that although minorities and women have increased their presence in the lower-paying administrative positions, they continue to be underrepresented in the professional and technical job groups.

Further on they say:

> The lack of information outlining the Federal Reserve's efforts to diversify its staff for "pipeline" positions that could develop into the senior officer level jobs is of great concern. It is particularly disturbing when considered in light of recent allegations by several Board employees regarding a hostile work environment, and intentional discrimination in the hiring and promotion of minorities at the Federal Reserve. If there is any truth to any of these allegations, we want to send a very clear message that this behavior is unlawful, unacceptable, and that it must end immediately.

Now to their credit, these members of the House went on to say:

> We would like to give Vice Chairman Ferguson the opportunity to address and correct these issues in the future. We have provided several questions that we would like you to raise during the confirmation hearing. Because our goal is simply to have these issues addressed, you are welcome to share these questions with Vice Chairman Ferguson in advance. We are excited to work with you on this matter and hope to rely on the Vice Chairman to tackle the issue of diversity at the Federal Reserve.

We thought this letter was of sufficient import that we sent it down to you as soon as we received it. I think what I would like to do is get a response from you now on the issue and generally.

The specific questions they submitted, I think you should have an opportunity to submit a response in writing to the Committee after you and the others at the Fed have had a chance to address them and prepare well-considered answers because I assume it will require some survey of what your situation is. Could you respond to the points made in the letter—describe the Fed's efforts to improve diversity?

Mr. FERGUSON. While I was not expecting the letter, I am pleased to respond to it because it is an issue that I take extremely seriously.

First, let's put a few facts on the table.

In the time that I have been at the Board since 1997, we have, through turn-over, retirement, et cetera, appointed 10 division and office directors. These are our highest staff positions. Half of those people have been women. There has been one African-American and one Hispanic.

We have appointed 38 new officers during my time at the Board. Nineteen have been female, 19 have been male. Six of those 38 appointments have been minorities.

I am extremely aware of this issue. As the Administrative Governor, one of the things I have done is put into every manager's four management objectives—one of those objectives is with respect to EEO. And I will just read very briefly. "It is to demonstrate and promote equal employment opportunity and compliance with Federal laws, and Board policies pertaining to recruitment, development and promotion."

So each of our managers is going to be evaluated in part on how well they have done with respect to meeting the laws and Board policy because Board policy is congruent with the law and the world of equal employment opportunities.

I meet with each of our division directors every 6 months to determine how well they are doing against these objectives and to give them my personal sense that this is extremely important to me and to the Board.

I would also point out quite clearly that we have diversity training and EEO training. That is mandatory for all Board staff.

I have asked the Board—and this predates this letter by many months—to review all the policies and procedures that we have and find out if we are at the upper end of what we can and should be doing. I am asking them to compare what we do to what is being done in the private sector. And if there is anything that the private sector is doing, or the Government agencies are doing, that we are not, I want to know about it.

In the world of recruiting, we are participating in and recruit from a number of minority organizations—such as the National Society of Hispanic Engineers, Hispanic MBA's, and the National Black MBA Association.

We have worked hard. I personally and others have worked hard to raise in the minority community awareness of what the Federal Reserve has done. I have met personally with the MBA students and the Ph.D. candidates in economics at Howard University here in Washington.

I have accepted an invitation—again, months ago—to go to Florida A&M University in Tallahassee, one of the leading historical

black colleges, to teach a class and to speak very clearly about what we are doing.

So no one should have any doubt about my personal commitment and the Federal Reserve's commitment to comply with the laws and to create a workplace in which everyone is expected to and able to contribute their fullest.

I would like to see as much diversity as we can consistent with maintaining the obviously high standards that we already have, and I have myself been heavily involved in this, and I think I am representing, broadly speaking, the interest of the Board and the desires of the Board.

I will be working with the staff to respond to the specific questions. But I am pleased to be on the record here so that there is no question in anyone's mind of my personal commitment, or the Board's commitment, in this area of diversity and EEO.

One other point I would make because I know this from personal experience. In many of the areas in which we recruit, particularly among Ph.D. economists, the representation of minorities is relatively low, disproportionately low.

We are competing for this small pool with private-sector firms. We think that we have many things to offer in terms of impact on policy, interaction with other high-caliber economists, and an important public policy role, and I want the Fed to attract as many people as we possibly can. But we should be mindful that for all of the efforts that we put in, we still are dealing with a relatively small pool. This is, I think, an important, long-term commitment with respect to the Board.

Chairman SARBANES. The Federal Reserve Board, as I understand it, monitors and evaluates the reserve bank's affirmative action plans and EEO goals. Is that correct?

Mr. FERGUSON. Yes.

Chairman SARBANES. Now is that part of your mandate?

Mr. FERGUSON. It is part of our general oversight role, yes.

Chairman SARBANES. What is your view of what is happening in the 12 reserve banks on this issue?

Mr. FERGUSON. My view is that, with any 12 organizations, there are areas of strength and areas where we have to continue to work.

I don't doubt the commitment of any of these institutions. Many of them have engaged in various outreach efforts similar to ones that I have identified. Some of them, because of where they are located, are finding that their pool is not as broad and rich as one would like. But they are being relatively creative in this area.

Again, as I said, in other areas, this is not a place in which we can be complacent, though, and we have to continue to watch and make sure we are doing the best that we can.

Chairman SARBANES. Of course, as the monitoring agent, it is very important for the Board itself to establish a standard and set practices that can be pointed to in terms of being emulated. This effort within the Board to address its own practices is extremely important. Then I would hope that it could be carried out into the 12 reserve banks across the country.

I think this is a matter of consequence. The members who wrote to us cited a report that was issued by Chairman Gonzalez of the House Committee in the early 1990's, about 8 years ago, that found

this underrepresentation and urged that it be closely monitored, and various measures in order to try to improve it.

In fact, the Chairman himself at the time, Chairman Greenspan, was not satisfied with the progress that has been made. And then on occasion, he has cited improvements in the policy.

I think the concern now is that there has been improvement at the lower levels, but whether it carries through—of course, you are responsible and the divisional heads goes right to that point.

Mr. FERGUSON. Not just the divisional heads, Mr. Chairman, but also the officers.

Chairman SARBANES. Yes.

Mr. FERGUSON. Those are the leading staff members.

Chairman SARBANES. Well, if you could take the various detailed questions they attached to their letter that we forwarded to you and give us a response for the record, we will include their letter in the record and your response to it.

Obviously, this is a matter that we will continue to pay attention to in the future. It is important. I am pleased to hear of your own strong commitment to it. And the members who wrote it, as I said before, in their letter said: "We hope to rely on the Vice Chairman to tackle the issue of diversity at the Federal Reserve."

I don't think you should come away from this hearing without some charge, and we would be happy to give you this one.

Mr. FERGUSON. As I have tried to indicate, it is a charge that I have already taken up, and I will continue to work in this area.

Chairman SARBANES. Now, I wanted to just ask a couple of other quick questions.

There are academic and trade publications that have suggested that substantially reducing the number of checks written in the country would result in substantial cost savings. The Federal Government now requires most of its payments to be made electronically. What is the Fed's view about steps that might encourage a more efficient payment system?

And in the course of perhaps moving toward increased electronic transactions, what impact would that have on small community banks? Would they be able to acquire and officially use any new technology? Where is the Fed on this issue?

Mr. FERGUSON. As you mentioned, I Co-Chair one of the committees, an ad hoc committee that looks at the future with respect to payment systems. I agree that there would be some benefit to moving from a heavily check-based, paper-intensive system to a more electronic system. About 70 percent of our noncash payments now are done with check. That has come down from about 80 percent 10 years ago or so.

As I said, there would be some savings. Fed staff has estimated over the last 10 years that some numbers show 1 percent of GDP, some numbers show 2 to 3 percent of GDP being spent, as a societal cost, with respect to the check payment operations.

Certainly, there are a couple of things that we can do and we have done.

First, we have to make sure that our regulations do not stand in the way of experimentation in the world of electronic payments. And we recently have issued, for example, staff commentary to Regulation E, which implements the Electronic Funds Transfer

Act, to help businesses understand what can and cannot be done under the EFT Act.

To answer your question with respect to small businesses—small banks in particular—they will be capable of continuing to participate in the payment system even as it becomes more electronic.

Most EFT networks—the vast majority of them—have very open rules that allow a lot of members and nonmembers to fully participate. There are also service bureaus that are specialized in working with smaller institutions to help them build the kind of technical capabilities that are required in this world of electronics.

I think, ultimately, the biggest challenge about moving from a paper-based system to an electronic system has very much to do with helping consumers to understand that many of the benefits that they get out of a paper-based system, they could expect in an electronic system, and some of the concerns they have with respect to electronics I think can be overcome.

Whether we move from paper to electronics will depend not so much on regulators and what we do, although there are some things we can do. It will depend very much on the private sector and market acceptance in the private sector.

Chairman SARBANES. Well, as we move in this direction, I am encouraged to hear that you are sensitive to this concern about the small community banks and making sure that they still find a place within the system and it is not structured disadvantageously to them.

Actually, your final comment brings up the last question I want to ask, and that goes back to this issue of financial literacy and education, which you touched upon in your statement and which Chairman Greenspan has spoken about on a number of occasions.

Senator Corzine has left, but this is an issue that he has raised and I think it is a very important issue and it is one that we intend to hold some hearings on later in the year to see what measures can be developed to increase financial literacy and education.

I agree with you. It is not in lieu of or in place of appropriate legislation or appropriate regulation. But it does seem to me that there is a clear need for it out there. This was something Secretary Summers had been working on at the Treasury Department during his tenure there and I know that it is something that the Fed has been addressing.

I don't know if you have specific ideas now, but we would be interested in continuing to work with you. Is there anything that you think should be placed on the agenda now with respect to financial education?

Mr. FERGUSON. No. I think you are right to raise this as an important issue. Obviously, I think the Federal Reserve and others can have a role in raising the awareness in our communities and the importance of this matter. The Federal Reserve banks, the 12 of them, have very active outreach efforts.

I believe I can speak for myself since I am speaking in a personal capacity here, and I would be happy to continue to interact with you and the staff as we together think through what we can do in the way of financial literacy. It can be very important in dealing with a number of the consumer concerns that I know are on your mind.

Chairman SARBANES. Governor Ferguson, thank you very much. It has been a very interesting hearing.

I have talked to Senator Gramm. We intend to schedule your nomination for markup next week, on the 20th, when we are holding our hearing with the regulators to oversee the condition of the financial system. It would be my intention in the course of that hearing when we have a quorum and it is appropriate, to bring your nomination up. Hopefully, if we can move on that agenda, we can perhaps complete action in the Senate with respect to your nomination before the 4th of July recess, although we don't control the Senate floor.

Mr. FERGUSON. I appreciate that.

Chairman SARBANES. We will try to move you out of the Committee promptly and get you into place. We know that Governor Kelly is intending to resign, as I understand it. There are already, what, two vacancies, I guess, at the Fed, without the vacancy that would be created by his resignation.

We appreciate that Chairman Greenspan, although the country thinks so, does not make these decisions all by himself, that he has a Board that also participates in making the decisions. We hope to give him some colleagues to help him out.

Thank you very much for coming today.

Mr. FERGUSON. Thank you very much, Mr. Chairman.

Chairman SARBANES. The hearing is adjourned.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

[Prepared statements, biographical sketch of the nominee, response to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR PAUL S. SARBANES

Before I introduce Governor Ferguson, I would like to take a moment to discuss the agenda of the Banking, Housing, and Urban Affairs Committee in the coming weeks.

The Banking Committee has a significant and pressing agenda of legislative matters that it will have to address in relatively short order. I have asked Senator Bayh, the Chairman of the International Trade and Finance Subcommittee, to take responsibility for the reauthorization of the Export-Import Bank, which expires on September 30. A Subcommittee hearing on the reauthorization has been scheduled for next Tuesday afternoon, June 19.

I have asked Senator Reed, the Chairman of the Housing and Transportation Subcommittee, to oversee the reauthorization of the Multifamily Assisted Housing Reform and Affordability Act, the so-called mark-to-market program for multifamily housing, which also expires on September 30. A Subcommittee hearing on that legislation has been scheduled for next Tuesday morning.

I asked Senator Schumer, the Chairman of the Economic Policy Subcommittee, to take responsibility for the reauthorization of the Defense Production Act, which expires on October 12. A Subcommittee hearing on that legislation may be scheduled for later this month.

The Iran-Libya Sanctions Act (ILSA), which falls under the jurisdiction of the Banking Committee, expires on August 5. I hope to hold a full Committee hearing on that legislation in the last week of June. If the appropriate oversight hearings on these expiring laws can be held this month, I would hope the Committee could move to a markup of them after the July 4 recess.

In addition, the Committee reported out earlier this year a reauthorization of the Export Administration Act by a 19–1 vote. That legislation has been strongly endorsed by the Administration and we hope to take it up on the Senate floor as soon as the floor schedule permits. The Committee also reported out by voice vote earlier this year a bill dealing with SEC fees and pay parity for SEC employees. The bill was passed by the Senate and we are now awaiting action by the House on the bill. I am hopeful the Congress will be able to complete action on this legislation.

Finally, last year the Committee passed the Manufactured Housing Improvement Act. A technical correction, which is time sensitive, is needed to allow funds collected to run the program to be spent. I have consulted with the Administration, Senator Gramm, and others on legislation that would make the technical fix. I hope we can pass that legislation by unanimous consent on the Senate floor, perhaps this evening, and that the House will then take it up and pass it as well.

Next Wednesday, June 20, the Committee will hold an oversight hearing on the condition of the banking system. The witnesses will be Alan Greenspan, Chairman of the Federal Reserve; Jerry Hawke, Comptroller of the Currency; Donna Tanoue, Chair of the FDIC; and Ellen Seidman, Director of the Office of Thrift Supervision. In addition, I expect the Committee to hold hearings this month on nominations pending before the Committee.

Next month I anticipate the Committee will hold hearings on predatory lending, the state of metropolitan and rural America, and financial privacy. Later this year I expect the Committee to review, among other issues, money laundering, and financial education and literacy.

With that as a preface, I would now like to welcome before the Banking Committee this morning Roger Ferguson, who has been nominated by the President for a full 14 year term as a Member of the Board of Governors of the Federal Reserve.

Governor Ferguson was originally appointed as a Member of the Federal Reserve in 1997 to complete a term which expired on January 31, 2000. He was nominated on September 14, 1999, by President Clinton for a full term as a Member of the Federal Reserve Board, as well as Vice Chairman of the Federal Reserve. He was confirmed by the Senate to be Vice Chairman of the Federal Reserve on September 29, 1999, and his term as Vice Chairman expires on October 5, 2003. No action was taken in the last Congress on his nomination to be a Member of the Federal Reserve Board.

Governor Ferguson was nominated by President Bush for a full term as a Member of the Federal Reserve on April 24. Given the importance of his position, and the period of time he has been awaiting action on his nomination, I thought it appropriate to schedule this nomination hearing today.

Governor Ferguson has both a law degree and a Ph.D. in economics from Harvard. After graduate school, he practiced law in New York from 1981–1984 with the firm of Davis, Polk & Wardwell. He then joined the consulting firm of McKinsey & Company, where he became a partner in 1992 and Director of Research and Infor-

mation Systems. As I mentioned, he has served as a Member of the Board of Governors of the Federal Reserve since 1997, and as Vice Chairman since 1999.

By all accounts, Governor Ferguson has served with great distinction as a Member of the Federal Reserve. He chaired a working group of the Federal Open Market Committee (FOMC) to review the FOMC's disclosure practices. Acting on a working group recommendation, the FOMC altered its disclosure practices, including deciding to issue a statement after every FOMC meeting announcing any action taken by the FOMC and indicating the balance of risks facing the economy.

He oversaw the Fed's preparations for the Year 2000 computer challenge. He also served as Chairman of the Joint Year 2000 Council, sponsored by the Bank for International Settlements, to provide guidance to the global financial supervisory community as it prepared for the Year 2000. He recently completed service as Chairman of the Group of Ten Working Party on Financial Sector Consolidation, which examined the causes and potential effects of consolidation in the financial sector worldwide.

As Vice Chairman, he has served as the Federal Reserve's Chief Administrative Officer. He is currently Co-Chairman of the Federal Reserve's Payments System Development Committee, which addresses public policy issues arising in connection with developments in the Nation's payments infrastructure.

Governor Ferguson has also been a careful observer of the economy, and he has focused particularly on the role of information technology in productivity growth.

It is a commentary on the high professional standards he has set during his service on the Federal Reserve that he was nominated for a full term on the Board by both President Clinton and President Bush. He mentioned at the time of his first confirmation that the appointment of Andrew Brimmer to the Federal Reserve served as an inspiration to him as a youth and focused his attention on serving on the Federal Reserve as a career goal. Perhaps his service on the Federal Reserve now will serve as an inspiration to other young people to pursue public service in their careers.

I am pleased to welcome Governor Ferguson before the Banking Committee today.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

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

Position to which nominated: **Governor of the Federal Reserve System** Date of nomination: **April 23, 2001**

Date of birth: **28** (Day) **10** (Month) **51** (Year) Place of birth: **Washington, DC**

Martial Status: **Married** Full name of spouse: **Annette L. Nazareth**

Name and ages of children: **Roger Walton Ferguson III** **Son** **9 years old**
Caroline Lawson Ferguson **Daughter** **6 years old**

Education: Institution	Dates attended	Degrees received	Dates of degrees
Harvard Graduate School of Arts and Sciences	**9/79-6/81**	**Ph.D.** **A.M.**	**6/81** **6/77**
Harvard Law School	**9/77-6/79** **9/74-6/75**	**J.D. (cum laude)**	**6/79**
Pembroke College	**9/73-6/74**	**No degree granted**	
Harvard College	**9/69-6/73**	**A.B. (magna cum laude)**	**6/73**
Sidwell Friends School	**9/66-6/69**	**High School diploma**	**6/69**

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

National Achievement Award

B.A. Magna Cum Laude, Harvard University

1972 Richard Perkins Parker Award

1972-73 CFIA Undergraduate Associate and Traveling Fellowship

1973-74 Frank Fox Memorial Fellowship

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

Organization	Office held (if any)	Dates
Harvard Alumni Association	**Elected Director**	**1996 to 1999**
Friends of Education (Trustee's Committee of the Museum of Modern Art)	**Treasurer and Vice Chairman**	**1994 to 1997**
Harvard Club of New York City	**None**	**1992 to present**
Wykagyl Country Club	**None**	**1993 to 1999**
Larchmont Yacht Club	**None**	**1997 to present**
St. John's Episcopal Church	**None**	**1989 to 1998**
New York Museum of Natural History	**None**	**1992 to 1998**
New York Zoological Society	**None**	**1992 to 1998**
Museum of Modern Art	**None**	**1991 to 1998**
New York Botanical Gardens	**None**	**1997 to 1998**
Norwalk Maritime Aquarium	**None**	**1993 to 1998**
New York Science Museum	**None**	**1994 to 1998**
Greenburgh Nature Center	**None**	**1993 to 1998**
Badger Sports Club, Inc.	**None**	**1995 to 1998**
St. Patrick's Episcopal Church	**None**	**1998 to present**
D.C. Children's Museum	**None**	**1998 to present**

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

10/99 - present, Vice Chairman, Board of Governors, Federal Reserve System, Washington, DC 20551
10/97 - present, Governor, Federal Reserve System, Washington, DC 20551
10/84 - 10/97, Consultant and Director of Research and Information Systems (Partner), McKinsey & Company, Inc., 55 East 52nd Street, NY, NY
9/81 - 9/84, Attorney, Davis, Polk & Wardwell, 450 Lexington Avenue, NY, NY
9/79 - 6/80, Assistant Senior Tutor, Leverett House, Harvard University, Cambridge, MA
6/79 - 9/79, Assistant Director, Program on Regulation, Kennedy School of Government Harvard University, Cambridge, MA
9/78 - 6/79, Assistant Senior Tutor, Leverett House, Harvard University, Cambridge, MA
6/78 - 9/78, Summer Associate, Davis, Polk & Wardwell, 450 Lexington Avenue, NY, NY
9/77 - 6/78, Economics Tutor and Pre-law Adviser, Leverett House, Harvard University, Cambridge, MA
6/77 - 9/77, Summer Associate, Debevoise, Plimpton, Lyons & Gates, NY, NY
9/76 - 6/77, Economics tutor and Pre-law Adviser, Leverett House, Harvard University, Cambridge, MA
6/76 - 9/76, Summer Intern, International Trade Commission, Washington, DC
9/75 - 6/76, Non-resident Economics Tutor, Leverett House, Harvard University, Cambridge, MA
6/75 - 9/75, Summer Intern, Foreign Agricultural Service, U.S.D.A., Washington, DC
6/74 - 9/74, Summer Intern, Foreign Agricultural Service, U.S.D.A., Washington, DC
6/73 - 9/73, Summer Intern, Congressional Research Service, Washington, DC

Government experience:

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

Current job: **- Governor, Federal Reserve System**

Summer jobs: **- Department of Agriculture**

- Congressional Research Service

- International Trade Commission

Published Writings:

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

Interview in *ABA Banking Journal*, September 2000
Interview in *The Region*, June 2000
"And the Economic Forecast for the 21st Century calls For...," Sidwell Friends School Alumni Magazine, Spring 2000
Interview in *The Financial Regulator*, Vol. 4, No. 1
Interview in *Online User*, March/April 1997, Vol. 3, No. 2
"Real Wealth," *The McKinsey Quarterly*, 1991, Number 4

Published speeches and congressional testimonies may be found at the Federal Reserve website at www.federalreserve.gov

Political Affiliations and activities:

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

Registered member of Democratic Party

Political Contributions:

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

None

Qualifications:

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

See Attachment A

Future employment relationships:

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

I am being renominated to serve as a member of the Board of Governors of the Federal Reserve System, my present employer.

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

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

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

No

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

Yes

Potential conflicts of interest:

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

   None

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

   None

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

   None

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.

None

Civil, criminal and investigatory actions:

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

See Attachment B

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

None

Attachment A

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

I have served as a member of the Board of Governors of the Federal Reserve System since November 1997 and as the Vice Chairman of the Board since October 1999. During this time I chaired a working group of the Federal Open Market Committee, the monetary policy making body of the System, to review the Committee's disclosure practices. Acting on a recommendation of the group, the FOMC substantially altered its disclosure practices, including deciding to issue a press release after every meeting and revising its regular public statement to indicate the balance of risks facing the economy.

As Vice Chairman, I have represented the Board in a number of international forums and serve as the Board's chief administrative officer. I also serve on Board oversight committees for supervision and regulatory affairs, for reserve bank affairs, and for payments systems policy. Recently, I completed service as Chairman of the Group-of-Ten Working Party on Financial Sector Consolidation, which examined the causes and potential effects of consolidation in the financial sector worldwide.

From June 1998 to March 2000, I served as Chairman of the Joint Year 2000 Council, sponsored by the Bank for International Settlements, to provide guidance to the global financial supervisory community as it prepared for the Year 2000 computer challenge. I am currently Co-Chairman of the Federal Reserve's Payments System Development Committee, which addresses public policy issues arising in connection with developments in the nation's payments infrastructure.

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

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

I was an Associate with Davis Polk and Wardwell, a law firm located in New York City, between 1981 and 1984. I was with McKinsey & Company, Inc., a management-consulting firm, between 1984 and 1997, becoming a shareholder of the firm in 1992.

I received a B.A. in economics (magna cum laude) in 1973, a J.D. (cum laude) in 1979, and a Ph.D. in economics in 1981, all from Harvard University. I have also studied at Pembroke College, Cambridge University. In addition to studying macroeconomics, money and banking, and international trade and development, I have also studied industrial organization, the economic discipline that is the basis for evaluating the competitive effects of mergers and acquisitions.

This broad background prepares me to analyze the wide range of monetary policy, regulatory, and managerial issues confronting the Federal Reserve Board.

Attachment B

There were two court cases brought by Thomas D. Hunter, Federal Reserve employee, against the Board and others, including Vice Chairman Roger W. Ferguson, Jr.

The full name of the most recent case is Hunter v. Board of Governors of the Federal Reserve System, et al., No. 1:00CV00735 (ESH). The case was brought in the United States District Court for the District of Columbia, 333 Constitution Avenue, N.W., Washington, D.C. 20001. This suit was filed on April 5, 2000. The issue involved was alleged retaliation for whistleblowing activity by a Board employee. This suit was dismissed by stipulation dated December 15, 2000. Vice Chairman Roger W. Ferguson, Jr. is no longer a party to this lawsuit.

There was also an earlier lawsuit brought against the Board that included Vice Chairman Roger W. Ferguson, Jr., as a defendant. The full name of the case was Hunter v. Board of Governors of the Federal Reserve System, et. al., No. 1:98CV02994 (ESH). This case was brought in the United States District Court for the District of Columbia, 333 Constitution Avenue, N.W., Washington, D.C. 20001. This suit was filed on April 2, 1999. The issues involved were the alleged wrongful denial of access to Board records and the alleged deprivation of First Amendment rights. On May 26, 2000, the Court entered a judgment in favor of the Board and all other defendants, including Vice Chairman Roger W. Ferguson, Jr., on all issues. This case is no longer pending and Vice Chairman Roger W. Ferguson, Jr. is no longer a party to this case.

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

Decline in Personal Saving Rate

Q.1. In a speech before the American Bankers Association, Federal Reserve Board of Governors Member Edward Gramlich said that, "Higher rates of national savings are among the unsung heroes of the good U.S. economic performance in the late 1990's." However, the most recent data from the White House shows a substantial decline in personal savings from over 5 percent in 1996 to minus 0.9 percent today. Do you think that this is a serious problem, and if so, what can we do to ameliorate it? What position does this place Americans in if the economic slowdown worsens? Finally, what are the effects of this decline with respect to national investment levels and GDP growth?

A.1. In considering the decline in the personal saving rate, it is important to remember that it is national saving, not personal saving, that provides the source of funds for investment spending in the United States. Over the past several years, the national saving rate has risen fairly steadily, increasing from about 15.6 percent of GDP in 1993 to 18.3 percent of GDP in 2000. This increase in national saving helped to fuel a boom in investment that raised productivity and boosted GDP. The increase in national saving occurred despite a steeply declining personal saving rate, as increases in Federal and business saving more than offset declines in personal saving. Foreign investment in the United States also increased significantly during the past decade, providing further support to domestic investment. The experience of the past several years shows that national saving and investment can increase even when personal saving is falling.

From a microeconomic perspective, the decline in the personal saving rate, rather than reflecting a problem in the household sector, primarily reflects improving household balance sheets. The boom in the U.S. stock market led households to increase personal consumption more rapidly than income, and thereby lower personal saving. The recent weakness in the stock market has reduced household net worth relative to income, though this ratio remains elevated. Moreover, household credit quality remains fairly good. Thus, although there are risks, households entered this period of economic slowing in a reasonably good financial position.

Japan

According to the Japanese banking industry's own publicly disclosed numbers, about 30 percent of bank assets are classified by examiners as having problems, which range from minor to serious. Experience in the United States and other industrialized countries indicates that if a bank has classified assets of 10 percent to 15 percent of total assets, it is in danger of becoming insolvent and needs immediate supervisory action. The Finance Minister of Japan is reported to have said a few months ago that "Japan's fiscal situation is at the verge of collapse." Data from various official and academic sources indicate Japan's government debt is well over 100 percent of GDP and growing rapidly, and some experts believe Japan is reaching its financing limits.

Q.2.a. What is your assessment of the Japanese banking system?

A.2.a. As is widely recognized, Japanese banks have sizable asset quality problems. These include high levels of disclosed nonperforming loans. The most recent figures indicate that "problem" loans, defined as nonperforming loans plus loans considered to be at risk of becoming nonperforming, account for approximately 22 percent of Japanese GDP. The Japanese government has set aside the equivalent of about $580 billion to help banks (14 percent of 2000 GDP). By contrast, the cost to U.S. taxpayers of the savings and loan crisis amounted to $124 billion in 1989 dollars, or 2.2 percent of 1989 GDP. I have said in the past that the weakness of the Japanese banking system creates a unique policy challenge for Japanese policymakers as they work to address the current condition of their economy.

Q.2.b. What risk, if any, does the situation in Japan pose to both U.S. financial institutions and the U.S. economy?

A.2.b. U.S. banks are aware of the asset quality problems at Japanese banks and manage their exposures accordingly. According to Federal Reserve statistical releases, the cross-border exposure of U.S. banks to Japanese entities has been reduced from 36 percent of U.S. bank capital in December 1990 to 9 percent of U.S. bank capital in December 2000. U.S. supervisory authorities are paying careful attention to possible problems created by the activities of Japanese banks that operate in U.S. markets.

Q.2.c. What actions should be taken to improve it?

A.2.c. The Japanese government has recently announced a plan to reduce nonperforming loans at banks and lower bank exposure to swings in equity prices. This program accords with the approach that authorities have taken to date. This plan may have the potential to contribute to improving the soundness of the Japanese financial system. However, it is critically important that the implementation of the plan, or any similar proposals, be pursued very aggressively.

Remittances

Q.3. It has recently come to my attention that approximately $24 billion leaves America on an annual basis in the form of remittances, sent mostly by Hispanics back to their countries of origin which are mainly in Central and South America. However, only around $20 billion arrives in these countries, meaning that $4 billion—over 16 percent—is absorbed in transaction costs. What are the economic ramifications, in terms of efficiency and equity, of such high transaction costs, and what do you believe should be done, if anything, to reduce these transaction costs?

A.3. Both banks and nonbanks in the United States currently provide cross-border money transfer services to residents of the United States. These services include traditional electronic wire transfers between a U.S. bank and its overseas correspondent using telecommunications networks such as SWIFT; electronic money transfer services provided by nonbanks such as MoneyGram or Western Union; ATM withdrawals overseas using international EFT net-

works to debit the cardholders' U.S. bank accounts; and other emerging networks.

The fees associated with cross-border money transfers may include charges for initiating the transfer itself, charges to convert U.S. dollars to a foreign currency, and possibly fees for the receipt of funds by beneficiaries. Fees may also vary based on the service provider and service selected, the point of origin, the point of destination, the amount of money being sent, and the method of funding the payment. Additional charges also may be imposed on beneficiaries by the receiving bank for delivery of funds. Charges will vary depending on the amount of manual work required by the bank as some wire transfers can involve significant, labor intensive handling costs for banks. In the cross-border context, bank charges for both consumer and corporate wire transfers tend to be higher than the fees charged by nonbank money transmitters due to lower volumes of activity, additional handling costs, and correspondent banking fees.

The Federal Reserve Board has been working to explore further whether general improvements could be made in handling cross-border funds transfers using the automated clearing house (ACH), which is a system through which many U.S. consumers receive electronic payroll deposits and Government benefits. The Federal Reserve will launch in July a service for sending cross-border payments to Canada through the ACH and, then later this year, will be investigating the feasibility of cross-border ACH payments with Mexico and other countries. In addition, the National Automated Clearing House Association (NACHA), through its Cross-Border Council, is working on a global effort to improve cross-border ACH payments, known as WATCH (Worldwide Automated Transaction Clearing House).

The Federal Reserve has also discussed the issue of the cost, timing, and transparency of cross-border transfers with other central banks, most recently through the G–10 central banks' Committee on Payment and Settlement Systems. The European Central Bank, for example, is carefully monitoring this issue in the European context and has adopted policies to encourage greater private-sector efficiency in cross-border retail transfers within Europe in advance of the introduction of Euro notes and coins in 2002.

In general, consumers can choose from a variety of competing alternatives for making cross-border money transfers, including traditional bank wire transfer, nonbank money transmitters, international ATM/EFT networks, and other emerging electronic payment transfer services, as well as non-electronic methods such as checks and money orders.[1] Several of the cross-border remittance services available to consumers appear to be accessible, easy to use, and provide for rapid and efficient transfer services. As a result of increasing competition, fees for making cross-border consumer transfers also appear to be decreasing, although costs still vary significantly across companies and countries.[2] Looking ahead, the pro-

[1] Examples of emerging networks are the International Remittance Network (IRnet) of the World Council of Credit Unions, the City National Bank of New Jersey/Fonkoze system, and RapidMoney.

[2] Manuel Orozco, "Family Remittances to Latin America: The Marketplace and Its Changing Dynamics," InterAmerican Dialogue, Washington, DC, May 2001.

jected strong growth of overseas remittances is likely to continue to increase competition and the number of alternatives for making cross-border transfers.

Both technological change and increasing market demand for remittance services should have the effect of increasing competition and lowering fees. The Federal Reserve, therefore, sees no need for new legislation in this area at this time. Particularly in the cross-border cases, it would be all too easy for institutions to adjust to additional regulatory burdens by reducing cross-border services and raising exchange and other implicit charges to the disadvantage of U.S. residents. Instead, policies should aim to encourage competition and new alternatives commensurate with growing market demand.

Consolidation

Q.4.a. Why have we not seen more mergers between banks and insurers after passage of the Financial Services Modernization Act? Are you surprised that there have not been more mergers in the financial services sector since the passage of this bill and do you expect an acceleration of this pace over the next few years?

A.4.a. The provisions of the Financial Services Modernization Act allowing broader financial powers and affiliations for financial holding companies (FHC's) have been effective for only a little more than 1 year. During that time, more than 500 bank holding companies have elected FHC status. While there have been a few affiliations between these banking organizations and insurers during the past year, many companies have chosen FHC status under the Act in order to be able to engage in general insurance agency activities, which, prior to passage of the Act, were severely limited. This use of the broader powers achieves one of the primary purposes of the Act, which is to increase competition in the provision of financial services and allow more efficient delivery of a broad range of financial products and services to customers.

The decision to merge with another company is a complex management decision that ultimately must be made by each company based on its own consideration of the business advantages and costs of the affiliation. Many companies appear to be still evaluating whether the affiliations enabled by the Act will enhance their business plan and build on their core skills. Beginning insurance agency activities while considering affiliation with an insurer represents a cautious approach that seems to reflect a testing by the banking industry of the costs and benefits of conducting full insurance activities. As companies become more familiar and more comfortable with the risks of these new activities, it is possible that broader affiliations will become more prevalent. In this regard, there are a number of added complexities resulting from the multistate regulatory regime applicable to insurance underwriting.

It is also noteworthy that many insurance underwriters are in mutual form or in the process of demutualizing. Acquisitions involving mutual companies are very complex and the constraints inherent in the mutual form typically limit the number and size of potential partners.

There has been more affiliation activity between the banking and securities industries. Five of the 10 largest and 11 of the 20 largest

securities broker-dealers are affiliated with banks. And with the passage of the Financial Services Modernization Act, these securities firms are permitted to engage in full securities underwriting, dealing and brokerage activities without the revenue and other constraints previously applied under the Glass-Steagall Act to securities firms affiliated with banks.

Q.4.b. You have argued that consolidation in the financial services sector has not caused significant efficiency gains or losses. Specifically, you have stated that overall operating efficiency gains from consolidation are weak. If there are limited operating efficiencies to be gained by consolidation, what are the benefits and the potential risks of consolidation?

A.4.b. Studies that examine the effects of mergers and acquisitions (M&A's) on the operating efficiency of financial services providers have generally found these effects to be quite weak. At the same time, a desire to improve efficiency is one of the most frequently cited motives for consolidation. These seemingly contradictory findings may reflect the differences between the past and the present, between average experiences and individual firms' experiences, between expected outcomes and realized outcomes, or between measured accounting costs and economic costs.

Most of the studies that find little or no evidence of efficiency gains associated with M&A's in the financial services sector predate the most recent wave of financial consolidation. Financial consolidation in the future may be quite different from that which has taken place in the past, because of the effects of the Financial Services Modernization Act. Thus, even if the types of M&A's that were permissible prior to 1999 did not result in any significant efficiency gains, future transactions could produce substantial gains as firms take advantage of economies of scope that were not previously available to them.

Even if mergers and acquisitions do not lead to significant improvements in operating efficiency, there may be other potential benefits associated with these transactions. Consolidation, for example, can lead to a reduction in firm risk through geographic or product diversification. M&A's also may allow firms to increase their size and/or scope quickly, which may enable them to better serve the needs of their customers. At the retail level, however, there is some evidence of loss of customers to smaller rivals in the early post-merger years.

Ultimately, it is the responsibility of shareholders to determine whether the potential and resultant benefits of consolidation are real or imaginary. The regulators are responsible for monitoring and managing potential social and economic risks. One risk is that consolidation could lead to increased monopoly power, resulting in harm to consumers of financial services. Bank regulators and the Department of Justice examine the competitive effects of proposed bank mergers and acquisitions, requiring divestitures as needed, in order to minimize this risk. Consolidation could also result in the formation of financial institutions that are so large and complex that if they became troubled they might pose a risk to the safety and soundness of the entire banking system. Bank regulators review proposed bank mergers and acquisitions for their effects of the

safety and soundness of the firms involved and monitor the financial condition of banking organizations. However, the regulators do not have the authority to reject a merger or acquisition that meets both competitive and safety and soundness standards just because of the scale of the resulting organization.

General Economics/Budget/Tax Cut

Q.5. In your opinion, what is the impact of fiscal policy on long-term interest rates? Specifically, if we return to the era of deficit spending, what will be the result on interest rates, private investment, and employment? What consequences will the tax cut have for the Fed's conduct of monetary policy?

A.5. Fiscal policy, the associated stance of the Federal Government in credit markets, and the effect of fiscal policy on national saving can have a significant effect on interest rates and the volume of credit available to households and businesses. The decline of the deficit and emergence of budget surpluses in the 1990's very likely relieved pressures on financial markets and freed up savings to be used by households to finance new houses, autos, and other durable goods and by businesses to acquire capital equipment. A reemergence of large and of persistent Federal budget deficits would be likely to keep interest rates higher than they otherwise would be, constrain the build-up of the capital stock, and hence impinge on increases in productivity.

The Federal Reserve does not respond directly to tax cuts, or fiscal policy in general. Our goal is to maintain, as best we can, a growth rate in aggregate demand that matches the economy's ability to increase aggregate supply. Many factors, including developments with respect to fiscal policy, can potentially influence aggregate demand and should be factored into our judgment about the likely course of the economy.

The Effect of Productivity on Long-Term Economic Projections

Q.6. I have been told that productivity gains as little as one-tenth of 1 percent below the projected 10 year rate would result in a reduction of CBO's projected surplus by $250 billion over the 10 year period. Thus, you can imagine my concern when it was reported that productivity fell by –1.2 percent in the first quarter of 2001. What are the implications of this with respect to the CBO budget surplus projections?

A.6. The drop in nonfarm business sector output per hour in the first quarter of 2001 that was reported recently by the Bureau of Labor Statistics, comes on the heels of gains averaging nearly 3 percent (annual rate) over the preceding 5 years. The first quarter decline reflected a 1 percent rate of increase in output for the sector that was more than matched by a 2.2 percent rate of increase in hours worked. It should be noted that the rise in hours worked last quarter reflected, in part, a surge in the volatile component for self-employed workers (about 15 percent at an annual rate) that clearly is not sustainable; excluding the hours of self-employed workers (about 10 percent of the total), productivity was about flat in the first quarter. In any event, a step down in productivity

growth is quite common when output growth slows, as it has since the middle of last year.

The pattern of productivity performance in the second half of 2000 suggests that the underlying, or structural, rate of productivity growth is still quite robust. Strong growth of structural productivity would also be consistent with the anecdotal reports from business leaders, who still see a sizable untapped reservoir of potential efficiency gains to be had from recent advances in information technology. In that context, it is worth noting that survey results from the National Association of Purchasing Management indicate that most firms feel they are far from fully achieving the potential efficiencies that could ultimately be gained from applying technology to their supply chain management.

I am cautiously optimistic that the rate of structural productivity growth will be reasonably well maintained, and, if it is, the drop in measured output per hour in the first quarter will not have significant implications for CBO's long-run budget outlook.

Distributive Effects of the Economic Expansion (and Slowdown)

Q.7. I am pleased to note that the current expansion has benefited people who have traditionally been left out, such as minorities, women, and youth. In May of 1992, the unemployment rate for African-Americans was 14.7 percent, today it is down to 8.0 percent; the rate for those between 16 and 19 years of age was 20.1 percent, now it is 13.6 percent; and the unemployment rate for women has fallen from 7.1 percent to 4.3 percent. Do you believe that these groups will be the first to suffer and feel the effects from the economic slowdown the hardest?

A.7. As you indicate, the current economic expansion has benefited all segments of the population, including minorities, women, and youth. Indeed, in 2000, the unemployment rates for African-Americans and Hispanics were at the lowest levels since unemployment statistics for these minority groups were first collected in the early 1970's. Similarly, the average unemployment rates last year for women and teenagers were the lowest seen since the 1950's. For women, the unemployment rate in 2000 was roughly the same as for men. For each of the other groups, however, unemployment rates continue to run well above the unemployment rate for the U.S. workforce as a whole, with the differential in 2000 ranging from 1¾ percentage points for Hispanics to 3½ percentage points for African-Americans and 9 percentage points for teenagers.

Moreover, it unfortunately seems to be the case that minority and youth unemployment rates tend to be more sensitive to cyclical changes in the economy than unemployment in general. Economists point to a variety of reasons for this disparity, including lower average levels of education and work experience for these groups, as well as differences in the geographic proximity of jobs to different segments of the population. Indeed, in the current situation, it does appear that unemployment rates for minorities and teenagers have moved up a bit more quickly than for white non-Hispanics, although it is difficult to get a clear picture of the relative changes in unemployment rates since the beginning of this year because of the sampling variability in the monthly statistics

published by the Bureau of Labor Statistics. In particular, comparing the latest 2 month average for April and May of this year with the fourth quarter of last year, the unemployment rate has risen a bit less than 2 percentage point for white non-Hispanics, and between 2 and 1 percentage point for African-Americans, Hispanics, and teenagers.

Congress of the United States

Washington, DC 20515

June 12, 2001

The Honorable Paul S. Sarbanes
Chairman, Senate Committee on Banking, Housing and Urban Affairs
United States Senate
SH-309 Hart Senate Office Building
Washington, DC 20510-2002

Re: Diversity in the Federal Reserve System

Dear Senator Sarbanes:

In 1993, House Banking/Finance & Urban Affairs Committee (the "Committee") Chairman Henry B. Gonzalez released a report entitled "STATUS OF EQUAL EMPLOYMENT OPPORTUNITY AT THE FEDERAL RESERVE: DIVERSITY STILL LACKING" (the "Report") that showed that there were no minorities and very few women at the senior officer level at the Federal Reserve System (the"Federal Reserve"). The Report also contained detailed findings and corresponding recommendations for solutions. We would like you to question Vice Chairman Roger Ferguson, Jr. about diversity in the Federal Reserve during the his upcoming reconfirmation hearings and would like a follow-up assessment to determine how successful the Federal Reserve has been in implementing the Committee's 1993 recommendations.

The Report found that minorities and women were significantly underrepresented at the highest levels of the Federal Reserve and its regional banks, particularly in the "pipeline" positions which ultimately lead to more senior jobs. It also found that the Federal Reserve's informal and subjective method of grading the Reserve Banks' equal employment opportunity ("EEO") and staffing statistics inaccurately reflected the performance of the Federal Reserve Banks. In addition, the Report concluded that: (1) affirmative action plans lacked results-oriented goals and sufficient monitoring; (2) employees responsible for EEO programs were too far removed from the Presidents of the Federal Reserve Banks and the Board of Governors; and (3) the Board's recruitment efforts at predominately minority colleges and universities were inadequate.

The Report included six recommendations. First, the Report recommended that the Board change the selection process for the twelve presidents of the Federal Reserve Banks. Second, the Board's method of grading the Federal Reserve Banks for EEO compliance should be changed to accurately reflect the EEO performance of the Federal Reserve Banks. Third, the affirmative action efforts should be results-oriented and monitored regularly to measure effects. Fourth, the Board's policy on EEO, that stated, "[an] EEO Officer should be a senior officer independent of the personnel or human resources departments who reports directly to the president or first vice president of the

Reserve Bank," must be implemented. Fifth, Congress should pass legislation that would redefine the Federal Reserve and the Federal Reserve Banks as "executive agencies" in order to bring the Federal Reserve and the Federal Reserve Banks under Title VII of the Civil Rights Act of 1964. Finally, the Report recommended that the Federal Reserve "expand" its efforts "to include on-campus [recruitment] visits to predominately minority colleges and universities." Chairman Alan Greenspan, during a hearing on October 13, 1993, stated "I'm not satisfied with the progress that has been made, we ha[ve] actually made quite substantial progress." Chairman Greenspan subsequently cited the increase in the percentage of minorities and women in the officer system from 1977 through 1993.

The only statistics available indicate that although minorities and women have increased their presence in the lower-paying administrative positions, they continue to be underrepresented in the professional and technical job groups. Specifically, the number of professional and technical positions held by Hispanics and Native Americans has decreased between 1990 and 2000.[1] Although the numbers of African Americans and Women in these categories have increased, as the Report found almost eight years ago, very few of these individuals are in positions which lead to the more senior posts at the Federal Reserve. This is a very disturbing trend that needs to be addressed.

The lack of information outlining the Federal Reserve's efforts to diversify its staff for "pipeline" positions that could develop into the senior officer level jobs is of great concern. It is particularly disturbing when considered in light of recent allegations by several Board employees regarding a hostile work environment, and intentional discrimination in the hiring and promotion of minorities the Federal Reserve. If there is any truth to any of these allegations, we want to send a very clear message that this behavior is unlawful, unacceptable and that it must end immediately.

We would like to give Vice Chairman Ferguson the opportunity to address and correct these issues in the future. We have provided several questions that we would like you to raise during the confirmation hearings. *See* Attachment A. Because our goal is simply to have these issues addressed, you are welcome to share these questions with Vice Chairman Ferguson in advance. We are excited to work with you on this matter and hope to rely on the Vice Chairman to tackle the issue of diversity at the Federal Reserve.

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[1] BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM AFFIRMATIVE ACTION EMPLOYMENT PROGRAM FOR MINORITIES AND WOMEN, 2000.

The Honorable Paul S. Sarbanes
June 11, 2001
Page 3

We would appreciate any assistance that you and your office may provide in helping to address this very serious and important issue.

Sincerely,

Rubén Hinojosa, Member of Congress

Barbara Lee, Member of Congress

Julia Carson, Member of Congress

Gregory W. Meeks, Member of Congress

Harold Ford, Jr., Member of Congress

Maxine Waters, Member of Congress

Charles Gonzalez, Member of Congress

Stephanie Tubbs Jones, Member of Congress

cc: The Honorable Phil Gramm
Ranking Minority Member
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Richard C. Shelby
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Robert F. Bennett
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Wayne Allard
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Michael B. Enzi
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Chuck Hagel
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Rick Santorum
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Jim Bunning
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Mike Crapo
Senate Committee on Banking, Housing and Urban Affairs

The Honorable John Ensign
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Christopher J. Dodd
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Tim Johnson
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Jack Reed
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Charles E. Schumer
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Evan Bayh
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Zell Miller
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Thomas R. Carper
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Debbie Stabenow
Senate Committee on Banking, Housing and Urban Affairs

The Honorable Jon Corzine
Senate Committee on Banking, Housing and Urban Affairs

Steven B. Harris, Esq.
Staff Director/Chief Counsel
Senate Committee on Banking, Housing and Urban Affairs

Attachment

QUESTIONS FOR ROGER W. FERGUSON, JR.

1. In 1993, the House Banking, Finance and Urban Affairs Committee (the "Committee") reviewed the Federal Reserve System (the "Federal Reserve") regarding the status of equal employment opportunity.[1] At that time, the Federal Reserve was under attack for the lack of women and minority representation in its 12 regional Reserve Banks. The Senate Committee found that women and minorities were excluded from high salaries and promotions. The Committee found that of the thirty-four staff members of the Board of Governors earning over $125,000, only one was a woman and only one was listed as "non-white." The Committee also found that "system-wide" there were no minorities and few women at senior officer levels.

Question:	What has the Federal Reserve Board done in the past eight years to address this problem? If no formal program or policy is in place now, do you plan to implement one? When?
Question:	Does the Federal Reserve continually evaluate the diversity representation of its work force, particularly in professional and or technical positions? If so, who is responsible for such an evaluation and to whom does he/she report the results?
Question:	What are the current diversity statistics for the Federal Reserve?
Question:	Where and how does the Federal Reserve recruit minorities and women for senior office level positions?
Question:	Does the Federal Reserve evaluate its methods of promoting minorities and women, and if so, what have you found?

2. A 1993 Banking Committee Staff Report (the "Report") concluded that women and minorities at the Federal Reserve are almost completely excluded from high salaries and promotions. The Report recommended that the Federal Reserve Board's method of grading the Reserve Banks for Equal Employment Opportunity should be changed to accurately reflect the Reserve Banks' performance. The Report also recommended that affirmative action efforts should be results oriented and monitored regularly to measure effects and, specifically, that the Federal Reserve Board's policy on EEO must be implemented.

Question:	To your knowledge, have any of the Report's recommendations been implemented? Why or why not?
Question:	Does the Federal Reserve Board have a diversity recruitment, retention and promotion strategy? If so, how do you explain the decreasing numbers of professional and technical positions held by Hispanics and Native Americans between 1990 and 2000?

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[1] STAFF OF HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS, 103RD CONG., STATUS OF EQUAL EMPLOYMENT OPPORTUNITY AT THE FEDERAL RESERVE: DIVERSITY STILL LACKING (Comm. Print 1993).

Question: Should a follow-up investigation or study be conducted to investigate why women and minorities remain significantly underrepresented at the highest levels of the Federal Reserve and the Federal Reserve Banks, and are almost completely excluded from high salaries and promotions to senior level positions at the Federal Reserve?

3. In the 1993 Report, there were several recommendations. One of the recommendations was to recruit or increase recruitment efforts at predominantly minority serving institutions.

Question: Has that recommendation been implemented?
Question: If so, how long has the Federal Reserve Board had this program in place and how effective has it been in recruiting and retaining minorities?

4. The Federal Reserve Board monitors and evaluates the 12 Reserve Banks' affirmative action plans and EEO goals.

Question: How can the Federal Reserve be a credible "cop" if its own practices of recruiting and promoting women and minorities into top positions at the Federal Reserve are suspect?

Question: I have heard rumors of a hostile work environment and intentional discrimination in the hiring and promotion of minorities at the Federal Reserve. To your knowledge, is the work environment at the Federal Reserve hostile and if so, what steps have you taken to address these problems?

RESPONSE TO QUESTIONS OF EIGHT MEMBERS OF THE HOUSE OF REPRESENTATIVES IN A LETTER DATED JUNE 12 FROM ROGER W. FERGUSON, JR.

Concerning Diversity in the Federal Reserve System

Questions are numbered according to their sequence in the letter.

Q.1.a. What has the Federal Reserve Board done in the past 8 years to address this problem? If no formal program or policy is in place now, do you plan to implement one? When?

A.1.a. Even before the 1993 Report, the Federal Reserve Board had programs in place to address diversity issues in the workplace. Since the Report, the Board has taken a number of concrete steps to strengthen our EEO and employment-diversity programs and policies including:

- Instituting biannual EEO briefings to the Board.
- Holding officers, managers, and supervisors responsible through an EEO component in performance objectives.
- Providing senior management with information on EEO trends in each division during quarterly meetings.
- Conducting diversity training for all Board employees. Officers, managers, and supervisors also receive mandatory EEO training.
- Expanding outreach programs to both inform minorities about the Federal Reserve and to build a diverse pool of candidates for positions.
- Reviewing our EEO and employment practices and evaluating our programs against other public- and private-sector programs.

As to recent appointments, during my tenure the Board has appointed 10 division/office directors (the Board has 14 division/office directors, and those staff positions are the most senior at the Board). Five of these 10 director appointees are women, including 1 African-American and 1 Hispanic. In addition, we appointed 38 other officers, of whom 19 are women and 6 are minorities.

I am personally committed to achieving as diverse a workforce as possible, recognizing that the Board faces challenges in reaching that goal. Due to the highly technical nature of most of our professional positions—economist, financial analyst, computer specialist, and attorney—the Board is often in competition with the private sector for the most highly qualified job candidates. Because of salary constraints, the Board is often at a competitive disadvantage. In spite of the challenges the Board faces in realizing our aspirations, the representation of women and minorities in our officer positions is roughly comparable to that for other Federal Government agencies. We will continue our efforts to attract the most qualified and diverse staff possible.

Q.1.b. Does the Federal Reserve continually evaluate the diversity representation of its workforce, particularly in professional and/or technical positions? If so, who is responsible for such an evaluation and to whom does he/she report the results?

A.1.b. The EEO Programs Office, under the guidance of the EEO Programs Director, continually evaluates the Board's workforce.

The results are discussed with directors or senior staff members during quarterly meetings.

The EEO Programs Director briefs the Board twice a year on EEO matters and briefs the Committee on Board Affairs (which I Chair) and the Senior Management Council (which consists of the Directors of the Boards divisions and offices) as appropriate on such matters.

Q.1.c. What are the current diversity statistics for the Federal Reserve System?

A.1.c. See the following Table.

Table 1

Federal Reserve System Workforce, December 2000

Location	Total number	Women		Race or ethnicity									
				White		Black		Hispanic		Asian		Native American	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Board	1,623	826	50.9	991	61.1	491	30.3	46	2.8	93	5.7	2	.1
Banks	23,501	12,403	52.8	14,439	61.4	5,817	24.8	1,510	6.4	1,673	7.1	62	.3
Total	25,124	13,229	52.7	15,430	61.4	6,308	25.1	1,556	6.2	1,766	7.0	64	.3

For data on Federal Reserve System Officers, please see Table 2, in the answer to question 2.c.

Q.1.d. Where and how does the Federal Reserve recruit minorities and women for senior officer level positions?

A.1.d. Board official staff positions are generally filled internally, although for the most senior staff positions we also consider external candidates. These individuals have generally come from within the Board from grades 29 and 28, the highest staff grade levels. Ongoing efforts attempt to increase the diversity of the pool of candidates to be appointed to the official staff.

Q.1.e. Does the Federal Reserve evaluate its methods of promoting minorities and women, and if so, what have you found?

A.1.e. The Board monitors the results of its promotions with regard to women and minorities. Progress has been made at the division director and officer levels. As previously mentioned, during my tenure on the Board, 10 division/office directors have been appointed, of whom 5 are women, including 1 African-American and 1 Hispanic. I believe this is a positive step.

Q.2.a. To your knowledge, have any of the Report's recommendations been implemented? Why or why not?

A.2.a. In response to the Report, the Board strengthened its existing program in the following ways:

- The EEO evaluation for Federal Reserve Banks was changed to require EEO performance reports by the Banks (which are evaluated by the Board).
- Annual meetings are held at each Reserve Bank with executive Bank staff and Board staff to discuss the evaluation of EEO performance.

- All Federal Reserve Banks have EEO officers reporting directly to the Bank's first vice president or president.
- A conference is held annually at the Board for the Federal Reserve Bank EEO officers to address EEO performance evaluations and issues of common concern.

Campus recruitment by the Board for professional and for intern positions has been expanded at predominately minority colleges and universities. We also recruit more extensively at minority professional organizations and diversity job fairs. The Board also advertises in minority publications such as the *Black Collegiate* and the *HISPANIC* magazine and on numerous diversity employment Internet sites.

Among the schools and associations at which we conduct recruitment and outreach activities are Howard University, Morehouse, Tuskegee, Florida A&M, University of Miami, Spelman, Clark-Atlanta, Xavier, Dillard, Southern at Baton Rouge, Florida International University, University of New Mexico, University of Texas, Hispanic Association of Colleges and Universities, National Black and Hispanic MBA Associations, National Association of Urban Bankers, Society of Hispanic Engineers, and Society of Mexican American Engineers and Scientists.

In conjunction with the Board's summer intern program, minority candidates are solicited from INROADS and the Hispanic Association of Colleges and Universities.

Q.2.b. Does the Federal Reserve Board have a diversity recruitment, retention, and promotion strategy? If so, how do you explain the decreasing numbers of professional and technical positions held by Hispanics and Native Americans between 1990 and 2000?

A.2.b. Between 1990 and 2000, Hispanic representation in the professional and technical categories has increased slightly. Native American representation in professional categories has also increased slightly. The Board is continually reviewing recruitment, retention, and promotion to assess which initiatives are succeeding and where improvement is needed. Moreover, the Board reviews the EEO practices of other Government and private organizations to obtain ideas for enhancing its programs.

Q.2.c. Should a follow-up investigation or study be conducted to investigate why women and minorities remain significantly underrepresented at the highest levels of the Federal Reserve and the Federal Reserve Banks, and are almost completely excluded from high salaries and promotions to senior level positions at the Federal Reserve?

A.2.c. We do not believe that any group is "almost completely excluded from high salaries and promotions." Since 1992, the Board and the Federal Reserve Banks have made progress in developing and in promoting women and minorities to senior-level positions and the Federal Reserve is committed to continue doing so (see the following Table).

Table 2

Federal Reserve System Officers as of December, 1992 and 2000

Location and date	Total	Women		Minorities	
		Number	Percent	Number	Percent
Board					
1992	104	21	20.1	11	10.6
2000	109	34	31.2	14	12.8
Banks					
1992	866	185	21.4	4	.5
2000	1,021	295	28.9	105	10.3
Total					
1992	970	206	21.2	15	1.5
2000	1,130	329	29.1	119	10.5

Q.3.a. Has that recommendation been implemented?

A.3.a. Yes. The Board continues to enhance its college recruitment activities. We have made efforts such as hosting guest speakers; working with deans of economic, computer science, math, and graduate programs; and participating in college fairs. The Board has sponsored a Symposium for Historical Black Colleges and Hispanic Association of Colleges and Universities. The agenda for the symposiums included presentations by the Board's economic divisions to make participants aware of employment opportunities at the central bank. See the answer to question 2.a. for a more detailed discussion of our minority recruitment and outreach activities.

Q.3.b. If so, how long has the Federal Reserve Board had this program in place and how effective has it been in recruiting and in retaining minorities?

A.3.b. The Federal Reserve Board had such programs in place before 1993, and since then it has enhanced them. As a result of these programs, minorities are well represented among summer interns, but our programs aimed at recruiting minorities for full-time positions have had limited success to date. The success in recruiting summer interns is significant because summer interns are a source of applicants for full-time positions. We will continue to pursue these programs. I recognize from my personal experience and observation that it will likely be a multiyear effort before we see results.

The Board also recruits qualified minority candidates through advertising, referrals, unsolicited resumes, general college recruiting, web sites, and other recruitment techniques.

Q.4.a. How can the Federal Reserve be a credible "cop" if its own practices of recruiting and promoting women and minorities into top positions at the Federal Reserve are suspect?

A.4.a. I do not believe that our practices are suspect, and I am personally committed to ensuring that all employees of the Board are fairly treated in all aspects of their employment. The Board has credible recruitment and promotion practices, and we constantly review them to determine how they can be improved.

Q.4.b. I have heard rumors of a hostile work environment and of intentional discrimination in the hiring and promotion of minorities at the Federal Reserve. To your knowledge, is the work environment at the Federal Reserve hostile and if so, what steps have you taken to address these problems?

A.4.b. I do not believe we have a hostile work environment at the Federal Reserve Board. We would not tolerate it, and we have strong policies with which to address violations. Should any indications of a hostile work environment come to my attention, I would consult with experts, both internally and externally, to determine the best course of action, and I would expect the Board to implement fully measures to respond to such allegations. I am strongly opposed to a hostile work environment. I believe that all Federal Reserve employees should be allowed to contribute fully to our mission, and they are expected to do so.

NOMINATIONS OF:

ANGELA M. ANTONELLI, OF VIRGINIA TO BE CHIEF FINANCIAL OFFICER U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

RONALD A. ROSENFELD, OF OKLAHOMA TO BE PRESIDENT, GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GINNIE MAE) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

AND

JENNIFER L. DORN, OF NEBRASKA TO BE FEDERAL TRANSIT ADMINISTRATOR U.S. DEPARTMENT OF TRANSPORTATION

THURSDAY, JUNE 21, 2001

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

The Committee met at 10 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. I call our Committee hearing to order.

We just finished a vote, so we were delayed a little bit. We will now move ahead.

This morning, the Senate Committee on Banking, Housing, and Urban Affairs will be considering three nominations, the nominations of Angela Antonelli, to be the Chief Financial Officer of HUD, Ronald Rosenfeld, to be President of Ginnie Mae, and Jennifer Dorn, to be the Federal Transit Administrator.

We will consider the nominees in two panels. On the first panel, we will take the HUD nominees, Ms. Antonelli and Mr. Rosenfeld. And on the second panel, we will consider Jennifer Dorn to be the Federal Transit Administrator.

I want to welcome these nominees. We are pleased they are able to appear before us today. We understand the importance to the

Administration of filling its top positions. This Committee has sought to move promptly on nominations as they are sent to us.

Often, the President announces an intent to nominate. There seems to be something of an assumption, then, by the press and the public that the nomination is before the Senate. But that is not the case. The nomination is not before us until we actually get the papers completed and that, regrettably, often seems to take quite a period of time.

Ms. Antonelli, nominated to be HUD's CFO, is the Director of The Thomas A. Roe Institute for Economic Policy Studies of The Heritage Foundation, where she has been overseeing the Foundation's research on budget, tax, regulatory, labor, technology, and environmental policy, a rather extensive brief, if I may say so.

She has worked at the General Accounting Office, as well as worked 3 years for the Office of Management and Budget.

Ms. Antonelli is a Phi Beta Kappa graduate from Cornell University and received a Master's in Public Administration from Princeton University, my alma mater, I might note.

The old school tie, I guess, here, Ms. Antonelli, so to speak.

[Laughter.]

Ronald Rosenfeld, nominated to be President of Ginnie Mae, has spent much of his career on housing and real estate issues, as a private developer and in HUD's Office of Housing. Most recently, he was Secretary of Commerce for the State of Oklahoma. He too has an impressive educational background, having graduated with a degree in economics from the University of Pennsylvania and a law degree from Harvard, also an alma mater of mine.

We are covering all the bases here today.

[Laughter.]

Mr. Rosenfeld and Ms. Antonelli will be working on issues that will be of great importance. Housing and urban affairs are issues that I hope to explore further in this Committee. It is critical that HUD have the needed resources and staffing, including qualified people, to head the offices of HUD. Both the CFO of HUD and the President of Ginnie Mae play very important roles in housing low-income Americans.

The President of Ginnie Mae directs and provides oversight for all of Ginnie Mae's activities. Ginnie Mae guarantees more than $1½ trillion in mortgage-backed securities and has securitized 95 percent of all FHA and VA mortgages.

The Chief Financial Officer of HUD is responsible for overseeing a budget of over $30 billion and the performance of an agency that works on issues ranging from public housing to homelessness to community revitalization. In order to effectively serve people in need, HUD obviously must have adequate financial systems, as well as resources.

As CFO, Ms. Antonelli, I hope you will work to ensure that HUD has the resources it needs to run its programs.

We have expressed some disappointment in this year's HUD budget and hope that HUD fights for additional resources next year, and I am sure we will be communicating with the Secretary and the Department about those issues.

We have Senators here to introduce the nominees and I am going to turn to them.

Senator Nickles, we will turn to you to introduce Mr. Rosenfeld and then we will turn to Senator Allen to introduce Ms. Antonelli.

STATEMENT OF SENATOR DON NICKLES

Senator NICKLES. Mr. Chairman, thank you very much.

I am delighted to be with you and Senator Stabenow to introduce to the Committee my friend, Ron Rosenfeld, for the position to be President of Ginnie Mae.

I have had the pleasure of knowing Ron Rosenfeld and his wife Patty for the last 10 years. I got to know him when he worked in the Bush Administration at the Department of Housing. He worked in that capacity and two or three different capacities, as well as the Department of Treasury. He did an outstanding job in that Administration.

Then I had the pleasure of getting to know Ron even better when for the last few years he served as Secretary of Commerce for my State, the State of Oklahoma, and did a fantastic job for Governor Keating and did a fantastic job for our State.

As you mentioned, he has enormous experience in real estate and finance. He has the background, the expertise, and the talent to do an outstanding job as the President of Ginnie Mae.

I would urge the Committee to move expeditiously on his nomination. I thank you for his consideration and I think he will be a real complement, not only to the Bush Administration, but, frankly, to the country as well.

Chairman SARBANES. Thank you very much, Senator Nickles, for those kind words.

I must say that one of the things that leaped out as I reviewed Mr. Rosenfeld's biography is how he ended up in Oklahoma. But we will put that question to him.

[Laughter.]

Senator NICKLES. That was our gain.

Chairman SARBANES. Senator Allen.

STATEMENT OF GEORGE ALLEN
A U.S. SENATOR FROM THE STATE OF VIRGINIA

Senator ALLEN. Thank you, Mr. Chairman.

I appreciate your leadership in having this hearing. It is good to see Senator Stabenow as well.

It is my pleasure to introduce to you a resident of the Commonwealth of Virginia, Angela Antonelli, as you stated earlier, who has been nominated to be the CFO, Chief Financial Officer, for the U.S. Department of Housing and Urban Development.

Angela has a distinguished record of public service and background in financial policy and management. You mentioned her education. She obviously had a good education and made the right decision by moving to the Commonwealth of Virginia in Fairfax. So, I guess the Princeton education, Cornell education, do make sure that those students learn the good places to live and we are glad she chose Virginia.

In the business of HUD, being a CFO, one would look for someone's background and where their experience is in the private sector, as well as in the Government sector. And having worked at the OMB in the first Bush Presidency, I think will be very helpful. The

fact that she worked for Lewin-VHI, Inc., which is a well respected independent analysis group, as a senior consultant, matters.

Angela has worked as a Presidential Management Intern within the GAO and obviously also with the Department of Labor, for the U.S. Senate Committee on Labor and Human Resources, and the Department of Education in New Jersey. Recently, in the last 5 or 6 years, she served as the Director for The Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

She has the qualifications, I submit, Mr. Chairman and Members of the Committee, to handle the task, which is a very important task—the responsibility for the development of the Department's budget, a $30 billion budget, financial management, the presentation of accurate financial information, management integrity, so that when appropriations are being made, we understand that there is credibility to that and whatever resources are appropriated are handled in a way that is strategically meeting their plans, but also serving the customers, the citizens.

Secretary Martinez has made it his number one priority to get HUD's house in order. And clearly, the CFO of HUD will be a leading role-player in addressing the weaknesses of the agency that have been identified by the General Accounting Office, as well as HUD's own Inspector General.

So, Mr. Chairman and Members of the Committee, it is my sincere pleasure to present to you, and support the nomination of an individual with integrity, character, and capabilities that will serve as CFO of HUD. And Angela Antonelli surely does have the experience and the capabilities of getting HUD's house in order.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much, Senator Allen. It is very helpful to the Committee to have your comments before us. I know you have a busy schedule and we will certainly excuse you.

Now, I see Senator Wyden here. We are going to take Ms. Dorn on the second panel. But Ron, you may want to come forward and just introduce her right now. Our memories are long enough that we will remember it when she comes up on the second panel.

STATEMENT OF RON WYDEN
A U.S. SENATOR FROM THE STATE OF OREGON

Senator WYDEN. Mr. Chairman, thank you very much for your thoughtfulness and I will try to enhance Ms. Dorn's candidacy with brevity here.

First, I think that we all remember with great fondness Senator Mark Hatfield. That is where I met Jenna Dorn. She was on Senator Hatfield's staff for more than 5 years. And to get a sense of her appreciation of humor, she just reminded me that the first 3 years really did not count because she was too green to know what she was doing.

Chairman SARBANES. I thought everyone in Oregon was green.

[Laughter.]

Senator WYDEN. We are. Nicely put. Nicely put.

[Laughter.]

But she brings great savvy and expertise to her candidacy to head the Federal Transit Administration. In addition to working

with Senator Hatfield, she was in the Executive Branch. She was also with the Red Cross.

What I like about Jenna so much is that she just embodies the approach that you and I and so many have tried to have, and that is that she is a problem-solver. She is not an ideologue. She is somebody who gets people together of disparate views and solves problems. And I think we all know how important infrastructure issues are.

Jenna has been a long-time supporter of our pioneering efforts in Oregon with what we call the Banfield Light Rail. I think that she understands the needs of rural communities, as well as urban communities.

I would just wrap up by saying that rarely do I think somebody is as well qualified as Jenna Dorn for a position like this. You see it in her breadth of experience, in her ability to work with people, and I am very hopeful that you and our colleagues on the Committee will report her out expeditiously.

Chairman SARBANES. Thank you very much. We appreciate it.

Senator WYDEN. Thank you.

Chairman SARBANES. We have been joined by Senator Stabenow and Senator Carper. I would yield to them if they have an opening statement that they would like to make.

COMMENTS OF SENATOR DEBBIE STABENOW

Senator STABENOW. Thank you, Mr. Chairman.

I would only say that I appreciate your holding this hearing and I want to thank you for your leadership in moving ahead on important nominations to fill vacancies. I think it is a real credit to you and your leadership that we have started the new Committee as quickly as possible. I want to thank you for your leadership in doing that and welcome the nominees and I look forward to hearing from them.

Chairman SARBANES. Senator Carper.

COMMENTS OF SENATOR THOMAS R. CARPER

Senator CARPER. I would only add to that, welcome to the families of the nominees, some of whom are obviously gathered here today. It is a day of family pride, I am sure, and we are anxious to begin their confirmation hearing. We welcome you all warmly to the hearing.

I just want to say to those in the room who might have actually been part of raising or steering the people who are the nominees before us today, thank you for embedding in them the kind of values that would lead to public service. And to those of you who have gone through the process of filling out all the disclosure forms that have enabled you to sit at this table today, a special thank you.

I like to say for people who go through this process, just to go through the disclosures alone, for you no purgatory. Straight to heaven. So thank you. Welcome.

[Laughter.]

Chairman SARBANES. I want to just comment on something that Senator Stabenow said.

We have been moving ahead with the hearings on the nominees because we are anxious to help the Administration put its people

into place. But the Committee has not yet been fully and properly constituted, I regret to say. There has been a hang-up on the floor in clearing the resolution.

So, we are not going to be able to move to the next step, which would be the actual business of reporting out the nominees and then getting them out to the Senate floor until that is resolved. But we are obviously keeping a close eye on that and we are trying to line things up as best we can.

We had originally hoped to markup Mr. Ferguson yesterday, for the Federal Reserve Board. In fact, I announced the previous week we were going to do that. That was on the assumption that the Committee would be fully and properly constituted by that time. That did not occur. So, we had to put that over. Hopefully, that will happen in the near future and we will then move ahead with these various nominees that are pending from the Administration.

I would like to say to the nominees, it is a standard procedure of this Committee at the nomination hearings to swear in the nominees. Therefore, I would like to ask you both to stand and I will proceed to do that now.

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

Ms. ANTONELLI. I do.

Mr. ROSENFELD. I do.

Chairman SARBANES. Do you agree to appear and testify before any duly-constituted committee of the U.S. Senate?

Ms. ANTONELLI. Yes.

Mr. ROSENFELD. Yes.

Chairman SARBANES. Thank you very much.

Ms. Antonelli, we always give preference to the Chief Financial Officers. So why don't we hear from you first, and then we will go to Mr. Rosenfeld. We will hear their opening statements, and then we will go to the questions.

STATEMENT OF ANGELA M. ANTONELLI, OF VIRGINIA TO BE CHIEF FINANCIAL OFFICER U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. ANTONELLI. Thank you very much.

Chairman SARBANES. And if either of you has family here and want to introduce them, we certainly invite you to do so.

Ms. ANTONELLI. Chairman Sarbanes, distinguished Members of the Committee, my name is Angela Antonelli and I would like to thank you for inviting me to appear before you today.

I would also like to thank Senator Allen for his time and his kind words of introduction.

I am truly humbled and honored to be the choice of President Bush and Secretary Mel Martinez to serve as the Chief Financial Officer for the U.S. Department of Housing and Urban Development. If confirmed, I look forward to being part of the outstanding team at HUD that will work with you and your staffs to address the housing and economic development needs in our Nation's communities.

As the daughter of Italian immigrants, I cannot fully convey to you what it means for me to be here today. A day like today fills

me with gratitude and love for this country and the freedom and opportunity that it provides. But you cannot begin to imagine what it means to my mother, Anna Savini, who is here with me today. She is sitting right behind me.

To her, I am the reason she came to the United States and sacrificed so much and started all over. Also, my husband Michael, who is also sitting behind me, is here with me today.

When I told her I was asked by the President to serve, she simply said, "It is the Dream." If you are born poor, you do not have to remain poor; your life's work preordained. No, in the United States—a land where freedom and opportunity flourish—you can dream and through hard work and strength of character achieve those dreams. My career in public service is based on a sincere desire to make sure that future generations always see the United States as a land where freedom and opportunity flourish and dreams for a better life can come true.

An important part of the American Dream is a home to call your own and a community of caring people of which you can be a part. I look forward to being a part of HUD's mission to preserve the Dream—to empower communities and their residents to improve themselves by reducing homelessness, creating opportunities for homeownership, and encouraging economic development.

As Secretary Martinez has stated repeatedly, the first priority will be to put HUD's own house in order. The CFO has responsibility for the development of the Department's budget and for financial management, the presentation of accurate financial information, management integrity and departmental strategic planning. If confirmed as CFO, I intend to work closely with my colleagues at HUD to address the institutional weaknesses identified by the U.S. General Accounting Office and HUD's Inspector General. These weaknesses diminish the ability of the Department to achieve its mission.

To the position of Chief Financial Officer, I bring 15 years of policy, budget and management experience. I have worked with and for many of the organizations I will be working closely with to carry out my responsibilities as CFO, including Congress, the GAO and the Office of Management and Budget. I will be able to bring my experiences working for the Federal Government and State government, as well as the private and nonprofit sectors, to contribute to the effective management and leadership of HUD.

Congress and the public are aware of the problems that have plagued HUD. Although GAO has removed the Department as a whole from its "high-risk" list, there are still many activities that remain at risk. Under the leadership of Secretary Mel Martinez, I look forward to working with Congress in a bipartisan manner to address these issues, restore credibility, and do a better job with the tax dollars that hard-working Americans trust to us.

I am deeply grateful for the confidence President Bush and Secretary Martinez have placed in me. I take the responsibilities and the challenges ahead very seriously.

Mr. Chairman and Members of the Committee, thank you for your consideration of my nomination and the opportunity to appear before you today. I would be pleased to answer any questions that you may have.

Thank you very much.

Chairman SARBANES. Thank you very much, Ms. Antonelli.

Mr. Rosenfeld.

STATEMENT OF RONALD A. ROSENFELD, OF OKLAHOMA TO BE PRESIDENT, GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GINNIE MAE) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. ROSENFELD. Mr. Chairman, first, I would like to introduce my wife Patty, who is sitting right behind me. Patty, would you stand up, please?

I would also like to thank Senator Nickles for his kind words of introduction.

Mr. Chairman and distinguished Members of the Committee, thank you for the opportunity to appear before you today. I would also like to express my deep appreciation to President George W. Bush for his confidence in me, as evidenced by his nominating me to be the President of Ginnie Mae, the Government National Mortgage Association. In addition, I would like to indicate my gratitude to Secretary Mel Martinez for selecting me to serve in a strategic position on his team.

Upon learning of the President's intent to nominate me, I called my father, who is 92 years old, to share the good news. His response was, "Not bad for an immigrant's son." If the truth be known, he was an illegal immigrant who managed to elude our immigration officers for a few years, but was ultimately caught and deported. His incredible good fortune was that he was deported to Canada rather than to Eastern Europe from where he came. He subsequently met my mother, who had legally immigrated from Eastern Europe, and they were married in 1935. At the time of their marriage they had a net worth of $100. The success of our family cannot be explained by "compound interest." But rather, that success is attributable to hard work, opportunity, and giving their only child the educational opportunities they never had.

The story of my family is wonderful, but it is not unique. With slight variations, it is the story of the Martinez family, the Jackson family, and the Bernardi family. Each of these family names is now preceded by the title of Secretary, Deputy Secretary, and Assistant Secretary. These people, together with John Weicher, Dick Hauser, and myself, if confirmed, and others yet to be selected, will be the people to whom President George W. Bush has entrusted the leadership of the Department of Housing and Urban Development. Only in America!

I am honored to be chosen by President George W. Bush and Secretary Martinez to be the President of Ginnie Mae. If I am confirmed, I will strive with all my energies and abilities to meet their every expectation. I am sure that like most every other Presidential appointee who has appeared before this distinguished body, I never dreamed of having the privilege of serving our country in this way. But having said that, I believe I bring to this opportunity a background and a level of experience that is most appropriate.

Upon graduating from law school, I chose not to practice law but rather, to become an undercapitalized homebuilder. Actually, being undercapitalized was not a choice but just a reality. There is sim-

ply no better way to learn about the importance of credit than by not having it, and there is no better way to understand the significance of the continuity of credit than by having your customers not be able to purchase your product.

After 15 years in the real estate development business, which had expanded into multifamily and commercial development, I became a partner in a regional investment banking firm. This was my introduction to capital markets and to the world of Wall Street.

With the backdrop of the oil bust and the savings and loan crisis, I joined HUD in 1989, as Deputy Assistant Secretary for Single Family Housing. This historically obscure post had the challenge of disposing of 70,000 single-family foreclosed houses—a daunting task in traumatic times. I then moved on to become the General Deputy Assistant Secretary of Housing—FHA Commissioner.

Subsequent to that, I was asked to represent the Administration in its relations with the real estate industry while serving at the Department of the Treasury. Throughout this entire period, markets were not functioning and our real estate credit system was in shambles. Fortunately, time and prudent stewardship have a way of resolving problems and after a few years, order was restored.

Thereafter, my wife and I went to Oklahoma to help a friend who had just been elected governor. We intended to stay about 4 months and we actually wound up staying 4 years as a result of the Oklahoma City bombing. After that horrific event, Governor Keating asked if I would help him enhance the economic viability of the State as the Secretary of Commerce. In that capacity, I learned about the challenges of living in small towns, rural areas, and underserved markets.

One might reasonably ask—what does that background and those experiences have to do with Ginnie Mae? The answer is everything. Ginnie Mae's mission is to help provide affordable homeownership opportunities for all Americans by facilitating efficient secondary market activities for Federally issued or guaranteed mortgages, thus linking the capital and Federal housing markets. In somewhat clearer terms, Ginnie Mae is about credit, capital, and providing resources to underserved areas.

Historically, Ginnie Mae has been a very well-run organization. As President, I will be guided by the old medical adage, "Do No Harm," as well as my own desire to do good. Most of us in this chamber know the thrill and the significance of owning our first home yet there are many Americans who have not yet had that experience. They deserve a chance and it is the role of Ginnie Mae to help make that possible.

Secretary Martinez has made it a cornerstone of his administration to expand homeownership for low- and moderate-income families. I believe that Ginnie Mae, together with its partners in the private sector, as well as FHA, the Veterans Administration, and the Rural Housing Service, can do exactly that. I welcome the chance to be a participant in this very worthwhile endeavor.

Thank you for your consideration.

Chairman SARBANES. I thank both of you for very thoughtful statements.

Senator Allard is with us and I yield to him if he wants to make a statement at the outset before we go to questions.

COMMENTS OF SENATOR WAYNE ALLARD

Senator ALLARD. Thank you, Mr. Chairman.

I have an opening statement I want to submit for the record.

Chairman SARBANES. It will certainly be included in the record.

First of all, let me say that both of your statements resonated with me since I am also the child of immigrant parents. Otherwise, I am not sure that I would be entitled to preside at this hearing here today.

[Laughter.]

Ms. Antonelli, let me put a couple of questions to you first.

In 1998, you wrote an article—actually, you have written quite a number of articles—in which you stated that HUD had problems with management, waste, and abuse.

As I think you all probably know, HUD has made significant progress in overcoming the problems of its past. In 1999, the GAO reported that HUD had made credible progress in overhauling its operations under the HUD 2020 Management Reform Plan implemented by then-Secretary Cuomo. Two years later, GAO found that HUD had continued to make progress in addressing these problems and at that time, GAO took HUD off its list of high-risk agencies.

One area that the GAO found marked improvements in was its information and financial management systems. They reported: "HUD has taken actions to improve and strengthen the selection, control and evaluation of information technology projects. In addition, HUD has reduced the number of financial management systems that are not in compliance with Federal regulations."

In October of last year, GAO found that HUD's strategy should help HUD continue to make progress in resolving its remaining material weaknesses.

Now these reports do not suggest that there are not still problems and we recognize that there are still problems. But it does appear that HUD is on the right track in improving its management and its systems.

As the CFO, you will oversee many of the systems that the GAO report addressed. What is your intention with respect to following the General Accounting Office's recommendations in continuing with the HUD 2020 Management Reform Plan that are helping to strengthen the Department?

Ms. ANTONELLI. Senator, addressing the remaining management weaknesses that have been identified by the U.S. General Accounting Office is a top priority for Secretary Martinez and it is a top priority for me if confirmed as CFO.

There has been a tremendous amount of progress and I know that in the short time that I have been meeting with the team at HUD, there are a lot of outstanding people who have been doing tremendous work to significantly improve the quality of the financial systems that exist at the Department.

It is true that GAO has removed the Department as a whole from the high-risk list. But as you know, there are still a number of activities that remain at risk. Those material weaknesses will again remain a high priority. We will continue to track the recommendations of the General Accounting Office and of HUD's Inspector General.

Again, in this Administration, and under Secretary Martinez, it is among the highest priorities to continue to address the remaining weaknesses.

Chairman SARBANES. My time is running down here. I am going to yield here in a moment to Senator Allard.

Let me put a question to you, Mr. Rosenfeld. Later, I will come back. I have some other follow-up questions that I want to ask Ms. Antonelli.

First, let me just note for the record your extensive experience in the housing and finance field in general, and the time you spent at HUD in particular. You have really held nearly every position at the Federal Housing Administration, aside from Commissioner—Deputy Assistant Secretary for Single Family Housing, Acting Deputy Assistant Secretary for Multifamily Housing, and the Acting General Deputy.

I think given the close relationship of Ginnie Mae to FHA, this kind of intimate knowledge that you gained from your previous service at HUD should certainly help you in carrying forward your responsibilities in this position.

You state in your questionnaire talking about the late 1980's and early 1990's: "During a period of significant decline in real estate values, many private sector participants in the mortgage business decided, quite appropriately from their standpoint, not to continue their primary business activity. This created a downward spiral in values and further exacerbated the problem. During this entire period, Ginnie Mae conducted business as usual and was a strong barricade against even greater credit problems."

Am I to draw from this statement belief on your part that there is a strong role for Ginnie Mae to play in the marketplace?

Mr. ROSENFELD. Mr. Chairman, I believe there is. I believe that a lender of last resort is an imperative phenomenon in our credit system. And I think that, certainly in the area of housing, the Government housing program, as well as Ginnie Mae, serve that role, which is very significant.

I remember as a young man not being able to believe the stories of the Depression in terms of how values could decline.

Quite frankly, it has been an enormously educational experience, not necessarily a pleasant one, but certainly educational, to be a participant in the credit problems in the late 1980's and the early 1990's. It certainly has enhanced my belief that a lender of last resort is a critical component of our economic system.

Chairman SARBANES. Thank you.

Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman.

I want to first recognize the statements where both of you indicated that you came from very humble roots. I think that speaks loads for freedom. It speaks a lot for what we have here in America, and obviously, both of you hold that very dear. It is good to hear that refreshing type of testimony.

Ms. Antonelli, I want to follow up a little on the material weaknesses and internal controls that were alluded to by the Chairman. Do you have plans to shore up some of these internal controls?

Ms. ANTONELLI. Senator Allard, absolutely. At this point, I have been briefed on a number of these issues and I am learning about

these issues. But, clearly, there are several management challenges that the Department does continue to face. Some of these challenges include issues relating to trying to reduce subsidy overpayments, improve the utilization of funds, and generally make sure that the financial systems that are in place are complying with statutory standards that have been established. And also, to just make sure that staff resources are allocated effectively, not only within the Chief Financial Officer's office, but also throughout the Department.

So, I will, again, if confirmed as CFO, be working very closely with the senior team at HUD, as well as the outstanding staff in the Chief Financial Officer's office to address many of these management weaknesses that exist. And the types that I just described are some that most directly affect the responsibilities of the Chief Financial Officer.

Senator ALLARD. Congress passed the General Results and Performance Act and I hope that you can follow wherever we asked that we set up specific objectives within the departments and then measure results in measurable terms. I believe you have had some experience with that type of management approach. Would you comment further on that?

Ms. ANTONELLI. The Government Performance and Results Act, which was passed in 1993, the implementation began in 1997, and so we are about 4 years into the implementation, I think the concept of asking a very fundamental question about the extent to which Federal programs are producing results and holding them accountable for producing results is a very reasonable thing to do.

The Department of Housing and Urban Development has a strategic plan, like all agencies do, under the requirements of the Act, and an annual performance plan that they issue.

This is something that again, in my role as CFO, if confirmed, I will be reviewing the strategic plan and the performance plan, and in the context of the budget development process, continuing the efforts to link more closely the budget and funding to performance and identifying effective performance measures and ways that we can effectively measure performance and report on that in the context of our annual budgets.

Senator ALLARD. Now the General Accounting Office has found that HUD has enormous unspent balances. More than $108 billion remain unspent.

Ms. ANTONELLI. Right.

Senator ALLARD. Of that amount, more than $12 billion is not even allocated. What do you plan to do to reverse this trend?

Ms. ANTONELLI. Well, at this point, you are absolutely right. The unspent balance issue is a significant one. It does constitute a significant amount of money. Some of those unspent balances are long-standing issues. And these are weaknesses that have been identified by GAO, IG, and others. It definitely is a priority of the Secretary, as I understand it, to address the issue of the unexpended balances.

Currently, my understanding is that the Department is in the process of reviewing specific programs that have these types of unexpended balances to better understand why they exist and what, in fact, can be done under existing law and regulation to perhaps

address this problem, make sure the funds can be more effectively allocated to serve people who currently cannot be served for a variety of reasons, including this particular problem.

Obviously, to the extent this problem exists, it to some degree does undermine the credibility in terms of budget justifications to ask perhaps in some cases for increases of funds for programs where these types of unexpended balances remain a problem. It is a material weakness. It is a problem that is considered very serious and it is a priority of the Secretary's to address it. And as CFO, I would certainly do everything to be able to support that effort.

Senator ALLARD. Mr. Chairman, I see my time is coming to a close here. I have a couple more questions for Mr. Rosenfeld. Will there be another opportunity to ask questions?

Chairman SARBANES. Yes, we are going to do another round.

Senator ALLARD. Very good. Thank you.

Chairman SARBANES. Senator Reed, I notice that Senator Smith has come, and I know he wants to make a statement of introduction for Ms. Dorn, who is on the next panel.

Gordon, why don't you come on up and do that now. I know you have other engagements.

STATEMENT OF GORDON SMITH
A U.S. SENATOR FROM THE STATE OF OREGON

Senator SMITH. Thank you, Mr. Chairman. I appreciate that courtesy. I am helping Joe Biden with all these nominations down in Foreign Relations and we miss your presence there, but know you are Chairing this great Committee as well.

Mr. Chairman, colleagues of the Banking Committee, I regard it as a high privilege and pleasure to be here to introduce a friend and a fellow Oregonian, Jenna Dorn, whom President Bush has nominated to be the head of the Federal Transit Administration.

She is joined by her two wonderful sons, Ben and Jon.

Chairman SARBANES. It is a excuse to get out of school. Or is school over for those guys?

[Laughter.]

Senator SMITH. I know Ben and Jon very well and they look for that excuse, I think.

Chairman SARBANES. Yes.

[Laughter.]

Senator SMITH. Jenna and I share something in common. She began her career working for Mark Hatfield. Like her, I have learned abundantly from Mark Hatfield and am given the privilege of trying to fill his place in the U.S. Senate. Both of us maintain a strong commitment to his ideals and friendship with him.

But Jenna has since that time broadened her professional experience in remarkable ways. She has served in the Government as an Associate Deputy Secretary of the U.S. Department of Transportation under President Reagan and Assistant Secretary for Policy for the U.S. Department of Labor under President Bush. After that, she worked with Elizabeth Dole at the American Red Cross as its Senior Vice President, and then as President of The National Health Museum. So, she has served with distinction wherever she has gone. And she has a broad knowledge of Capitol Hill that will serve the country, the Administration, and the Congress well.

I have no reservation in heartily recommending her to you and to encourage that she be passed to the floor and confirmed in this responsibility.

So it is with pride and appreciation that I am here in her behalf.

Mr. Chairman, I thank you for your courtesy.

Chairman SARBANES. Thank you very much, Senator Smith. We appreciate your coming and we certainly value the kind remarks you have made about Ms. Dorn.

Senator Reed.

COMMENTS OF SENATOR JACK REED

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

Let me welcome the nominees. I have had the chance to meet with them. They are extraordinarily talented, experienced, and patriotic, and we thank them for their willingness to serve.

Mr. Rosenfeld, if I can jump right into the details of your job. But given your experience previously with FHA, you bring a lot of perspective to your proposed job at Ginnie Mae.

The President's budget for fiscal year 2002 will call for an increase in premiums for FHA multifamily insurance. This increase will raise the cost of using the program, reduce affordability and may, in fact, preempt some projects which would be deemed economically infeasible.

In general, the new FHA apartments are affordable to working people at about 100 percent of median income. I wonder if you have any thoughts on this proposal.

Mr. ROSENFELD. Well, quite frankly, Senator Reed, my reaction to the proposal relates to its effect on Ginnie Mae. And if I am confirmed, that will, of course, become an issue that will be relevant to me. My sense is that to the extent that apartment construction is decreased, that would suggest there will be less securitization by Ginnie Mae of those kinds of insured loans.

But I am sure the President has his reasons and the Secretary. So, I would defer the policy issue in the consideration of that to the President and the Secretary.

Senator REED. But as the head of Ginnie Mae, you have at least the opportunity to try to react to that policy and still continue to fund multifamily developments that will reach moderate-income Americans. Would you try to respond in an affirmative way to continue the construction of these projects?

Mr. ROSENFELD. If I were asked, and I indicate that I have not been asked at this point, but if I were asked, I am clearly in favor of enhancing opportunities to create apartments for low- and moderate-income people.

However, I also understand the significance of running a prudent enterprise in a fiscally responsible manner. And to the extent that premiums need to be raised to ensure the fiscal responsibility of an enterprise, that may have to occur.

Senator REED. Thank you, Mr. Rosenfeld.

Ms. Antonelli, the budget that is being presented for HUD this year has, in my view, some critical gaps. There is a 25 percent cut to the Public Housing Capital Fund, termination of both the Public Housing Drug Elimination Program and the Rural Housing and Economic Development Program. This inhibits HUD's ability to

perform its work and significantly inhibits the quality of life of many residents of HUD projects. You will have a critical role as the CFO. Can you give us some assurances that you will try to reverse these cuts and try to provide for adequate funding for some of the core programs at HUD?

Ms. ANTONELLI. Senator, obviously this budget proposal that has been put forward by the Department, I have not been involved in a significant way. But I will emphasize to you that, if confirmed as CFO, I will uphold the policies of the President of the United States, President George Bush, and Secretary Mel Martinez, in the context of the development of the budget each year.

These are the proposals that have been put forward and we look forward, the team at HUD, as we go through the finalization of this year's appropriation process and the budget process each and every year, to work very closely with you and the other Members of Congress and your staffs to engage in a dialogue on these types of programs and come to agreement, hopefully at the end of the day, about what are the right things for the Department of Housing and Urban Development to be doing and what are the most important priorities.

But certainly I support the President and I support Secretary Martinez. But as a team, we will work closely with Congress on these types of budget issues.

Senator REED. I guess we all assume, appropriately so, that once a decision has been made, that of course you will be supportive of the leadership. But within the context of forming those decisions, you will have a very critical voice. And one would hope that you would look carefully at these programs and advocate strenuously for programs that you believe are important which might otherwise, for reasons unrelated to the needs of clients of HUD, be sacrificed. I would hope that you do that.

Ms. ANTONELLI. I will do the best I can. Thank you.

Senator REED. Thank you, Mr. Chairman.

Chairman SARBANES. I would like to follow up on the very question Senator Reed was asking because I think it is important.

Looking over your writings, I don't think it would be unreasonable for one to have some concern that you would seek to cut the HUD programs, that you would come in with a mindset toward reducing these programs.

I am really prompted in part by something Senator Wyden said about Ms. Dorn when he said that she was a problem-solver, not an ideologue. And I would like to pursue that very point with you.

How fixed are you in your own view, not now, coming within the cocoon of the President or the Secretary's decision, how fixed are you in your own view about these HUD programs?

HUD has been given a mission and needs resources to carry out that mission. How do you square that?

Ms. ANTONELLI. Well, Senator, in the context of the work and the research that I have done, and previous positions that I have held, I would like to suggest to you that while some might be considered to be, and one might be considered an ideologue, I would argue that in many respects, much of the work that I have done is, in fact, with very much the intention of stimulating a public policy

debate, in an attempt to try to help solve problems, to identify problems and to solve problems.

So in the context of HUD's programs, I will not present myself as a detailed expert on these programs. But I certainly believe in looking at these programs very carefully and assessing.

Secretary Martinez has said on numerous occasions that HUD consists of several hundred programs. We should look at those programs. We should look at each and every one of them very carefully and make sure that we are accomplishing effectively HUD's core mission. And to the extent that there are areas where there is duplication or inefficiencies, that we could work better with other agencies to deliver services more effectively, and that consolidation can occur.

I think one should be open to the possibility that things can be done more efficiently, more effectively, and that in some cases big is not always better and more is not always better.

You can do a better job by taking what you have and trying to, again, make it work more efficiently and effectively.

Chairman SARBANES. Well, now, you have written two executive summaries, one entitled, "Five Good Reasons to Close Down the Department of Commerce," and another one called, "Five Reasons to Pull the Plug on the Department of Energy." I gather you like to think in terms of five.

[Laughter.]

Senator REED. She should be in the Defense Department, then, the Pentagon.

[Laughter.]

Chairman SARBANES. Now, fortunately for you, this did not get to the Department of Housing and Urban Development, I guess.

[Laughter.]

So you do not find yourself in the awkward position which our former colleague, Senator Spencer Abraham's found himself when he was nominated to be the Secretary of the Department of Energy, since he had earlier, while he was here on the Hill, called for the abolition of the Department of Energy.

That all seems to have faded from his mind now, I might note.

[Laughter.]

But this again leads me to put the question perhaps in a different way, whether you come into this job with a kind of mission in your own mind to reduce the Department. I want to distinguish that from trying to gain efficiencies, to eliminate this waste and mismanagement to which you referred back in 1988 and to which I made reference, and with which we have all been struggling and trying to do.

I am trying to get some sense of what your mission is and how open you are in your thinking, how practical and pragmatic you are going to be in your thinking as you approach these problems.

Ms. ANTONELLI. Senator, I can assure you that I am very open-minded and willing to consider all perspectives and I think I do in the context of the work that I have done.

In both of those pieces that you cited, much of what is discussed in those pieces really highlight many of the concerns at the time that piece was written, at the early stages of the implementation of the Results Act, the departments' strategic plans, their first an-

nual performance plans, which were rated by Congress to be extremely poor.

There was also legislative proposals from, I believe, the House Budget Committee, Chairman John Kasich, to look at perhaps closing down these departments.

But in the context of what was written there, much of what is encompassed in those papers really reflect very harsh criticisms that have been put forward on numerous occasions by many oversight departments like GAO or by the departments' own Inspector General, expressing serious concerns about continued wasteful spending and management deficiencies, inability to determine whether or not results are being achieved for the money that is being spent in those departments.

These pieces were meant to, again, contribute to the debate that was being held at the time and I think still continues today and is embodied in a statute like the Government Performance and Results Act that we need to take a critical look at these programs and in all honesty assess really whether they are working, as well as they should and what are the options to try to improve these programs or address these problems.

And look not only within an agency, but also across the entire Government, to the extent that there is significant duplication and overlap of programs across departments, to evaluate whether there are opportunities for consolidation.

In the conclusion of my Department of Commerce paper, I state very clearly that while one might think about a situation where there would not be a Department of Commerce, that in and of itself does not suggest that every program within Commerce is not worthwhile. It simply suggests that maybe there is some restructuring that one might want to consider and there are programs within that Department that are very valuable, that are certainly justifiable, and should be funded.

It is just a question of how Government ultimately is going to be organized most effectively to deliver those services.

Chairman SARBANES. Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman.

Well, I hope, Mr. Chairman, we have not gotten to the point where if we advocate anything other than bigger bureaucracy and more power in Washington, somehow we are an ideologue.

I think that we need to continue to look at these programs and make sure the taxpayer dollars are being well spent and that whoever the clients are for those programs are being well served.

I hope that we continue to search out ways in which we continually can improve the programs so that they do a better job of serving those clientele. And if there is a way to save taxpayer dollars in doing that, I hope that we seek out those solutions.

Mr. Rosenfeld, during your tenure in this appointed position, I think there needs to be some key performance goals on what you want to accomplish. How will the Congress know whether or not you have accomplished them?

Mr. ROSENFELD. Senator Allard, in the case of Ginnie Mae, the performance goals that may exist or that we may establish are relatively easy to determine because they are almost numerical in nature. We operate—I should say, if I am confirmed, we will operate

an enterprise that has a relatively small product line. Namely, the securitization of Federally insured mortgages.

We hope to, again, if confirmed, look at other opportunities to perhaps modestly expand that product line if, in fact, it is prudent and can be done in a business-like fashion, and will, in fact, become a significant benefit to the public.

I think that—again, if confirmed—we will set forth the goals that we have and they will be pretty transparent because there is really no way to hide from the numbers.

Senator ALLARD. Unlike Fannie Mae and Freddie Mac, Ginnie Mae securities are backed by the full faith and credit of the U.S. Government. I think this represents, at least potentially, an enormous liability to the taxpayers. As President of Ginnie Mae, what would you do to help safeguard the taxpayer dollars?

Mr. ROSENFELD. Well, as Ginnie Mae is currently structured, the risk component of our enterprise I think is well managed in that about 80 percent of the business that Ginnie Mae does is FHA-insured and in that category, the risk for Ginnie Mae is very, very slight, perhaps 1 percent. About 20 percent of our business is related to the VA programs. And there, we do have somewhat greater risk in the way of catastrophic decline in housing prices.

I think the important thing, in response to your question, is that we continue to be cognizant of the fact that the granting of the full faith and credit as a credit enhancement to any indebtedness is an enormously serious matter and should be guarded with great zeal.

I recall the past where we in this country guaranteed deposits in savings and loans. One need only live through that experience to realize the significance of a full faith and credit guarantee on an indebtedness.

Let me assure you, Senator, that I will treat with the utmost degree of seriousness, if confirmed, the extension of any sort of guarantee of full faith and credit.

Senator ALLARD. Mr. Chairman, I am finished. Thank you.

Chairman SARBANES. Thank you, Senator Allard.

Senator Reed.

Senator REED. Thank you, Mr. Chairman.

Mr. Rosenfeld, the previous Administration initiated a targeted lending initiative which gives a price break of up to 50 percent on Ginnie Mae's guarantee fee on home loans made in central cities, empowerment zones, enterprise communities, Indian lands, and other underserved areas. It has resulted in $15.5 billion in securities, representing over 160,000 mortgages.

I wonder if you are committed to continuing this effort in a very particular sense, and also in a broader sense, increased efforts to ensure that in these areas, central cities, minority neighborhoods, et cetera, that there is more homeownership.

Mr. ROSENFELD. Senator Reed, let me assure you that we have every expectation of continuing the targeted lending program. To the extent we can enhance it and improve it in a prudent manner, we would intend to do so.

Senator REED. Thank you very much.

Ms. Antonelli, let me just go back to the context of the questions that were posed by Senator Sarbanes and just ask specifically, what do you believe the mission of HUD is?

Ms. ANTONELLI. I believe that the mission of the Department is to make the lives of Americans better. What does that more specifically mean? That means to increase homeownership, which I very strongly believe is such a critical part of the American Dream. As I said in my statement, reducing homelessness and really empowering communities to enhance their economic development.

Senator REED. Do you believe that HUD is achieving that mission today?

Ms. ANTONELLI. I think that there are a lot of very good things that HUD programs accomplish to make people's lives better.

If it is wrong of me, I am frustrated where I see that programs that we have in place are not working the way they should be working and that there is money that hard-working Americans give to us in terms of their tax dollars that is not being spent to help improve people's lives. There are a lot of people who are eligible for services that today are not receiving services. And we need to understand why that is happening.

I would suggest that there are certainly problems, the nature of those material weaknesses have been highlighted and have existed for some time with HUD programs that we need to become very serious about addressing and making sure that we understand why programs are not working and how we can make them better and to make them better and to make sure, if confirmed as CFO, that we are doing the best job we can providing information to policymakers within the Administration, but also, very importantly, to Members of Congress to be able to understand what is happening with these programs, if they are achieving their intended objectives, and if they are not, what do we have to do about it?

I think there are problems that exist. And everything that has motivated me in terms of my career in public service is very much driven by a desire to make people's lives better, that they can achieve the American Dream. I am frustrated when I don't see that happening.

Senator REED. Assuming that you can work out these identified management problems, can HUD achieve its stated mission with the resources it has today?

Ms. ANTONELLI. Senator, there is still a lot that I will need to do in terms of getting in-depth into many of these programs. So it would be hard for me to say exactly to you what is an appropriate HUD budget.

But rather than the amount of the budget, I think, again, in the context of being results-oriented, are we accomplishing HUD's mission? Are we doing those things? Are we reducing homelessness? Are we increasing homeownership and helping people achieve the American Dream? Are our communities prospering? To me, if we are able to achieve those types of results and measure that concretely, then at the end of the day, that is what is most important.

And I cannot tell you what right amount of money should reflect it. It might be more than what the current budget is. It might be exactly what it is today. It might be something less. I cannot answer that for you right now.

Senator REED. It seems, though, that your response suggests that you are very clear that management issues have to be addressed. You are very clear that information issues have to be addressed.

But you have formed no conclusion, assuming you accomplish those things, whether the present resources and projected resources of HUD can deal with the mission, which is, as you put out, making the lives of all Americans better.

That is a pretty broad mission if that is the mission. And I guess my instincts are that, and I commend you and wish you well in fixing the management, it has to be done, but even a perfectly organized and efficient system to put every American in a safe and decent home, is going to require some more resources.

Thank you.

Chairman SARBANES. We want to draw this panel to a close so that we can go on to our next nominee.

Ms. Antonelli, the Committee is still waiting for answers to written questions sent to the Department from the budget hearing, the oversight hearing that Senator Allard held a while back. Could you ask the Department to get those answers to the Committee? We think enough time has intervened that we should have responses by now.

Mr. Rosenfeld, we appreciate your coming before us today and we appreciate your willingness to come back into Government and to bring your experience to bear on some of these problems.

Ms. Antonelli, I think the best way to close with you would be simply to ask you to read to us again the last paragraph on the first page of your prepared testimony. Do you still have it there in front of you, the statement you gave at the outset?

Ms. ANTONELLI. I am sorry. Which paragraph, Senator?

Chairman SARBANES. The last paragraph on the first page.

Ms. ANTONELLI. On the first page. As the daughter?

Chairman SARBANES. No, no, last paragraph. It is the one that begins: "An important part."

Ms. ANTONELLI. An important part of the American Dream is a home to call your own and a community of caring people of which you can be a part. I look forward to being a part of HUD's mission to preserve the American Dream—to empower communities and their residents to improve themselves by reducing homelessness, creating opportunities for homeownership, and encouraging economic development.

Chairman SARBANES. Let me say that I am taken by that paragraph. And as you are going to move ahead here in this process, let me say that that statement on your part given to us in your opening testimony, weighs heavily with me and we hope as time progresses we will be able to work together in order to implement those objectives.

We thank you very much for being here. We are honored that your mother was able to be present with us, and your husband. Mr. Rosenfeld, we are delighted your wife was present with us today.

We will now adjourn this panel and move on to the next one. Thank you all very much.

Ms. ANTONELLI. Thank you, Senator.

[Pause.]

Chairman SARBANES. We will now turn to our third nominee this morning, Jennifer Dorn, who is being considered for the position of Federal Transit Administrator. I want to welcome her before the Committee this morning. We look forward to working closely with

her in her new position, as I believe that transit is a vital component of our national transportation infrastructure.

We very much appreciate the two Oregon Senators coming this morning to introduce her.

I am pleased to observe that America's transit systems have experienced tremendous growth in recent years. *The Washington Post* recently ran a story entitled, "Mass Transit Rules The Roads"—this was just in April—which noted that Americans took over 9.4 billion trips in transit in the year 2000, the highest level in 40 years.

In fact, transit ridership has increased by 21 percent over the past 5 years, growing faster than the U.S. population, 4.8 percent, faster than highway use, 11 percent, faster even than domestic air travel, 19 percent.

However, this success brings new challenges. Communities across the country are realizing that transit offers a solution to many of the difficult problems facing them—moving people from welfare to work, alleviating congestion, reducing energy consumption, and safeguarding the environment. These communities are looking to the Federal Government for assistance in getting their transit systems started. These are communities that want to come into transit.

At the same time, we must protect the existing Federal investment in transit by ensuring adequate support for cities and States that are already running successful systems.

Many existing systems are reaching their capacity, as ridership has grown far beyond what the systems were originally designed to handle. This capacity crisis will become a significant problem on even more of the Nation's transit systems in the near future.

In my view, it is becoming increasingly clear that we will have to significantly increase Federal support for transit to help communities make the investments in infrastructure and system preservation that will be required to move America into the 21st Century.

This is the context in which Ms. Dorn will assume the role of Federal Transit Administrator, the Nation's lead spokesman for transit.

Ms. Dorn has an impressive background, having served in top positions in both the public and private sector, at the U.S. Departments of Transportation and Labor and at the American Red Cross and at the National Health Museum.

I am looking forward to working with her on addressing these challenges and ensuring the continued success of America's transit systems.

We are pleased to welcome her to the Committee this morning.

Ms. Dorn, if you could stand, I will give you the oath and then we can proceed to your testimony.

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

Ms. DORN. I do.

Chairman SARBANES. Do you agree to appear and testify before any duly-constituted committee of the U.S. Senate?

Ms. DORN. I do.

Chairman SARBANES. Thank you very much.

We would be happy to hear your statement. If you want to introduce your young men to the Committee, we would be happy for that to happen as well.

STATEMENT OF JENNIFER L. DORN, OF NEBRASKA TO BE FEDERAL TRANSIT ADMINISTRATOR U.S. DEPARTMENT OF TRANSPORTATION

Ms. DORN. Thank you, Mr. Chairman.

I will take the mother's prerogative, even though Senator Smith graciously introduced my two sons. Jonathan is 11—would you stand Jonathan? Benjamin is 9 today, as a matter of fact.

Chairman SARBANES. Good. Happy birthday.

[Applause.]

Ms. DORN. Mr. Chairman, I certainly agree with the thrust of your statement about the transit components of our transportation structure being so vital.

I also appreciate very much the fact that both Senator Smith and Senator Wyden would agree to come before your distinguished Committee today. I think both of them represent the hallmark of public service and have set a fine example that is in the Oregon tradition of bipartisanship.

I am very proud of that. I think it represents how working together is important in all aspects of our Government, but perhaps particularly so as we debate the issues revolving around transportation and transit.

So, I am honored to have been introduced by them and hope to live up to that kind of tradition. If I am fortunate enough to be confirmed, then that is the kind of hallmark I hope to bring to my job.

Indeed, it is an honor for me to be nominated by President Bush and a privilege to be here before you, Mr. Chairman, and this distinguished Committee.

I was very impressed and humbled by my fellow nominees' statements and reminded yet again of the importance of the opportunity to serve the public.

I was also reminded how wonderful it is to be able to have two young boys who are learning about the Government process by being here today. Ben, my younger boy, leaned over to me after one of the statements and he said, "Mommy, if they lower the tax dollars, will they lower it just for America or for the whole world?"

[Laughter.]

And so I realize how beneficial it is for our young people to know more and more about Government.

Fundamental to so much of our economic strength and the quality of life is our transportation system in this country. And an increasing component of that success is transit. If it is planned carefully and executed well, it is indeed vital to our future even more than it was in the past.

As well it should be. As you so well articulated, Mr. Chairman, transit provides economic development. It ensures livability in communities. And it also provides for the public good. That is a very important Federal role, providing for those who have no other choice but to use a transit system. It needs to be there.

I am very passionate about a number of things, Mr. Chairman, most importantly about public service, as I think my experience will attest.

I am humbled to serve President Bush and the Administration if confirmed by this body, and to serve under two outstanding transportation leaders who are far more expert than I. I have long admired Secretary Mineta and his work in the transportation field, as well as Deputy Secretary Jackson. So it would be my privilege to work with a fine team, if confirmed.

If I might, I would just take a couple of moments to indicate to you at this preliminary stage the priorities that I see for the Federal Transit Administration.

First among them, I believe, is meeting the increasing demands for transit across this country.

Second, I believe improved oversight is very critical and it also fulfills the purpose of the first goal. We need to have credible programs in order to meet that increasing need.

Third, I think the employment issue is critical for not only our FTA workforce but also our transit industry workforce. We face many challenges in terms of attracting the right kind of experts who need to understand issues of complexity when building large projects or meeting the needs of various constituent groups.

If I could just elaborate a bit on the first two.

We have seen dramatic changes in a number of our largest communities across the country, as you indicated in your opening statement, Mr. Chairman. There is a widespread recognition that transit can play an important role in the largest of communities.

As you noted, ridership is at record levels and local investment has never been higher. And that is important to all of us.

At the same time, in much of America, transit plays a supporting role in local transportation as well, providing a safety net for low-income persons, for the elderly, and for those with disabilities. And in these instances, it is my firm conviction that the Federal program is important.

Reauthorization is a critical point at which we begin to focus on these things. And if I am confirmed, I believe it is an important role that I and my team would have in terms of making sure that we bring the relevant data to the policy table.

We have had certain levels of programs and program matches and shares, and while history is an important guide, it should not be a stranglehold.

I think that one of my main tasks will be to ensure that Congress, OMB, the President, and the Secretary, get the kind of information that will allow them to make timely and relevant decisions which respond to today's and future needs. I consider transit as being a very important need.

Knowing, however, there is never enough money to do all that we wish in transit or almost in any type of Government activity, I would be eager to explore with the Committee, ways that we can better leverage our Federal tax dollars. I think there are a number of opportunities that have already been initiated in previous administrations and that need to be continued.

Innovative finance is an important arena, as are service innovations, increased intermodal cooperation, more effective implementa-

tion of technology, communicating best practices, and the effective use of the private-sector where it makes sense and where it can provide efficiencies.

I certainly intend to learn more about the factors that make some transit investments more successful than others. And that leads me to my second priority, and that is improved oversight.

GAO has indicated that perhaps the most significant management challenge for the FTA is to manage a growing number of transit projects nationwide. And the President's budget provides for an increase in that regard.

We are also engaged in planning oversight and it was through the wisdom of Congress and TEA–21 that Congress was very explicit about a rigorous review process for new starts.

I think that serves the Nation and the individual projects well. We have learned a great deal. It is my understanding that over the decades, or two decades, that these projects have been undertaken and many improvements have been made.

But I think we can always place more emphasis on a number of oversight arenas to give the public the confidence that localities have the information they need to make effective decisions.

Sometimes, from what I have been reading, the cart may come before the horse. And that is that communities may tend to define the solution, whether that solution be rail system, road, bus, rapid transit, or some other approach, before they have adequately defined the problem and identified all the alternatives.

I feel very strongly that there is an important Federal role in transit, but that the local decision is imperative and should guide us. That local decision should have transparency so that all of the alternatives are indeed addressed.

As I mentioned, the third priority, I believe like many of the Federal agencies, that the FTA faces a serious workforce challenge. And I believe that FTA, from the data that I have been given, has the oldest workforce of all of the agencies in the Department of Transportation. Nearly half of the FTA's workforce is eligible to retire in the next 4 years. The transit industry faces similar challenges in recruiting and retaining individuals of specialized skills.

I know the difficult job that many of our transit operators face in trying to meet the needs of the public in a complex environment.

With that, Mr. Chairman, I am very pleased to be able to answer any questions, or attempt to answer questions that you might have.

Thank you.

Chairman SARBANES. Thank you very much, Ms. Dorn. We very much appreciate your statement.

Actually, let me just pick right away on one of the points you made involving the local level.

FTA has joint responsibility with the Federal Highway Administration for issuing regulations to implement the planning provisions of TEA–21. In part, those planning provisions are designed to increase and clarify the role of local communities, in effect, the citizens in the development of transportation policy.

For example, there is a provision in TEA–21 which I was intimately involved with, which requires metropolitan planning organizations to provide to the public an annual listing of transportation projects which have received Federal funds. This is an effort at

transparency, of making more information available to the public so that they are in a better position to comment.

We receive reports that without guidance from the Department of Transportation, local planning bodies are uncertain how to comply with the public participation requirements of TEA–21, leading to incomplete and inconsistent compliance. Prompt issuance of final rules would obviously help transportation planners and community organizations to have access to the information they need to fully participate in the transportation planning process.

I really bring this to your attention, because I think this question of these regulations is an important question. I also think FTA could take steps to assist transit agencies in complying with the planning requirements of TEA–21, even in the absence of the implementing regulations. Are you familiar with this problem or have any awareness of it?

Ms. DORN. Yes, Mr. Chairman. In my brief tenure, that has been brought to my attention.

If confirmed, I would certainly see what kinds of assistance we might be able to give even in the absence of regulations to help provide this transparency. I am in total accord with the need of the local community understanding fully what the Federal Government programs mean for them locally, and I know this is an important matter.

I am very eager to work with the Federal Highway Administrator when he or she is appointed because I know that they have a significant responsibility in promulgating these regulations.

I do understand that they have been quite contentious and it may take a bit of time to work that out. You have my commitment, that if confirmed, I will do everything I can to move this expeditiously and to try to achieve the outcome you have suggested.

Chairman SARBANES. Thank you very much. I mean, obviously, we would like to get the regulations for the planning provisions of TEA–21 in place before we turn to the next authorization, which will be in the next Congress. Thus, we will then have a building block to work with.

Federal law requires that transit grant recipients spend a portion of their money on transit security projects, such as increased lighting, increased camera surveillance, emergency telephone lines to contact law enforcement or security personnel. Obviously, this is important to the users of transit and it is also important to the employees of the transit system.

The law gives grant recipients the option to certify to FTA that the required security expenditure is unnecessary. And I am curious as to what your view is of the steps that FTA should perhaps take to ensure that transit agencies are making adequate investments in systems security. There is some concern that it is being overlooked to some extent.

Ms. DORN. Mr. Chairman, it certainly is an important issue, particularly given the number of circumstances which have occurred locally, and I know, to a degree, in other parts of the country.

I am not fully informed about all aspects of this issue. I do know that the Federal Transit Administration has the authority, when a transit operating agency requests it, to perform a security audit.

The FTA will do its very best to accommodate the request and help ensure that those security measures are adequate.

Whether that is a sufficient authority, I am not versed enough to know, but if I am confirmed, I will certainly look into that matter. I think that security and safety are absolutely vital to continuing an increase in ridership. If people are not confident that they will be safe in transit, they will not use it, and we need them to use it.

Chairman SARBANES. I think that is a very important point. People almost sense it, or there is a word of mouth that spreads that this is a safe system to use, and obviously that attracts users, or that this system has security problems associated with it, which of course drives away users.

One very quick question, because I see that my time has now expired. As the debate begins on a new transit-highway reauthorization bill, which we are going to be leading into, will the Department or FTA, more narrowly, be conducting any listening sessions to hear more about what is needed in Federal legislation to address transit issues?

We would like you to, in a sense, make some commitment to do these listening sessions across the country. Obviously, you have to be selective. You don't have an infinite amount of time. But we think that could be very helpful, to get the input from the local authorities and others in terms of what they think ought to be in the next authorization.

Ms. DORN. I wholeheartedly agree, Mr. Chairman. It is my understanding that Secretary Mineta has indicated his desire to hold those listening sessions throughout the country. And I can assure you that, from my vantage point, it is important to not only participate in those formal sessions, but also I view a large part of my job to be a listener, informally as well, to members of the transit community, to the labor community, and to the community leaders who have responsibility for transit. I think it is an important job, especially in light of the upcoming reauthorization.

Chairman SARBANES. Good.

Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman.

I would like to welcome Ms. Dorn.

Ms. DORN. Thank you.

Senator ALLARD. We appreciate your willingness to take on the responsibilities as FTA Administrator. More specifically, I would like to know what you will do to promote opportunities for the private sector, to be involved in transit service.

I am particularly interested in whether or not you would support reestablishing the Office of Private Sector Initiatives within the Department of Transportation.

Ms. DORN. Thank you, Senator Allard.

Few things are more important outside of delivering service to the public in an effective manner than that we do so in a cost effective manner, as well. And I think in certain instances, and perhaps in more instances than we actually practice, utilization of the private sector is very important.

It would be premature for me to say to what degree or in what programs we should enhance that participation. I am fully aware

that the law requires us to do that in the Federal Transit Administration. And if I am confirmed, that will be one of my first areas of endeavor, to see how is it that we can improve the service through efficiencies that I think have been demonstrated where private-sector contracting, for example, is utilized. Where it makes sense, it works well. And so I would be eager to work with the Committee on that, if confirmed.

With respect to the organization of the Federal Transit Administration, I have not yet had an opportunity to look at the boxes, so to speak. I can tell you from my experience in Government and my personal perspective in leadership that even if a box is not created for a certain endeavor, if it has the priority of the Administrator and the Secretary and his or her team, and that is well known, that this can be as effective a tool as any kind of organizational structure.

So, I would just not want to be tied into that structural piece. But you would have my firm assurance that I will do everything I can to make sure that we can make our systems even more cost effective.

Senator ALLARD. I would certainly appreciate that. I have been concerned for some time about the mass transit funding formulas. It goes clear back to when Senator Alfonse D'Amato was actually Chairman of the Committee here, representing a large metropolitan area. I represent a State that is a rapidly growing State, and there are many parts of the country that find themselves in rapidly growing areas where they want to look at mass transit as an alternative kind of way of getting to work and getting around in their communities and find that the formula has made that difficult for them to even get started. I worked with Senator D'Amato on the last transportation bill to get some more money available for these new systems.

I think we want to be sensitive to these areas of the country that already have existing systems. I don't think we want to cut into their maintenance and operation and what they need.

But I am disturbed when I see how much goes just to a few cities and it seems like the rest of the country gets left out. And many times, that is where the new revenue is coming in, from these other parts where there is more growth and whatnot.

I would hope that you would be willing to work with me on trying to find fair and more equitable ways to distribute some of those mass transit dollars.

Ms. DORN. Absolutely, Senator Allard. I know that this will be an issue of hot contention, as we proceed in reauthorization.

From the perspective of the Federal Transit Administration, I recognize very clearly that there are various ways to define need, and in fact, need is the basis on which the formulas have been established in statute.

I certainly recognize, as you and I have discussed previously, that maintaining the existing systems in urban areas is a critical need, as is addressing those kinds of needs in new and rapidly growing areas, such as in the Southwest. Rural needs are equally as important.

So working with Congress to see how we can equitably meet all of those needs is a priority.

I recognize that in this case, equity is really in the eye of the beholder. That means that we will have to do a certain amount of compromising, recognizing that we don't have all of the funds that we may need. But my goal would be as yours is, to make sure that we have an equitable distribution so that transit throughout the Nation can continue to be successful.

Senator ALLARD. All I ask is that you look through the eye of this beholder.

[Laughter.]

Thank you, Mr. Chairman.

Chairman SARBANES. Now, we will turn to the eye of another beholder.

[Laughter.]

Senator Reed.

Senator REED. Thank you, Mr. Chairman.

Let me first say, Ms. Dorn, that if the Federal Transit Administration behaves under your tenure, as well as your sons, we will be in good shape.

[Laughter.]

This is even worse than church—there is no music.

[Laughter.]

Ms. DORN. It is the promise of McDonald's afterwards.

Senator REED. Well, promise us lots of transit projects and we will all get along great.

[Laughter.]

Let me just ask initially two basic questions. Currently, under TEA–21, there is an 80–20 split between highways and transit. And as we go forward with the reauthorization, would you suggest or advise that this split be maintained or that there be any changes made?

Ms. DORN. Mr. Chairman, I believe that it would be premature to comment definitely. However, if I could just give you my philosophical perspective.

Historically, as you have rightly point out, the 80–20 share has been established in law and guaranteed, in fact, under the highway trust fund.

Certainly, as in the allocation formula that Senator Allard just mentioned, the issue of the share will be of significant debate, as it has been in the past.

I am a firm believer that history should be a guide, but history should not be a stranglehold. I believe it is very important that if I am confirmed as the Federal Transit Administrator, I make sure as much data are available for decisionmakers to determine this issue based on need, rather than strength of an ideology or strength of a lobbying group.

And I wholeheartedly believe that the highway industry, as well as the transit industry, is interested in having an adequate transportation program. So it will remain to be seen whether that match or that share continues as it is. But my job, I believe, is to provide the information so a useful debate can occur and decisions made on the merits.

Senator REED. Thank you.

Another aspect of this issue of allocation is that within the transit programs, the Administration has proposed a 50–50 split on funding a share between the States, localities, and the Federal Government. This is in contrast to the highway projects in which they are still suggesting an 80–20 split.

First, this raises an obvious issue of those projects which States will not undertake because they cannot come up with a 50–50 match.

Second, it is a philosophical issue. At a time when everyone, and my colleague, Senator Allard, who I concur with in terms of trying to encourage mass transit, seeing out in Denver where they can build highways, but that doesn't help them in their environmental quality and, indeed, moving people around.

And yet, if we adopt this approach where States are penalized more, effectively, for transit projects than highway projects, I think it would be indeed a mistake. I wonder if you might respond to that as best you can.

Ms. DORN. Thank you, Senator. I would be happy to.

I certainly support the President's proposal for a 50–50 match at this point. As you are well aware, it commences in the year 2004. The purpose was to give the States and the localities an opportunity to plan. I would point out a couple of things, however, with regard to that.

First of all, the current legislation permits a Federal 80–20 match. However, in practice, it is my understanding that the average share is about 50 or 53 percent, Federal-local. The purpose of this 50–50 split, as I understand it, is to accomplish two goals. One is to encourage greater local transportation investment and involvement. Two, and perhaps even more compelling, is to provide a better leverage for limited Federal funds.

The reality of this situation, as I understand it, is that we have 192 projects that are authorized and in the pipeline. And of the $9.6 billion, we have only $435 million remaining to be committed, through the end of the authorization.

This is of concern to the Administration. So that is why we gave the heads-up for the year 2004.

I would, however, be eager to work with the Committee because I believe there are a variety of ways, of means that we can accomplish these goals. I know that we can work with the State and local leaders in the interim to explore alternative funding as well.

I think this issue will be terribly critical as we approach reauthorization and the timing of reauthorization is commensurate with the timing of the 50–50 proposal.

Senator REED. Thank you very much. Again, one way to deal with the dilemma is to put more resources in so that we can fully fund at an appropriate 80–20 or whatever the share is, without resorting to this 50–50 arrangement.

Again, I don't think I am alone, but my governor and my highway department and my transit departments complain bitterly now about making the 20 percent match for highway projects, and whatever match there is in terms of saying, they just don't have the resources, but they have the real demands to fix highways and improve transit.

We look forward to working with you, Ms. Dorn.

Ms. DORN. Thank you very much, Senator. I do, too.

Chairman SARBANES. I just want to pick up on that. I think this is an extremely important issue. It won't come to a head until we do the next reauthorization.

It is one policy issue if the Federal Government says, or the Administration says, we want to give only 50 percent on these transportation projects, transit and highways. And we want the States and localities to come up with more money.

Now that raises, obviously, certain issues that have to be addressed. An argument for it is the Federal money will go further. An argument against is the States and localities say, where is the money going to come from? But at least that approach keeps transit and highways in the same parallel position.

It is another thing if the Administration says, we want to cap the transit share at 50 percent, but we are going to continue the highway share at 80 percent.

One of the things that we have worked very hard at over the years is to try to put them, highways and transit, in an equivalent position and certainly to eliminate tipping the scale in a way that a locality would decide how to meet their transportation needs, not on the basis of all of the factors that go into transportation, environment, how you move people and so forth, but the fact that they get 80 percent Federal money if they go in one direction, and under the proposal, would get only 50 percent if they go in a different direction.

So, I think as a transit administrator, you have to be very sensitive to the difference in those two approaches because if we go to 50 percent transit while we stay with 80 percent highway—I might want to stay with 80 percent with both. Or you could go to 70 percent with both. You can work that, but you would keep it even.

You have another situation, if you change the dynamics of choice that the local people are confronted with. We have worked very hard to try to get them on a parallel basis so that the decisions can be made on transportation-related criteria, and not on the basis of which approach gives us the most Federal money.

Ms. DORN. May I respond?

Chairman SARBANES. Yes.

Ms. DORN. Mr. Chairman, I agree substantively with your point and the disparity is in fact a puzzle to me. But I have not had the opportunity to hear the highway perspective. I think we will probably, if I am confirmed, have some interesting discussions. I think that this is an advantage of Secretary Mineta's strong feeling about the "one D.O.T."

We cannot afford, for the benefit of all of the local communities which the Federal Government serves, to look at these issues in silos and to perhaps unintentionally skew the local choices.

I look forward to working with you and I hope that we can come to some accommodation. I believe we share the goal to increase effective transit programs and that is an important thing for the future of this Nation. I pledge to you that I will work very hard on that issue.

Chairman SARBANES. Ms. Dorn, the fact that in practice it is not always at 80 percent, in my view, is not decisive because the fact that it could be at 80 percent, on occasion, it is used in order to

make the localities able to move with the project. And the fact that it can be used at 80 percent does keep some parity with the highway money.

I do know that in practice, the localities have been willing to come up with more money in order to move transit projects, which gives some indication of the importance that they attach to these transit projects.

I have just a couple of questions.

Many in the transit industry credit TEA–21's funding guarantees with reinvigorating the transit program in America. The guarantees have given transit planners a measure of certainty that the Federal Government will stand by promises made in TEA–21. In an industry where capital improvements often require years to complete, some level of certainty about the funding stream is essential. What is your view on a guaranteed funding stream and its importance for transit?

Ms. DORN. My view, Mr. Chairman, is that this mechanism has been terribly important to States and localities in terms of their assurance that there is some level of stability in terms of the funding. It allows the States and the localities to, in fact, plan. I think that in turn provides an effective leverage of Federal funds.

Under reauthorization, I know that I, like the Secretary, will work with OMB and the Congress to do everything we can to ensure that we provide the necessary funding levels.

I would also note that the President has indicated that all of the revenue generated by the Federal gas tax should be used for transportation purposes. And it seems that the funding mechanism has been an excellent way to help ensure that that comes about.

Chairman SARBANES. Finally, as I think you are aware, many of our national parks and other public lands are experiencing greatly increased visitation. In 1975, the total number of visitors to America's national parks was 190 million. By 1999, that number had risen to 287 million. And it is climbing. This record number of visitors, which has brought a record number of cars, has resulted in increasing stress on our national parks. Obviously, congestion detracts from the visitor's experience, contributes to the degradation of the natural and historical and cultural resources.

There are reports of people waiting in their car, inching along, 5, 6 hours, in order to get into a national park—Yosemite or Grand Canyon or whatever it may be.

I want to work with you. I have the intention of introducing legislation, Transit in the Parks, designed to help our parks and our public lands address these problems. And it would undertake to provide Federal assistance to support the development of alternative transportation in these sensitive areas.

In other words, people would drive to a marshaling area outside of the national park and then leave their automobile or trailer or whatever there and then be transported into the national park through some form of mass transit.

There are lots of possibilities. Some of the national parks are already experimenting with this. We will be in touch with you as the Administrator to involve you in that effort. It is not right at the core of what you do, but I think it is becoming an increasingly im-

portant challenge. And there is a lot of receptivity to it, including, interestingly enough, there are a number of States who don't have the kind of urban population that calls for a transit system to move people back and forth to work. But they do have within those States some of these major national parks, which are increasingly confronted with this problem.

Actually, I have talked to some of my colleagues who normally do not focus on mass transit at all because they do not see it as relevant to their State, who now see that this would offer an opportunity to enhance this park experience and to enhance the economic development that is associated with those national parks.

I just want to say, we look forward to trying to work with you on that problem. I think, if I were going to be an Administrator of the FTA, it would be an initiative I would be interested in because, in a sense, it would be sort of historic. It would be a new breakthrough and it would give you a wonderful reason to take your two young men and visit these national parks across the country. So it could be a good summertime experience there.

[Laughter.]

Ms. DORN. I totally agree, Mr. Chairman. Notwithstanding even that personal sort of benefit, as an Oregonian I have spent many a weekend in national parks and national forests.

I commend you for your strong interest in this and I look forward to working with you. It is my understanding that FTA has provided technical assistance to different parks which are seeking to make transit opportunities more available. I am proud that we have already done that. I know that you have mandated a study through TEA–21, which I have not had the opportunity to read, but I believe that it is working its way through the Department and the Administration. It is currently under review.

I am proud and personally delighted that the President also has undertaken an initiative to upgrade and improve the maintenance of these national treasures. I will be eager to work with you on that matter. It is important.

Chairman SARBANES. Good. I will close with this observation.

Your career has been quite a distinguished one, including, of course, the number three position in the Department of Transportation at an earlier time, when Mrs. Dole was the Secretary. But you have also worked with, of course, Senator Hatfield. I don't know that you could come before the Members of the Senate with a better connection, as it were, than to have been associated with Mark Hatfield, for whom we have tremendous respect and affection and who was such a distinguished and able member of this body. And of course, you later worked with Elizabeth Dole, for whom we also have very high respect.

Ms. DORN. I have been very fortunate in my career to have wonderful mentors.

Chairman SARBANES. Yes.

Ms. DORN. I feel privileged.

Chairman SARBANES. We are pleased to have you here before us. We will try to move your nomination along.

I think you heard me earlier when I indicated we still have not been able to fully constitute the Committee. So action is actually

awaiting that, and once that is done we hope to move you along and get you down to the Department of Transportation and get you working.

Ms. DORN. That would be great. Thank you.

Chairman SARBANES. Thank you very much.

The hearing is adjourned.

[Whereupon, at 11:58 a.m., the hearing was adjourned.]

[Prepared statements, biographical sketches of the nominees, and response to written questions follow:]

PREPARED STATEMENT OF SENATOR WAYNE ALLARD

I would like to thank Chairman Sarbanes for holding this hearing. It is important that we get vacant positions filled as quickly as possible, and I appreciate his expediency in scheduling hearings. It is my hope that this Committee can work with the White House to quickly fill the remaining positions.

As the Ranking Republican on the Housing and Transportation Subcommittee, I am particularly pleased that we will have a chance to hear from our witnesses today. Although housing and transportation are sometimes the forgotten issues of this Committee, I believe that they are some of the most important. Housing and transportation matters touch the everyday life of every citizen, and our nominees today understand that responsibility. I believe that they are all well qualified and will be assets to the Department of Housing and Urban Development and the Federal Transit Administration.

It is especially important that we get very good people at HUD. Most of HUD's programs are still designated as "high-risk" by GAO, so HUD needs leaders who can take the actions necessary to turn HUD around. There are also important responsibilities at the FTA. As more communities face a transportation crunch, the responsibilities of the FTA and its Administrator will increase.

I would like to conclude by saying welcome to our witnesses today. I look forward to your testimony, and I look forward to working with you on matters important to the people of Colorado.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Antonelli (Last) Angela (First) _____ (Other)

Position to which nominated: Chief Financial Officer Date of nomination: May 16,2001

Date of birth: 4 (Day) 8 (Month) 1963 (Year) Place of birth: Lowell, Massachusetts

Martial Status: Married Full name of spouse: Michael David

Name and ages of children: no children

Education:	Institution	Dates attended	Degrees received	Dates of degrees
See Attachment 1				

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.

See Attachment 1

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

Organization	Office held (if any)	Dates
See Attachment 1		

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

See Attachment 1

Government experience:

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

See Attachment 1

Published Writings:

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

See Attachment 2

Political Affiliations and activities:

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

See Attachment 3

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

See Attachment 3

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

See Attachment 3

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.

See Attachment 3

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.

See Attachment 3

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

See Attachment 3

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

See Attachment 3

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 .

See Attachment 3

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

See Attachment 3

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

See Attachment 3

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.

See Attachment 3

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

See Attachment 3

Civil, criminal and investigatory actions:

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

See Attachment 3

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

See Attachment 3

ATTACHMENT 1
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HUD-CFO Designate

Education

Institution	**Dates Attended**	**Degrees Received**	**Dates of Degree**
Rockland High School Rockland, MA	1977-1981	Diploma	1981
Cornell University Ithaca, NY	1981-1985	B.A.	1985
Princeton University Princeton, NJ	1985-1986 1987-1988	M.P.A.	1988

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.**

- OMB Division Award, 1993
- OMB Professional Achievement Award, 1992
- OMB Award for Special Performance, 1991
- U.S. GAO special project recognition, 1988
- Herman M. Somers Prize for Best Advanced Policy Paper, Princeton, 1988
- Princeton University scholarships
- *summa cum laude*, Cornell, 1985
- Phi Beta Kappa, Cornell, 1985
- Cornell University scholarships
- Cornell Tradition Fellow, 1983-1985
- Cornell National Scholar, 1981

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

Organization	Office Held	Dates
Great Falls Women's Club	none	2000
National Italian American Foundation	none	1999-2000
Women in Housing and Finance	none	approx. 1996-1997
Princeton Club of Washington	none	early 1990s
Cornell Club of Washington	none	early 1990s
Regency Sport & Health (VA)	none	1996-2001
Washington Sport & Health (DC)	none	1995-1996

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

- The Heritage Foundation, Director, The Thomas A. Roe Institute for Economic Policy Studies, 1995-2001, Washington, DC
- Lewin-VHI, Inc., Senior Associate (consultant), 1993-1995, Fairfax, VA
- U.S. Office of Management and Budget, deputy branch chief, 1991-1993, Washington, DC
- U.S. Office of Management and Budget, policy analyst, 1990-1991, Washington, DC
- U.S. General Accounting Office, auditor, detailed to the U.S. Office of Management and Budget, December 1989-March 1990, Washington, DC
- U.S. General Accounting Office, auditor, detailed to Senate Committee on Labor and Human Resources, May-November 1989, Washington, DC
- U.S. General Accounting Office, auditor, 1988-1990, Washington, DC
- New Jersey Department of Education, research analyst, 1986-1987, Trenton, NJ
- Office of the Governor of New York, press office intern, spring 1986, New York, NY
- Massachusetts Port Authority, intern, summer 1985, Boston, MA

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Employment Record (continued)

- Cornell University, Department of Government, research assistant, 1983-85, Ithaca, NY
- Cornell University, College of Arts & Sciences Admissions Office, administrative assistant, 1982-83, Ithaca, NY
- Cornell University, Computer Science Department, administrative assistant, 1981-82, Ithaca, NY

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

- President's Commission on White House Fellowships 2001
- U.S. Office of Management and Budget 1990-1993
- U.S. General Accounting Office 1988-1990
- U.S. Senate Committee on Labor and Human Resources 1989
- New Jersey Department of Education 1986-87
- Office of the Governor of New York 1986

ATTACHMENT 2
Committee on Banking, Housing and Urban Affairs
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Published Writings: List the titles, publishers and dates of books, articles, reports or other published material you have written.

Heritage Foundation Publications

Antonelli, Angela. "Improving Regulatory Decisions to Enhance Safety, Health, and Innovation." In *Priorities for the President*, Washington, D.C.: The Heritage Foundation, 2001.

_____. Road to The Hague: A Desperate Effort to Salvage a Flawed Climate Change Treaty, The Heritage Foundation *Backgrounder* No. 1401, November 17, 2000.

_____. "Lessons from the Atlanta Experiment." In *A Guide to Smart Growth: Shattering Myths, Providing Solutions*, Washington, D.C.: The Heritage Foundation, 2000.

_____. "How to Sustain Prosperity In An Era of Budget Surpluses." The Heritage Foundation *Executive Memorandum* No. 657, March 1, 2000.

. "Regulation: Demanding Accountability and Common Sense." In *Issues 2000: The Candidate's Briefing Book*, Washington, D.C.: The Heritage Foundation, 2000.

_____. "The Environment: Promoting Community-Based Stewardship." In *Issues 2000: The Candidate's Briefing Book*, Washington, D.C., The Heritage Foundation, 2000.

_____, and Dunlop, Becky Norton. *Water Quality Problems and Solutions: A View from the States*, Washington, D.C.: The Heritage Foundation, 1999.

_____. "The Levin-Thompson Proposal: How Regulatory Improvement Veers Off Track." The Heritage Foundation *Backgrounder* No. 1336, November 1, 1999.

_____. "Preserve the Public's Right to Know About Federally Funded Research." The Heritage Foundation *Executive Memorandum* No. 604, June 7, 1999.

ATTACHMENT 2 (continued)
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_____. "Regulatory Right to Know: Tracking the Costs and Benefits of Federal Regulation." The Heritage Foundation *Backgrounder* No. 1274, April 20, 1999.

_____. "The Senate's Opportunity to Shine A Light on Proposed Federal Mandates." The Heritage Foundation *Backgrounder* No. 1267, April 2, 1999.

_____. "Regulation." In *Agenda '99: A New Vision for America.* Washington, DC: The Heritage Foundation, 1999.

_____. "The One Percent Budget Showdown: Clinton's Veto Threats in Perspective." The Heritage Foundation *Backgrounder* No. 1224, October 7, 1998.

_____. "Two Years and 8,600 Rules: Why Congress Needs An Office of Regulatory Analysis." The Heritage Foundation *Backgrounder* No. 1192, June 26, 1998.

_____. "Results Act Hands Congress Five Reasons to Pull the Plug on the Department of Energy." The Heritage Foundation *Backgrounder* No. 1191, June 16, 1998.

_____. "Five Good Reasons to Close Down the Department of Commerce." The Heritage Foundation *Backgrounder* No. 1181, May 20, 1998.

_____. "Regulation." In *Issues '98: A Candidate's Briefing Book.* Washington, D.C.: The Heritage Foundation, 1998.

_____. "Can No One Stop the EPA?" The Heritage Foundation *Backgrounder* No. 1129, July 8, 1997.

_____. "H.R. 478: Ensuring that Humans also are a Protected Species." The Heritage Foundation *Executive Memorandum* No. 478, May 7, 1997.

_____. In *Balancing America's Budget*, Scott Hodge, editor. Washington, D.C.: The Heritage Foundation, pp. 141-151.

_____. "Needed: Aggressive Implementation Of The Congressional Review Act." The Heritage Foundation *F.Y.I.* No. 131, February 19, 1997.

ATTACHMENT 2 (continued)
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_____. "Government's Hidden Tax: Time to Account for the Hidden Cost of Regulation." The Heritage Foundation *Executive Memorandum* No. 459, September 10, 1996.

_____. "How the 104th Congress Cut Red Tape and Returned Common Sense to Regulation." The Heritage Foundation *F.Y.I.* No. 116, August 9, 1996.

_____. "Regulation." In *Issues '96: The Candidate's Briefing Book.* Washington, D.C.: The Heritage Foundation, 1996.

_____. The Dole-Johnson Bill: A Setback for Regulatory Reform?" The Heritage Foundation *Issue Bulletin* No. 210, June 28, 1995.

_____. "Congress, Not Clinton, Supports the End of Corporate Welfare." The Heritage Foundation *Backgrounder Update* No. 253, June 16, 1995.

Antonelli, Angela and Sperry, Peter, editors, *A Budget for America*, Washington, D.C.: The Heritage Foundation, 2001.

Antonelli, Angela and Schaefer, Brett. "Why the Kyoto Signing Signals Disregard for Congress." The Heritage Foundation *Executive Memorandum* No. 559. November 23, 1998.

_____, and Schaefer, Brett D. "From Fear to Folly: Why the Kyoto Agreement is 'A Very Bad Deal'." The Heritage Foundation *Backgrounder Update* No. 289, December 23, 1997.

_____, Schaefer, Brett D., and Annett, Alex F. "The Road to Kyoto: How the Global Climate Treaty Fosters Economic Impoverishment and Endangers U.S. Sovereignty." The Heritage Foundation *Backgrounder* No. 1143, October 6, 1997.

_____. and Freeman, Geoffrey. "Warning: Expect Bad Results from the Results Act Without Congressional Oversight." The Heritage Foundation *Backgrounder* No. 1141, September 30, 1997.

ATTACHMENT 2 (continued)
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_____. and Thierer, Adam. "Rethinking Regulation." In *Mandate for Leadership IV: Turning Ideas Into Actions*, Washington, D.C.: The Heritage Foundation, 1996.

Antonelli, Angela and Shortridge, Christiana. *Why America Needs a Tax Cut.* Washington, D.C.: The Heritage Foundation, 1996.

_____; McIntosh, Hon. David; Smith, Fred; and Graham, Dr. John; "Making Regulatory Reform a Reality." The Heritage Foundation *Heritage Lecture* No. 559, January 31, 1996.

Butler, Stuart M. and Antonelli, Angela. "Why Congress Should Consider Alternatives to Raising the Minimum Wage." The Heritage Foundation *Executive Memorandum* No. 627, September 30, 1999.

Dudley, Susan and Antonelli, Angela. "Shinning a Bright Light on Regulators: Tracking the Costs and Benefits of Federal Regulation." The Heritage Foundation *Backgrounder* No. 1142, September 30, 1997.

Wilson, D. Mark and Antonelli, Angela. "Tapping Oil Reserves Won't Solve America's Risky Energy Dependency." The Heritage Foundation *Executive Memorandum* No. 697, September 27, 2000.

Wilson, D. Mark and Antonelli, Angela. "Overtaxed at the Pump: What's Behind High Gas Prices." The Heritage Foundation *Backgrounder* No. 1386, July 19, 2000.

Wilson, D. Mark; Shokraii, Nina S.; and Antonelli, Angela. "Labor-Health-Education Appropriations: Eliminating Waste and Enhancing Accountability." The Heritage Foundation *Backgrounder* No. 1212, August 7, 1998.

Wilson, D. Mark and Antonelli, Angela. "How to Raise Take-Home Pay Without Jobs." The Heritage Foundation *F.Y.I.* No. 102, May 17, 1996.

VanHelmond, Gregg and Antonelli, Angela. "Why CARA Is Fiscally Irresponsible and a Threat to Local Land Use Decisions." The Heritage Foundation *Backgrounder* No. 1370, May 9, 2000.

ATTACHMENT 2 (continued)
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Op-Eds

Antonelli, Angela. "Global Warming's Hot Air Balloons." *The Washington Times*, December 12, 2000.

_____, and Wilson, D. Mark. "Gassed and Going Up." *The Washington Times*, September 15, 2000.

_____. "The Right Way to Use the Surplus." *Knight-Ridder/Tribune News Service*, March 15, 2000.

_____. "The road from Kyoto promises all pain, no gain." *Knight-Ridder/Tribune News Service*, December 3, 1997.

_____. "What Am I Doing Here?" *The Washington Times*, October 3, 1997.

_____. "Ogre with Unaccountable Spending Ways Unfinished Fund Business." *The Washington Times*, March 6, 1996.

Other Papers

Antonelli, Angela. "Reversing the Clinton Administration's Top Ten Dangerous Regulatory Trends." The Federalist Society. *Administrative Law and Regulation News*, Fall 2000.

_____. "Reining in the Regulatory State." *Environment News*, August 1999.

_____. "Federal Court Overturns EPA Air Quality Standards." *Environment News*, July 1999.

_____. "The 1993 Results Act: What are the Results?" *Regulation*, Vol. 21, No. 3, 1998.

ATTACHMENT 2(continued)
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_____. "1998 Legislative Outlook for Regulatory Reform. Why the Regulatory Improvement Act (S. 981) Is Not Enough." The Federalist Society. *Administrative Law and Regulation News*, Summer 1998.

_____. "The U.S. Economic Outlook for 1998." Samsung Economic Research Journal, 1998.

_____. Endangered Species Act Reform. *Weekly Standard*, July 1997.

_____."Promises Unfulfilled: Unfunded Mandates Reform Act of 1995." *Regulation*, No. 2, 1996.

_____. "The U.S. Paperwork Reduction Act After Fifteen Years." Presented to Meeting of the Organization for Economic Cooperation and Development (OECD) on Curbing Regulatory Inflation, Paris, June 15, 1995.

Antonelli, A.M.: *New Jersey's Plan to Intervene in Deficient School Districts: The Threat to School Improvement*, published working paper of the Council of New Jersey Affairs, Princeton University, Princeton, New Jersey, January 1990.

Atlas, Robert F. and Antonelli, Angela. "Medicare: The Next Market Opportunity For Managed Care?" *Journal of Compensation and Benefits*, July/August 1995.

Dudley, Susan and Antonelli, Angela. "Congress and the Clinton OMB: Unwilling Partners in Regulatory Oversight," *Regulation*, Vol. 20, No. 4, 1997.

Fowler, W.J. and Antonelli, A.M.: *Predicting School Budget Elections and Voter Participation*, paper presented at the American Educational Research Association Annual Meeting, Washington, D.C. April 24, 1987.

Fowler, W.J., Antonelli, A.M., and Persely, C.P.: *Have We Been Wrong? Comparing the Effects of District Property Wealth and Socioeconomic Status on Expenditures and Teachers' Salaries*, presented at the American Educational Research Association Annual Meeting, Washington, D.C., April 23, 1987.

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Political Affiliations
And activities: Republican party volunteer, Fall 2000

Political contributions: $500 Bush for President, 2000
$500 Allen for Senate, 2000

Qualifications: I have more than 15 years of experience with policy, budget, and regulatory research and development, 13 of those years in Washington, D.C. I also have more than 10 years experience as a manager with responsibility for strategic planning, budgets, staff and projects. As the CFO for the U.S. Department of Housing and Urban Development, I would bring to the position experience working for many of the government organizations that interact with this position, including the Congress, the U.S. General Accounting Office, and the U.S. Office of Management and Budget. As a deputy branch chief at OMB, HUD was one of the departments in my policy portfolio. In addition, as the Director for Economic Policy at The Heritage Foundation, I addressed a wide array of budget, tax and regulatory policies and general government reform issues, such as the implementation of the Government Performance and Results Act. Between 1997 and 1999, I was asked to testify before Congress six times. As the CFO for HUD, I will contribute strong policy development, research, analytical, communication and project management skills.

Future Employment
Relationships:

1. I will sever all connections with my present employer, The Heritage Foundation, if confirmed by the Senate.
2. I have no plans after completing government service to resume employment with my previous employer.
3. No one has made a commitment to me for a job after I leave government.
4. I expect to serve the full term for the position for which I am appointed.

ATTACHMENT 3 (continued)
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Potential Conflicts
Of Interest:

1. I have no financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients, or customers who will be affected by policies I will influence in the position for which I have been nominated.
2. I have no investments, obligations, liabilities or other relationships which might involve potential conflicts of interest with the position to which I have been nominated.
3. I have had no business relationship, dealing or financial transaction (other than tax paying) during the last 10 years with the Federal Government that might in any way constitute or result in a possible conflict of interest with the position to which I have been nominated.
4. I have not been involved in any lobbying activity during the past ten years.
5. I have no conflict of interest issues to resolve.

Civil, criminal and
Investigatory actions:

1. There are no civil or criminal proceedings in which I was a defendant and the only investigation by any Federal, state, or local agency that I was the subject of has been FBI background investigations for Federal positions (as an OMB employee and now as a nominee).
2. I have not been the subject of any proceeding, inquiry or investigation by any professional association.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Rosenfeld (Last) Ronald (First) Allan (Other)

Position to which nominated: President - Government National Mortgage Association (Ginnie Mae) Date of nomination: May 23, 2001

Date of birth: 23 (Day) 4 (Month) 39 (Year) Place of birth: Cleveland, Ohio

Martial Status: Married Full name of spouse: Joan Patricia Rosenfeld

Name and ages of children: Philip R. Rosenfeld - 37
Laura R. Barnes - 35
David M. Rosenfeld - 31

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Wharton School Univ. of Pennsylvania	9/57 - 6/61	B.S. Economics	6/61
Harvard Law School	9/61 - 6/64	J.D.	6/64

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.

Beta Gamma Sigma (Honorary Society)
1992 Joseph Wharton Award - Presented by the Wharton School Club of Washington.
Distinguished Service Award - Presented by the Wharton Alum Association - May 14, 1994.
Adjunct Professor of Management - The College of Business Administration of Oklahoma State University

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

Organization	Office held (if any)	Dates
Alpha Epsilon Pi Fraternity		1958-61
National Association of Home Builders		1967-75
Washington Hospital Center Foundation Board		1998-01
Pacem in Terris Institute		1999-01
Wharton School Board of Overseers		1989-present

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

1965-67 Willow Shore Builders, Inc. - Vice President - Cleveland,
This company engaged in the business of land developmen
and home building.

1968-75 Multiplex, Inc. - President - Cleveland, OH
Developers and managers of apartment complexes and condominiums.

1976-81 Zappala & Co./FRA Associates - Partner - Pittsburgh, PA
These companies engaged in investment banking and the development of shopping centers.

1982-88 Prescott, Ball & Turben - Exec. Vice Pres. - Cleveland, OH
This investment banking company was a wholly owned subsidiary of Kemper Financial Corp.

1989-91 Department of Housing and Urban Development- Washington, D
Deputy Assistant Secretary for Single Family Housing
Acting Deputy Assistant Secretary for MultiFamily Housi
General Deputy Assistant Secretary for Housing - Federa
Housing Commissioner

1992 Department of the Treasury - Washington, DC
Deputy Assistant Secretary for Corporate Finance

1993 NHP - Executive Vice President - Washington, DC
This company was one of the largest managers of apartments in the country.

1995-98 State of Oklahoma - Secretary of Commerce - Oklahoma City,

Government experience:

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

Department of Housing and Urban Development
Deputy Ass't Sec. for Single Family Housing
Acting Deputy Ass't Sec. for MultiFamily Housing
General Deputy Ass't Sec. for Housing - Federal Housing Commissioner

Department of the Treasury
Deputy Ass't Sec. for Corporate Finance

State of Oklahoma
Chairman- Governor's Commission on Government Performanc.
Secretary of Commerce

Published Writings:

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

None

Political Affiliations and activities:

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

Member of Republican Party

I have never held an office in a political party nor have I rendered service to an election committee.

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

See Exhibit "A" attached hereto

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

See Exhibit "B" attached hereto

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate. I don't believe that I have any connections with an employer, business firm, association or organization in the context that I understand the question. I cannot sever all connections with entities in which I have a passive investment, e.g., limited partnerships or limited liability companies, etc. However, if confirmed by the U.S. Senate, I will divest myself of any interest deemed to be a conflict.

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 - except as to relationships described in the answer to the preceeding question.

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

No

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

Yes

Potential conflicts of interest:

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

None

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

The Office of General Counsel at HUD has determined that a potential conflict of interest exists with my holdings in PNC Financial Services Group; Bank of America; Cornerstone Housing, LLC; a King County, Washington Housing Authority Tax-free Bond which is collateralized by Ginnie Mae; and South Park Apartments in Pittsburgh, PA.

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

None

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

None

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

If I am confirmed by the U.S. Senate, I will divest my interest in the entities referenced in item #2 of this section within 90 days of my confirmation.

Civil, criminal and investigatory actions:

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

I am not now nor do I recall being a defendant in any civil or criminal proceedings (except for my divorce in 1976).

The only investigation I am aware of is a security and background check relating to my previous employment in the Federal Government.

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

None

Exhibit "A"

Political Contributions

Year	Date	Contribution	Donee
1993	3/10	$ 5,000	Keating for Governor
1994			
1995	8/29	1,000	Dole for President
	9/10	500	Oklahoma Republican Party
	10/15	1,000	Lazio for Congress
	11/19	500	Oklahoma Republican Party
	11/27	500	Lucas for Congress
1996	1/12	100	Charles R. Ford Senatorial Committee
	7/9	500	Friends of Congressman Mike Forbes
1997	3/6	5,000	Keating for Governor
	3/7	2,000	Friends of Senator Nickles
	7/1	2,000	Lazio for Congress
1998	2/19	1,000	Simonson for Mayor
	2/19	1,000	Brenda Reneau for Labor Commissioner
	2/19	1,000	Mary Fallin for Lt. Governor
	7/1	2,000	Williams for Mayor
	7/15	2,000	Wes Watkins for Congress
	9/3	2,500	Oklahoma State Republican Party
	9/16	500	Oklahomans for Denise Bode
	9/17	2,500	G O P House PAC
1999	1/25	2,500	Stephan Zappala for District Attorney
	2/10	2,000	Republican Governors Association
	8/5	1,000	Istook for Congress
	8/25	1,000	George W. Bush for Preident
	11/23	1,000	John English for State Representative
2000	4/5	500	Friends of JC Watts
	6/;3	500	Jarvis 2000
	7/5	20,000	RNC Presidential Trust (From Patti Rosenfeld)
	7/5	20,000	RNC Presidential Trust
	7/5	60,000	R N S E C
	8/28	1,000	Lazio for Congress

Beyond an undergraduate and graduate education, which was an appropriate background for the position for which I have been nominated, there are three periods of my career which are very relevant. The first being my experience as a real estate developer. The second was actually two positions--HUD and Treasury. Finally my involvement, as Secretary of Commerce of Oklahoma, in communities outside of major metropolitan areas.

In developing residential real estate including single-family homes, condominiums and apartments, one quickly learns the importance of the availability of credit. It is not an exaggeration to say that mortgage credit is the lifeblood of the industry. As such, if it is not available the industry dies and the opportunities for home ownership diminish. The activity of Ginnie Mae, in securitizing FHA, VA, RHS, etc., financing insures the flow of credit to the industry and subsequently to the homeowner.

Serving at HUD and Treasury during the late 80's and early 90's in the period described as "the savings and loan crisis," was a lesson of what happens when the credit system doesn't function. During a period of significant decline in real estate values, many private sector participants in the mortgage business decided, quite appropriately from their standpoint, not to continue their primary business activity. This created a downward spiral in values and further exasperated the problem. During this entire period, Ginnie Mae conducted business as usual and was a strong barricade against even greater credit problems.

As Secretary of Commerce in Oklahoma, I became aware of the serious challenges facing small quasi-urban and rural communities, as well as the unique issues experienced by our Native American citizens. Once again, Ginnie Mae is the participant that is always reaching out to these constituencies that need mortgage credit.

PREPARED STATEMENT OF JENNIFER L. DORN

ADMINISTRATOR-DESIGNATE, FEDERAL TRANSIT ADMINISTRATION
U.S. DEPARTMENT OF TRANSPORTATION

JUNE 21, 2001

Thank you, Mr. Chairman and Members of the Committee.

It is an honor to have been nominated by President Bush to be the Administrator of the Federal Transit Administration and a privilege to appear before you this morning. If confirmed by the Senate, I very much look forward to working closely with Secretary Mineta and the Members of this Committee to ensure that America's transit systems serve the transportation needs of people across the Nation.

As you may know, I had the privilege to have been nominated by President Reagan and confirmed by the Senate to serve as Associate Deputy Secretary of Transportation in 1985 under Secretary Dole. Combined with my tenure as a Special Assistant to the Secretary and as the first Director of the Department's Office of Commercial Space Transportation, I had the opportunity to spend 5 years at the Department of Transportation—years which reinforced my commitment to public service and to the vital importance of an effective transportation system in ensuring the vitality of communities everywhere. It is with great anticipation and enthusiasm that I hope to return as the Administrator of the Federal Transit Administration.

I also had the privilege to serve at the pleasure of President Bush with the consent of the Senate as the Assistant Secretary of Labor for Policy in 1989. From that vantage point, I developed an understanding of the importance of transit in providing access to jobs, as well as the importance of a ready and able workforce to build and operate our transit systems.

My leadership and management experience has not been limited to Government. At the American Red Cross, I saw how people working together could solve seemingly insurmountable problems. As Senior Vice President of the American Red Cross, I managed a budget that reached $400 million and a workforce of over 400 people who helped mitigate the terrible effects of natural disasters and ensure the provision of a safe and adequate blood supply. When hurricane winds or earthquakes destroy or incapacitate vital transportation facilities and routes, the economic effects of such disasters are magnified and getting relief services to those affected is made even more difficult. It is in the midst of such disasters that one can fully appreciate the role that our Nation's transportation services play each and every day in making our communities more livable, safe, and economically strong.

Mr. Chairman, I am an advocate for a Federal transit assistance program which achieves some of our most important national transportation goals. If confirmed, I will make full use of the Federal Transit Administrator's office to work with communities and their leaders in four critical areas:

- Providing and enhancing mobility and accessibility for people in urbanized areas, our suburbs and rural communities.
- Ensuring the safety and security of our Nation's transit systems.
- Working to encourage the development of transit systems that promote economic growth.
- Playing an active role in developing livable communities while protecting our environment.

As you know, transit is not an end in itself. It is a means by which we accomplish other goals, the principle one of which is providing mobility to people. Just as local needs and problems differ, so must the transit programs that are designed to meet those needs. It is self-evident, perhaps, to say that the needs of New York City are fundamentally different from the needs of Omaha, Nebraska. What has not always been so clear, however, is that we must have a Federal program that is adaptable and responds to the needs of all.

In the largest metropolitan areas, where traffic congestion is a pressing concern, transit is central to the transportation system, serving every element of the community. In the Washington, DC area, for example, the Metro system is now reporting 700,000 daily riders, making it difficult to imagine highway congestion levels without such a transit option. In other communities, transit serves primarily as a safety net, providing mobility to people with few other options—the poor, the elderly, and persons with disabilities. Our Federal programs should respond to each of these situations, as well as to the many variations that exist between these two examples.

The Federal role in transit began in the early 1960's, in response to urgent needs in many communities as private transit operations across the Nation failed. The Federal Government partnered with local governments to maintain mass transit in the face of widespread insolvency among private transportation providers. Early in

the program's history, the Federal Government focused on improving the physical infrastructure of transit and on ensuring the financial viability of public transit systems.

During the past two decades, more and more local communities began to recognize that transit could and should play a larger role in the community transportation system. The Federal program was critical in many regions that sought to better integrate transit into their plans for economic development and livable communities. More recently, there has been dramatic growth in the number of communities—of many different sizes—that recognize that transit can enhance the livability of the community, promoting and responding to economic growth and development. It can also serve as an important safety net for the 80 million Americans who do not drive because of age, disability, or income.

The Federal role in surface transportation has been in support of State and local government. The basic responsibility for making local decisions and meeting local transportation needs has and should rest with State and local government. The Federal transit program, from the start, has played a supporting role in local transit programs. That fundamental principle should remain and be enhanced.

Mr. Chairman, should I be confirmed, I will gratefully dedicate my energy, experience, and commitment to the vital mission of the Federal Transit Administration. I am particularly mindful of the important discussions that will take place during the upcoming reauthorization of the surface transportation program. And I pledge to this Committee that I will vigorously pursue the mission of increasing transportation choices in local communities. I am eager to work with you, with the President, with Secretary Mineta, and with transportation colleagues throughout the country to continue to improve transit in America.

Mr. Chairman, thank you again for the opportunity to address the Committee. This concludes my testimony, and I would be pleased to answer any questions that you may have for me this morning.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Dorn (Last) Jennifer (First) (Jenna) (Other)

Position to which nominated: Administrator, Federal Transit Administration Date of nomination: _____

Date of birth: 12/07/50 (Day) (Month) (Year) Place of birth: Grand Island, Nebraska

Martial Status: divorced Full name of spouse: _____

Name and ages of children: Jonathan, 11
Benjamin, 8

Education:

Institution	Dates attended	Degrees received	Dates of degrees
University of Connecticut	1977 - 1979	M.A., Public Administration	1977
Oregon State University	1970 - 1973	B.A., Journalism	1973
Corvallis High School Corvallis, Oregon	1965 - 1969	High School Diploma	1969
Columbia College	1969 - 1970	-	-

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.

Columbia College (1969) - Scholarship to Columbia College (Columbia, MO.,); Academic honor society, Columbia College; (2) Oregon State University (1970-73) - Member, Phi Kappa Phi (academic honor society), Mortar Board (recognition for leadership, academic achievement); Sigma Delta Chi (honorary organization for journalism); Pi Beta Phi National Amy B. Onken Award (for scholarship, leadership and service - given by National Sorority); Degree with highest scholarship (1973). (3) University of Connecticut (1975-1977) - Graduate School Fellowship to University of Connecticut, Department of Public Administration; Karl G. Bosworth Award in public administration as top student. (4) University of Connecticut (1992) - Outstanding Alumnae Award, University of Connecticut, Department of Public Administration; (5) Oregon State University (1995) - Distinguished alumnae Award.

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

Organization	Office held (if any)	Dates
Cosmos Club Washington, DC		1996 to current
International Women's Forum	Vice President Communications	Current
Wash. Women's Forum (local affil of Intl Women's forum)	President V.P., Membership	Current 1999 - 2001
National Academy of Public Administration	Board Member	1998 to current
Capitol Hill Women's Political Caucus	Chair	1979 - 1981
American Society for Public Administration		1976 - 1981 (?)
Pi Beta Phi (college sorority)	President of OSU chapter	1972 - 1973
Sigma Delta Chi (honorary journalism society)	President of OSU chapter	1971 - 1972

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

1998 - 2001	President, The National Health Museum, Washington, DC
1991 - 1998	Senior Vice President, American Red Cross, Wash., DC
Jan Dec 1989 - 1990	Assistant Secretary for Policy U.S. Department of Labor, Washington, DC
Sep Dec 1988 1989	Director of Strategic Planning Martin Marietta Corporation, Bethesda, Maryland
Jun Aug 1988 - 1988	Consultant, Leadership America, Alexandria, Virginia
Nov Apr 1987 - 1988	Chief of Staff to Elizabeth Dole Bob Dole for President
1983 - 1987	Associate Deputy Secretary; Director, Office of Commercial Space Transportation; Special Assistant to the Secretary U.S. Department of Transportation, Washington, DC
1981 - 1983	Chairman's Staff U.S. Senate Committee on Appropriations, Wash., DC
1977 - 1981	Legislative Assistant Office of U.S. Senator Mark Hatfield, Washington, DC
1976 - 1977	Graduate Teaching Assistant University of Connecticut Department of Political Science
1973 - 1975	Public Relations Writer J.R. Tendler Associates, New Haven, Connecticut

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

National Academy of Public Administration Panel on Adapting Military Sex Crime Investigation To Changing Times (2000)

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

Publications: Women in Public Administration; 'A Case Study on the Impact of Public Policy Affecting Women' article in "Public Administration Review" July/August 1976.

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

Member, Labor Policy Group -- Bob Dole for President Campaign, 1996.

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

Elizabeth Dole for President (Fall 1999) --$1000.00

George Bush for President (Winter 1999) -- $1000.00

Victory 2000 Fund, Republican Party (Fall 2000) -- $1000.00

Tom Davis for Congress (Fall 2000) -- $500.00

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

Future employment relationships:

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

Yes.

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

I have no plans to do so.

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

No.

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

It is my hope and expectation to do so.

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.

Please refer to the Acting General Counsel's Opinion letter.

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

None.

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

I did not lobby. On an ongoing basis, as an employee of a 501(c)3, I provided information to Members of Congress regarding the National Health Museum and its activities.

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

Please refer to the Acting General Counsel Opinion letter.

Civil, criminal and investigatory actions:

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

None.

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

None.

Qualifications Statement

I have been privileged to serve in several leadership positions in the federal government over the past two decades, which have given me a valuable perspective and substantial experience in public policy and management of human and financial resources.

From 1983 through 1987, I held various positions at the U.S. Department of Transportation. This included serving as Associate Deputy Secretary at USDOT, the number three official at the department. I also served as the first Director of the Office of Commercial Space Transportation, and, prior to that as Special Assistant to the Secretary. These positions afforded me an opportunity to become familiar with a broad range of transportation policy issues, including those related to federal surface transportation programs as well as significant regulatory and management issues. I was also a member of the senior management team at the US Department of Labor, as Assistant Secretary for Policy in 1989 through 1990.

Prior to government service in the Executive Branch, I had the opportunity to work as a professional staffer in the U.S. Senate (1977-1981). I began my career in the field of public administration as a graduate teaching fellow, affording me the opportunity to research and obtain practical experience in state and local government.

These experiences in public service have been supplemented by over a decade in senior leadership positions in the not-for-profit sector, including senior vice president for the nation's preeminent charity, the American Red Cross. I managed programs and budgets that reached several hundred million dollars and a workforce of some 400 people. Most recently I served as the first President of the National Health Museum – an organization which will establish a world-class institution and paramount resource for education about health at the national Mall in Washington, D.C.

Against the backdrop of this professional experience over two and a half decades, I bring a personal commitment to the importance of sound transportation policies, plans and programs which are vital to communities across this nation. Integral to this transportation network is the critical role of mass transit. It would be a privilege, if confirmed as the Administrator, to have the opportunity to increase awareness of the benefits of transit to local communities, and to oversee the programs which the federal government supports.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CARPER FROM RONALD A. ROSENFELD

Q.1. What are your thoughts on allowing Ginnie Mae to enter into a public/private risk-sharing initiative that allows Ginnie Mae to securitize conventional loans that are partially insured by the private market?

A.1. The issue raised by this question requires a response with two separate components. The first is an inquiry as to whether Ginnie Mae can execute such a program and more specifically can it execute such a program successfully. The second is whether from a policy standpoint such a program would be prudent.

Given the 30 year history of Ginnie Mae, its innovations, its profitability, its record of minimal "findings and material weakness" by the Inspector General and GAO, there is no question that such a program could be operated by Ginnie Mae with the caveat that such additional resources as may be needed would be provided.

The question of whether such a program could be operated successfully is more complex. Here the place of beginning is not to rely on the generally benign description of a "public/private risk-sharing" but rather to inquire, in great detail, as to the specifics of the arrangement. From Ginnie Mae's standpoint, the critical issues include, but are not limited to, the nature and extent of the risks being undertaken on behalf of the Government, the financial and structural qualifications of the private sector participant, the fee structure, etc.

It would seem that an arrangement as envisioned by the question could be successfully developed provided that the terms and conditions of the relationship were determined by Ginnie Mae representing the interests of the Government rather than by having the operative provisions being determined by the private sector participant.

The issue of whether the concept is prudent should be addressed by only one voice emanating from HUD and that voice should be that of Secretary Martinez. In my opinion the framework in which to formulate a position on the matter must include an evaluation of the entire structure of our mortgage finance system including an evaluation of the current merits of our system of GSE's.

Q.2.a. Ginnie Mae's single-family guaranty fee is scheduled by statute to increase from 6 basis points to 9 basis points in October 2004. This cost increase will likely be passed on to FHA and VA borrowers. What is your position with regard to this change in Ginnie Mae's fee structure?

A.2.a. The imposition of fixed fees as determined by the Congress is not conducive to the success of Ginnie Mae. We operate in a competitive marketplace and our clear mandate is to help families realize their dream of owning a home. An example is our Targeted Lending Initiative where we help facilitate homeownership by reducing our guarantee by up to 3 basis points. The pending change to a 9 basis point guarantee fee, without discretion, would eliminate this important program.

The process of buying a home is complicated and costly. As we attempt to be innovative and creative with other participants in the financing of single-family housing our options are severely lim-

ited by a mandated fee structure. In addition, as we strive to encourage others to reduce costs it does not enhance our credibility to raise our fee.

Q.2.b. Would you support a study to evaluate the impact of this increase on the homebuyers and on Ginnie Mae's volume?

A.2.b. I would be in favor of such an impact study. The most likely scenario is that the increased fee would be paid by the first-time homebuyer at the time of closing rather than being absorbed by the mortgage originator. Such an outcome is counterproductive to what Ginnie Mae attempts to accomplish. To the extent that a study provides reliable data it would be helpful to all parties considering this policy matter.

RESPONSE TO WRITTEN QUESTION OF SENATOR CARPER FROM JENNIFER L. DORN

Q.1. Will you continue to support flexible funding that allows Federal Highway allocations to be used by States for transit infrastructure projects, that is, buying more buses, building capital facilities?

A.1. Since the advent of flexible funding in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) and its continuation in the Transportation Equity Act for the 21st Century (TEA–21), local officials have had the flexibility to allocate Federal highway and transit resources to solutions that best meet the needs of their residents. In my view, local communities are in the best position to know what their transportation needs are and should remain responsible for managing those needs within the framework of national priorities. I support flexible funding because it is an important component of meeting the transportation infrastructure needs in communities across the Nation.

NOMINATION OF:

DONALD E. POWELL, OF TEXAS TO BE A MEMBER AND CHAIRMAN OF THE BOARD OF DIRECTORS OF THE FEDERAL DEPOSIT INSURANCE CORPORATION

TUESDAY, JUNE 26, 2001

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

The Committee met at 10 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. Let me call today's Committee hearing to order. I want to welcome everyone.

We meet this morning to consider the nomination of Donald E. Powell to be a Member of and Chairman of the Federal Deposit Insurance Corporation Board.

I think we will turn, because I know she has other pressing engagements, to our colleague, Senator Hutchison, to introduce Mr. Powell.

Two Members of the House also wish to make statements. The House is apparently voting at 10 a.m. So when they come over we will give them an opportunity to speak as well.

But I think we will move forward with the hearing. And before any of us makes any statements, we would be glad to hear from you, Kay.

STATEMENT OF KAY BAILEY HUTCHISON A U.S. SENATOR FROM THE STATE OF TEXAS

Senator HUTCHISON. Thank you, Senator Sarbanes.

I just want to say that Senator Gramm and I both know Don Powell very well and have worked with him in the State of Texas for a long number of years.

I cannot think of anyone that I would more highly recommend for the office of Chairman of the FDIC than Don Powell.

He does have a background in banking. He's the President and CEO of First National Bank of Amarillo, Texas, and he certainly has knowledge and experience in this area.

He has seen banking at its best and banking at its worst, having gone through the 1980's when Texas was going through a difficult

time. And I think that the Vice President of the American Banking Association, Don Ogilvy, said it best—his background and expertise makes him very qualified to head a Federal agency which provides confidence for depositors and the U.S. banking system.

In addition to being one the premier bankers in Texas and being active in the American Bankers Association, he has also dedicated his life to public service.

He has served as Chairman of the Board of Regents of Texas A&M University and he was a wonderful visionary leader for Texas A&M during his term as Chairman, which has just recently ended. He has helped build the university to one of the premier public universities in America and raised its academic standing and has made it a real force for education in America.

I cannot think of anyone who would be better in this type of position and someone who will be dedicated to assuring that our banking system remains the safest and most secure in the world.

With that, I certainly recommend him to you and hope that you can expedite his confirmation so that he can get to the job.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much, Senator Hutchison. We very much appreciate your coming and we certainly appreciate your statement.

I know you have other engagements. So if you wish to excuse yourself, we understand.

Senator HUTCHISON. Thank you, Mr. Chairman.

Chairman SARBANES. I want to welcome Donald E. Powell before the Banking Committee this morning.

The President has nominated Mr. Powell to be a Member of the Board of the Federal Deposit Insurance Corporation and to serve as its Chairman. His nomination papers were completed as of June 11, 2001, and we scheduled this hearing promptly thereafter. Mr. Powell earned a B.S. in Economics from West Texas State University and studied at the Southwestern Graduate School of Banking at Southern Methodist University.

Mr. Powell spent his entire professional career in the community banking industry in Texas, first as a General Loan Officer in the First Federal Savings and Loan in Amarillo, and then subsequently with the First National Bank of Amarillo. He became Chairman and CEO of that bank in 1987, and managed the bank through financial difficulties that the banks were experiencing in the 1980's, and from all reports, did an outstanding job of bringing that institution through some difficult times. The First National Bank of Amarillo was acquired in 1993 by Boatman's Bancshares, which in turn was acquired in 1997 by NationsBank.

Shortly thereafter, Mr. Powell purchased a small bank which he renamed the First National Bank of Amarillo. That title seems to stay with him as he moves through life here. He holds onto it tenaciously, I gather.

Senator GRAMM. It is a nice title.

[Laughter.]

Chairman SARBANES. That institution, for which he serves as Chairman and CEO, operates six branch offices in Texas with over $360 million in assets. The bank offers the traditional range of retail and commercial bank and trust services, so Mr. Powell brings

to this appointment a lifetime of experience in the banking industry, and that has been recognized by a number of comments that we have received from different groups, of course from his home State Texas bankers and from other banking associations, noting his long-time experience.

I am also very much taken by Mr. Powell's contributions to his community. He has been Chairman of the Board of Regents of the Texas A&M University system, which has over 90,000 students, which at one point, I gather, for 12 years, was graced by the presence of Senator Gramm on its faculty.

Mr. Powell has also served on the boards of many other nonprofit, public, and community organizations, including the United Way, the Harrington Regional Medical Center, the City of Amarillo Housing Board, and a number of other educational institutions.

Mr. Powell, I respect your community involvement and I think it reflects a sense of civil responsibility and obligation, which we certainly welcome.

The Chairman of the FDIC plays a critical role in maintaining the strength of the U.S. banking system. He or she makes important decisions on complex issues affecting the Federal deposit insurance system, the oversight of the safety and soundness of bank operations, and many other aspects of the financial markets.

So it is a critical position in terms of the proper and effective workings of our financial system and we welcome Mr. Powell here today and look forward to hearing his testimony.

Before I turn to you, Mr. Powell, I will turn to Members of the Committee for any comments they may wish to make.

First is Senator Gramm.

STATEMENT OF SENATOR PHIL GRAMM

Senator GRAMM. Mr. Chairman, first, let me thank you for your very kind comments.

It is a great privilege for me to be here to welcome Don Powell. There are so many things that I could say about this good man. He is one of the most respected citizens of my State and he has a long record in banking and finance.

He took over the First National Bank of Amarillo at a very troubled time for that bank. In fact, *The New York Times* wrote shortly after he took over the bank: "For nearly a century now, the bank has been the Rock of Gibraltar of the Texas panhandle. As the largest bank in the area, its capital helped build the vast cattle, farming, oil, and gas industries. Its leaders led the United Way and other charities, and it bought the works of local artists." The point of *The New York Times* article was that this Rock of Gibraltar was in very difficult financial straits. Under the leadership and steady hand of Don Powell, however, that bank made a dramatic comeback and it is again the Rock of Gibraltar of the panhandle of Texas. Obviously, there were many people who contributed to that, but the leader of the effort was Don Powell.

I appreciate, Mr. Chairman, you recognizing his extensive commitment to public service. Don Powell has been very actively involved in promoting good works throughout the State of Texas, and I want to thank him for his willingness to serve the greatest coun-

try in the history of the world. It is very difficult to get good people to undergo all of the rigors and strains of public service.

I just want to publicly say to Don Powell that I appreciate his willingness to take on this job. This is a very important position. In fact, nothing is more important to the strength of the American economy then safe and sound financial institutions. With the dramatic change in law that has been adopted in the last 10 years, the FDIC has become a far more important institution than it has ever been. And quite frankly, it makes me feel comfortable, Mr. Chairman, to have someone who will be in that job who has had practical experience in trying to deal with exactly the kind of problems that the FDIC is trying to help banks, large and small, deal with all over the country.

I thank you, Mr. Chairman, for holding this timely hearing.

Chairman SARBANES. Thank you.

Senator Johnson.

STATEMENT OF SENATOR TIM JOHNSON

Senator JOHNSON. Thank you, Chairman Sarbanes and Ranking Member Gramm.

Welcome, Mr. Powell. I extend congratulations to you. I am confident that you will follow on Donna Tanoue's leadership at the FDIC.

This has been a good year, Mr. Chairman, for the Powell family, with Colin Powell as Secretary of State, Michael Powell at the FCC, and now Don Powell as Chairman-to-be of the FDIC.

[Laughter.]

I am pleased to have this opportunity to succeed the Chairman of the Financial Institutions Subcommittee and look forward to working with Senator Bennett in that matter.

We heard from our banking regulators last week and we are fortunate to be witness to an extremely strong banking industry at this day and time.

While we have to remain vigilant in monitoring warning signs of a softening economy, we find ourselves with an important opportunity to take stock of our financial institutions.

I am committed to taking advantage of this opportunity to propose comprehensive reform of our deposit insurance system and I hope to be able to introduce bipartisan consensus legislation sometime after the July 4 recess.

As I noted in our previous hearing, it is hard to argue with the FDIC's observation that the current deposit insurance system is procyclical.

In good times, most institutions pay nothing for insurance coverage and in bad times, when they can least afford it, there is the potential for them to be hit with large premiums.

Currently, over 92 percent of our banks and thrifts pay no deposit insurance premiums. And while it is not always popular to say so, I think we need to examine together whether that, in fact, makes sense.

We need to revisit our current system while our banks and thrifts are healthy and really think through whether our institutions could sustain 23 basis point premiums under less favorable conditions—or even now, if fast growth in insured deposits caused

the fund reserves to dip below the designated reserve ratio. At the same time, I think it would be a mistake to allow the insurance funds to grow beyond the size necessary to ensure the safety of our institutions.

As many of my colleagues know, I have been concerned for some time about our small banks and the troubles they increasingly have in attracting core deposits. And any legislation we introduce should in some manner address that funding problem. I look forward to working with the FDIC on comprehensive deposit insurance reform in the coming months.

One other issue that I will continue to monitor is the implementation of the Expanded Guidance for Subprime Lending Programs that was issued jointly by the four banking agencies earlier this year. As I have noted in a letter to the agencies, many have expressed concern to me that the guidance may have broader consequences than was originally intended.

As a general matter, I have been encouraged by the increasing number of responsible lenders willing to extend credit to consumers who in the past may have had to find sources of credit outside the mainstream financial marketplace.

At the same time, I understand that often times, such lending programs may present a higher risk to lenders and I appreciate the regulators' vigilance in taking steps to manage that risk.

It is my hope that the regulators, legislators, and the lending community can work together to develop standards for subprime lending that are clear, that are appropriate, and that are balanced.

I believe it is possible to manage risk and protect consumers, while addressing abuses that may have taken place in the past, without drying up credit to our communities.

I look forward to working with the FDIC to ensure that the exam guidance is implemented in a way that is consistent with the intentions described by the agencies.

I thank you for your willingness to bear the scrutiny of this Committee and I look forward to hearing your thoughts on these and other issues this morning.

Congratulations, Mr. Powell.

Chairman SARBANES. Thank you very much, Senator Johnson.

Senator Enzi.

COMMENTS OF SENATOR MICHAEL B. ENZI

Senator ENZI. I thank you, Mr. Chairman, for bringing this hearing to us at this time. I know that when the current Chairman leaves on July 11, that we will have two vacancies on the Board. So, I appreciate anything that you do to expedite this one.

Chairman SARBANES. Senator Miller.

COMMENTS OF SENATOR ZELL MILLER

Senator MILLER. Thank you, Mr. Chairman.

Mr. Powell and I had a very good meeting a few days go and I came away very highly impressed.

This is another great appointment by President Bush and I look forward to working with you. I wish you well and as Senator Gramm said, thank you for serving in this arena.

Chairman SARBANES. Senator Corzine.

COMMENTS OF SENATOR JON S. CORZINE

Senator CORZINE. I would concur. I enjoyed very much the meeting I had last week with Mr. Powell. I respect the work that you had to do when you took over a troubled institution. It's a real test of leadership and I congratulate you on that and on your work in your community.

I do think that there are some very important issues, particularly the deposit insurance reform issues that Senator Johnson talked about. And also the potential merger of BIF and SAIF, which I think are key issues. I have other questions over a period of time about CRA and other issues, but I think this is a great appointment.

Chairman SARBANES. Thank you very much.

Senator Bennett.

COMMENTS OF SENATOR ROBERT F. BENNETT

Senator BENNETT. I have no statement, Mr. Chairman, other than to welcome Mr. Powell and look forward to his service.

Chairman SARBANES. Good. We have been joined by our two colleagues from the House. We very much appreciate them coming over. We understand they would like to make a few remarks about Mr. Powell, and we are certainly happy to hear from them.

Congressman Combest, why don't we go with you first, and then Congressman Thornberry.

I gather you share the Town of Amarillo, so to speak.

[Laughter.]

Mr. Powell is somehow or other divided between these two Congressmen.

[Laughter.]

Congressman Combest.

STATEMENT OF LARRY COMBEST
A U.S. REPRESENTATIVE IN CONGRESS
FROM THE STATE OF TEXAS

Representative COMBEST. Mr. Chairman, thank you for indulging us with a vote and letting us arrive a few minutes late.

We both do proudly share Mr. Powell and Amarillo and we appreciate very much your letting us come over, knowing him as a personal friend and fully in support, obviously, of his confirmation as Chairman of the Federal Deposit Insurance Corporation.

All of you have before you information which I think will show the qualifications that Mr. Powell has for the position. But what you do not have before you I think is equally as important, and that is something that we could speak to, and that is respect and admiration that Don Powell has held in his hometown.

There is no one who is more respected in Amarillo, Texas, than Don Powell. And he has earned this respect in his professional and his personal and his charitable dealings throughout that community for many years.

He has done a great deal for his community and I think, more importantly, he has done a great deal for the people in that community. And I think that shows the character and the personality of Don Powell that probably might not come through in looking at many of the things that you have relative to his qualifications.

I think he is amply qualified and as you will see in this hearing, Mr. Chairman, Don Powell is just a really nice guy as well.

Thank you very much.

Chairman SARBANES. Thank you, Congressman Combest.

Congressman Thornberry.

STATEMENT OF WILLIAM "MAC" THORNBERRY
A U.S. REPRESENTATIVE IN CONGRESS
FROM THE STATE OF TEXAS

Representative THORNBERRY. Thank you, Mr. Chairman, Senator Gramm, and Members of the Committee.

I appreciate also the chance to just say a few words in support and admiration really of Don Powell, recognizing, however, that his success in life, as is often the case, is a result of team work. His partner Twanna is a key part of why Don has been such a success.

I would like to make just a couple brief points.

One is that Don has worked his way from the bottom to the top of the banking industry, starting as a loan officer in 1963, and he has done it the old-fashioned way. As the commercial used to say, he has earned it. He has earned it with his intellect, hard work, and integrity, and I know he will carry those qualities forward.

I would also say from my perspective that he led the First National Bank of Amarillo during a very tough time in the 1980's, as many of you know.

Not only does coming through that time successfully speak well of his credentials, but also I think it makes him better prepared to be the Chairman of the FDIC.

Finally, I would just say that I know first-hand that he takes community service very seriously. The reason that he has been honored as man of the year in Amarillo or history-maker is not because he is President of the bank. It is because of what he has given to the community, often dealing with young people.

I hope that maybe at some point you have a chance to get into the details, for example, of the Ace Program, where every student that goes to the at-risk high school in Amarillo has a chance to go to college. It is because of Don's leadership that that takes place.

Community and service are not just words. He lives them, and I know he will take that spirit to the FDIC as well.

Chairman SARBANES. Thank you. We very much appreciate your coming over and giving the Committee the benefit of your statements. We know you have pressing schedules, so if you wish to excuse yourselves, the Committee understands that, of course.

Mr. Powell, if you will stand, I would like to administer the oath.

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

Mr. POWELL. I do.

Chairman SARBANES. Do you agree to appear and testify before any duly-constituted committee of the U.S. Senate?

Mr. POWELL. Yes, sir.

Chairman SARBANES. Thank you very much. We would be happy to hear your statement.

STATEMENT OF DONALD E. POWELL OF TEXAS, TO BE A MEMBER AND CHAIRMAN OF THE BOARD OF DIRECTORS OF THE FEDERAL DEPOSIT INSURANCE CORPORATION

Mr. POWELL. Thank you, Mr. Chairman.

Before I make my prepared remarks, if I might, I would like to introduce a dear friend who is here today. I am sorry that my family is not here. I do have two boys and four wonderful grandchildren. My wife is away and she is here with me in spirit.

But part of my extended family is here and it is a gentleman that I love very much and served with me at the Texas A&M University System Board of Regents, and I am delighted that he is here today, and I would like to introduce him—Fred McClure.

Chairman SARBANES. Good. We are very pleased to have you with us, sir.

Mr. POWELL. He is an attorney and from time to time, I kid him about being my personal counsel. But, clearly, he is not that. He is a dear friend.

Chairman Sarbanes, Ranking Member Gramm, and Members of the Committee, it is a great pleasure for me to appear before you today. I am humbled that President Bush has nominated me to Chair the Federal Deposit Insurance Corporation. If I am confirmed by the U.S. Senate, I give to you my solemn pledge to work closely with all Members of this Committee and the other financial institutions regulatory agencies to maintain stability and public confidence in the Nation's banking and thrift systems.

While I am a newcomer to Washington, DC, I am no stranger to the banking industry. For the past three decades, I have been involved in virtually every aspect of the banking business. In the early 1960's, I started out as a loan officer at a small savings and loan in the Texas panhandle, and I eventually became President and Chief Executive of the First National Bank of Amarillo. During the severe economic downturn of the late 1980's, I led, with the assistance of others, the difficult but ultimately successful efforts to revive First National Bank. Indeed, by 1993, the restoration was complete and I take great pride in the fact that our successful turnaround was recognized not only by our community and shareholders, but also by our Federal regulators.

Being nominated to this position has great personal significance for me. As a long-time banker and a life-long resident of Amarillo, I understand how important a strong and committed bank is to the citizens of our Nation's communities. When we were faced with the challenges of restoring the First National Bank to financial health, I understood the severe adverse consequences that failure would have brought to all segments of our local community. In short, it is from personal experience that I can speak directly to the importance of our Nation's insured banks and thrifts—they are the financial lifelines for all the citizens of all our Nation's communities.

Our Nation's banking system today is the envy of the world. It is vibrant. It is innovative. And it is now strong and secure. We have the most professional regulatory and supervisory system in the world. But globalization of financial services, innovative technologies, and legislatively expanded powers and authorities have changed banking dramatically and forever. These changes will con-

tinue, and they require us to deal with issues our predecessors could not have dreamed of. I am confident that with its staff of highly qualified and dedicated professionals, the FDIC is well equipped to respond to these challenging and ever-accelerating developments.

In assessing the impact of recent developments on the financial institutions industry, I am reminded of the immensely difficult challenges the FDIC has faced and surmounted in the nearly seven decades since its establishment in the midst of the Great Depression. Undoubtedly, as the financial markets evolve, unanticipated policy questions and developments will continue to arise. In the past, I know that the FDIC encouraged extensive and rigorous debate in addressing the difficult issues of the day. And it is with the same spirit of open debate and discussion that I intend to approach the many challenging new issues currently on the Agency's agenda, including the appropriateness of any structural reform of the overall deposit insurance program.

Let me shift gears for a moment and discuss briefly several issues that I know are of great interest to the Members of the Committee, your constituents, and the financial institutions industry, as expressed to me by Senators these past few weeks, namely, the Community Reinvestment Act, "predatory" lending and privacy.

The Community Reinvestment Act has been the law of the land since 1977. And the Federal Reserve Board recently found that the CRA has contributed to the financial health of our Nation's communities by bringing credit to localities that, in the past, have been underserved. As a banker, I also well understand the significant challenges all insured financial institutions face in complying with the rigorous requirements of the CRA. As you may know, the regulatory agencies, including the FDIC, are about to embark on an extensive review of the CRA regulations. I am anxious to be part of this process and to learn more from all interested parties, including bankers and community groups, whether any changes are needed to make the CRA more effective. I also look forward to exploring with the staff of the FDIC and the other agencies how the changes made to the CRA by Gramm–Leach–Bliley have affected insured financial institutions and the communities they serve.

Another issue about which I share the Committee's deep concern involves financial institutions engaging in what generally has been referred to as "predatory" lending or "predatory" pricing. From my perspective as a professional banker, I can say that the application and enforcement of normal bank underwriting guidelines can go a long way toward eliminating this practice. I look forward to working with the FDIC staff and other agencies to determine how we might effectively bring an end to this abusive practice.

Finally, with the explosion of personal information maintained on individuals coupled with the growth of the computerized storage of such information, I recognize that privacy is becoming a critical issue for many consumers. As you know, for the first time, Gramm–Leach–Bliley imposed a set of privacy guidelines on financial institutions. I look forward to observing how well these provisions are working in practice. After time, if necessary, I will apprise the Committee of the necessity and appropriateness of any statutory enhancement to existing protections.

Chairman Sarbanes, Ranking Member Gramm, and Members of the Committee, obviously, I have just touched upon a few of the most important issues facing the FDIC. Let me assure you that, in addressing this formidable array of legislative and regulatory challenges, I will never lose sight of what I view to be the central mission of the FDIC: Protecting depositors, ensuring the safety, soundness, and financial integrity of America's banks and thrifts, as well as the ready availability of the essential financial services provided by these institutions to all Americans.

Thank you for inviting me to appear before you today. I look forward to working with the Committee in the future.

I would be pleased to respond to your questions and concerns.

Chairman SARBANES. Thank you very much, Mr. Powell, for your statement.

Last week, this Committee held an oversight hearing with the bank regulators. I assume you have had a chance to be briefed on that hearing.

But in any event, the FDIC, of course, has recently made recommendations with respect to the Nation's deposit insurance system, involving risk-based premiums, required reserve ratio, rebates, merging the BIF and the SAIF funds, and the amount of insurance coverage per account. Have you had a chance to think through your reaction to these recommendations? Or how do you view them? I am not pressing you. You may need some time in there as the Chairman before you can make any definitive statement. But tentatively, at least, how do you view what they have laid out on the table?

Mr. POWELL. Mr. Chairman, first of all, I compliment the FDIC and its staff for their thorough review of this important mission that they have just concluded. I believe they spent some 12 to 15 months analyzing this and had input from various communities.

I have read the recommendations. I am not sure that it would be prudent for me to come with any definitive conclusions at this time without making sure that, in fact, I have heard all voices that had input into these important matters. I understand the recommendations and I think it is premature for me to come to some definitive conclusions without hearing from others.

Chairman SARBANES. Well, I think that is a prudent statement.

One of the things that came through, though, at the hearing was the view that these recommendations were part of a package, that really, to move on one, you should move on another and that you ought to take them in their totality and not just pull one out of the package. Do you tend to agree with that observation?

Mr. POWELL. I am not sure that I recognize the importance of their recommendation. I am not sure that it is critical that we link all of the recommendations together at one time.

Again, I would want to review and hear from those that had input into it, but perhaps there are more important recommendations and we might rank those recommendations. I don't think that it is important that they all be linked together, per se.

Chairman SARBANES. Every time there is a change of command at the FDIC, we get contacted by constituents who worry about a reduction in force and that employees who have developed this expertise at the Agency may be let go.

It seems to me that there are plenty of challenges for the FDIC, so I start, I guess, from the premise that I don't see a need for the workforce to—it has been reduced in the past. I am not sure that process needs to continue.

But in any event, it would seem to me that some premium should be placed on reassigning employees within the FDIC to do other types of work, if there are certain areas in which the Agency undertakes some downsizing. And often, they can be reasonably trained, I think, to pick up a different line of activity, which is being done by outside attorneys or other professionals.

Now there is a bargaining agreement that the Agency has with the representatives of the employees. Could you work with those organizations in dealing with the staffing issues, particularly along this path of cross-training people so that if the workload ebbs in certain areas and flows in others, the people can move with the workload?

Mr. POWELL. I would be very sensitive to the comments that you have made, Senator. Yes.

Chairman SARBANES. I think our view is that, generally, a very competent staff has been assembled at the FDIC, with a high level of professionalism, a high level of expertise and, of course, we are anxious to sustain and maintain that. Obviously, as Chairman, I presume it would be one of your prime responsibilities.

Mr. POWELL. Yes, sir.

Chairman SARBANES. Senator Gramm.

Senator GRAMM. Thank you, Mr. Chairman.

The last thing I want to do, Don, is force you into discussing controversial issues. So, probably, the most logical thing for me to do, instead of asking you where you stand on these issues, would be simply to take the few moments I have to talk about these issues.

The first issue related to the FDIC, which is very much in debate now, is whether the insurance limit should be raised.

The argument for is that it would help small banks attract deposits. The argument against is that anyone who remembers the terrible days of the S&L crisis, when you had brokered deposits, saw this incredible flow of deposits into banks that were clearly insolvent in $100,000 increments, greatly destabilizing the system.

We were in the terrible position of not having the money to close these institutions down.

I remember sitting exactly where Senator Miller is now throughout this whole debate. So it had a profound effect on my thinking. I think that experience is the primary reason that I am opposed to raising the deposit limits.

Deposit insurance is very important for small depositors. But it is important that large depositors look at the stability of banks and that is part of the disciplining process for banks.

The second issue that you are going to run into is predatory lending. Even though I have thought about it as much as anybody in the Senate, I am still not yet sure what this issue is about.

I have no doubt, with the huge numbers of lenders, that some are abusive. And I don't have any sympathy for crooks.

My concern, however, is that I am beginning to see a proliferation of lending where banks are using their improved marketing

skills to find people with marginal credit who cannot get loans at prime, but can get access to the credit market at subprime rates.

I guess I am sensitive to it because my momma borrowed money from a finance company to buy a house. And she paid a 50 percent premium to borrow that money. Some people might look at that as predatory lending. But given the circumstances of my household, banks were not going to make that loan.

The net result of that loan is that my mother was probably the first person in her family since Adam and Eve ever to own the house she lived in.

I would call that, from the point of view of family-building, about as important a loan as you could make. I don't remember the name of the finance company, but they were public benefactors.

I want to be sure, in the name of combating predatory lending, that we don't deny access to credit for people who don't have perfect credit ratings, don't have stable jobs, and have difficult family situations.

I would just ask you, in looking at this, to ferret out abuses. But we don't want to institute law or regulation that simply produces a situation where the easiest thing to do is simply not to make marginal loans.

The final issue which you are going to run into is privacy. You mentioned it in your opening statement, and I would just like to say that I am sensitive to privacy—I value my own privacy.

But I am very much moved by the fact that, as I look at economic data, about 20 percent of the cost of anything we buy, on average, is attributable to the cost of bringing buyers and sellers together. And whatever we can do in using market information to eliminate that cost, we can raise the standard of living for ordinary people dramatically.

So, you have a real question of what it means to protect "privacy." I get every gun magazine, every hunting magazine, every dog food and dog medicine magazine, and catalogue—I guess because I subscribe to *Gun Dog* magazine. Is that a violation——

Senator DODD. You have dogs, don't you?

Senator GRAMM. I have dogs.

Senator DODD. You had me worried there.

[Laughter.]

Senator GRAMM. Is that a violation of my privacy? Or am I better off as a result of it?

I do not get a Neiman-Marcus catalogue. They probably have looked at my consumption patterns and decided that I am not a good candidate for a $14 catalogue.

Senator DODD. Bet you are going to get one now.

[Laughter.]

Chairman SARBANES. There is an open invitation for a Neiman-Marcus catalogue.

[Laughter.]

Senator DODD. You are on C–SPAN here.

Senator GRAMM. Wait a minute.

[Laughter.]

I need to end because the red light is on. But I would say this—I have been using that analogy on this issue for 3 years. I have not yet received a Neiman-Marcus catalogue, and I should not get one.

It costs them, I understand, $14 to send, and it is not a good investment of their money to send one to me.

Now, is my privacy violated by the fact that Neiman-Marcus has figured out that I am not a good potential customer, whereas, a veterinary catalogue probably is?

I think that is a question we must come to grips with. It is not that they are interested in my private life or any of that kind of business. They want to know, am I buying dog food or am I buying luxury items? And am I poorer by their knowing, or is my privacy violated?

So, I just want you to pray hard over these things when you are making decisions, because I think they are very, very important. They may not be clear. They may not be black and white. But, gosh, they are very important.

Thank you for your indulgence, Mr. Chairman.

Chairman SARBANES. Thank you very much.

Senator Miller.

Senator MILLER. I don't have any questions, Mr. Chairman.

Chairman SARBANES. Senator Bennett.

Senator BENNETT. No thank you, Mr. Chairman.

Chairman SARBANES. Senator Dodd.

STATEMENT OF SENATOR CHRISTOPHER J. DODD

Senator DODD. First of all, Mr. Powell, I want to congratulate you for not responding to Senator Gramm.

[Laughter.]

You are one smart cookie. You are going to do fine.

[Laughter.]

Mr. POWELL. He is one of those important voices that I hear.

[Laughter.]

Senator DODD. I know. That is always a good test for me. This compulsion to feel like you have to respond to everything that gets said up here. That is a good indication that you are going to do fine in this job.

Congratulations to you and welcome. You have a wonderful background and experience.

Just to follow up on Senator Sarbanes, you are taking over from a wonderful individual that many of us have worked with. I told a story the other day about her coming to my State. It literally took a day for her to get there with the terrible weather. It may not have been cosmic in scope, but there are 400 or 500 people up there who dedicated a good part of their professional lives to help out in dealing with these issues in Connecticut, and she came up and met with them, and we are very grateful.

You cannot do that all the time, obviously, in terms of allocation of your own time. But it is tremendously helpful.

Senator Gramm has mentioned his concerns about predatory lending. And just for my purposes here, we are not interested in putting undue restrictions on institutions. But for people, to take the very example that the Senator from Texas talked about—people who are on the margins—and to be able to own their own home and get started is tremendously important. And making it possible for them to do it so that they don't fall back.

Many of our laws are not written for good people. They are written for that small, or relatively small, percentage that violates the law and takes advantage of people.

We probably do need to look at it. It is more than just anecdotal, I am afraid. And obviously, your advice and counsel on that is something that we will be anxious to receive.

Privacy issues are very complicated, but very serious as well. And again, I think that all of us appreciate the needs of businesses to be able to market. We also know that there are those out there who will take information and use it for less than just purely business purposes, and we are worried about that.

I can tell you, I don't care which State you go to, this is right under the surface with people. It is an explosive issue and it needs to be handled well because there are unintended consequences of well-intended legislation, whether it is in the area of health care information or business and financial records of individuals.

It needs work, but it is serious and people are worried about it.

Just as an aside, it is been several years now, I told the story of being with a friend of mine who was in the business of collecting data and was trying to make a decision on whether or not to invest in a company that literally had in the backseat of an automobile a personal computer and a printer in which they could literally read a license plate and take down that license plate, program it, and provide about a foot and a half worth of public data, now.

This was public information that was available. I suspect that I knew more about the owner of that automobile than he or she knew about themselves in terms of what was available through public information. And to the extent that this information is available and then gets used and shared in ways that could be harmful to people, and a lot of it can be misinformation, false information, as well it could be tremendously damaging to people.

Whether it is health care records or financial records, the kind of information being collected from children, parents, and individuals who want to have a greater sense that they can be protected. We need to work at that and obviously, your counsel and advice is something that I would look forward to hearing.

These are two very important questions.

I again thank Senator Sarbanes for raising the issue about the personnel of the FDIC. We have been very impressed with them over the years.

We passed Gramm–Leach–Bliley about a year and a half ago. I wonder, just as someone who has been in the banking field, how you see this legislation. Have you seen any effects on small- and medium-sized banks as a result of the passage of that bill, just in the short time since its adoption?

Mr. POWELL. Senator, I think it is too early for us to assess the consequences. I think that there are some great opportunities and the legislation allowed banks to diversify the risk.

At the same time, I think there were some parts of it that we just don't know how effective it is going to be and time is going to tell us more as we go forward.

I have not heard any strong voices from the banking community that there is anything in there that is bad, per se, that they cannot live with. But I think the voices have been rather mute. We don't

know yet. Several institutions are attempting to take advantage of some of the new opportunities and we will just have to wait and see what happens.

Senator DODD. Thank you very much. We wish you well. We look forward to working with you.

This is probably a subject matter at some point, Mr. Chairman, not now, but maybe in a year or so, that we might want to take a look and see how the the Gramm–Leach–Bliley bill is doing.

Chairman SARBANES. Well, it was such a difficult struggle. Why don't we let it settle a bit?

[Laughter.]

Senator DODD. I said a year, year and a half or so.

[Laughter.]

Thank you very much, Mr. Chairman.

Thank you, Mr. Powell.

Mr. POWELL. Thank you, sir.

Chairman SARBANES. Let me just make this observation.

You are coming in, I think, at a very challenging time. I was just looking at a review of some indicators.

First of all, after 5 very good years, the rate of nonperforming commercial and industrial and personal loans increased by over 26 percent in the year 2000. While delinquency rates for credit card and consumer loans are below the high levels that we experienced during the last economic downturn back in 1992, they have risen back to levels comparable to 1993.

Consumer leverage seems to be at an all-time high. Credit card debt is rising rapidly. Debt service payments now constitute over 14 percent of disposable income.

The mortgage bankers tell us that 10 percent of the mortgages backed by the Federal Housing Administration are now 30 or more days delinquent. In fact, *The New York Times* said just a few days ago, "that the mortgage problems underscore one main reason many policymakers and economists are so concerned about whether the United States will enter a recession this year."

We have had the percentage of commercial and industrial loans that are noncurrent—that is, delinquent—there has been an increase in the amount held by large banks, not by small banks, apparently.

There are a lot of concerns out there, I think, as you take over. Obviously, you will need to review all of that.

I think the FDIC may well have to consider intensifying its examination of these issues without at the same time cutting off the appropriate flow of credit. That is always a problem and we are very much aware of that.

We have contradictory objectives. We have a downturn. The Fed has been cutting the rates, obviously, to stimulate economic activity. Presumably, they will cut them again tomorrow. The Open Market Committee is meeting right now.

On the other hand, when you have a worsening economic situation, you have a deterioration in some of your credit standards.

So how do you make sure that they are not extending credit where it shouldn't go without cutting off economic activity?

I think that is going to be a very sort of first-item challenge on your agenda.

Now, we had the benefit of the four regulators last week before the Committee. We just did a straight oversight committee. It was not prompted by some crisis situation. We thought just as a standard practice, we should do that from time to time.

Of course, we had the current Chairman, your predecessor here. Your coming in now, so you have a chance, one, to examine what they told us and, two, to examine the Agency's activities with a fresh perspective, and we certainly invite you to do that.

Chairman Tanoue told us on this sub-prime lending issue that the FDIC has intensified our supervisory attention to the roughly 150 banks and thrifts with sub-prime lending programs.

Senator Gramm made a reasonable point. We have a sub-prime market. We are not trying to dry that up. We just want to get at the excesses that are taking place.

In fact, I was struck in your statement by your reference that the application and enforcement of normal bank underwriting guidelines could go a long way toward eliminating the practice. What you have is these loans, in some instances being made unrelated to the borrower's ability to repay and solely based on the equity and the collateral, which they then proceed to strip away from them over time by the fees, refinancing, and all the rest of it. So, they never relate it to their ability to pay it back. It is just whether they are holding enough equity, that they can strip it away from them.

I think there is something that the FDIC and other regulators can do to monitor the sub-prime lending market. And the other regulators are looking at this issue, as you know, and of course, we invite the FDIC to do so as well.

We look forward to working with you. I think as you have stated in your statement, it is a real challenge.

I understand that you are in a position and intend, if confirmed, to abide by all the conflict requirements, which in your instance, since you are coming right out of the banking industry, are quite extensive.

But we understand you have undertaken that obligation or are in a position to do that. And of course, that is part and parcel of moving forward into this position.

With that, the Committee will conclude. Members may have some questions that they will want to submit to you. I am not certain if they do. We hope you will answer them promptly and get them back to us.

Mr. POWELL. Thank you, sir.

Chairman SARBANES. The Committee stands adjourned.

[Whereupon, at 10:55 a.m., the hearing was adjourned.]

[Prepared statements, biographical sketch of the nominee, and response to written questions follow:]

PREPARED STATEMENT OF SENATOR PAUL S. SARBANES

I would like to welcome Mr. Donald E. Powell before the Banking Committee this morning.

The President has nominated Mr. Powell to be a Member of the Board of the Federal Deposit Insurance Corporation and to serve as its Chairman. His nomination papers were completed as of June 11, 2001. I have scheduled this confirmation hearing as expeditiously as possible. Mr. Powell earned a B.S. in Economics from West Texas State University and studied at the Southwestern Graduate School of Banking at Southern Methodist University.

Mr. Powell has spent his professional career in the community banking industry in Texas. From 1971 to 1997, Mr. Powell worked for the First National Bank of Amarillo, in which he became Chairman and CEO in 1987. He managed the bank through the financial difficulties that banks experienced during the mid-1980's. The bank grew to $800 million in assets and was acquired in 1993 by Boatman's Bancshares, which in turn was acquired in 1997 by NationsBank.

Shortly thereafter, Mr. Powell purchased a small bank which he renamed First National Bank of Amarillo. That institution, for which he serves as Chairman and Chief Executive Officer, operates six branch offices in Texas with over $360 million in assets. The bank offers traditional retail and commercial bank and trust services, as well as management services for farm, ranch, oil and gas assets.

Mr. Powell has been active in his community. He has been Chairman of the Board of Regents of the Texas A&M University system, which has over 90,000 students. Mr. Powell has also served on the boards of many other nonprofit, public, and community organizations, including the United Way, Harrington Regional Medical Center, High Plains Baptist Hospital, City of Amarillo Housing Board, Amarillo College, and West Texas State University Foundation.

The Chairman of the FDIC plays a critical role in maintaining the strength of the U.S. banking system. He makes important decisions on complex issues affecting the Federal deposit insurance system, the oversight of the safety and soundness of bank operations and many other aspects of the financial markets.

We look forward to hearing the testimony of Mr. Powell before the Committee.

PREPARED STATEMENT OF SENATOR JIM BUNNING

Mr. Chairman, I would like to thank Don Powell for testifying today and I would like to thank you for holding this hearing in such an expeditious fashion.

I think President Bush has once again demonstrated that he will continue to ask outstanding people to serve in his Administration.

Obviously, Mr. Powell has a great deal of experience in the banking industry. I think he will do a fine job at the FDIC.

I hope that the Committee will report this nomination, once we get our own organization settled, in an expeditious manner.

Once again, I urge all of my colleagues to accept Mr. Powell's nomination.

Thank you, Mr. Chairman.

STATEMENT FOR COMPLETION BY PRESIDENTAL NOMINEES

Name: Powell (LAST) Donald (FIRST) Edward (OTHER)

Position to which nominated: Chairman of the Board of Directors, FDIC

Date of nomination:

Date of birth: 2 (DAY) May (MONTH) 1941 (YEAR)

Place of birth: Perryton, Texas

Marital status: Married

Full name of spouse: Twanna M. Powell

Name and ages of children:

Matthew	38
Mark	35

Education:

Institution	Dates attended	Degrees received	Dates of degrees
SEE EXHIBIT "A"			

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

NONE

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

Organization	Office held (if any)	Dates
SEE EXHIBIT "A"		

Employment record:

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

SEE EXHIBIT "A"

Government experience:

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

1 Amarillo College Board of Regents from April 1980 through May 1996

Elected by tax payers of Amarillo College District.

2 Texas A & M University System Board of Regents From February 1995

Through February 2001

Appointed by the Governor of Texas

Published writings:

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

From time to time I deliver speeches concerning higher education and banking matters and they are often referred to in published articles. I have not retained copies of such reports or speeches.

Political affiliations and activities:

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

Alternative delegate to National Republican Convention 2000

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

SEE EXHIBIT "B"

Please note I have not kept records of political contributions and am concerned that Exhibit "B" is not complete knowing, however; I have no other source of obtaining that information.

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

Future Employment Relationships:

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

I will sever all connections.

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

NONE

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

NO

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

YES

Potential conflicts of interest:

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

NONE

Potential conflicts of interest (cont.)

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

NONE

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

NONE

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

NONE

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

N/A

Civil, criminal and investigatory actions:

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

NONE

Civil, criminal and investigatory actions (cont.):

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

NONE

EXHIBIT "A"

January 1, 2001

DONALD E. POWELL
P. O. Box 468
Amarillo, Texas 79105
(806) 373-7978 Office (806) 358-4582 Home

EDUCATION

Bachelor of Science degree in Economics in 1963 from West Texas State University. Received certificate of completion from The Southwestern Graduate School of Banking at Southern Methodist University. Over 160 hours of college credit work.

ACTIVITIES/ MEMBERSHIPS

Currently serves on the following boards:

- Chairman of the Board of Regents - The Texas A&M University System
- Amarillo Area Foundation
- Don and Sybil Harrington Foundation
- Cal Farley's Boys Ranch
- Mary E. Bivins Foundation
- Advisory Board Member of the George Bush School of Government and Public Service
- The First National Bank of Amarillo - Director
- American Bank of Commerce Advisory Director

Former board member of the following:

- Boatmen's First National Bank - Chairman
- Amarillo Chamber of Commerce, Chairman
- Amarillo College Board of Regents
- United Way, Chairman of Campaign Committee
- City of Amarillo Housing Board
- High Plains Baptist Hospital
- Amarillo Club
- Texas Bankers Association Governmental Affairs
- Harrington Regional Medical Center
- West Texas State University Foundation
- Franklin Lindsay Student Aid Fund
- Texas Cattle Feeders Association

Amarillo Globe News Man of the Year in 1986
Honored as one of the "100 History Makers of the High Plains for the Past Century" by the Amarillo Globe News

PERSONAL DATA

Date of birth:	May 2, 1941
Height:	6'
Weight:	187 lbs.
Health:	Excellent
Marital Status:	Married, two grown sons
Hobbies:	Jogging, Skiing

EXPERIENCE

February 1997 to Present:
President and CEO of The First National Bank of Amarillo - 905 S. Fillmore, Amarillo, Texas

July 1971 to February 1997:
Boatmen's First National Bank of Amarillo
Chairman, President and CEO
Began as Assistant Vice President,
Promoted to Vice President, 11/72
Promoted to Senior Vice President, 12/75
Promoted to Executive Vice President, 12/81
Promoted to President and Chief Banking Officer, 9/84
Promoted to Chairman of the Board and CEO, 3/87

June 1963 to July 1971:
First Federal Savings & Loan of Amarillo - 406 Polk, Amarillo, Texas
Held the position of General Loan Officer and Secretary of the Corporation.

EXHIBIT "B"

POLITICAL CONTRIBUTIONS

Donald E. Powell

	Date	Amount
Bush-Quayle ' 92 Primary Committee Inc	8 NOV 91	$1,000
Beau Boulter for Congress	8 JUL 92	250
Sarpalius for Congress	13 JUL 93	250
Thornberry for Congress	10 AUG 94	500
Thornberry for Congress	25 OCT 94	500
Kay Bailey Hutchinson For Senate Committee	12 APR 94	500
Thornberry for Congress	28 FEB 95	250
Thornberry for Congress	9 NOV 95	750
Thornberry for Congress	21 MAR 96	250
Laughlin for Congress	8 APR 96	200
Thornberry for Congress	15 OCT 96	650
BEEF-PAC (Beef Political Action Committee of Texas Cattle Feeders Association)	12 SEP 95	500
Phil Gramm for President, Inc.	21 FEB 95	1,000
Texas Republican Congressional Committee AKA Victory '96	25 OCT 96	500

	Date	Amount
Thornberry for Congress	29 SEP 98	1,000
Texas Republican Congressional Committee AKA Victory '98	20 MAY 97	600
Bush for President Inc.	11 MAR 99	1,000
Thornberry for Congress	12 FEB 99	250
Thornberry for Congress	19 NOV 99	250
Thornberry for Congress	21 JUN 00	1,000
Friends of Phil Gramm	23 AUG 99	1,000
Kay Bailey Hutchinson for Senate Committee	12 SEP 00	500
Combest Congressional Committee	03 NOV 00	500
Republican National Committee – RNC (Mr. & Mrs. Powell)	30 JUN 00	5,000
Republican National Committee – RNC (Mr. & Mrs. Powell)	30 JUN 00	5,000
Friends of Phil Gramm (Mrs. Powell)	23 AUG 99	1,000
Bush-Cheney 2000 Compliance Committee Inc	22 NOV 99	1,000 Amendment
Bivins for Senate (Mr. & Mrs. Powell)	13 SEP 93	1,000
Bivins for Senate (Mr. & Mrs. Powell)	21 DEC 93	250
Bivins for Senate (Mr. & Mrs. Powell)	13 OCT 94	250
Bivins for Senate Committee	30 OCT 95	250

	Date	Amount
Bivins for Senate Committee	02 OCT 96	250
Bivins for Senate Committee	19 SEP 97	250
Bivins for Senate Committee (Mrs. Powell)	03 SEP 97	1,000
Bivins for Senate Committee	11 SEP 98	250
Bivins for Senate Committee	17 SEP 99	250
Bivins for Senate Committee	07 SEP 00	250
Texans for Rick Perry (Mr. & Mrs. Powell)	08 DEC 00	4,000
Texans for Rick Perry (Mr. & Mrs. Powell)	09 DEC 00	500
Texans for John Cornyn	14 NOV 00	2,000
Texans for John Cornyn	24 OCT 00	1,000
James E. Laney	17 AUG 00	700
Bivins for Senate Committee	07 SEP 00	250
Friends of Carole Keeton Rylander	01 DEC 00	250
Friends of Carole Keeton Rylander	01 DEC 00	250
Texans for Rick Perry	18 FEB 00	3,000
Todd Staples for Texas Senate	18 AUG 00	1,000

EXHIBIT "B"
ADDENDUM

POLITICAL CONTRIBUTIONS

Donald E. Powell

	Date	Amount
Bush Gubernatorial 1994/98	22 FEB 94	1,000
Bush Gubernatorial 1994/98	02 OCT 95	10,000
Bush Gubernatorial 1994/98	09 SEP 97	10,000
Bush for President Inc. (Mrs. Powell)	11 MAR 99	1,000
Thornberry for Congress Committee (Mrs. Powell)	21 JUN 00	1,000
Thornberry for Congress Committee (Mrs. Powell)	18 SEP 97	1,000
Texas Republican Congressional Committee (Mrs. Powell)	13 SEP 00	1,000
Kay Bailey Hutchison for Senate Committee (Mrs. Powell)	23 APR 97	1,000
Richard Waterfield	21 SEP 90	500
Richard Waterfield	24 JAN 90	250
Carole Keeton Rylander	10 DEC 97	500
Carole Keeton Rylander	29 SEP 98	500
Susan Combs	20 OCT 97	500
Rick Perry	11 JUL 97	10,000
Barry Williamson	20 APR 98	5,000
Rick Perry	2 NOV 98	4,000
Tony Garza	23 FEB 98	2,500
Rick Perry	30 DEC 97	1,356
Barry Williamson	25 FEB 98	1,000
Barry Williamson	06 OCT 97	1,000
Steve Ogden	1998 Election	1,000
Tony Garza	12 OCT 98	1,000
John Cornyn	09 DEC 98	1,000
David Swinford	12 SEP 98	250
Steve Ogden	1998 Election	100
Texans for Rick Perry	08 DEC 00	16,000

EXHIBIT "C"

The attached *curriculum vitae* briefly outlines the professional qualifications and spirit of community service that I believe led President George Bush to honor me with this nomination. I have served as a full time bank and savings and loan executive since graduating from West Texas State University in 1963. Over the past four decades I have been intimately involved in virtually ever aspect of banking operations and supervision from general loan officer of a small savings and loan to Chairman, President and Chief Executive Officer of the First National Bank of Amarillo, one of the largest independently owned national banks in Texas to survive the thrift and banking crisis of the late 1980s. In fact, the First National Board named me as Chairman at the height of the banking crisis in 1987 based on its belief that I had the wide range of skills necessary to protect the Bank from what many bankers, regulators and members of the Amarillo community saw at that time as almost certain federal seizure and receivership. I like to think that I rose to the occasion and did right by the Bank, the Board, our shareholders and most importantly the citizens of Amarillo. As a life long resident of Amarillo, I understand deeply the importance of a safe and sound bank to the citizens of the local community. In fact, a *New York Times* feature article published only days after my appointment as Chairman and headlined "Troubled Bank is Amarillo's Anchor," highlighted the critical importance of a financially healthy First National to the Amarillo community. The article summed up First National's vibrant central role in the Amarillo Community as follows:

> For nearly a century now, the bank has been the Rock of Gibraltar of the Texas Panhandle. As the largest bank in the area, its capital helped build the vast cattle, farming, oil and gas industries, its leaders led the United Way and other charities, and it bought the works of local artists.

In formulating our comprehensive plan for restoring the Bank's financial strength, I never for a moment lost sight of the Bank's importance in the lives of my fellow Amarilloans. The *Times* piece captured First National's overriding dedication to the welfare of our community: "Our bank assisted a lot of folks in the past, said (First National's) current Chairman and Chief Executive Officer, Don Powell, son of a candy and tobacco peddler, people remember that." The article concluded that notwithstanding the enormous adversity and financial hardships facing Amarillo and the Bank, "Mr. Powell exudes optimism," "we'll turn it around." That promise to "turn it around" may have been optimistic, but it came from my heart. I well understood the mighty challenges we faced in restoring the Bank. Failure however, would have been devastating to all segments of our community. I was bound and determined to do all in my power to prevent that from happening.

Prior to agreeing to speak with the *Times* reporter, I insisted on a personal commitment from him. A commitment that he would return to do a follow up piece when we succeeded in turning the Bank around. Sadly, the reporter passed away. However, the widely respected professor and consultant to the banking industry, Paul Nadler, did write such an article in January 1994, and he reported that we had made good on our commitment to the community. The headline to his article reflected the essence of my approach to reviving our community bank; "First Amarillo Survived by Going on the Offensive." The article opened as follows:

> How does a bank evolve, in six years, from being cited in

> *The New York Times* as one of those most likely to fail to being ranked eighth on *Financial World's* most recent list of the best financial institutions?
>
> Ask Don Powell, Chief Executive of $800 million-asset Boatmen's First National Bank of Amarillo, Texas. His recently purchased institution did just that.

The Professor's article, which I have attached to this statement, highlights many of the critical steps we took in restoring the Bank to its historic position of financial strength. Our success was recognized not only by our shareholders and the community, but also by our federal regulators. I continue to this day to take great pride in the recognition we received from the Office of the Comptroller of the Currency which Professor Nadler described in 1994 as follows:

> By raising $21 million in two public offerings and adding another $45 million through earnings growth, the bank achieved such turnaround that the Office of the Comptroller of the Currency, which had issued a letter of warning in the late 1980s, followed it up this year with a bottle of champagne that is now on permanent display in the bank's boardroom.

More recently, in my position as Chairman and Chief Executive Officer of a newly chartered institution also named the First National Bank of Amarillo, I have successfully guided the development of another homegrown financial institution that has brought much needed additional banking services to the citizens of Amarillo. The new First National is now well-established and profitable, and I am turning my attention to new opportunities to repay to my community and fellow citizens at least a small portion of my eternal debt to them for the lifetime of extraordinary opportunities they have provided me and my family.

One small way in which I have tried to repay this debt is through service to our local schools and universities. Most recently, I have served as Chairman of the Board of Regents of The Texas A & M University System. I am extremely proud of the University's significant advancements during my tenure as Chairman in serving the educational needs of it 91,000 member student body. I am particularly proud of the ongoing Regent's Initiative for Excellence in Education, which the Board designed and implemented to increase the effectiveness of teacher preparation through strengthened public school partnerships.

When President Bush offered me the nomination as Chairman of the FDIC, I immediately recognized it as an extraordinary opportunity to serve my country. I humbly, but firmly believe that the array of skills I have developed over the past four decades as a professional banker and as the Chairman of major commercial and educational institutions, my unswerving commitment to community service and my abiding dedication to assuring the continuing success of our nation's insured banks as the financial anchors of all of our nation's communities, have qualified me well to Chair the FDIC as it faces the challenges ahead.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES FROM DONALD E. POWELL

Supervision and Regulation

Q.1. In the 1990's, the Federal Deposit Insurance Corporation established a Division of full-time examiners responsible for compliance and consumer affairs that is entirely separate from the Division of Supervision, which examines for bank safety and soundness. Do you support this type of organizational structure and feel that it promotes effective supervision?

A.1. The examination and supervision of financial institutions continues to become more and more complex. New products (including products designed to serve low- and moderate-income individuals) and services, competitive pressures, management and technology issues, among others, all contribute to the complexities faced by both financial institutions and their regulators. I do see some benefit to the existing FDIC structure for examination and supervision, which provides for a specialized examination workforce for the compliance and consumer affairs and safety and soundness areas. From the perspective of financial institutions, I believe it is vitally important that two goals are met: That they are sent a clear and uniform message about their financial and regulatory standing and that the examination process is not unduly burdensome. Thus, it is critical that the compliance and consumer affairs exam function is closely coordinated with the safety and soundness examination function. If confirmed as Chairman, I will work hard to ensure those goals are met and that the FDIC provides the industry and the public with a high level of service.

Liquidity and the Federal Home Loan Banks

Q.2. Over the last decade, core deposits have declined as a percentage of bank and thrift assets, as individuals have taken advantage of new investment options. Declining deposits have forced banks to look elsewhere for sources of liquidity. Small community banks, which may have limited access to alternative funding sources, are increasingly relying on advances from the Federal Home Loan Banks as a way to meet their liquidity needs. What are your views on this development and its implications, if any, for the financial services industry?

A.2. As a community banker, I can fully appreciate that the competition for core deposits is intense. Depositors have many choices about where to place their funds, both inside and outside the banking system, and the range of choices continues to grow. That is a healthy trend, but it means that fewer banks can fund their loans solely through deposits generated from within their communities. The prudent use of Federal Home Loan Bank advances can be a valuable source of liquidity; especially advances with intermediate and longer terms. Of course, FHLB advances like any liability investment, can be misused. My expectation is that the inappropriate use of advances, like other deficiencies in risk-management at individual banks can be addressed on a case-by-case basis through the examination process.

Too Big to Fail

Q.3. Former Federal Reserve Board Vice Chairman Alan Blinder was quoted in the June 4 *American Banker* stating that "everybody knows that there are institutions that are so large and interlinked with each other that it is out of the question to let them fail." Dr. Blinder's statement contrasts with official Federal Reserve Board policy and Fed Vice Chairman Roger Ferguson's recent declaration that "no institution is too big to fail." Vice Chairman Ferguson has also observed that, "After consolidation some firms shift to riskier asset portfolios, and consolidation may increase operating risks and managerial complexities." Please discuss your views as to whether some institutions are too big to fail and how your views would impact the FDIC's policies and practices regarding supervision and insurance.

A.3. In 1991, in the Federal Deposit Insurance Corporation Improvement Act (FDICIA), Congress prohibited protection of uninsured depositors and unsecured creditors if protection would increase the cost to the FDIC. Congress allowed only one exception, known as the systemic risk exception, to this general prohibition. The exception was crafted to ensure that it would be rarely invoked, and, in fact, it has not been invoked.

The mere possibility of a systemic risk determination, however, and full protection for all depositors and all creditors, may create a public perception that some insured institutions are still too big to fail. That perception, if it exists, likely exacerbates that misperception. I know from my own experience as a community banker that many community banks also believe that the possibility of a systemic risk determination gives very large institutions an unfair competitive advantage. Nothing in the law, however, requires that uninsured depositors and creditors be made whole even if a systemic risk determination is made. Blanket protection for all is not and should not be guaranteed.

A systemic risk determination would also pose problems for the deposit insurance funds, not merely because of the potential for large losses. If a systemic risk determination is made, the FDICIA requires that the extra costs be recovered through special assessments on the affected fund's members based essentially on average total liabilities minus subordinated debt. As the FDIC noted in its Options Paper, the funding arrangements for systemic risk raise several issues such as the procyclical nature of this special assessment, and the fact that small banks would still be required to pay for a systemic risk determination even though they would never receive similar treatment if distressed. If confirmed as Chairman, I would welcome the opportunity to work with Congress to address this important public policy issue.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MILLER FROM DONALD E. POWELL

Q.1. Mr. Powell, as a banker, you experienced the financial difficulties of the 1980's in Texas. What was your philosophy for dealing with problem banks then and how has that experience played a role in your approach to banking and resolving problem banks today?

A.1. As you know, my perspective is that of a banker who survived the 1980's and 1990's, but had a problem bank at one point. I felt the most effective way to return a troubled bank to health was to address the bank's problems directly and aggressively. I also found it advantageous to work closely and honestly with regulators, who had an interest in our success. While timely corrective action can go a long way toward addressing a bank's problems and reducing the losses in the event of failure, I also believe that it is important for supervisors, within reason, not to overreact and unduly limit an institution's ability to correct its problems. In short, a private resolution that results in a viable bank is always better than receivership.

There is no formula that will tell regulators exactly what to do in every situation. The correct response calls for sound judgment, common sense, and measured steps. I believe that combining my own experience at a troubled bank with the experience and expertise of the FDIC's professional staff, we will be able to strike a proper balance in the supervision of problem institutions. If confirmed, I also anticipate that I will continue to look for ways to improve the supervision program for all institutions, including those not experiencing problems.

Q.2. As you know, the FDIC sits with the other banking regulators on the Federal Financial Institutions Examination Committee (FFIEC), the Capital Markets Working Group, and other interagency committees. What will be your approach to the FDIC's participation on these committees?

A.2. The Federal Financial Institutions Examination Council and related interagency working groups and committees provide a necessary venue for the regulators of the banking, thrift, and credit union industries to coordinate the development of uniform supervisory standards and polices. Significant issues that affect all insured depository institutions, such as examination standards, capital adequacy, the CRA, money laundering, and the like, have been addressed by the FFIEC in a coordinated fashion. The FFIEC also serves as a focal point of coordination with State supervisors. Coordination of uniform supervisory policies across the financial services industry is critical to ensure a "level playing field" and aids the development of the least burdensome, most effective response to supervisory concerns. Participation in interagency committees helps the regulators to achieve these goals. If confirmed, I would expect that the FDIC will be an enthusiastic participant in the FFIEC and the other interagency committees.

Q.3. The FDIC participates in the Basel Supervisors Committee, as well as other international bilateral forums on deposit insurance issues. What is your view as to the FDIC's role in the international financial community and dealing with countries that look to the FDIC for their expertise in issues surrounding deposit insurance?

A.3. The FDIC is the world's premier deposit insurance entity. Its participation in international efforts to achieve financial stability through bank supervision, deposit insurance, and failed bank resolution techniques is critical. As I mentioned in my testimony, one of the challenges we face as regulators is the globalization of the banking system. Banks today operate worldwide and coordination

of the regulation and supervision of these institutions is exceedingly important. I would anticipate that the FDIC, along with the other U.S. regulatory authorities, will continue to be active participants in these on-going efforts. More broadly, we live in a global economy. Economic upheavals in Mexico, East Asia, and Russia over the last decade have demonstrated that, however distant a financial crisis may appear, it can significantly impact this country's economy and its banking system. Consequently, the FDIC's international activities can have a significant domestic benefit. In addition, I am certain that there are lessons that the FDIC can learn from the experiences of other nations in administering their deposit insurance systems and in bank supervision, more generally. If confirmed, I intend for the FDIC to continue its international role.