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NOMINATIONS OF: SHELIA BAIR, JAMES B. LOCKHART, III DONALD L. KOHN, AND KATHLEEN L. CASEY

HEARING

BEFORE THE

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

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

ON

NOMINATIONS OF:

SHELIA BAIR, OF KANSAS, TO BE MEMBER AND CHAIRPERSON OF THE BOARD OF DIRECTORS OF THE FEDERAL DEPOSIT INSURANCE CORPORATION

JAMES B. LOCKHART, III, OF CONNECTICUT, TO BE DIRECTOR OF THE OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

DONALD L. KOHN, OF PENNSYLVANIA, TO BE VICE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE FEDERAL RESERVE SYSTEM

KATHLEEN L. CASEY, OF VIRGINIA, TO BE A MEMBER OF THE U.S. SECURITIES AND EXCHANGE COMMISSION

JUNE 8, 2006

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NOMINATIONS OF:

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KATHLEEN L. CASEY, OF VIRGINIA TO BE A MEMBER OF THE U.S. SECURITIES AND EXCHANGE COMMISSION

THURSDAY, JUNE 8, 2006

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

The Committee met at 10:09 a.m., in room SD–538, Dirksen Senate Office Building, Richard C. Shelby (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN RICHARD C. SHELBY

Chairman SHELBY. The hearing will come to order. This morning, we will consider the nominations of four very distinguished individuals. I appreciate the willingness of the nominees to appear before the Committee. The panel of nominees, if confirmed, will have very important responsibilities for ensuring public confidence in the viability of our Nation's financial institutions, capital markets, and housing finance system.

Our first nominee is Ms. Sheila C. Bair, nominated by President Bush to serve as a Member and Chairman of the Federal Deposit Insurance Corporation, FDIC. The FDIC, as we all know, is charged with insuring deposits in banks and thrift institutions for at least $100,000. In addition, the FDIC is the primary Federal regulator of banks that are chartered by the States that do not join the Federal Reserve System, roughly 5,250 banks and savings

banks. The FDIC also serves as an important role as the backup supervisor for the remaining insured banks and thrift institutions.

The FDIC is currently implementing changes to the Deposit Insurance Program mandated by Congress in legislation passed earlier this year. I believe that ensuring that this implementation process is carried out effectively and in a manner that tracks the will of Congress will be a key responsibility of the new Chairman. The nominee understands that well.

Ms. Bair brings a wealth of financial services experience to the Federal Deposit Insurance Corporation. Currently a Professor of Financial Regulatory Policy at the University of Massachusetts, Ms. Bair has served as Assistant Secretary for Financial Institutions at the Department of the Treasury, as Senior Vice President of the New York Stock Exchange and as Commissioner and Acting Chairman of the Commodity Futures Trading Commission. She is also the author of numerous articles on the financial services industry.

Our second nominee with us is James B. Lockhart, III, nominated to be the Director of the Office of Federal Housing Enterprise Oversight at the Department of Housing and Urban Development that we call OFHEO. Mr. Lockhart, for the past several years, this Committee has made regulatory reform for the Government Sponsored Enterprises a key priority, as you well know. The internal controls, risk management, and accounting problems of the GSE's point to the need for our efforts to bear fruit in this regard. We will be looking to you to assume the stewardship of OFHEO and use the authority you may have available to ensure that these entities, which are so important to our housing markets, operate in a safe and a sound manner.

Mr. Lockhart was previously nominated and confirmed to serve as the Deputy Commissioner for the Social Security Administration. In that position, he serves as the Agency's Chief Operating Officer, Secretary to the Social Security Board of Trustees, and as a member of the Executive Committee of the President's Management Council. Prior to this, he served as Managing Director at NetRisk, Incorporated. Earlier in his career, he served as Executive Director of the Pension Benefit Guaranty Corporation and has held senior positions at National Reinsurance, Smith Barney, Alexander & Alexander, and Gulf Oil. Mr. Lockhart received his bachelor's degree from Yale University and his master's degree from Harvard.

Our third nominee is Donald L. Kohn, nominated to serve as the Vice Chairman of the Board of Governors of the Federal Reserve System. Dr. Kohn took office on August 5, 2002, as a Member of the Board of Governors of the Federal Reserve System for a full term ending January 31, 2016.

The Federal Reserve System is in a period of transition. Chairman Bernanke assumed his position earlier this year and has the unenviable task of following the much-commended tenure of Alan Greenspan. Given his extensive background and training, this Committee was pleased to see Chairman Bernanke assume those duties. In another type of transition, the future path of interest rates appears less predictable than it has been in recent years, and the recent volatility in financial and stock markets reflects that uncertainty. Additionally, the Federal Reserve Board is in the process of developing new capital requirements for our banking system.

These requirements are an extremely important part of our capital regime, and any changes must be implemented in a thoughtful and deliberative manner that recognizes and preserves the operation of the existing minimum capital requirement. For all these reasons, the Committee is again pleased that President Bush nominated someone with the depth and breadth of experience that you possess, Dr. Kohn, to assume the role of Vice Chairman of the Board of Governors of the Federal Reserve System.

You have a very distinguished record with the Federal Reserve System already. Before becoming a Member of the Board, he served on its staff as Adviser to the Board for Monetary Policy from 2001 to 2002; Secretary of the Federal Open Market Committee from 1987 to 2002; Director of the Division of Monetary Affairs, and Deputy Staff Director for Monetary and Financial Policy. He has also held several positions in the Board's Division of Research and Statistics: Associate Director, Chief of Capital Markets, and Economist. Dr. Kohn began his career as a Financial Economist at the Federal Reserve Bank of Kansas City.

Dr. Kohn has written extensively on issues relating to monetary policy and its implementation by the Federal Reserve. These works were published in volumes issued by various organizations, including the Federal Reserve System, the Bank of England, the Reserve Bank of Australia, the Bank of Japan, the Bank of Korea, the National Bureau of Economic Research, and the Brookings Institution. Dr. Kohn received a B.A. in economics in 1964 from the College of Wooster and a Ph.D. in economics in 1971 from the University of Michigan.

Our fourth nominee today is no stranger to this Committee. It is Kathleen Casey to be a Commissioner of the Securities and Exchange Commission. Ms. Casey has served, as we know, as the Staff Director and Counsel of the Senate Banking Committee for the past 3½ years. During this period, the Committee has considered many significant securities issues, among them addressing trading abuses in the mutual fund industry, oversight of the Sarbanes-Oxley Act, the structure of the capital markets and the hedge fund industry. The Committee has also reviewed the impact of the global analyst settlement and increased scrutiny of both credit rating agencies and the self-regulatory organizations that we call SRO's. In examining these key issues, the Committee is always mindful of the SEC's role and its interrelationship with the SRO's, State regulators, and international regulatory bodies. As Staff Director, Ms. Casey has acquired substantial expertise in these areas. Beyond this institutional experience, Ms. Casey has developed a reputation for her keen intellect, diligence, and consummate professionalism. Perhaps more importantly, she recognizes the fundamental importance of honesty, integrity, and fairness in the operation of our capital markets.

Upon confirmation, Ms. Casey will become a Commissioner at the Securities and Exchange Commission during a time of great change in the global markets. The Commission is charged with protecting investors; maintaining fair, orderly, and efficient markets; and facilitating capital formation. Recently, the Securities and Exchange Commission has had to confront a host of issues, among them, increased retail investment, new investment products, new

investment vehicles, new markets, and the emergence of publicly traded exchanges with more global interaction and innovation than ever before. As the flow of capital has become increasingly international in scope, regulatory considerations will need to adapt to meet these changes. On the domestic side, consolidation and exchange demutualization further demonstrate that change and evolution are a constant in our financial markets. Again, the Securities and Exchange Commission must keep pace with these developments.

Prior to working on the Banking Committee, Ms. Casey served as my Chief of Staff and Legislative Director for a number of years. She also worked as a Legislative Assistant and Staff Director for the Subcommittee on Financial Institutions of this Senate Banking Committee. She received her B.A. from Pennsylvania State University and her J.D. from George Mason University. I commend the President for nominating Ms. Casey and look forward to hearing her testimony and the testimony of all our nominees this morning.

Senator Sarbanes.

STATEMENT OF SENATOR PAUL S. SARBANES

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

I am very pleased that this morning, we are considering the nominations of four highly qualified individuals, and I want to commend the President and his advisers for sending people of such quality before us to assume important responsibilities. Amongst other things, it makes our job a lot easier, so I welcome it for that reason as well.

At the very outset, I want to pay a special tribute to Kathy Casey, who has been nominated to serve as a Commissioner of the Securities and Exchange Commission. Ms. Casey, as the Chairman observed, has been the Staff Director of this Committee since January 2003. During that period, the Committee has reported out many bills. Bills of some consequence number well into the twenties. Virtually all of them came out of this Committee unanimously. On only a couple of instances did we have a division, and a lot of the credit, I think, goes to very effective staff work.

Mr. Chairman, I am sure you and my colleagues will agree with me that Senators often get credit for the success of the Committee, but we know that a large part of the work is done by the staff.

Chairman SHELBY. Absolutely.

Senator SARBANES. Also, Ms. Casey has led the Committee as Majority Staff Director in a highly transparent manner, with an open door policy, an open mind to hearing all points of view, and with a commitment to try to work toward consensus amongst the Members of the Committee. And, at a time that has been marked by fractious division and so forth, this is a welcome quality and I am sure will be of important service on the Commission.

Ms. Casey has been an excellent Staff Director. I believe she will be a very able Commissioner at the SEC, and I am very pleased and look forward to supporting her nomination.

Let me turn to the other nominees. Sheila Bair, of course, is also very well known to the Committee. She has been confirmed three times before, most recently in 2001, when she served President Bush as Assistant Secretary for Financial Institutions at the Treas-

ury Department. At Treasury, she played a lead role in developing policy relating to Federal Deposit Insurance reform, which obviously is highly relevant now to the nomination to be the Chair of the FDIC, and on terrorism risk insurance, which the Cain-Hamilton Group, ranking how their recommendations were being carried out, this was the only A that they gave to how it was being implemented.

Chairman SHELBY. That is right.

Senator SARBANES. And we all worked together in trying to achieve that.

Most recently, she has been teaching at the University of Massachusetts at Amherst. I have come to know Sheila Bair over the years, and I want to express my appreciation to her for her willingness to serve yet another tour of duty in Government as the Chair of the FDIC.

Don Kohn has served in the Federal Reserve for over 36 years, the last 4 as a Member of the Board of Governors. He is very highly respected as a consummate and dedicated professional public servant. As a staff member, he was well known for his intellect and for being invaluable to both Chairman Volcker and Chairman Greenspan, and I believe it is only fitting and appropriate that he is now being considered to be the Vice Chairman of the Federal Reserve Board.

And Mr. Lockhart, not as well known to this Committee, but he has had extensive Government experience: Executive Director of the Pension Benefit Guaranty Corporation from 1989 to 1993 and Deputy Commissioner and Chief Operating Officer at the Social Security Administration since 2002. He is also currently serving as Acting Director of OFHEO, and if confirmed, will be leading OFHEO at, I think, one of the most important times in its history.

Finally, Mr. Chairman, I want to take this opportunity to express my appreciation to Roger Ferguson, who served so ably at the Fed, first as a Member of the Board and then as its Vice Chairman from October 1999 to April 2006. Among other things, I would note that he provided a very steady hand and a strong leadership at the Fed during the crisis surrounding September 11. We will recall that Chairman Greenspan was out of the country when that tragedy occurred, and Roger Ferguson responded with, I think, great ability and rendered really a tremendous service.

I also want to express my appreciation to Cynthia Glassman, both for her dedicated service at the Securities and Exchange Commission and before that as a Senior Professional Economist at the Federal Reserve Board. I want to take this opportunity to wish each of them well in their future endeavors.

Thank you very much.

Chairman SHELBY. Senator Crapo, you have an opening statement you would like to give?

STATEMENT OF SENATOR MICHAEL CRAPO

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

I simply want to join with you and Senator Sarbanes in your comments about each of those who are on our panel today. We have very strong candidates for the positions to which they have been nominated, and I also, because of our close relationship with Kathy

Casey here, want to give her my personal congratulations and commendations for the great work that you have done here and the great work that you will do at the SEC.

Chairman SHELBY. Thank you.

Senator Johnson.

STATEMENT OF SENATOR TIM JOHNSON

Senator JOHNSON. Thank you, Mr. Chairman, and Ranking Member Sarbanes. I want to thank you for holding this hearing.

We have a very impressive slate of nominees to consider. I look forward to hearing from them. I would especially like to offer my congratulations to Ms. Casey, a member of our own Banking Committee family. She has been with you, Mr. Chairman, for many years, and I appreciate the hard work she has done on behalf of this Committee and her service to the financial services industry. And while her nomination is a loss for us, it is well-deserved, and I have no doubt she will be a great asset to the SEC.

I have a number of comments that I would like to share, but in order to expedite the consideration of this hearing, Mr. Chairman, what I would like to do is to submit my statement for the record.

Chairman SHELBY. Without objection, it will be made part of the record in its entirety.

STATEMENT OF SENATOR ELIZABETH DOLE

Senator DOLE. Thank you, Mr. Chairman.

While I could talk about all of these outstanding nominees before us today in some detail, there is one that Bob Dole and I are especially proud of. Bob has asked that I let you know that he very much wanted to be here today and is so sorry he had to be out of town. He wanted to once again introduce Sheila Bair, the President's nominee for Chairman of the Federal Deposit Insurance Corporation.

We have known Sheila for 25 years, Mr. Chairman. Earlier in her career, she served as Bob's Counsel on the Senate Judiciary Committee, handling issues including civil and constitutional rights, intellectual property, and judicial reform. Bob and I knew her to be an outstanding member of his staff, one on whom we could count for advice and analysis, both of us, a role at which she certainly has excelled.

Bob was here before this Committee on July 12, 2001, when he sang Sheila's praises for her confirmation as Assistant Secretary of the Treasury. He asked that my colleagues on the Committee keep in mind his high praise and confidence in Sheila Bair. Within 24 hours of her confirmation for that position, Mr. Chairman, Sheila was before this Committee, testifying on the need for deposit insurance reform. If confirmed in this new role, she will be charged with implementing the reform.

On numerous issues, Sheila has been a great resource to both Bob and me over the years. She has been a catalyst for greater action for financial literacy and financial institutions policy. Both Bob and I are confident that Sheila will be approved speedily and overwhelmingly, and we both give her our unqualified support.

I look forward to working with Sheila in this new capacity on critical issues impacting the financial services industry, such as the

implementation of Basel II. I have some concerns that the proposed U.S. regulation differs from the internationally adopted accord and how these differences might disadvantage U.S. banks of all sizes abroad and on our own soil.

I am confident that Sheila will keep an open mind at the FDIC and that she will engage in an open dialogue about the concerns of some of the industry with regard to the draft rule.

Mr. Chairman, I would ask unanimous consent that Bob Dole's full statement be made a part of the record.

Chairman SHELBY. Without objection, it will be done

I also want to recognize Dr. Don Kohn, who has been nominated as Vice Chairman of the Board of Governors of the Federal Reserve. He has very ably served as a Member of the Board since 2002 and has my full support for this new position.

The Committee will also consider the nomination of Jim Lockhart to serve as Director of the Office of Federal Housing Enterprise Oversight. I had the great pleasure of working with Jim when he was the Executive Director of the Pension Benefit Guaranty Corporation during my years as Labor Secretary for the first President Bush. In my role, Mr. Chairman, I served as the Chairman of the Board of Directors for the PBGC and relied on Jim's wise advice and counsel. Jim did a great job of reform at PBGC in his time there and has now dedicated himself to the daunting task of oversight of Fannie Mae and Freddie Mac. I am confident, Mr. Chairman, he will do an excellent job there as well, and he has my unqualified support.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Bunning.

STATEMENT OF SENATOR JIM BUNNING

Senator BUNNING. Thank you, Mr. Chairman.

Today, we have four very important nominations before this Committee. Each of the nominees will fill a high ranking position at one of the most influential Government agencies overseeing the financial sector, and each of the nominees will play a critical role in preserving the safety and soundness of our national economy.

Two of the nominees face immediate challenges in their jobs. The Government Sponsored Enterprises like Fannie and Freddie must be cleaned up, and the risks that they pose to our economy must be brought under control. That is a job that we must act on in Congress in addition to what is done by the Office of Federal Housing Enterprise Oversight. Also, the Federal Reserve is at a point where it is going to do some serious damage to our economy if its Members are not careful.

I hear a lot of talk about inflation showing up, but there are two things we need to keep in mind when talking about inflation: First, our inflation measures are backward-looking. Second, there is a lag between Fed action and when we have an impact on inflation and the economy. Both of those should lead the Fed to be cautious when taking action to fight inflation.

I am afraid the Fed is going to overshoot this year just as they did the last time. Overshooting will have a devastating impact on this economy and maybe worse than before, because of the artificially inflated housing prices this time around. I am not alone in

my concern, either. All you need to do is look at the stock market since the Fed's last action to see that the markets are really worried. Just this week, the Dow is down 317 points, mostly because of talk from the Fed Chairman that has everyone convinced there are going to be more rate hikes coming. I am very worried about this not just because of all of the money people are losing in the markets but because of the lasting damage that could be done to the economy.

I thank all the nominees for coming before the Committee today, and I congratulate them on their nomination by the President. I especially want to congratulate Ms. Casey, who has served this Committee well over the years. One thing that sticks out most in my mind was her help with my TVA provisions 2 years ago. Mr. Chairman, it is always nice to see our staff succeed and go on to bigger and better things, and I congratulate both of you.

Thank you.

Chairman SHELBY. Thank you.

Senator Hagel.

STATEMENT OF SENATOR CHUCK HAGEL

Senator HAGEL. Mr. Chairman, thank you.

I would only add that it is a remarkable opportunity when we have before us four exceptional individuals that represent competency and commitment to causes greater than their own self-interest. We are grateful for your service and for your willingness to once again take on big assignments with significant consequences in these jobs, and, in particular, I would add my note of appreciation to our own Ms. Casey's nomination. I am strongly supporting each of these four nominees and look forward to work with them.

Thank you very much.

Chairman SHELBY. Senator Reed.

STATEMENT OF SENATOR JACK REED

Senator REED. Thank you very much, Mr. Chairman, and I do want to commend all the nominees.

I have had a chance to meet with Ms. Bair, Mr. Lockhart, and Governor Kohn and am impressed with not only the quality of their thought but also their commitment to public service and thank you, and a special thanks to our local nominee. Kathy Casey has served this Committee with great distinction, great fairness, great integrity, and it is a delight and pleasure to see you here today for your nomination.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Martinez.

STATEMENT OF SENATOR MEL MARTINEZ

Senator MARTINEZ. Thank you, Mr. Chairman.

I very much appreciate the opportunity I have had to work with Ms. Casey as Secretary of HUD and then here in this Committee, and I am delighted for the opportunity that she has here today. It looks like the votes are going pretty well for you on the Committee.

[Laughter.]

So, I am happy to forecast a confirmation for you.

[Laughter.]

But I am also very interested in discussing the issues facing OFHEO. It is a very important time at a very important entity and just very much appreciate the steps you have taken but also very much look forward to discussing with you where the future might lead in terms of the work at OFHEO, and I likewise commend and congratulate the other nominees for their public service and their desire to serve.

Thank you.

Chairman SHELBY. Will all four of you stand, hold up your right hand, and be sworn.

[Witnesses sworn.]

Chairman SHELBY. Ms. Bair, we will start with you. Do you have anybody you want to recognize here this morning?

Ms. BAIR. Yes, I certainly do: my husband, Scott Cooper, my husband and best friend is here with me. My son, Preston Cooper.

Chairman SHELBY. Okay.

Ms. BAIR. And my daughter, Colleen Cooper.

Chairman SHELBY. Great.

Ms. BAIR. They are here, and I trust the Committee will understand if they do not——

Chairman SHELBY. Mr. Lockhart, do you have anybody here with you today?

Mr. LOCKHART. My wife, Cricket, and her brother.

Chairman SHELBY. Mr. Kohn.

Mr. KOHN. My wife, Gail; my son, Jeff; my niece, Sarah Friedman; my mother, Pat; and my niece, Marcy Friedman.

[Laughter.]

Chairman SHELBY. You brought them all.

Mr. KOHN. It takes a crowd to support me, I think.

Senator SARBANES. I wondered where this large crowd came from.

[Laughter.]

Chairman SHELBY. Ms. Casey.

Ms. CASEY. I have my father, Bernie Casey, and my mother, Kathy Casey, and several friends.

Chairman SHELBY. Thank you all.

Ms. Bair, I will start with you, but all of your written testimony will be made part of the hearing record of the Banking Committee in its entirety. If you will sum up briefly your remarks, because we have a lot of Senators here.

STATEMENT OF SHEILA BAIR, OF KANSAS TO BE MEMBER AND CHAIRPERSON OF THE BOARD OF DIRECTORS FEDERAL DEPOSIT INSURANCE CORPORATION

Ms. BAIR. Thank you, Senator. I have a short statement. I will be brief.

Thank you very much. It is a pleasure to appear before you this morning with such a distinguished panel. At the outset, I would like to thank the President for having the confidence in me to lead this historic agency. Established in the throes of the Great Depression, the FDIC restored depositor confidence in our crippled banking system and since that time has served as a beacon of safety for the financial assets of the average consumer. It is a well-run, well-

respected agency, comprised of 4,500 dedicated staff and a Board of Directors who bring a broad depth of experience as well as a rich diversity in regulatory viewpoints. It will be my privilege to work with these outstanding individuals if confirmed by the Senate.

I would like to thank my family for their support of my decision to accept this nomination and their willingness to disrupt their lives to move back to Washington, DC. I have introduced my family. I would also like to thank my parents, Dr. Albert and Clara Bair, who are quite elderly and could not join me this morning. Finally, I would like to recognize my former boss, Senator Dole, for his help in this endeavor and all the other challenges I have undertaken over the past two decades. Washington can be a difficult place to navigate, and having someone of high stature and integrity to guide you is crucial. I was fortunate enough to have Senator Dole as a mentor. His wise counsel and advice have always served me well.

Another benefit of my association with the Senator was the opportunity to get to know the senior Senator from North Carolina. Elizabeth, I thank you for those kind words. I first had the privilege of meeting Elizabeth Dole in the 1980's, when we worked on so-called "gender gap" issues in the Reagan Administration, to show you how old I am.

[Laughter.]

I have seen first-hand her formidable intellect, strong work ethic, and utmost dedication to public service, and I am very glad she is on this Committee and that perhaps we will have the chance to work together again.

The last time I appeared before this full Committee, I was the President's nominee to be the Assistant Secretary for Financial Institutions, as was noted. Upon my confirmation for that position, my first assignment was to represent the Administration on deposit insurance reform. If confirmed by the Senate, I will play a role now in the implementation of that comprehensive new law. Deposit insurance reform is just one of the many major policy issues confronting the FDIC: ILC's, Basel II and IA, regulatory burden, antimoney laundering; the list goes on. There is no shortage of cutting edge issues at the FDIC, and for many, there are no easy answers. But as one who loves public policy and believes that Government can be a force for positive change, I do welcome these challenges.

In concluding, I would reiterate my strong commitment to the millions of individuals who rely on the FDIC for security and peace of mind in protecting their deposits. As the ownership society evolves, it is important for everyday working men and women to know that they have a safe haven for a selected portion of their financial assets. It is equally important to the functioning of our banking system that consumers have confidence in their banks. The FDIC stands proudly at that intersection, and I look forward to the opportunity to serve this fine agency.

Thank you very much, Mr. Chairman.

Chairman SHELBY. Mr. Lockhart.

STATEMENT OF JAMES B. LOCKHART, III, OF CONNECTICUT, TO BE DIRECTOR OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

Mr. LOCKHART. Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee, it is a real honor to be before you today as President Bush's nominee for the Director of the Office of Federal Housing Enterprise Oversight, OFHEO.

This will actually be my fourth opportunity for public service. The first was as a Naval officer aboard a nuclear submarine, the USS George Washington Carver. The boat's motto is one that has always stuck with me, which is "Strengthen through Knowledge," and it is going to be important in this upcoming job as well.

As was noted, I have also had the opportunity to run the Pension Benefit Guaranty Corporation, to be the Deputy Commissioner and Chief Operating Officer of Social Security, and for the past month, the Acting Director of OFHEO.

But despite all of that time in Government, I have spent most of my career in the private sector in financial services. As such, I have extensive experience with many of the issues the Enterprises, Fannie Mae and Freddie Mac, are facing, which include internal controls, risk management, systems development, investments including asset-backed securities, mortgages, guarantees, and capital management.

A secure retirement and homeownership are key components of the American Dream. In many ways, trying to make those dreams come true has been the mission and goal of all three agencies for which I have worked. The three also share a need for strengthening. At PBGC, I was charged with shoring up the agency so that it could better fulfill its mission of protecting the private sector pensions of Americans. Social Security's mission of "ensuring economic security for the Nation's people" is a very important one, and we did a lot of work to improve service and strengthen stewardship. We need to do more on ensuring sustainable solvency for future generations.

Obviously, OFHEO is a much smaller agency than Social Security. Almost everything is in the Government. And just last week, it only had its 13th anniversary. But it does have an extremely important and compelling mission, and that mission is: "to promote housing by ensuring the safety and soundness of Fannie Mae and Freddie Mac and to strengthen the Nation's housing finance system." These two companies own or guarantee about 41 percent of the residential mortgages in the United States and are amongst the largest guarantors and borrowers in the world economy.

There are four key goals that OFHEO needs to accomplish to fulfill our mission. First and by far the biggest is to ensure the safety and soundness of the Enterprises. My first challenge, as you know, at OFHEO was to complete the Special Examination Report of Fannie Mae and to negotiate a settlement agreement. The work on the report was almost done when I arrived, and we were able to issue it and the settlement agreement on May 23. I look forward in the future to having an opportunity to testify before this Committee on that settlement. We must continue to monitor both Fannie Mae is and Freddie Mac's compliance and progress with their agreements. As the Chief Executive Officers of both compa-

nies have told me, it will take them several years of hard work to change the corporate culture and to strengthen internal controls, risk management, and accounting systems to acceptable levels.

The next two goals that we need to fulfill are recommendations from the Fannie Mae Special Examination, and the first is that we need to continue to strengthen our regulatory infrastructure. The recommendation is we must continue to support legislation to provide the powers essential to meeting our mission.

I have been very impressed with the OFHEO team, but we have a lot of progress yet to make. There is a lot of hard work to do, and we need the tools to do that work. In particular, legislative reform of the Agency is critical. The Agency must have powers on par with other financial regulators, including budget flexibility. OFHEO also needs safety and soundness powers equivalent to the banking regulators such as flexible capital standards and strong receivership powers.

The fourth goal is to promote efficient financial markets to support homeownership through educational efforts. Over the years, great progress has been made in homeownership, which at 69 percent is near an all-time high. A key role that OFHEO can play with your help is to ensure that Fannie Mae and Freddie Mac, which have been important elements of this growth, are restored to full health and are properly focused on their core mission.

I look forward to working closely with the Members of this Committee and the professional and highly dedicated OFHEO team to address these challenges so that our Nation's housing finance system continues to be vibrant, safe and sound.

Thank you.

Chairman SHELBY. Governor Kohn.

STATEMENT OF DONALD L. KOHN, OF PENNSYLVANIA TO BE VICE CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. KOHN. Thank you, Chairman Shelby, Senator Sarbanes, Members of the Committee, I am honored to have been nominated by President Bush to be the Vice Chairman of the Board of Governors of the Federal Reserve System, and I am grateful to this Committee for scheduling this hearing so expeditiously. I have enjoyed a long and productive relationship with the Banking Committee and its staff over the years, working together to determine how the Federal Reserve can best contribute to the economic well being of our citizens. As a Governor, and if you confirm me, as Vice Chairman, I look forward to continuing to be part of the shared pursuit of that objective.

The Board's Vice Chairman has a very limited role under the Federal Reserve Act—to preside over the Board in the absence of the Chairman. By tradition and practice, however, the Vice Chairman has played a leadership role within the Federal Reserve System. He or she has acted as the Chairman's deputy or alternate in important international groups; has headed ad hoc committees within the Board, System, or Federal Open Market Committee to help develop policy alternatives for consideration by the larger group, has helped the Chairman to lead the Board, and has worked closely with the Chairman in a variety of circumstances, including

when responding to disturbances in the financial sector that had the potential of affecting the broader economy.

The Federal Reserve faces considerable challenges today in meeting the responsibilities that you have given us for fostering price stability and maximum employment at a time of rapid change in the U.S. and global economies; for helping maintain a safe and sound banking system and stable and efficient payments and financial systems in the face of innovations and financial instruments and institutions; and for protecting and educating consumers as they take advantage of the greater variety and sophistication of financial instruments available to them. I believe that my long and wide experience within the Federal Reserve, at a Reserve Bank and at the Board, on staff and as Governor, along with my close working relationship with Chairman Bernanke, will enable me to make an even greater contribution to the work of the Federal Reserve as the Board's Vice Chairman should you choose to confirm me to this position.

Thank you.

Chairman SHELBY. Ms. Casey.

STATEMENT OF KATHLEEN L. CASEY, OF VIRGINIA TO BE A MEMBER OF THE U.S. SECURITIES AND EXCHANGE COMMISSION

Ms. CASEY. Mr. Chairman, Ranking Member Sarbanes, and Members of the Committee, I am honored to appear before you today. I am deeply grateful and humbled by the President's nomination to serve as a Commissioner on the Securities and Exchange Commission, and I thank the President for this great honor.

I would also like to express my sincere gratitude to Chairman Shelby, the Members of the Senate Banking, Housing, and Urban Affairs Committee, and the staff. It has been both a privilege and a joy to work on the Committee. As has so often been noted, this Committee has a long history of collegiality and bipartisanship. I believe this well-deserved reputation stands as a testament to the Committee's effectiveness and makes work, even on difficult and divisive issues, not only challenging but also rewarding.

I have also been fortunate to work with extraordinarily smart, capable, and professional staff. I have come to know and respect all of them, but I would like to particularly thank Steve Harris, the Minority Staff Director, for his friendship and support over these past several years. It has been invaluable to me, and working with you has been a real pleasure, so thank you, Steve. The Securities and Exchange Commission is the world's preeminent market regulator. Having had the opportunity to work with members and staff of the Commission over the years, it is easy to see why.

Over the past 13 years, I have had the opportunity to work on a broad range of legislative and oversight issues affecting our capital markets and the work of the SEC. This experience has given me a deeper understanding of the legal and regulatory framework that guides our securities markets and has provided me with insight into the public policy considerations that underpin it.

Further, I believe that this experience has given me a strong appreciation of the important role the Securities and Exchange Commission plays in protecting investors and ensuring the integrity

and efficiency of our capital markets. I have a deep respect for the efficiency and productive power of our capital markets.

I believe we should let market forces work. As it has often been said, we have the deepest, most liquid, and efficient markets in the world. Millions of Americans invest in them every day and rely on the market's vibrancy and depth to build and secure their futures. But we should never lose sight of one fact: Our capital markets enjoy this preeminent status because they are the most transparent. Because of this transparency, people in the United States and around the world have confidence in their integrity.

This confidence in our markets is due in large part to the disclosure requirements of our securities laws. Full and accurate disclosure is the key to transparency. But if disclosure is to be meaningful to ordinary investors, it must be understandable. I believe that Chairman Cox has identified in a most tangible way a promising initiative that could help demystify financial disclosure for everyday Americans and empower them with meaningful and understandable information to guide their decisionmaking.

As has also been evidenced in the past, while strong and dynamic, our markets can be roiled if investors do not have confidence that they are fair. It is therefore important that investors believe that fraud and misconduct will be pursued and penalized. The SEC must play a leading role in policing our markets and in enforcing the law. Firm but fair enforcement ensures that misconduct of the few does not erode the confidence of the many.

Our markets also continue to rapidly evolve and change in an increasingly global marketplace. This promises tremendous benefits for U.S. investors but also poses unique challenges. The SEC will play a vital role in ensuring that our regulatory framework is able to adjust to those changes and continue to be responsive to the needs of investors and to market forces. The SEC is already undertaking these efforts proactively to look ahead and to discuss with international counterparts how the SEC can continue to fulfill its mission in this changing marketplace.

The President has nominated me to take the seat being vacated by Commissioner Cindy Glassman. I would like to note that she has been an extraordinary Commissioner, and should I be confirmed, I hope to serve as ably as she has.

On a final and personal note, I would like to thank Chairman Shelby again for giving me the privilege to serve him and this Committee. Working in the U.S. Senate has been the most rewarding and enjoyable experience of my life, and I will cherish the knowledge, wisdom, and friendships that I have gained here.

I think it is often easy to forget in the day-to-day course of business what a tremendous honor it is to work here. I recall fondly one of my first days on the job for Senator Shelby. The Senate was considering a very controversial and contentious bill, and I had to accompany him to the Senate floor for the debate. I was very nervous, and despite the fact he kept calling me by the wrong name——

[Laughter.]

—I think he called me Peggy——

[Laughter.]

—I was still thrilled.

[Laughter.]

It really did not matter that he did not know my name at the time. What mattered most was that I was sitting behind a U.S. Senator on the floor of the U.S. Senate, and it is with this humility and desire to continue to serve the public interest that I thank you again for the opportunity to appear before you today, and I would be pleased to answer any questions.

Chairman SHELBY. Thank you.

Governor Kohn, I will start with you. This week, Chairman Bernanke, as you know, and the Atlanta Fed Bank President, both spoke about their concerns regarding inflation. Senator Bunning has brought that up already, and he should. What are your views regarding the recent inflation data, and what data between now and the Federal Open Market Committee meeting at the end of June will you be watching most closely or some of it to see what is raising its head out there, and what are your concerns as far as price stability? That is important.

Mr. KOHN. I agree with you, Mr. Chairman, that price stability is important, and I have found the recent inflation data somewhat troubling. As Senator Bunning noted, they are backward looking. That is about price increases in the last few months, but they were higher than I had anticipated, and that raises a warning flag that something might be entrain. In addition, some measures of inflation expectations over the longer-run have crept up just a little: Surveys of households and financial market expectations of inflation. It is not a big move, but it is an upward move.

Chairman SHELBY. Does that feed the psychology of inflation?

Mr. KOHN. I think people are reacting to some extent to the energy price situation. The economy is facing a somewhat more difficult situation now because of the rise in energy prices, which has both tended to raise inflation and also tended to dampen activity going forward.

I think a lesson from our economic history, the 1960's and particularly the 1970's, is that prosperity, the maximum employment that the Congress has instructed the Federal Reserve to foster, can only happen under conditions of price stability. When inflation begins to rise, that undermines economic performance.

Chairman SHELBY. It undermines our whole monetary system.

Mr. KOHN. It undermines the confidence in our currency; it undermines our monetary system; and in the process will not permit the economy to produce at its full potential. So, I think at this stage, we have to acknowledge the economy is slowing down, and that will help to dampen inflation pressures, but at the same time, there are some danger signs out there that we need to be quite attentive to.

Chairman SHELBY. Thank you.

Mr. Lockhart, a question for you, if I could. OFHEO just signed, and you mentioned this in your statement, a written agreement with Fannie Mae to implement remedial measures as a result of the special exam that went on. This agreement includes, among other things, provisions on capital plans, internal controls, and a growth limit.

The scope of this agreement has led some to question why any additional legislation is needed, since OFHEO seems to be able to take strong action when necessary. In that context, do you believe

that legislation is needed to strengthen the current regulatory structure for you to do your job, and if so, what elements do you believe are critical for a strong reform package?

Mr. LOCKHART. Yes, we did negotiate a settlement agreement with Fannie Mae and the reason we were able to do that is because they were basically in extremis. This is a company that cannot be audited, cannot produce accounts, has questionable internal control problems and risk management concerns, and we felt it was prudent to limit their growth.

But we most definitely need legislation, and I strongly believe that. We need the powers of a bank regulator that the people next to me have. We need to be able to set capital limits and do that in a flexible manner, and we need to consider not only market and credit risks but also operational and systemic risks. We certainly need budget flexibility and receivership powers. The new Agency should be the one that looks at mission compliance and new products and have independent litigation authority. The Enterprises should be required to register with the SEC. So there are a whole series of things in the legislation that would be extremely useful and really make us a much better regulator.

Chairman SHELBY. Ms. Bair, deposit insurance reform.

Ms. BAIR. Yes.

Chairman SHELBY. The deposit insurance reform legislation passed earlier this year allows, as you well know, the FDIC to set the designated reserve ratio within a range rather than mandating a specific reserve ratio. This is a big sea change. This flexibility allows the FDIC, which you will chair, to build up the Deposit Insurance Fund during good economic times as insurance against any future bad times, which makes sense. That is common sense.

We are currently in a period of record bank profits and no bank failures; keep our fingers crossed. Do you intend to use this flexibility in setting the reserve ratio? You probably do not want to tell us everything you are going to do or signal everything, and I understand that.

[Laughter.]

Ms. BAIR. Right.

Chairman SHELBY. But this does give you a lot more power, in a sense.

Ms. BAIR. Right; it does, and 5 years ago, I was testifying in favor of it for precisely those reasons. An important component of this was to get rid of the 23 basis point cliff, the premium shock, if you will, when reserve ratios fell below the DRR. So now, we have a range. We have the ability to smooth the premiums according to economic cycles and also better reflect risk differentiation in our premium structure.

These are important tools. I agree with you. We need to closely follow legislative intent. I know you, Mr. Chairman, continue to have a keen interest in how we implement this new law.

Chairman SHELBY. Certainly. We all have a keen interest.

Ms. BAIR. Having worked for the Senate, I know how important it is for agencies to try to follow the statutory structure and intent, and we will do so going forward. And I am just glad that we have the flexibility now that we did not have before.

Chairman SHELBY. Thank you. Basel capital standards.

Ms. BAIR. Yes.

Chairman SHELBY. I will direct this question to Ms. Bair and also Governor Kohn; Dr. Kohn and Ms. Bair, the Federal Reserve, the FDIC, you are both regulators, are presently preparing the rules that will implement the Basel II capital accord. Basel II aims to modernize U.S. capital requirements to make sure banks hold capital commensurate with the risks they assume, among others.

While modernizing capital requirements is a laudable goal, the most recent quantitative impact—Senator Sarbanes has brought this out many times up here—quantitative impact study indicated that Basel II could result in a drastic decline in the capital that the U.S. banks hold, which is troubling to a lot of us. Such a reduction in capital standards could increase bank failures, which we have not had lately in the United States. This is especially worrisome to us as the Committee charged with protecting the taxpayers, among other people, who are on the hook if a bank fails because the Federal Government ensures bank deposits, Ms. Bair.

Accordingly, I will start with you, Governor Kohn, do you support maintaining the leverage ratio to make sure that banks are sufficiently capitalized?

Mr. KOHN. I do, Mr. Chairman.

Chairman SHELBY. Okay; Ms. Bair.

Ms. BAIR. Yes, Mr. Chairman, I do. And I would add editorially I do not think anybody at this point is arguing we should get rid of the leverage ratio. I think we are beyond that issue.

Chairman SHELBY. You have given that up.

Ms. BAIR. Yes.

Chairman SHELBY. Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman. I am aware that a vote has begun. I will try to move very quickly here.

Actually, the regulators, and this goes to a follow-up on the Chairman, have now put forward a proposal that has certain benchmarks for the reduction of capital which would help to address this concern over the safety and soundness of the banking system, which was greatly increased by this quantitative impact study, which showed an over 15 percent aggregate decline in capital; half the participating banks getting capital reductions of over 25 percent; and one bank nearly a 50 percent capital reduction.

Of course, that raises a lot of red flags and a lot of alarms. But I understand now that some of the major banks are trying to undercut or undermine this concerted position that our regulators have put forward now, which encompasses within it measures to try to guard against any substantial decline in capital. Do you have a view on that issue?

Mr. KOHN. Senator Sarbanes, I think any decline in capital should be limited and certainly should be limited to any commensurate reduction in risk or improvement in risk management in the banking system. I voted in favor of the proposal that the Federal Reserve put out for comment. That proposal contained a gradual phase-in of the Basel capital accords. It contained provisions for dialogue back and forth between the supervisors and the banks to make sure the banks were adequately measuring and ensuring against risk, and it contained the trigger points that you mentioned.

So, I think it is important that the safety and soundness of the banking system be protected. The goal of Basel II is to build a safer and sounder banking system, and I certainly would oppose anything that I thought would undermine the safety and soundness of the system.

Senator SARBANES. Ms. Bair.

Ms. BAIR. Yes, I agree. I think the QIS–IV results were quite problematic, and everyone deemed them to be unacceptable. I know there are some concerns now in the large bank community. I think the regulators have reached agreement on an NPR. It is currently undergoing OMB review. OCC and OTS must have their proposed rules cleared by OMB before they can be released, and the FDIC plans to wait until OCC and OTS are prepared to go forward as well.

I think the forum for these concerns and arguments is the comment period, and they should come forward with arguments, and that is the whole point of having a comment period. I, and I know everyone else, will read all the comments very carefully, and if there are better approaches, they will be considered, but all four regulators have agreed on this approach, which is going to be reflected in the NPR.

Senator SARBANES. Mr. Lockhart, as currently constituted, the Office of Federal Housing Enterprise Oversight, OFHEO, is part of HUD, although it is directed by the statute to act independently of HUD and of the Administration for purposes of overseeing the safety and soundness operations of the GSE's, which is supposed to act as an independent regulator, which I think is a very important feature with respect to all of our financial institution regulators.

Now, and indeed, all of the legislative measures in the Congress to strengthen OFHEO provide actually for it to come out from under HUD and be independent. There are differing proposals, but they are all in agreement on that particular point. I want to ask you just a question or two about how you view the importance of independence for the Director of OFHEO.

I am additionally prompted to put this question to you because of a story in *The New York Times* in February of last year. "In the midst of a fractious debate over changes to Social Security, a senior official of the agency that administers the program has been joining Republican Members of Congress at public events around the country devised to promote personal retirement accounts."

And my concern is also heightened a bit by a story in the *American Banker* about a month ago: what new chief brings to OFHEO, and then goes on to say that one of the most important things is that you have been a friend of President Bush since the two attended prep school and college together.

So if I have this concern about the independence of the regulator in carrying out those responsibilities, I think you will understand why these, and there have been some other press reports that I could also cite, raise some question about the independence of the person who would become the Director of OFHEO.

Mr. LOCKHART. Certainly, on the independence issue, I strongly believe in it. I have actually worked in two independent agencies, the PBGC and the Social Security, so I understand the issues of independence, and I applaud the legislation for strengthening that

independence and also combining us with the Federal Housing Finance Board, because I think that is another way to give strength.

One of Social Security's key missions was educating the American people about the future of Social Security, and that is the role I played. I did town halls with both Democrats and Republicans and sometimes both at the same time, so it was a very bipartisan effort.

Yes, I did an educational effort, but I was not strongly supporting personal accounts. What I was really looking at was the future of the Agency and the need to change the system for future generations. And that is really what Social Security reform is about. But I understand independence, and I strongly believe in it.

Senator SARBANES. It is certainly an important dimension to any financial regulator, and we will be watching that very carefully.

Mr. Chairman, I do not have any questions of Kathy Casey. I mean, we know her well. We have seen her at work.

Chairman SHELBY. You have asked her a lot of questions in the past.

[Laughter.]

Senator SARBANES. I thought I would try to make up for it a little bit this morning.

[Laughter.]

I would note, though, that under your leadership, the Committee has held a number of hearings on such subjects as separating the business and regulatory functions of the self-regulatory organizations, giving the SEC more authority with respect to the credit rating agencies, and monitoring the hedge funds, and I hope Ms. Casey will pursue those interests once confirmed. And I also urge her—I do not think I need to do this, but just for the public record—to strive to continue to ensure that America's capital markets remain the gold standard of the world with respect to the protection of investors.

I perceive some effort to move to lower denominators, and I think we have to be very careful about that. It is always argued now, particularly the globalization and competition, that we have to go to this lower standard, but past experience, as I read an article, shows that in the past, when we have sought to protect the investor, we got this kind of reaction initially for a little bit, and then, everyone started moving toward the higher American standard. And my own view is we should come at this question with that frame of mind.

Mr. Chairman, I think we are going to miss the vote if we do not——

Chairman SHELBY. Senator Martinez.

Senator Martinez, Mr. Lockhart, as you know, knows a lot about housing.

Mr. LOCKHART. Yes, he does.

Chairman SHELBY. Secretary of Housing and Urban Development; he used to be at the table, but we are glad to have him up here.

Senator MARTINEZ. Yes, sir, I am happy to be up here, and I will try to be brief. I know we have to go vote, but Mr. Lockhart, I did not want to fail to ask a couple of very specific things relating to your testimony. One was in answer to a question earlier, you indi-

cated, obviously, the independence of OFHEO is something that we all acknowledge. I always felt uncomfortable having OFHEO under my tutelage at the same time I had no real functional oversight over what they did, and I do understand as well the need for there to be broader legislative authority on budgeting and financial soundness and all of the things you mentioned.

One that concerns me, though, is mission compliance and new product approval, particularly new product approval. Some of the legislative ideas that we have thrown around merged that with some participation, significant participation, or leaves it at HUD, particularly as it relates to new product approval, and I wonder if you have any fixed views on how that should work or whether, in fact, it should be a shared role between the HUD Secretary and OFHEO?

Mr. LOCKHART. New product approval is important, and from time to time, the companies have gotten into trouble with new products. I think it should be a shared responsibility. We have a lot of inherent expertise. We have examiners in there every day, we are looking at what they are doing. And we are discovering not every day, hopefully, but occasionally that they have not complied with the approval process. So, I think it is very important to not only have a stronger responsibility at the new entry but also work with the HUD team.

Senator MARTINEZ. Also, prior approval, not just after the fact, you know, when in fact there has been a practice established.

Mr. LOCKHART. That is true.

Senator MARTINEZ. And then, one other thing: I want to commend you for your report and for the settlement. I think it is important. I think it is well done. I am concerned about the liability of this company now of $400 million, Fannie Mae, and I wonder, I know in your report you indicated or instructed that there be some review as to compensation paid to officials of the company in the past which might have been tainted by what appears to have been a manipulation of books in order to trigger extraordinary and extravagant bonuses.

What would be your attitude toward pursuing of that issue and those issues, and what response have you had, if any, from Fannie Mae so far?

Mr. LOCKHART. There was the $400 million fine that was paid to the Government, the SEC, and OFHEO, and as the SEC Chairman said, they committed fraud. We believe, and we have in our settlement agreement, that the first line of defense should be that the Board of Fannie Mae should go after these individuals and try to get restitution, that is disgorgement of some of the bonuses paid. We have that in the agreement for both previous management and present management.

Senator MARTINEZ. But do you not think they owe that to the shareholders, in fact?

Mr. LOCKHART. I believe they owe it to the shareholders and, if the company fails, we have already referred it to our General Counsel. They will be looking into it as well.

Senator MARTINEZ. Have you had any response from Fannie Mae?

Mr. LOCKHART. We have talked to Fannie Mae. I talked to the Chairman of the Board last week and I have another meeting scheduled, I think, next week on the topic. We will continue to work with them on that. We expect to have a report. They have appointed four independent directors to look at this, and we expect to receive a report 30 days after we signed the agreement.

Senator MARTINEZ. Very good.

Chairman SHELBY. Senator Martinez, for the record, we are going to have Mr. Lockhart and Chairman Cox up to the Committee as an oversight hearing to detail what went on at Fannie Mae, what their findings are, and go from there.

Senator MARTINEZ. I look forward to that and thank you for making that hearing available.

Chairman SHELBY. Very good.

Senator MARTINEZ. I believe it is an important hearing.

And thank you, sir, and thank all of you and congratulate you on your appointments. Thank you.

Chairman SHELBY. As you can tell by the absence of Senators, we have a huge vote on the floor of the Senate. Our time is gone. We are going to recess, because I have some questions that I might want to ask at least for the record and give the others an opportunity. We will stand in recess until we get back here, maybe 10, 15 minutes.

[Recess.]

Chairman SHELBY. The hearing will come back to order.

As you well know, we have had a big vote on the floor. I do not know if any other Senators have any other questions. I have some questions for the record that we would submit to you, but what we would like to do is move all four of your nominations as expeditiously as possible. Senator Sarbanes, I think, joins me in that, and we would do our best to move you quickly, because you have important nominations and important jobs to do.

We thank you for waiting. We thank you for your patience, but more than that, we thank you for offering to serve the American people. The hearing is adjourned.

[Whereupon, at 11:33 a.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Mr. Chairman, Ranking Member Sarbanes, I want to thank you for holding this important hearing today. We have before us an impressive slate of nominees to consider, and I look forward to hearing from them.

I would especially like to offer my congratulations to Ms. Casey, a member of our own Banking Committee family. She has been with you, Mr. Chairman for many years, and I appreciate the hard work she has done on behalf of this Committee and her service to the financial services industry. And while her nomination means a loss for us, it is well-deserved, and I have no doubt that she will be a tremendous asset to the SEC.

Mr. Chairman, there are a few issues that I would like to raise this morning.

First, our Nation is blessed with the strongest and most resilient economic and financial system the world has ever known. And what makes our system strong and resilient is the diversity of the system, and the fairness of it.

Our system is based on the impartial allocation of credit, and consumers and small businesses have a wide choice of credit providers, which means that the terms and cost of that credit are determined by the market, and not central planners.

That system is being threatened today, in my opinion, by some of the world's largest corporations that are trying to get into the banking business by taking advantage of an obscure loophole in the law—the ILC loophole.

I am concerned that this growing trend of commercial firms chartering or acquiring ILC's is putting us on a path toward a dangerous concentration of economic power that would rival all but a handful of nations, and it would create a system where conflicts of interest would run rampant.

I know that both Wal-Mart and Home Depot are operating within the letter of the law in their pursuit of a banking affiliate. And I recognize, Ms. Bair that you will not be able to comment on those specific applications pending before the FDIC, but you should know that Congress never intended for this loophole to be exploited in this manner, and I believe that we must carefully consider the precedent that is being set, and the adequacy of the supervisory and regulatory structure of ILC's before heading down what is arguably dangerous and irreversible course. Kieretzu did not work in Japan; there is no reason to believe it would work here.

Now I should say to my colleague from Utah that I mean no harm to the ILC's chartered in his State that are serving small niche markets. That is precisely why the loophole was allowed to exist when other loopholes were closed in the CEBA Act of 1987.

But we need to draw the line somewhere, and I would suggest that the best way to protect the existing ILC's is to begin to consider ways to stem the tide and restrict further expansion of this loophole. I would like to work toward that goal and I invite the Senator from Utah to join me in protecting the integrity of our financial system.

Our long history of keeping banking and commerce separate has served this Nation well. Now is not the time to abandon it. I am also interested in Ms. Bair's views on Basel II and how she views her role going forward. I am troubled by several aspects of the latest draft rule, which is currently being reviewed by the Office of Management and Budget and could yet be changed prior to its publication in the *Federal Register*.

Basel II was intended to create a risk-based capital regime. However, because of what I presume are political compromises, the latest draft would impose a heavy regulatory burden on large banks, while ironically reducing their competitiveness in the global marketplace. In fact, the draft ANPR would impede the ability of larger, U.S.-based banks from competing on a level playing field with their international competitors. While safety and soundness of our insured depositories is of course paramount, the last thing we should be doing is making it harder for American banks to compete, both at home and abroad.

In addition, I am deeply troubled that the draft rule contains a loophole to exempt ILC's from operational risk capital standards. In my view, any insured depository institution which has a significant volume and value of transactions that could directly or indirectly affect the payments system, should be required to capitalize that risk. Operational risk is not a function of the nature of the parent company; it is a function of the scale and complexity of the activity taking place inside of the insured depository institutions.

I recognize that the agencies appear to have reached a consensus with this latest draft. However, Ms. Bair, I would hope that you will keep an open mind at the FDIC, and be willing to hear through the very serious concerns that some parties have raised about the draft rule, even if it means revising the rule prior to its publication in the *Federal Register*.

Finally, there is still a very real issue of consumer access to affordable, short-term credit. Ms. Bair, I share the view you expressed in your study entitled, "Low Cost Payday Loans: Opportunities and Obstacles" that cautioned,

> Though they are not identified and marketed as payday loan alternatives, fee-based bounce protection programs are functionally equivalent to payday loans when used by customers as a form of credit.

I agree with your conclusion that "When used on a recurring basis for small amounts, the annualized percentage rate for fee-based bounce protection far exceeds the APR's associated with payday loans." And I support your recommendation that the same APR disclosure requirements that apply to payday loans should also apply to fee-based bounce protection programs.

I hope that you share my view that competition for "small dollar" credit services must be maximized. There is something to be said for striking the right balance between regulation, consumer protection, and effectively meeting consumers' credit needs. I have a real concern if financial services are pushed outside of a regulated environment due to increased regulatory requirements, because it can open the door for abuse and inevitably results in less consumer protection. It is critical that the regulatory environment is one that supports short-term credit products and one in which such products can thrive while providing the greatest benefit to the consumer.

Thank you all for being here this morning. I look forward to your testimony and I hope that the Committee will move quickly with your nominations.

PREPARED STATEMENT OF SENATOR WAYNE ALLARD

I would like to thank Chairman Shelby for holding this hearing. Today, we are considering a number of nominees for key positions at the agencies under the Committee's jurisdiction.

First, we will consider the nomination of Sheila Bair to be Chairman of the FDIC Board of Directors. In this position she will be instrumental in ensuring the safety and soundness of our banks. Ms. Bair will also be responsible for implementing the recently enacted deposit insurance changes, as well as responsibility for a decision on Wal-Mart's pending application for deposit insurance.

Next, we have the nomination of Donald Kohn to be the Vice Chairman of the Board of Governors of the Federal Reserve System. Given the recent change in leadership from Chairman Greenspan to Chairman Bernanke, I look forward to learning more about Governor Kohn's leadership plans.

Third, we will hear from James Lockhart, who is nominated to be the Director of OFHEO. Mr. Lockhart certainly has experience leading troubled agencies, given his experience at PBGC and the Social Security Administration. While I appreciate your willingness to take on this challenge, Mr. Lockhart, I hope that we are able to put you out of business very soon by enacting fundamental reform of GSE regulation. As I am sure you would agree, OFHEO in its current form is unable to provide the necessary regulatory oversight.

Finally, I would like to make special mention of the nomination of Kathy Casey to be a Member of the Securities Exchange Commission. As everyone is well aware, Kathy has spent a number of years working for Senator Shelby, and I would like to join my colleagues in thanking her for her service. Not only has she served the Chairman with distinction, but she has also served each one of us as well. Kathy has fostered an open and inclusive atmosphere that has allowed Members to have their concerns addressed in a fair, bipartisan manner. Thanks to her skills and expertise, this Committee has achieved a number of legislative victories. We will all miss her as the Committee Staff Director, and while it is tempting to put a hold on her nomination to keep her here, I offer my thanks and best wishes as she moves forward. Kathy, you will undoubtedly be a great asset to the SEC, and they are lucky to have you.

In closing, I would encourage all the nominees to become familiar with the Government Performance and Results Act (GPRA), which has been named "PART assessment" by the Administration. The Results Act is a key tool in giving them the focus and vision to carry out effective, efficient programs. I would exhort the nominees to become familiar with the appropriate strategic plans, annual performance plans, annual accountability reports, and financial statements. If properly utilized, they can help you achieve success in meeting your mission.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF SHEILA BAIR

MEMBER OF THE BOARD AND CHAIRMAN-DESIGNATE
FEDERAL DEPOSIT INSURANCE CORPORATION

JUNE 8, 2006

Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee. I am pleased to appear before you this morning as the President's nominee to be the next Chairman of the Federal Deposit Insurance Corporation. At the outset, I would like to thank the President for having the confidence in me to lead this historic agency. Established in the throes of the Great Depression, the FDIC restored depositor confidence in our crippled banking system and since that time, has served as a beacon of safety for the financial assets of the average consumer. It is a well-run, well-respected agency comprised of 4,500 dedicated staff and a Board of Directors who bring a broad depth of expertise, as well as a rich diversity in regulatory view points. It will be my privilege and honor to work with these outstanding individuals if confirmed by the Senate.

I would also like to thank my family for their support of my decision to accept this nomination and their willingness to disrupt their lives to move back to Washington. Joining me this morning are my husband and dearest friend, Scott Cooper, and the two best kids in the world, Preston and Colleen. I would also like to thank my parents, Dr. AE and Clara Bair for all of their support. Finally, I would like to recognize my former boss, Senator Robert Dole, for his help in this endeavor and all the other challenges I have undertaken over the past two decades. Washington can be a difficult place to navigate. Having someone of high stature and integrity to guide you is crucial. Early in my career, I was fortunate to have Senator Dole as a mentor. His wise counsel and advice have always served me well.

Another benefit of my association with Senator Robert Dole was the opportunity to get to know the senior Senator from North Carolina. I had the privilege of first meeting Elizabeth Dole in the 1980's, when we worked on so-called "gender gap" issues during the Reagan Administration. I have seen first hand her formidable intellect, strong work ethic, and utmost dedication to public service. I am very glad that she serves on this Committee and that we may have the opportunity to work together again.

The last time I appeared before the full Committee, I was the President's nominee to be the Assistant Secretary for Financial Institutions of the Treasury Department. Upon my confirmation for that position, my first assignment was to represent the Administration on deposit insurance reform. If confirmed by the Senate, I will play a central role in the implementation of that comprehensive new law. Deposit insurance reform is just one of many major policy issues confronting the FDIC. Industrial loan companies, Basel II and IA, regulatory burden, antimoney laundering and USA PATRIOT Act enforcement, identity theft, Federal preemption, the list goes on. There is no shortage of cutting edge issues at the FDIC, and for many, there are no easy answers. But as one who loves public policy and believes that the Government can be a force for positive change, I welcome these challenges.

There are two additional issues which I care about deeply and where the FDIC has been notably active: Financial education and banking services for underserved populations. As part of the FDIC's financial education efforts, I hope to place a particular emphasis on school-based education and the integration of math and financial curriculums, which I believe can improve both financial literacy as well as math scores. Regarding underserved communities, I hope to work with industry leaders and other regulators to encourage more products to facilitate asset accumulation among lower-income families. To paraphrase financial columnist Jane Bryant Quinn, saving money may not make you rich, but it can help keep you from poverty. So much of the emphasis in the past has been on the extension of credit to underserved populations. We need to do at least as much to promote savings and asset preservation.

In concluding, I would reiterate my strong commitment to the millions of individuals who rely on the FDIC for security and peace of mind in protecting their deposits. As the ownership society evolves, it is important for every day working men and women to know that they have a safe haven for a selected portion of their financial assets. It is equally important to the effective functioning of our banking system that consumers have confidence in their banks. The FDIC stands proudly at this intersection. I look forward to the opportunity to serve this fine agency.

Responses of Sheila Bair
Questionnaire for Presidential Nominees
Committee on Banking, Housing, and Urban Affairs
United States Senate

Name: Bair, Sheila C.

Positions to Which Nominated: Chairman and Member, Board of Directors, Federal Deposit Insurance Corporation.

Date of Nomination: May 2, 2006

Date of Birth: April 3, 1954 **Place of Birth:** Wichita, KS

Marital Status: Married **Full Name of Spouse:** Scott P. Cooper

Name and Ages of Children: Preston Cooper, 13; Colleen Cooper, 6.

Education:	**Institution**	**Dates Attended**	**Degrees Received**	**Dates Received**
	Kansas University	8/71-5/75	BA	5/75
	KU School of Law	8/75-5/78	JD	5/78

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:

Distinguished Achievement Award, Association of Educational Publishers (2005) Personal Service Feature of the Year, Author of the Month Awards, Highlights Magazine for Children (2002, 2003, and 2004) The Treasury Medal (2002), Academy of Women Achievers YWCA (1997), Teaching Fellow, University of Arkansas School of Law (1978-79)

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

Organization	**Office Held (if any)**	**Dates***
American Bar Assn.	None	1987-2001 (intermittent)
Center for Responsible Lending	Board Member	2003-present
Economic Club	None	1999-2001

* Dates approximate.

Organization	Office Held	Dates
Exchequer Club	None	1999-2001
Federal City Council	None	1999-2001
FDIC Banking Policy Advisory Comm.	None	2002-2005
Foundation for Investors' Education	Board Member	2004-2005
GOP Senate High-Tech Task Force		1999-2000
Insurance Marketplace Standards Assn.	Board Member	2005-present
KU School of Law	Board Member	1990-1993
Mass. Teachers Assn.	None	2003-present (mandatory)
Mass. Savings Makes Cents	None	2003-present
NASD Ahead-of-the-Curve Ad. Committee	None	2005-present
National Women's Law Center	Board Member	1999-2001
NYSE Luncheon Club	None	1998-2001
NYSE PAC	Dir/Bd Member	1998-2000
	Asst. Treas.	1996-1998
Soc. of Children's Book Writers and Illus.	None	2000-present
Technology Network Pub. Pol. Comm.	None	1998-2000
University Club	None	1995-1998
WISH List	None	1993-2001
Women's Campaign Fund	Bd. Member/ GOP Co-Chair	1991-1997
Women in Housing and Finance	None	1995-2002 (intermittent)
Women's Leadership Network	None	1992-1994
Women for Bush/Quayle	Steering Committee	1991-1992

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.

Title	Employer	Location	Dates
Professor	University of Mass.	Amherst, MA	9/02-present
Assistant Secretary for Financial Institutions	U.S. Treasury	Washington, DC	7/01-6/02
Consultant	U.S. Treasury	Washington, DC	5/01-7/01

Consultant	NYSE	Washington, DC	9/00-5/01
Title	**Employer**	**Location**	**Dates**
Sr. VP/Gov't Relations	NYSE	Washington, DC	7/95-9/00
Commissioner	CFTC	Washington, DC	5/91-6/95
Acting Chairman	CFTC	Washington, DC	8/93-12/93
Legislative Counsel	NYSE	Washington, DC	10/90-5/91 7/88-1/90
Candidate for Congress Ks. 5th District	Self	Independence, KS	1/90-9/90
Counsel	Kutak, Rock, & Campbell	Washington, DC	1/87-7/88
Research Director	Dole for President	Washington, DC	10/87-3/88 (on leave from Kutak)
Deputy Counsel to Majority Leader Dole	Maj. Leader's Office U.S. Senate	Washington, DC	1/85-7/86
Counsel to Chairman Robert Dole	Judiciary Comm.	Washington, DC	10/81-1/85
Attorney/Adviser	HEW/Dep't of Ed.	Washington, DC Kansas City, MO	5/79-10/81
Teaching Fellow	University of Ark. School of Law	Fayetteville, Ark.	8/78-5/79

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

5/79-10/81	Attorney/Adviser, DHEW/Department of Education
10/81-1/85	Counsel, Courts Subcommittee, Senate Judiciary Committee
1/85-7/86	Deputy Counsel, Senate Majority Leader's Office
5/91-6/95	Commissioner, CFTC (8/93-12/93 Acting Chairman)
5/01-7/01	Consultant, U.S. Treasury Department
7/01-6/02	Assistant Secretary, U.S. Treasury Department
8/02-12/05	FDIC Banking Policy Advisory Committee (uncompensated)

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

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.

Director/Board Member, NYSE PAC, 1998-2000.
Asst Treasurer, NYSE PAC 1996-1998
Bush-Cheney Surrogate Speakers Program 2004

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.

Recipient	Amount	Date
Friends of Sen. D'Amato	$650	Jan 14, 1998
Faircloth for Senate	$1,000	Feb. 6, 1998
WISH List	$1,000	March 27, 1998
Neas for Congress (desig. primary)	$750	Aug. 26, 1998
	$250	Oct. 27, 1997
Elizabeth Dole Exploratory Committee	$1,000	April 29, 1999
Lazio 2000	$500	June 30, 1999
Committee to Re-elect Fossella	$500	July 21, 1999
NYSE PAC	$500	June 30, 1999
WISH List	$1,000	Dec. 8, 1999
McCain 2000	$1,000	Jan. 21, 2000
Morella for Congress (WISH List Intermediary)	$1,000	June 2, 2001
Republican National Committee	$1,000	Nov. 21, 2001
Bush-Cheney '04	$1,000	June 27, 2003
	$1,000	March 23, 2004
Elizabeth Dole Committee Inc.	$1,000	Nov. 24, 2003
National Republican Senatorial Comm.	$1,000	Dec. 23, 2005

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

Future Employment Relationships:

1. **Indicate whether you will sever all connections with your present employer, business firm, association, or organization if you are confirmed by the Senate.** I will be on extended leave from U-Mass and will sever all connections with it, except for continued participation in its 403(b) plan. Neither the University, nor I, will make further contributions to the plan during my tenure with the FDIC.
2. **As far as can be seen, 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 will be on extended leave from U-Mass and intend to return to my position there at the conclusion of my FDIC service.
3. **Has anybody made you a commitment to a job after you leave government?** As indicated above, I will be on leave from U-Mass.
4. **Do you expect to serve the full term for which you have been appointed?** Upon the inauguration of the next President, I will tender my resignation as

Chairman and Board member. Any service beyond that point will be at the discretion of the next President.

Potential Conflicts of Interest:

1. **Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.** I still participate in the NYSE Employee Savings plan (401(k)) and the NYSE defined benefit plan. I will also continue to participate in the U-Mass 403(b) and defined benefit plans. I do not anticipate that either would be impacted by FDIC actions.
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.** We hold shares of Wal-Mart stock in my son's custodial account. I will divest those shares within 90 days of my confirmation to avoid any appearance of conflict.
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 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.** Attached please find lobbying disclosure reports for the years I headed the Government Relations Division of the New York Stock Exchange. As an academic, I have also expressed independent views on general public policy issues, as expressed in my published writings, public speaking, testimony, etc.
5. **Explain how you will resolve any conflicts of interest that may be disclosed by your responses to the items above.** I will divest my son's Wal-Mart stock within 90 days of confirmation. Until the divestiture is completed, I will not participate personally and substantially in any particular matter that will have a direct and predictable effect on the financial interests of Wal-Mart, unless I first obtain a written waiver or qualify for a regulatory exemption. Further, I will agree not to participate in any particular matter that may directly and predictably affect U-Mass' or NYSE's ability or willingness to pay my benefits under their defined benefit plans. Should any actual or potential conflicts arise, I will consult FDIC ethics officials.

Civil, Criminal, and Investigatory Actions:

1. **Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation**: None.

2. **Give the full details of any proceeding, inquiry, or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry, or investigation**: None.

Statement of Qualifications
Sheila C. Bair
Nominee for
Chairman and Board Member
Federal Deposit Insurance Corporation

I have spent most of my career working in financial services. My experience includes serving as a Commissioner on the Commodity Futures Trading Commission, Senior Vice President for Government Relations of the NYSE Stock Exchange, Assistant Secretary for Financial Institutions at the U.S. Department of the Treasury, and currently, teaching and researching in the area of financial services at the University of Massachusetts. In recent years, I have focused heavily on the banking sector. As the Assistant Secretary for Financial Institutions, I was charged with helping develop the Administration's positions on banking policy issues. In this regard, I worked closely with Treasury's own banking regulatory bureaus, OCC and OTS, as well as the FRB and the FDIC. In fact, within 24 hours of being sworn in as the new Assistant Secretary, I was testifying in the House in support of deposit insurance reform! Now, if confirmed, I will be responsible for implementation of that new law. My research at the University has also dealt extensively with banking and related issues. In addition, as an academic, I served on the FDIC's banking policy advisory committee and thus am familiar with many of the issues currently confronting the agency.

Publications by
Sheila C. Bair

"Why 'Offshore' Doesn't Mean 'Off Limits'," *Futures Magazine* (January 1992).

"Is There a 'Future' in Swaps?" *Mortgage Banking Magazine* (September 1992).

"The Worst of ArkansasBest," *The University of Kansas Law Review* (Spring 1993).

"U.S. Regulation of Derivative Instruments: Reflections from a Crucial Crossroads" Paper submitted to the University of London Institute of Advanced Legal Studies for inclusion in Proceedings of the International Conference on Derivative Instruments, October 1993 *Derivative Instruments* (1994.)

"Change and Challenge in the Marketplace: Meeting the Darwinian Challenge," *Futures Industry* (September/October 1993).

"The Future of Past Performance Reporting," *Managed Account Reports, Inc.*, (January 1994).

"Regulatory Issues Presented by the Growth of OTC Derivatives: Why Off-Exchange is No Longer Off-Limits," *Handbook of Derivatives and Synthetics*, edited by Klein and Lederman (1994).

"Clearinghouse Arrangements for Privately Negotiated Securities: Introductory Remarks," *International Symposium on Banking and Payment Services* Federal Reserve Board (March 1994).

"US Financial Regulation of OTC Derivatives," *Futures and Derivatives Law Review* (Issue 4, 1994)

"Lessons From The Barings Collapse," *Fordham Law Review*, (October 1995.)

"Voluntary Efforts to Provide Oversight of OTC Derivatives Activities: Are They Enough?" *Derivatives Risk and Responsibility*, edited by Klein and Lederman (1996) (Lead Author)

Letter to the Editor re Predatory Cashing, *Businessweek*, (May 15, 2000)

"The Need for a Federal Back-Stop for Terrorism Risk Insurance," *NAMIC Magazine*, (March/April 2002)

"Improving Access to the U.S. Banking System Among Recent Latin American Immigrants," Report Prepared for the Inter-American Development Bank, http://www.iadb.org/mif/v2/files/28doca.pdf) (February 2003)

"The US Financial Regulatory System: Ideas for Short- and Long-Term Reforms," Paper presented at the FDIC Symposium "The Future of Financial Regulation: Structural Reform or Status Quo," Published on the FDIC's website http://www.fdic.gov/news/conferences/bair.html. (March 13, 2003)

"Improving Latino Immigrant Access to the U.S. Banking System," Chapter in *Beyond Small Change*, Inter-American Development Bank (2005)

"Is the Federal Home Loan Bank System Forsaking its Roots?" Paper commissioned by Fannie Mae for publication on its website http://www.fanniemae.com/commentary/pdf/071403.pdf.) (June 2003)

"Congress Needs to Move Ahead on GSE Legislation," Viewpoint, *American Banker*, (October 19, 2003.)

"Consumer Ramifications of an Optional Federal Charter for Life Insurers," (Major coverage in the March 29 Edition of the NY Times and in numerous trade publications, including National Journal, BNA, Best Wire, and American Banker) www.acli.com; www.som.umass.edu. (March 2004.)

"Federal Regulation of Insurance: The Federal/State Debate," *National Organization of Life and Health Insurance Guaranty Associations Journal* (September 2004.)

"Some Things are Nobody's Business," Letter to the Editor, *Wall Street Journal*, (September 30, 2004.)

"Low Cost Payday Loans: the Opportunities, the Obstacles," Report prepared for the Annie E. Casey Foundation, http://www.aecf.org/publications/data/payday_loans.pdf (June 2005)

"A Mountain Too Far: The Saga of Social Security Private Accounts," *Geneva Papers* (October 2005)

Children's Publications

"The Ups and Downs of the Stock Market," *Highlights for Children* (July 2002)

"How Safe is Your Money?" *Highlights for Children* (June 2003)

"How to Grow Your Own Money Tree," *Highlights for Children* (January 2004) (Co-authored with former US Secretary of the Treasury Paul O'Neill)

"Double Debt Trouble," *Highlights for Children* (January 2006)

"A Week without Soap," *Highlights for Children* (publication date pending)

Rock, Brock and the Savings Shock, Albert Whitman and Company (March 2006)

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: **Lockhart** (Last) **James** (First) **Bicknell, III** (Other)

Position to which nominated: Director, OFHEO

Date of nomination: April 27, 2006

Date of birth: **13** (Day) **May** (Month) **1946** (Year) **Place of birth: White Plains, NY**

Marital Status: Married **Full name of spouse: Carolyn Strahan Lockhart**

Name and ages of children:

James B. Lockhart IV **29**

Grace Strahan Lockhart **25**

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Phillips Academy, Andover	9/60	High School	6/64
Yale University	9/64	B.A.	6/68
Harvard University	9/72	MBA	5/74

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

The National Defense Medal
Polaris Nuclear Submarine Pin (2 patrols)
Dolphins, Qualified in Submarines
Supply Corps Honor Graduate, Officer Candidate School

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

Organization	Office held (if any)	Dates
▪ Advisory Panel, Critical Review of the U.S. Actuarial Profession		
▪ Co-Agent, Class of 1964, Phillips Academy		
▪ Member, Yale Club of New York		
▪ Member, Sankaty Head Beach & Tennis Club, Nantucket, MA		
▪ Member, 'Sconset Casino (tennis club), Nantucket, MA		

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

- First National Bank of St. Paul, MN (now part of US Bancorporation)1968 – 1969,
  Commercial Banking Analyst

- U.S. Navy, Lieutenant (Junior Grade) 1969 – 1972
  Officer Candidate School, Supply Corps School; Submarine School; Supply Officer,
  USS George Washington Carver (SSBN 656), New London, CT

- Gulf Oil Corporation (now part of Chevron), 1974 – 1983
  Analyst, Treasury Department, Pittsburgh, PA
  Assistant Treasurer, Gulf Oil Eastern Hemisphere, London, UK
  Finance Director, Gulf Oil Belgium, Brussels, Belgium
  Assistant Treasurer, Finance & Investments, Pittsburgh, PA

- Alexander & Alexander Services (now part of AON), New York, NY 1983 –1989
  Vice President and Treasurer

- Pension Benefit Guaranty Corporation, Washington, DC 1989 – 1993
  Executive Director

- Smith Barney (now part of Citigroup) New York, NY 1993 – 1995
  Managing Director, Insurance Investment Banking; Head of Private
  Placements

- National Re Corporation (now part of Berkshire Hathaway), Stamford, CT 1996
  Senior Vice President, Finance

- NetRisk, Inc. (now part of Fitch Ratings) Greenwich, CT 1997 – 2001
  Co-founder and Managing Director

- Social Security Administration, 2002 – Present
  Deputy Commissioner and Chief Operating Officer

- Office of Federal Housing Enterprises Oversight, 4/2006 – Present
  Acting Director

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.

- Executive Director, Pension Benefit Guaranty Corp
- Deputy Commissioner, Social Security Administration
- Acting Director, OFHEO

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

"Gulf Oil: a Case History", The Essentials of Treasury Management, Eruomoney, 1981

"International Liquidity Management and the 'Pipeline' Principle", The Treasurer, October 1981

"How to Minimize the Cost of Borrowing", Euromoney, August 1980

"PBGC Advocates Defined Benefit Plan Growth", Pension World, February 1990

"Nurturing Defined Benefit Plans", Contingencies, March 4, 1990

"PBGC Enters the Nineties", Compensation and Benefits Management, June 1990

"The Hidden Pacman in Washington", The National Association of Corporate Treasurers, August 1990

"To a Solvent Future", Employee Benefits Journal, December 1990

"Bankruptcy Issues and the PBGC", WebNetwork, November 1991

"Securing the Pension Promise", Labor Law Journal, April 1992

"Reform the Federal Pension System", Providence Journal-Bulletin, St. Petersburg Times, and others, May 1992

"Toward a Strong Federal Pension Insurance Corporation", Journal of American Society of CLU and CHFC, November-December 1992

"Comments" on "Pension Benefit Guarantees in the United States: A Functional Analysis" by Zvi Bodie and Robert C. Merton in The Future of Pensions in the United States, Pension Research Counsel of the Wharton School, 1993

"An Insurance Company, Not a Pension Fund", Plan Sponsor, April 1999

"Time to Privatize the PBGC", Pensions and Investments, September 1997

"The Trouble with PBGC's 'Government Guarantee'", Plan Sponsor, April 1999

"Heros May not be the Best Reformers", Op-Ed March 3, 2000, Greenwich Time

"Operating an Insurance Company" (PBGC), Pensions and Investments, May 15, 2000

"Gore's Philosophy Gives Bureaucrats Keys to Programs", Op-Ed October 8, 2000
Greenwich Time and Stamford Advocate

"Timely Action will Shore up Social Security", Billings Gazette, February 2005

"A Contrast to Proffitt's View [on Social Security]", Sarasota Herald Tribune, April 30, 2005

"Assessing Social Security's Future", Contingencies, May/June 2005

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, Republican National Committees President Club
- Vice Chair, Victory 2000 (CT) dinner for Vice President Cheney (September 2000)
- Co-Host, Governor Bush Benefit Dinner (September 1999)
- Co-Agent, Phillips Academy Class of 1964 Bush for President Fund

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.

	Amount
1998	
RNC	1,000
1999	
RNC	1,000 (08/12/99)
Bush for President	2,000 (03/18/99)
2000	
RNC	6,650 (various 00)
Victory 2000 CT	2,400 (09/07/00 & 1)
Victory 2000 CT	2,000 (06/05/00)
Bush Cheney Compliance	1,000 (05/11/00)
Bush Cheney Recount	500 (11/00)
Santorum 2000	500
2001	
RNC	1,000 (02/01/01)
2002	None
2003	
Bush Cheney	2,000 (06/30/03)
Bush Cheney	2,000 (10/23/03)
2004	
RNC	1,000 (11/05/04)
CT Republicans	1,000 (06/03/04)
Bush Cheney	2,000 (10/07/04)
2005	
None	
2006	
CT Republicans	1,000 (4/24/06)

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

My 30-plus years of successful private and public experience, working for and advising major financial institutions and corporations qualifies me for the Office of Federal Housing Enterprise Oversight (OFHEO) Director position.

For over 4 years, as Deputy Commissioner and Chief Operating Officer of the Social Security Administration (SSA), I led many of the stewardship initiatives and the reform efforts, as well as strategy, internal controls and systems areas. Supplemental Security Income was removed from GAO's high risk list. I serve on the President's Management Council and its Executive Committee, and SSA is among the highest ranked major agency/department on the President's Management Agenda. SSA is a government leader in financial management and internal controls. During this period, I also had extensive opportunities to work with members of Congress, the media, the public and other government agencies.

As Executive Director, I led the Pension Benefit Guaranty Corporation during a very turbulent time. It had a two billion dollar deficit and faced bankruptcies of major airlines and steel companies. We engineered the start of a dramatic turnaround in the agency. Steps that were taken included encouraging corporations to better fund their pension plans, protecting participants of terminated plans, revamping systems and internal controls, completing the first audit in the agency's history, testifying before Congress many times and working with them on legislative changes, installing a corporate planning system, winning critical Supreme Court cases, settling successfully major bankruptcies and repositioning the investment portfolio.

My private sector experience also well positions me to provide leadership at OFHEO. I have had challenging senior level positions at insurance companies, a leading investment bank and a major oil company dealing with some of the same issues that OFHEO faces including financial management, investments including mortgage-backed securities, insurance, risk management, technology and corporate governance. For four and a half years, prior to joining SSA, I co-led a firm that provides risk management (market, credit and operational) software, advice and solutions to major financial institutions worldwide including several mortgage related companies.

Future employment relationships:

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

   YES

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

   NO

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

NO

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

Given pending legislation, it is too uncertain to say.

Potential conflicts of interest:

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

NONE

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

SEE ATTACHED LETTER (Please treat as confidential financial information.)

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.

SEE ATTACHED LETTER IN REGARDS TO NUMBER 2.

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

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: **Kohn** (Last) **Donald** (First) **Lewis** (Other)

Position to which nominated: Vice Chairman, Board of Governors of the Federal Reserve System

Date of nomination: 18 May 2006

Date of birth: 07 November 1942 (Day) (Month) (Year) **Place of birth: Philadelphia, Pennsylvania**

Marital Status: Married **Full name of spouse: Gail Liebensberger Kohn**

Name and ages of children: Laura Kohn - 39

Jeffrey Donald Kohn - 36

Education:

Institution	Dates attended	Degrees received	Dates of degrees
College of Wooster	9/60-6/64	B.A.	1964
University of Michigan	9/64-12/70	MA, Ph.D.	1971

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.

Honorary Degree, Doctor of Laws, The College of Wooster – 2006
Distinguished Achievement Award, The Money Marketeers of New York University – 2002
Distinguished Alumni Award, The College of Wooster - 1998

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

Organization	Office held (if any)	Dates
American Economic Association		1965-Present
Appalachian Mountain Club		1975-Present
WETA		1975-Present
Washington Area Bicycle Association		1977-Present
National Wildlife Federation		1985-Present
WAMU		1990-Present
BoatUS		1991-Present
Maryland Public Television		1994-Present

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

Financial Economist, Federal Reserve Bank of Kansas City, Kansas City, Missouri 1970-1975

Instructor, Park College, Parkville, Missouri 1973-1975

Economist, Government Finance Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 1975-1978

Instructor, University of the District of Columbia, Washington, DC 1976-1978

Chief, Capital Markets Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 1978-1981

Associate Director, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 1981-1983

Deputy Staff Director, Office of the Staff Director for Monetary and Financial Policy, Board of Governors of the Federal Reserve System, Washington, DC September 1983-June 1987

Deputy Director, Monetary Policy and Financial Markets, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC June 1987-October 1987

Director, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, DC October 1987-July 2001

Advisor to the Board for Monetary Policy, Office of Board Members, Board of Governors of the Federal Reserve System, Washington, DC July 2001-August 2002

Secretary and Economist, Federal Open Market Committee, Board of Governors of the Federal Reserve System, Washington, DC May 1987-August 2002

Member, Board of Governors of the Federal Reserve System, Washington, DC August 2002-Present

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.

Worked for the Federal Reserve System since 1970. See employment record above.

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

See attached publications list.

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

None

List of Publications
Donald L. Kohn*

"The Evolving Nature of the Financial System: Financial Crises and the Role of the Central Bank," at the Conference on New Directions for Understanding Systemic Risk, New York, New York; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (May 18, 2006).

"Investing in Payment Innovations: A Federal Reserve Perspective," at the 2006 Payments Conference, Federal Reserve Bank of Chicago, Chicago, Illinois; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (May 11, 2006).

"Business Capital Spending," at the Forecasters Club of New York Luncheon, New York, New York; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (April 27, 2006).

"Economic Outlook," at the Bankers and Business Leaders Luncheon, Federal Reserve Bank of Kansas City, Oklahoma City Branch, Oklahoma City, Oklahoma; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (April 13, 2006).

"Monetary Policy and Asset Prices," at "Monetary Policy: A Journey from Theory to Practice," a European Central Bank Colloquium held in honor of Otmar Issing, Frankfurt, Germany (March 16, 2006); posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (March 16, 2006).

"Testimony of Governor Donald L. Kohn," *Regulatory Relief,* before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Washington, D.C., (March 1, 2006).

"Crisis Prevention: The Known, The Unknown, and The Unknowable," at the Wharton University of Pennsylvania KuU Conference, Boston, Massachusetts, (January 6, 2006).

"The Economic Outlook," at the 2006 Global Economic and Investment Outlook Conference, Carnegie-Mellon University, Pittsburgh, Pennsylvania; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (October 19, 2005).

"Globalization, Inflation, and Monetary Policy," at the James R. Wilson Lecture Series, The College of Wooster, Wooster, Ohio; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (October 11, 2005).

"Inflation Modeling: A Policymaker's Perspective," at the Quantitative Evidence on Price Determination Conference, Washington, D.C.; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (September 29, 2005).

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* Does not include informal speeches and presentations to the public that did not involve printed text or result in published material.

"Panel Discussion: Financial Markets, Financial Fragility, and Central Banking," *A Symposium Sponsored by the Federal Reserve Bank of Kansas City: The Greenspan Era: Lessons for the Future*, Jackson Hole, Wyoming, August 25-27, 2005, pp. 371-379 (2005); posted on the Federal Reserve Board's website at www.federalreserve.gov, (August 27, 2005).

"Monetary Policy Perspectives on Risk Premiums in Financial Markets," at the Financial Market Risk Premiums Conference, Federal Reserve Board, Washington, D.C.; posted on the Federal Reserve Board's website at www.federalreserve.gov, (July 21, 2005).

"Managing Risk in a Changing Economic and Financial Landscape," at the Banker's Association for Finance and Trade and Institute of International Bankers Conference, New York, New York; posted on the Federal Reserve Board's website at www.federalreserve.gov, (June 15, 2005).

"Modeling Inflation: A Policymaker's Perspective," to the International Research Forum on Monetary Policy Conference, Frankfurt am Main, Germany; posted on the Federal Reserve Board's website at www.federalreserve.gov, (May 20, 2005).

"Imbalances in the U.S. Economy," at the 15th Annual Hyman P. Minsky Conference, The Levy Economics Institute of Bard College, Annandale-on-Hudson, New York; posted on the Federal Reserve Board's website at www.federalreserve.gov, (April 22, 2005).

"Economic Outlook," at the 2005 Conference of Twelfth District Directors, Federal Reserve Bank of San Francisco, San Francisco, California; posted on the Federal Reserve Board's website at www.federalreserve.gov, (April 14, 2005).

"Central Bank Communication," at the Annual Meeting of the American Economic Association, Philadelphia, Pennsylvania; posted on the Federal Reserve Board's website at www.federalreserve.gov, (January 9, 2005).

"Crisis Management: The Known, the Unknown, and the Unknowable," at the Wharton/Sloan/Mercer Oliver Wyman Institute Conference, "Financial Risk Management in Practice," Philadelphia, Pennsylvania; posted on the Federal Reserve Board's website at www.federalreserve.gov, (January 6, 2005).

"How Should Policymakers Deal with Low-Probability, High-Impact Events?" at the European Central Bank Conference on Monetary Policy and Imperfect Knowledge, Würzburg, Germany; posted on the Federal Reserve Board's website at www.federalreserve.gov, (October 15, 2004).

"Testimony of Governor Donald L. Kohn," *Regulatory Reform Proposals*, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Washington, D.C., (June 22, 2004).

"The Outlook for Inflation," at the National Economists Club Luncheon Meeting, Washington, D.C.; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (June 4, 2004).

"Monetary Policy and Imbalances," at the Banking and Finance Lecture Series, Widener University, Chester, Pennsylvania; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (April 1, 2004).

"Research at the Federal Reserve Board: The Contributions of Henderson, Porter, and Tinsley," at the Federal Reserve Board Models and Monetary Policy Conference, Washington, D.C.; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (March 26, 2004).

"Monetary Policy in a Time of Macroeconomic Transition," at the 2004 Washington Economic Policy Conference, presented by the National Association for Business Economics (NABE) and the Association for University Business and Economic Research (AUBER), Washington, D.C.; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (March 25, 2004).

"The United States in the World Economy," at the Federal Reserve Bank of Atlanta's Public Policy Dinner, Atlanta, Georgia; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (January 7, 2004).

"Panel Discussion," at the 28th Annual Policy Conference: Inflation Targeting: Prospects and Problems, Federal Reserve Bank of St. Louis, St. Louis, Missouri; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (October 17, 2003).

"Productivity and Monetary Policy," at the Federal Reserve Bank of Philadelphia Monetary Seminar, Philadelphia, Pennsylvania; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (September 24, 2003).

"Central Bank Talk: Does it Matter and Why?" with Brian P. Sack, presented at the Macroeconomics, Monetary Policy, and Financial Stability Conference in honor of Charles Freedman, Bank of Canada, Ottawa, Canada; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (June 20, 2003).

"Comment on 'Good Policies for Bad Governments: Behavioral Political Economy,'" by Daniel J. Benjamin and David I. Laibson at the Federal Reserve Bank of Boston's 48th Economic Conference, Chatham, Massachusetts; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (June 10, 2003).

"Testimony of Governor Donald L. Kohn," *Business Checking Freedom Act of 2003, H.R. 758 and H.R. 859*, before the Subcommittee on Financial Institutions and Consumer Credit of the Committee on Financial Services, Rayburn Senate Office Building, Washington, D.C., (March 5, 2003).

"The Strength in Consumer Durables and Housing: Policy Stabilization or Problem in the Making?" at the Conference on Finance and Macroeconomics sponsored by the Federal Reserve Bank of San Francisco and Stanford Institute for Economic Policy Research, San Francisco, California; posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (February 28, 2003).

"Comment on 'Inflation Targeting in the United States?'" by Marvin Goodfriend at the National Bureau of Economic Research Conference on Inflation Targeting, Bal Harbour, Florida, (January 23-25, 2003); posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (January 25, 2003).

"The U.S. Current Account Deficit," Europe Convening, 12th Frankfurt European Banking Congress 2002, Frankfurt, Germany, pp. 55-58, (November 22, 2002); posted on the Federal Reserve Board's website at *www.federalreserve.gov*, (November 22, 2002).

"Statement of Donald L. Kohn," before the Senate Committee on Banking, Housing, and Urban Affairs, Dirksen Senate Office Building, Washington, D.C., (July 30, 2002).

"Thirty-two Years of Monetary Policy—Some Lessons Learned," The 26th Annual Distinguished Achievement Awards Dinner, The Money Marketeers of New York University, The Roosevelt Hotel, New York City, (June 2002); posted on website at *www.moneymarketeers.org*.

"Some Issues in Inflation Targeting: The View from Outside," *Inflation Targeting: Theories, Empirical Models and Implementation in Pacific Basin Economies,* edited by Myung-Chang Chung, The Bank of Korea, pp. 3-16, (January 2002).

"What Should the Federal Reserve Do as Treasury Debt is Repaid?" *Journal of Money, Credit, and Banking,* Vol. 34, No. 3 (August 2002, Part 2).

"Whither Central Banking Research?, A Comment on Charles Goodhart: Whither Central Banking?" *Evolution and Procedures in Central Banking,* edited by David E. Altig and Bruce D. Smith, Cambridge University Press, (2002).

"Comments on 'Transparency and Accountability,'" *The Future of Monetary Policy,* edited by Adam Posen, Oxford: Blackwell Publishers, (2002).

"The Kohn Report on MPC Procedures: Report to the Non-executive Directors of the Court of the Bank of England on Monetary Policy Processes and the Work of Monetary Analysis," *Quarterly Bulletin Spring 2001*, Bank of England, Vol. 41, No. 1 (2001).

"Concluding Panel Discussion: The Role of Monetary Policy under Low Inflation," *Monetary and Economic Studies Special Edition,* Institute for Monetary and Economic Studies, Bank of Japan, Vol. 19, No. S-1, pp. 377-383 (February 2001).

"Comments on 'Forward-Looking Rules for Monetary Policy,'" by Andrew Haldane and Nicoletta Batini, *Monetary Policy Rules*, edited by John B. Taylor, National Bureau of Economic Research and Chicago Press (1999).

"Comments on 'Independence and Accountability,'" by Professor Mervyn King, Clive B. Briault, and Andrew G. Haldane, *Towards More Effective Monetary Policy*, Institute for Monetary and Economic Studies, Bank of Japan (1997).

"Measuring the Adjusted Monetary Base in an Era of Financial Change: Commentary," *Federal Reserve Bank of St. Louis Review*, Vol. 78, No. 6, pp. 45-49 (November/December 1996).

"Commentary: What Operating Procedures Should Be Adopted to Maintain Price Stability?—Practical Issues," by Charles Freedman, *A Symposium Sponsored by the Federal Reserve Bank of Kansas City: Achieving Price Stability*, Jackson Hole, Wyoming, August 29-31, 1996, pp. 297-306 (1996).

"Comments on 'Inflation Indicators and Inflation Policy,'" by Stephen Cecchetti, *NBER Macroeconomics Annual 1995*, Cambridge and London: MIT Press, pp. 227-33 (1995).

"Comments on 'Monetary Aggregates Targeting in a Low Inflation Economy,'" by William Poole, *Conference Series No. 38: Goals, Guidelines, and Constraints Facing Monetary Policymakers*, sponsored by the Federal Reserve Bank of Boston, pp. 130-35 (1994).

"Financial Markets and the Design of U.S. Monetary Policy," *Sonderdruck Aus: Kolloquien-Beiträge 38 Finanzmärkte und Zentralbankpolitik*, pp. 73-92 (1994).

"The Stability of Financial Markets: Central Bank Responsibility," *Current Legal Issues Affecting Central Banks*, edited by Robert C. Effros, International Monetary Fund, Vol. 2, pp. 159-166 (1994).

"Commentary: The Role of Judgment and Discretion in the Conduct of Monetary Policy," *A Symposium Sponsored by the Federal Reserve Bank of Kansas City: Changing Capital Markets: Implications for Monetary Policy*, Jackson Hole Wyoming, August 19-21, 1993, pp. 197-203 (1993).

"Comments on 'Evaluating Policy Regimes: New Research in Empirical Macroeconomics,'" *Evaluating Policy Regimes: New Research in Empirical Macroeconomics*, edited by Ralph C. Bryant, Peter Hooper, and Cathryn Mann, Washington, D.C.: The Brookings Institute, pp.452-57 (1993).

"Price Objectives and Policy Requirements," *Price Stabilization in the 1990s*, edited by Kumiharu Shigehara, Bank of Japan (1993).

"Commentary: The Federal Reserve Policy Process," *Monetary Policy on the 75th Anniversary of the Federal Reserve System: Proceedings of the Fourteenth Annual Economic Policy Conference of the Federal Reserve Bank of St. Louis*, Norwell, Mass., and Dordrecht: Kluwer, pp. 96-103 (1991).

Financial Sectors in Open Economies: Empirical Analysis and Policy Issues, edited by Peter Hooper, Karen H. Johnson, Donald L. Kohn, David E. Lindsey, Richard D. Porter, and Ralph Tryon, Board of Governors of the Federal Reserve System (1990).

"Policy Targets and Operating Procedures in the 1990s," *Federal Reserve Bulletin*, Vol. 76, No. 1, pp. 1-7 (January 1990) and *A Symposium Sponsored by the Federal Reserve Bank of Kansas City: Monetary Policy Issues in the 1990s*, Jackson Hole Wyoming, August 30- September 1, 1989, pp. 129-41 (1989).

"An Overview of Problems of Monetary Policy," *Monetary Policy for a Changing Financial Environment*, American Enterprise Institute Studies, No. 495, Washington, D.C.: AEI Press; distributed by University Press of America, Lanham, Md. And London, pp. 1-7 (1990).

"Making Monetary Policy: Adjusting Policy to Achieve Final Objectives," *Monetary Policy and Open Market Operations*, Reserve Bank of Australia (1990).

"Monetary Policy in an Era of Change," *Federal Reserve Bulletin*, Vol. 75, No. 2, pp. 53-57 (February 1989).

"Discussant of 'Deregulation and Financial Products and Services,'" by Paul M. Horvitz, *Deregulation of Product Lines: Proceedings of a Colloquium at the Board of Governors of the Federal Reserve System*, (July 1982).

"Comments on 'Margins and Futures Contracts,'" *The Journal of Futures Markets*, Vol. 1, No. 2, pp. 255-257 (1981), with Galen Burghardt, Jr.

"Currency Movements in the United States, *Monthly Review, Federal Reserve Bank of Kansas City*, pp. 3-8 (April 1976).

"Interdependence, Exchange Rate Flexibility, and National Economies," *Monthly Review, Federal Reserve Bank of Kansas City*, pp. 3-10 (April 1975).

"Foreign Official Institution Holdings of U.S. Government Securities," *Monthly Review, Federal Reserve Bank of Kansas City*, pp. 11-20 (September-October 1974).

"Causes of Seasonal Variations in Interest Rates," *Monthly Review, Federal Reserve Bank of Kansas City*, pp. 3-12 (February 1974).

"Seasonal Variations in Interest Rates," *Monthly Review, Federal Reserve Bank of Kansas City*, pp. 3-10 (November 1973).

"Capital Flows in a Foreign Exchange Crisis," *Monthly Review, Federal Reserve Bank of Kansas City*, pp. 14-23 (February 1973).

"Minority Owned Banks," *Monthly Review, Federal Reserve Bank of Kansas City*, pp. 11-20 (February 1972).

"The Amended Bank Holding Company Act," *Monthly Review, Federal Reserve Bank of Kansas City*, pp. 11-20 (May 1971), with John F. Zoellner.

"West German Monetary Policy and Bank Portfolios, 1962-68," *A Dissertation*, The University of Michigan (1971).

"Briefings" to the Federal Open Market Committee at each meeting, Board of Governors of the Federal Reserve System, (July 1986 to 2002); published in *FOMC Transcripts* through 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 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 attached 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.

My present employer is the Federal Reserve.

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

See answer above.

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

No

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

Yes

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

I have served in the Federal Reserve for 36 years; the last four as a member of the Board of Governors. When I was on the staff I worked at various positions of increasing responsibility dealing primarily with the analysis of developments in financial markets and the economy and their implications for monetary policy. For the last 15 years as a staff member I was secretary to the Federal Open Market Committee and the principle staff advisor to the Board and the FOMC on monetary policy. In that role, I was responsible for analyzing policy options and presenting that analysis to the FOMC. I also had primary staff responsibility for explaining policy to the public in the minutes of the FOMC, its announcements, and in testimony and speeches by the Chairman and other Board members. Because I also was liaison with the Federal Reserve Bank of New York and had oversight of the discount window, I was closely involved in the Federal Reserve's response to actual or potential financial sector crises.

As a member of the Board, I have devoted a considerable proportion of my time to monetary policy--keeping abreast of economic and financial developments, assessing the stance of policy and deciding on my position at the next FOMC meeting, and giving speeches and presentations on the economy and policy. In addition to my role on the FOMC, my responsibilities have included: chairing the Reserve Bank Affairs Committee of the Board, which oversees the performance of the reserve banks; being a member of, and now, chairing the Payments System Policy Advisory Committee, which looks at developments in the wholesale and retail payments systems--with emphasis on fostering more robust payments systems--and advises the Board on payments system issues; and representing the Federal Reserve, including before the Congress on the subject of regulatory reform and at the Economic Policy Committee of the Organization for Economic Cooperation and Development. In these roles, I have broadened and deepened my knowledge of the various aspects of the Federal Reserve's responsibilities, which should prepare me to play a greater leadership role should the Senate confirm me as Vice Chairman of the Board of Governors.

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.

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

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name:

(Last) Casey (First) Kathleen Louise (Other)

Position to which nominated: Commissioner of the Securities and Exchange Commission

Date of nomination: May 18, 2006

Date of birth: 12 – 04 - 1966 **Place of birth:** Tripoli, Libya

(Day) (Month) (Year)

Marital Status: Single **Full name of spouse:**

Name and ages of children: None

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Pennsylvania State University	1984-1988	BA	1988
George Mason University Law School	1990-1993	JD	1993

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

N/A

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

Organization	Office held (if any)	Dates
DC Bar	None	1993 – present
VA Bar	None	1993 – present
University Club	None	01/2001-06/2002
116 Club		pending

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

Staff Director and Counsel	US Senate Banking Committee, Washington, D.C.	01/2003 – present
Chief of Staff	US Senator Richard Shelby, Washington, D.C.	03/2002-12/2002
Legislative Director	US Senator Richard Shelby, Washington, D.C.	04/1996-03/2002
Staff Director	Subcommittee on Financial Institutions, US Senate Banking Committee, Washington, D.C.	08/1994-04/1996
Legislative Assistant	US Senator Richard Shelby, Washington, D.C.	05/1993- 08/1994
Law Intern	VA Court of Appeals Judge Johanna Fitzpatrick, Fairfax, VA	12/1992-05/1993
Legal Assistant	Professor George Zaphiriou, Arlington, VA	08/1992-02/1993
Law Clerk	US Department of Commerce, Washington, D.C. National Telecommunications and Information Administration	05/1992-09/1992
Law Clerk	Farifax Country Attorney's Office, Farifax, VA	09/1991-05/1992
Waitress	Bullfeather's Restaurant, Washington, D.C.	05/1991-08/1991
Administrative Asst.	Camp, Barsh, Bates and Tate, Washington, D.C.	06/1988-08/1990

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.

Staff Director and Counsel	US Senate Banking Committee, Washington, D.C.	01/2003 – present
Chief of Staff	US Senator Richard Shelby, Washington, D.C.	03/2002-12/2002
Legislative Director	US Senator Richard Shelby, Washington, D.C.	04/1996-03/2002
Staff Director	Subcommittee on Financial Institutions, US Senate Banking Committee, Washington, D.C.	08/1994-04/1996
Legislative Assistant	US Senator Richard Shelby, Washington, D.C.	05/1993- 08/1994
Law Intern	VA Court of Appeals Judge Johanna Fitzpatrick, Fairfax, VA	12/1992-05/1993
Law Clerk	US Department of Commerce, Washington, D.C. National Telecommunications and Information Administration	05/1992-09/1992
Law Clerk	Fairfax Country Attorney's Office, Fairfax, VA	09/1991-05/1992
Intern	United States Information Agency, Washington, D.C.	06/1987-08/1987
Part-Time Assistant	Water Resources Administration Surface Mining Division Maryland Department of Natural Resources	10/1983-07/1984 (best estimate)

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

N/A

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.

Staff member Government for the People Subcommittee, 2000 Republican National Convention Platform 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.

$1000	03/18/2002	Tom Young for Congress

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

I have served as the Staff Director and Counsel of the Senate Banking, Housing and Urban Affairs Committee since 2003. During that period and over the course of my previous 10 years of employment with Senator Richard Shelby, both on and off the Committee, I have had the opportunity to work on a broad range of legislative and oversight issues affecting the financial services industry, our securities markets and the Securities and Exchange Commission. This legislative experience has given me a deeper understanding of both the legal and regulatory framework that guides our securities markets and has provided me greater insight into the public policy considerations that underpin it. In the course of this work, I have had regular interaction with a wide range of relevant stakeholders, including representatives of the financial services and securities industry, federal and state financial services regulatory agencies, the self-regulatory organizations, Administration officials and consumer and investor advocacy groups. Further, I have also had the opportunity to meet with numerous international financial regulators and securities industry participants to discuss issues of regulatory and legislative interest.

This experience has given me a strong appreciation of the SEC's mission of investor protection and its important role in ensuring the integrity and efficiency of our capital markets. Finally, I believe that my experience working in the Senate has invested me with the requisite professionalism and considered judgment that is necessary for such an important position.

Future employment relationships:

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

   Yes.

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

   No.

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

   No.

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

   Yes.

Potential conflicts of interest:

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

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.

While my responses to questions 1-4 above do not raise conflicts of interest, I have already established a process through my ethics agreement, if I am confirmed as SEC Commissioner, to discuss any potential conflict issues that arise with agency ethics counsel. See Letter dated May 19, 2006 from Kathleen L. Casey to William Lenox, Ethics Counsel and Designated Agency Ethics Official, Securities and Exchange Commission, which is attached to this questionnaire.

Civil, criminal and investigatory actions:

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

None.

2. Give the full details of any proceeding, inquiry or investigation by any professionalassociation including any bar as:

None.

This copy of the Statement does not include the confidential financial information portions of the form.

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

Signed: Darlene L. Cady Date May 31, 2006

Attachment to Supplement Response to Question 5 Under Conflicts of Interest

Kathleen L. Casey
534 Dirksen Senate Office Building
Washington, DC 20510
May 19, 2006

William Lenox
Ethics Counsel and
Designated Agency Ethics Official
Securities and Exchange Commission
100 F. Street, N.E.
Washington, D.C. 20549

Dear Mr. Lenox:

The purpose of this letter is to describe the steps that I will take to avoid any actual or apparent conflict of interest in the event that I am confirmed for the position of Commissioner, Securities and Exchange Commission.

As required by 18 U.S.C. 208(a), I will not participate personally and substantially in any particular matter that has a direct and predictable effect on my financial interests or those of any other person whose interests are imputed to me, unless I first obtain a written waiver, pursuant to 18 U.S.C. 208(b)(1), or qualify for a regulatory exemption, pursuant to 18 U.S.C. 208(b)(2). I understand that the interests of the following persons are imputed to me: any general partner; any organization in which I serve as officer, director, trustee, general partner or employee; and any person or organization with which I am negotiating or have an arrangement concerning prospective employment. I also understand that if my personal circumstances change while I am serving as Commissioner, I should seek the advice of ethics counsel to determine whether other persons' interests would be imputed to me.

Finally, I will provide the appropriate officials with a list of interests I may acquire in order to support my efforts to avoid conflicts of interest and to comply with the agency's regulatory limitations on the securities holdings of its Commissioners. In addition, I will recuse myself from participation on a case-by-case basis in any particular matter in which, in my judgment, it is desirable for me to do so in order to avoid the possible appearance of impropriety, despite the lack of any actual conflicts.

Sincerely,

Kathleen L. Casey

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM SHEILA BAIR

Q.1. As an academic you have written about the future of financial regulation, including the possibility of a fundamental restructuring of the banking, securities, and insurance regulators such as the consolidation of agencies. How will your views on the future of financial regulation impact your leadership of the FDIC?

A.1. As an academic, I advocated long-term reforms toward greater consolidation and coordination among the various financial regulators. Your GSE bill, Mr. Chairman, is one good example of this concept. By combining OFHEO and the FHFB, the legislation would give the combined regulator more stature and a broader jurisdictional base to avoid regulatory capture. As Chairman of the FDIC, one of my highest priorities will be to maintain effective working relationships with other financial regulators to ensure a safe and sound banking system. I am fortunate to already have strong working relationships with many of the top regulators. To that end, I will embrace consensus approaches to improving financial supervision, but I do not expect to be advocating significant structural changes at this time.

Q.2. The size of the loss to the insurance fund resulting from the failure of Superior Bank in 2001 led to criticisms that the OTS and the FDIC had failed to recognize warning signs and to act in a timely manner. Because the FDIC is frequently in the role of back-up regulator, it is to some extent dependent upon the information it receives from other regulators. What steps do you intend to take to ensure adequate communication and coordination between the FDIC and other regulators?

A.2 I believe that the FDIC's authority as back-up supervisor is key to its ability to prudently administer the Federal deposit insurance program. The FDIC and the other banking regulators reached an agreement in January 2002 on protocols to ensure that necessary information is shared between the FDIC and the primary Federal regulator and any disputes are resolved expeditiously. The agreement also provided the FDIC with greater access to information regarding some of the largest banks. My sense is that this agreement has been working well. I intend to work closely with my colleagues at the other regulatory agencies to ensure that this cooperative relationship continues. While I believe that the current structure is working, I will not hesitate to exercise the FDIC's back-up authority in appropriate circumstances if it becomes necessary.

Q.3. Although our dual banking system has a great number of benefits, it can pose certain jurisdictional challenges, particularly when issues span jurisdictional lines among agencies. In 2003, you suggested creating a rulemaking council composed of the heads of all the major financial regulatory agencies to coordinate the formulation of rules having cross-jurisdictional impact. Do you believe your proposal is still relevant in the current regulatory environment?

A.3. I think the bank regulators, for the most part, work well together. When I suggested the rulemaking council, it was to include

the functional regulators (SEC and CFTC), as well as insurance regulators. The extended ongoing discussions between the SEC and the bank regulators regarding Regulation B is one example where such a council might assist in the resolution of a cross-jurisdictional issue.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BUNNING FROM SHEILA BAIR

Q.1. We have experienced a period of relative stability in the banking sector. What do you see as the biggest threats to the banking system today?

A.1. By virtually any measure, the banking industry is doing very well. The industry is well-capitalized and has experienced 5 consecutive years of record earnings—and recently reported another record quarter. Areas of concern are high and volatile energy prices and an emerging slowdown in some housing markets. These are areas of risk most likely to have an impact on the general economy and ultimately to have an impact on banking performance. I am also concerned about growing levels of consumer debt and the fact that the personal savings rate in the first quarter for 2006 and for all of 2005 was actually negative. This has not occurred since the Great Depression. Personal savings act as a cushion against unexpected adverse economic conditions. A lack of savings reduces the financial flexibility of households, which poses risks for them and the financial institutions which serve them. The FDIC will need to monitor all of these risks closely in the coming months;. Currently, however, the banking industry remains healthy. Indeed, there has not been a bank failure in almost 2 years—an historic record.

Q.2. Do you think that retailers such as Wal-Mart and Home Depot could be honest brokers if they are let into the banking sector?

A.2. If I am confirmed, I may have to act on regulatory matters involving the two companies cited in your question. For that reason, I cannot comment at this time on their circumstances. I can say as Chairman of the FDIC, I will work to ensure that all participants in the banking sector treat consumers and customers fairly.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR BUNNING FROM JAMES B. LOCKHART III

Q.1. The Office of Federal Housing Enterprise Oversight has the authority to impose cease and desist orders and civil money penalties on GSE's, but lacks explicit authority to take actions against employees and consultants, or to remove officers and directors. In other words, you cannot take any action against the very people who promoted the culture of corruption at Fannie Mae. With such limited enforcement power, wouldn't you agree that leads to a pretty ineffective regulator?

A.1. The lack of such enforcement powers, that are similar to other financial institution regulators, does adversely affect our effectiveness.

OFHEO has authority to direct an Enterprise to install qualified individuals, but cannot directly remove a senior executive or a director. Should the Enterprise object, the process contained in OFHEO's statute could take years to conclude.

OFHEO does not have explicit authority to remove officers and directors from an institution as do depository institution regulators.

OFHEO does not have authority to act against consultants, such as the power of depository institution regulators to act against "institution-affiliated parties."

Among the problems surrounding OFHEO's enforcement authorities are the standards set in the statute are very high, and the procedural steps that are required are time consuming. One example is that the statute sets a 2-year statute of limitations regarding discharged employees versus 6 years for other safety and soundness regulators who have more time to build their cases and press for potential settlement. In sum, OFHEO has enforcement authorities but these authorities are undermined by procedural hurdles and missing explicit powers.

Q.2. There are serious concerns about the capability of the Office of Federal Housing Enterprise Oversight to effectively regulate GSE's. As late as June 2002, the regulator reported that Fannie Mae's implementation of the derivatives accounting rule had a sound basis even though regulators were already aware that the Enterprise was operating under improper accounting methods. Do you think that oversight of Fannie Mae and Freddie Mac has kept pace with their growing portfolios? Is the regulator equipped to regulate these enterprises?

A.2. In retrospect, there is no doubt that the prior culture at both the Enterprise and OFHEO contributed to what was known and when on the accounting issues. It can also be said that in 2002 OFHEO did not have all the tools and staff it needed to ensure safety and soundness of the Enterprises. Since then, management has been strengthened and the budget and staff have doubled. However, OFHEO still needs the full safety and soundness powers of a bank regulator, budget flexibility and other powers in the proposed legislation.

In June 2002, OFHEO was not aware that the Enterprises were operating under improper accounting methods. However, OFHEO through it risk-based safety and soundness examination program had begun to recognize a need for additional staff with selected expertise including but not limited to accounting. In a January 2001 memorandum, a proposal for strengthening the examination program was outlined. The memorandum included a proposal to create a specialized Examination Activities group that would include a team of accountants that would evaluate accounting policies and treatments for specific transactions and hedges. As the financial resources became available to OFHEO, the accounting team began with the hiring of an Examination Manager in the Fall of 2002, which increased to a team of four during 2003.

As OFHEO assessed the risk at the Enterprises, the Agency continued to recognize the need for additional specialized staff. In 2003, the Director established two new supervisory offices: The Office of the Chief Accountant which has a current staff of 12 employees, 9 of which are CPA's, and the Office of Compliance which has a current staff of 14 employees, including 11 compliance examiners. The Office of Examination has also been expanded since 2002 add-

ing 60 plus examiners in specialized areas like model, credit, market, and operational risk over the past 4 years.

In summary, OFHEO has increased its staffing level each year. Today, OFHEO has 226 employees and plans to staff up to 250 by the end of the fiscal year. As mentioned above the majority of the increase in staffing has been in the direct supervision areas.

OFHEO continues to assess the optimal skill sets needed to keep pace with Fannie Mae and Freddie Mac growth and their changing business risk and adjust OFHEO staffing accordingly. Despite this growth in staffing, OFHEO does need independence from the appropriations process and improved authorities.

Q.3. Do you think that the split oversight of GSE's between HUD and the regulator weakens the ability to regulate this sector?

A.3. Government Sponsored Enterprise regulation would be enhanced by having both new products and affordable housing programs located within the same agency that oversees safety and soundness. This is the model of bank regulators and has worked very well. OFHEO has worked cooperatively with HUD and has been given the opportunity to provide its input on the safety and soundness of product offerings subject to HUD review.

As the proposed legislation has the HUD Secretary as a board member, the revamped GSE regulator would continue to cooperate with and seek advice from HUD.

Q.4. HUD approved and increased funding for ADC construction loans, eventually granting permanent approval of the program. Given what the regulator knew about Fannie Mae, do you think Fannie Mae should have been allowed to expand into construction loans? Could this be an example of the weakness of divided regulation of this sector?

A.4. OFHEO is reviewing the operation of the ADC program at Fannie Mae for safety and soundness and does consider construction-related lending a higher risk area requiring strong oversight. At this point, OFHEO is not satisfied that the existing controls are adequate to the expanded program. Furthermore, OFHEO has concerns about Fannie Mae actions in expanding business lines at a time of fundamental problems with its overall control and management structures.

Begun as a pilot program in 1990, HUD lifted the cap on the program's size in 2003. OFHEO was asked to provide its views on the operation of the program at that time. OFHEO indicated that the controls were adequate, but ongoing review was required should the program grow. OFHEO communicates regularly with HUD on its examination of the program's operation.

As noted above, consolidation of new program authority with routine examination for safety and soundness should be beneficial.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BUNNING FROM DONALD L. KOHN

Q.1. To date you have not dissented from any of the Fed's interest rate actions, including the most recent increase. Will you commit to being an independent voice on the Fed and to speaking up when you have a different viewpoint than the Chairman or other members?

A.1. My responsibility as a member of the Board of Governors is, and if I am confirmed by the Senate as Vice Chairman of the Board will be, to provide my own best judgment on all policy issues facing the Board and the Federal Open Market Committee. I pledge to uphold that responsibility by expressing my views in Federal Reserve deliberations and by voting for the actions that I believe will best foster the attainment of the Federal Reserve's legislated objectives.

Q.2. As we have seen for the last few weeks, and particularly the last 3 days, the financial media and stock markets are following the words of you and your Fed colleagues extremely close. Just a slight change in words from previous statements can drive the markets up or down. Have you learned anything from those episodes, and are you going to be careful about what you say and where you say it?

A.2. Clear communication about the macroeconomic situation and monetary policy is an important aspect of the transparency and accountability of monetary policymaking by an independent central bank. My colleagues and I at the Federal Reserve recognize both that financial market participants closely scrutinize our statements for the implications for the future course of the economy and monetary policy and that markets can sometimes react sharply to what is perceived as new information. Consequently, we try to exercise great care in such communications, a practice that I myself have followed to date and will in the future.

Q.3. How long does it take for the Fed's actions to affect the economy? In other words, how long of a lag is there between Fed rate increases or cuts and the action's impact on the economy? And what kind of impact have we seen from the current stretch of Fed tightening?

A.3. Changes in the stance of monetary policy have substantial economic effects, but the timing of those effects is uncertain and varies over time. Empirical estimates of the lag between a change in the funds rate and its full effect on aggregate output range from as short as one quarter to as long as a year and a half; the estimated lag in the response of inflation is also variable but tends to be somewhat more drawn out. Some of this variability reflects differences across time in the extent to which financial markets anticipate future policy actions. In the current episode, Federal Reserve communications have enabled investors to anticipate much of the rise in the funds rate that has occurred over the past 2 years and incorporate those expectations into prices in financial markets, speeding up the response of real activity and inflation relative to a situation in which policy actions are less well-anticipated. Actual and expected increases in short-term interest rates have likely already contributed to damping some forms of interest-sensitive spending, most notably in the housing sector.

Q.4. In a speech last fall, you noted the importance of taking global trends into account when measuring inflation. Would you expand on what global trends the Fed should be looking at, what impact they have, and if you think the Fed is properly taking them into account?

A.4. Globalization, which encompasses the various trends toward greater integration of product and financial markets across countries, has been going on for some time, but it has accelerated in the past 15 years or so as the economies of eastern Europe moved toward market-based systems and China, India and other east Asian economies emerged as important players in the global trading system.

Among the trends we must monitor are the effects of these emerging market economies on inflation and output in the United States. To date, demands from these economies appear to have contributed to the rise in energy and other commodity prices, which is boosting overall inflation here, while their supply of low-cost exports seems to have been placing some limited downward pressure on our underlying inflation rate. But that latter result may not persist; it stems in part from the imbalance of production over spending in some of those economies and the constraints some have placed on the appreciation of their currencies, neither of which is likely to be sustained indefinitely.

More generally, the increasing integration of national economies means that what happens in other countries can have a greater effect on prices and incomes here in the United States. Information on foreign economies, financial markets, commodity markets, and exchange rates, along with staff projections for our trading partners, all feed into our consideration of the U.S. economic outlook.

Policymakers need to factor into their decisions the implications of globalization for the determination of inflation and output, and we do. In the end, however, we cannot lose sight of the fundamental truth that in a world of separate currencies that can fluctuate against each other, the ultimate responsibility for ensuring stable prices and maximum sustainable employment in the United States rests with the Federal Reserve.

Q.5. What inflation measures do you think are the most important? And what forward-looking measures do you think are useful?

A.5. I believe that it is important to monitor a range of inflation measures in conducting monetary policy. No single measure can, by itself, provide enough information with which to form a well-founded judgment about the prospects for inflation and economic growth. Among the many inflation measures I consider are indexes of consumer prices (including the Personal Consumption Expenditure price index and the Consumer Price Index)—both the headline indexes and the indexes that exclude the erratic prices of food and energy; the price index for gross domestic purchases (the broadest price measure of domestically purchased goods and services); and the price index for Gross Domestic Product (the broadest price measure of domestically produced goods and services). The Federal Open Market Committee provides a forecast of core PCE price inflation in the semi-annual Monetary Policy Report to Congress because the Members of the Committee believe this index provides a reasonably clear indication of underlying inflation pressures. But looking also at a variety of other price measures helps me to gain a deeper understanding of underlying inflation pressures and, more generally, of the array of factors influencing the economy.

Similarly, I find it useful to look at a variety of forward-looking measures of inflation when considering the economic outlook. These include both survey-based measures of inflation expectations, such as those from the University of Michigan Survey Research Center and Professional Forecasters surveys of the Federal Reserve Bank of Philadelphia, and market-based measures, such as those derived from inflation-indexed Treasury Bonds and futures markets. Each measure is useful because it provides information about inflation expectations from a different perspective and thus helps to form a more complete picture of how individuals view the outlook for inflation. These expectations in turn influence the path that inflation actually will follow, and it is the forecast of that path into the future that helps to shape the policy decision in the present.

STATEMENT OF BOB DOLE

A FORMER U.S. SENATOR FROM THE STATE OF KANSAS

JUNE 8, 2006

Mr. Chairman and Members of the Committee, I am sorry I cannot be here to re-introduce the Committee to Ms. Sheila Bair, the President's nominee for Chairman of the Federal Deposit Insurance Corporation. Unfortunately, I am out of the city on business.

Sheila is already known to you through her previous confirmation as Assistant Secretary for Financial Institutions at the Department of the Treasury and through her frequent dealings with this Committee, over many years, from within and outside of Government.

I am proud to offer my unqualified support for Sheila again, for this nomination—as I did for her previous nomination—which I am confident will be approved speedily and overwhelmingly.

I have known Sheila for 25 years. Earlier in her career, she served as my Counsel on the Senate Judiciary Committee, handling issues including civil and constitutional rights, intellectual property, and judicial reform. As I am sure many of you can recall, she was an outstanding member of my staff whom I counted on for advice and analysis, and she never failed me.

She has gone on to do many other good jobs and has held several important posts. As a current Dean's Professor of Financial Regulatory Policy at the Isenberg School of Management at the University of Massachusetts-Amherst, she has continued her strong record of research, analysis, and writing on financial institutions policy. She has become an advocate for financial literacy and recently authored a children's book. Sheila has continued her strong record of service and contribution to this area of public policy.

Prior to her position at the University of Massachusetts-Amherst, Sheila was responsible for the development and implementation of Administration's policies with regard to financial institutions policy at the Treasury Department. Immediately after being confirmed for that position—in fact, within 24 hours if I am not mistaken—she was before this Committee again testifying on behalf of deposit insurance reform. If confirmed to head the FDIC, of course, she will be charged with implementing that new law.

At Treasury, Sheila handled bank regulatory policy, insurance, Government Sponsored Enterprises, critical infrastructure protection, securities regulation, consumer protection, and financial education, among other issues. In that position, she dealt directly with the Office of Thrift Supervision, the Comptroller of the Currency, the Federal Reserve Board, and the FDIC.

I will not delve too deeply into more of her history and extensive experience which qualify her for this position, much of which was part of my statement before this Committee on July 12, 2001, when I supported her confirmation for Assistant Secretary of Treasury. But I would like to reiterate my support. I would like to reiterate how proud I am to have had her as a former member of my Senate staff.

Mr. Chairman and Members of the Committee, thank you for your previous support for Sheila, and thank you for your continued support for her. I know she will serve us well in this new position.

Thank you.