S. HRG. 112–752

NOMINATIONS OF: JEROME H. POWELL, JEREMY C. STEIN, JEREMIAH O. NORTON, RICHARD B. BERNER, AND CHRISTY ROMERO

HEARING

BEFORE THE

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

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

ON

NOMINATIONS OF:

JEROME H. POWELL, OF MARYLAND, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

JEREMY C. STEIN, OF MASSACHUSETTS, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

JEREMIAH O. NORTON, OF VIRGINIA, TO BE A MEMBER OF THE BOARD OF DIRECTORS OF THE FEDERAL DEPOSIT INSURANCE CORPORATION

RICHARD B. BERNER, OF MASSACHUSETTS, TO BE DIRECTOR, OFFICE OF FINANCIAL RESEARCH, DEPARTMENT OF THE TREASURY

CHRISTY ROMERO, OF VIRGINIA, TO BE SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM

MARCH 20, 2012

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

Available at: http://www.fdsys.gov/

U.S. GOVERNMENT PRINTING OFFICE

80–197 PDF WASHINGTON : 2013

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

TIM JOHNSON, South Dakota, *Chairman*

JACK REED, Rhode Island
CHARLES E. SCHUMER, New York
ROBERT MENENDEZ, New Jersey
DANIEL K. AKAKA, Hawaii
SHERROD BROWN, Ohio
JON TESTER, Montana
HERB KOHL, Wisconsin
MARK R. WARNER, Virginia
JEFF MERKLEY, Oregon
MICHAEL F. BENNET, Colorado
KAY HAGAN, North Carolina

RICHARD C. SHELBY, Alabama
MIKE CRAPO, Idaho
BOB CORKER, Tennessee
JIM DEMINT, South Carolina
DAVID VITTER, Louisiana
MIKE JOHANNS, Nebraska
PATRICK J. TOOMEY, Pennsylvania
MARK KIRK, Illinois
JERRY MORAN, Kansas
ROGER F. WICKER, Mississippi

DWIGHT FETTIG, *Staff Director*
WILLIAM D. DUHNKE, *Republican Staff Director*

CHARLES YI, *Chief Counsel*
LAURA SWANSON, *Policy Director*
BRIAN FILIPOWICH, *Professional Staff Member*

ANDREW OLMEM, *Republican Chief Counsel*
MIKE PIWOWAR, *Republican Chief Economist*
BETH ZORC, *Republican Counsel*
DANA WADE, *Republican Professional Staff Member*

DAWN RATLIFF, *Chief Clerk*
RIKER VERMILYE, *Hearing Clerk*
SHELVIN SIMMONS, *IT Director*
JIM CROWELL, *Editor*

C O N T E N T S

TUESDAY, MARCH 20, 2012

WITNESSES

NOMINATIONS OF:

JEROME H. POWELL, OF MARYLAND, TO BE A MEMBER OF THE BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM;

JEREMY C. STEIN, OF MASSACHUSETTS, TO BE A MEMBER OF THE BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM;

JEREMIAH O. NORTON, OF VIRGINIA, TO BE A MEMBER OF THE BOARD OF DIRECTORS, FEDERAL DEPOSIT INSURANCE CORPORATION;

RICHARD B. BERNER, OF MASSACHUSETTS, TO BE DIRECTOR, OFFICE OF FINANCIAL RESEARCH, DEPARTMENT OF THE TREASURY;

CHRISTY ROMERO, OF VIRGINIA, TO BE SPECIAL INSPECTOR GENERAL, TROUBLED ASSET RELIEF PROGRAM

TUESDAY, MARCH 20, 2012

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

The Committee met at 10:08 a.m. in room SD–538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN TIM JOHNSON

Chairman JOHNSON. Good morning. I call this hearing to order.

Thanks to all of our nominees for joining us here today. I also extend a warm welcome to our nominees' families and friends who are here with us.

Today we consider five nominees, each of whom is individually accomplished. These nominees, if confirmed, will have important responsibilities for our Nation's economy: setting monetary policy; supervising and regulating some of our largest and most complex financial institutions; continuing to ensure the proper use of TARP funds; and providing policymakers and regulators with meaningful data to safeguard our financial system.

We need strong leadership in these posts to solidify our Nation's economic recovery and to help prevent another financial crisis. I am glad the President has sent us five well-qualified individuals to fill vacancies at the Federal Reserve Board of Governors, the Federal Deposit Insurance Corporation, the newly created Office of Financial Research, and the Special Inspector General of the Troubled Asset Relief Program.

We will now proceed to witness introductions.

Jerome Powell has been nominated to serve as a Governor on the Federal Reserve Board. Mr. Powell is currently a visiting scholar at the Bipartisan Policy Center in Washington, D.C., where he focuses on Federal and State fiscal issues. Mr. Powell previously served as Under Secretary of the Treasury for Finance under President George H.W. Bush.

Jeremy Stein is also a nominee to serve on the Board of Governors of the Federal Reserve. Professor Stein has a long and distinguished academic career, teaching economics for more than a decade in his current position at Harvard, and another decade before that teaching finance at MIT.

Jeremiah Norton has been nominated to be a Member of the Board at the FDIC. Mr. Norton is currently the executive director of J.P. Morgan Securities. From 2007 to 2009, Mr. Norton served as the Deputy Assistant Secretary for Financial Institutions Policy at the Department of the Treasury. Before that, Mr. Norton served on the legislative staff of Representative Ed Royce.

Richard Berner currently serves as Counselor in the Office of Research and Quantitative Studies at the Department of the Treasury. Dr. Berner was a member of, among others, the Economic Advisory Panel of the Federal Reserve Bank of New York, the Panel of Economic Advisers of the Congressional Budget Office, and the Executive Committee of the Board of Directors of the National Bureau of Economic Research.

Christy Romero has been nominated to be the Special Inspector General for TARP. She has served as the Deputy Special Inspector General since February 2011 and as the Chief of Staff at SIGTARP before that. Ranking Member Shelby and I sent a letter to the President last year, asking him to nominate a "strong watchdog" who "will be fully focused on protecting taxpayers in the administration of TARP." I believe the President has done that in nominating Ms. Romero, a person who brings years of experience from the SEC investigating financial fraud and insider trading.

Congratulations to you all on your nominations.

It is my hope that after today's hearing this Committee can move quickly to a markup of the nominees. I ask that Members submit their written questions to the nominees by noon this Friday, and I ask that the nominees please have their answers back to the Committee by noon on Tuesday, March 27.

This Committee reported out and the Senate confirmed 17 of the President's nominees last year. It is my hope that along with today's five nominees we can confirm the remaining seven nominees that we already reported out of this Committee.

I now turn to Senator Shelby for any opening remarks he may have. Senator Shelby.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Mr. Chairman, I have an opening statement. I would just ask that it be made part of the record so we can move on with our business today.

Thank you.

Chairman JOHNSON. Thank you, Senator Shelby.

Are there any other Members who would like to make a brief opening statement?

[No response.]

Chairman JOHNSON. Senator Coats joins us today to make an introductory statement for Mr. Norton. Senator Coats.

STATEMENT OF DAN COATS, A UNITED STATES SENATOR FROM THE STATE OF INDIANA

Senator COATS. Mr. Chairman, thank you, and, Senator Shelby, thank you. It is a great pleasure to be here to support the nomination of Jeremiah Norton for Member of the Board of Directors of the FDIC. It is a privilege for me to be able to do this. I have known Jeremiah and his family for more than 25 years. I have high regard for them and their sense of value and their sense of commitment to public service and integrity. They have raised their son with all the right values, in my opinion.

Jeremiah's educational background and academic achievements as well as his professional experience I think speak for themselves. You mentioned his professional experience. I believe all of that is combined to make him well prepared to serve as a very effective Member of the Board of Directors at the FDIC.

I called Jeremiah and said, "Jeremiah, why would you want to leave such a valued position in the private sector to come back to Government?" I think it is a reflection of him and his values that the sense of purpose that I think has brought us to the U.S. Senate and is bringing these fine people away from prestigious positions in the private sector, academic, and so forth, back to public service. That sense of purpose is very much a part of Jeremiah's decision, and I highly applaud him for that.

His integrity, his commitment to excellence, the kind of hard work that I have seen him demonstrate in both academic achievement as well as professional achievement I think is something to be very commendable, and his commitment, as I said, to public service.

But, you know, Mr. Chairman and Senator Shelby, in the end the numbers get crunched and the money gets transferred, but ultimately what we need out of our supervisory agencies is a commitment to make sure that the trust of the American people and the trust of those who use the financial system is ensured. Those millions of Americans, hundreds of millions of Americans that deposit money into our financial institutions, small amounts, medium, large, savings for education for their children, savings for perhaps starting a business, they need to go to bed in the evening knowing that their money is safely provided for and insured and is there for them when they need it. Those small business people that are trying to transfer their dreams into reality need to know that there is credit available for them and that the credit will continue to be available for them if they provide the right qualifications for receipt of those loans. And those institutions that do all the money moving throughout the world in a global financial economy need to know that there are rules which they have to abide by, that there is correct oversight and supervision, that risk management is very much a part of what they need to be conscious of.

Jeremiah Norton has spent time at the Department of Treasury as Deputy Assistant Secretary during the time when the two of you were deeply engaged in saving this country from default, from collapse of the financial system. That experience is invaluable in terms of looking to the future, in terms of how to assess the rules and the procedures that need to be in place.

But, again, it comes down to that question of trust, and I have great trust in Jeremiah Norton that he will be one of those members of the Board of Directors that can assure the American people that their sleep at night can be safe and sound while their money is being watched over by somebody who really knows what he is doing.

So I thank you for the opportunity and am proud to be able to recommend him for your consideration for confirmation.

Chairman JOHNSON. Thank you, Senator Coats. Please feel free to excuse yourself.

We will now swear in today's witnesses. Will the nominees please rise and raise your right hand? Do you swear or affirm that the testimony that you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. POWELL. I do.

Mr. STEIN. I do.

Mr. NORTON. I do.

Mr. BERNER. I do.

Ms. ROMERO. I do.

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

Mr. POWELL. Yes.

Mr. STEIN. Yes.

Mr. NORTON. Yes.

Mr. BERNER. Yes.

Ms. ROMERO. Yes.

Chairman JOHNSON. Please be seated.

Please be assured that your written statement will be part of the record. I invite all the witnesses to introduce your family and friends in attendance before beginning your statement.

Mr. Powell, please begin.

Mr. POWELL. Thank you, Mr. Chairman, Senator Shelby. I would like to introduce my wife, Elissa, of some 26 years sitting behind me, as well as people I will not identify, many friends and current and former colleagues who are here today, which I really appreciate.

Thank you.

Chairman JOHNSON. Please proceed.

Mr. STEIN. Thank you, Mr. Chairman. I have a bunch of family here. I have my wife, Anne, and then hiding back there are my parents, Eli and Ellie Stein, and my sister, Karen Stein.

Chairman JOHNSON. Mr. Norton.

Mr. NORTON. I would like to introduce my parents, Phillip and Patricia Norton, and thank them for their support. And thank you to Senator Coats for his warm introduction.

Chairman JOHNSON. Dr. Berner.

Mr. BERNER. Senator, I would like to introduce my wife, Bonnie, over here; my children, our children, Matt and Laura; my sister; and some other friends and family. Thank you.

Chairman JOHNSON. Ms. Romero.

Ms. ROMERO. Thank you, Chairman. I am pleased to have my family here today. I have Adrienne Goldsmith. I have my father, Augusto Romero; Brooke Campbell and Julia Campbell. Also my mother, Audrey Romero, is not in attendance today, and my oldest daughter, Chelsea Campbell, is away at college and hopefully attending classes right now.

[Laughter.]

Chairman JOHNSON. Mr. Powell, please begin your testimony.

STATEMENT OF JEROME H. POWELL, OF MARYLAND, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. POWELL. Thank you, Mr. Chairman and Senator Shelby. I am honored and grateful to President Obama for the privilege of appearing before this Committee today as a nominee to the Federal Reserve Board. If I am confirmed, I will work to the best of my abilities to carry out the responsibilities of this office.

Most of my career has been in the private sector, including close to 30 years working in the financial markets as an attorney, an investment banker, and finally as an investor. I believe that my practical experience in financial markets would provide a valuable perspective in the Federal Reserve Board's deliberations.

I also served as Assistant Secretary and then Under Secretary of the Treasury from 1990 through 1993, and throughout that period, I worked closely with this Committee and appeared in this room a number a significant number of times in hearings and markups. Since I left public service in 1993, it has been my highest aspiration to serve again, and it means a great deal to me to have the possibility to do so.

My earlier service also occurred during a period of great economic turmoil. I arrived at Treasury in June 1990 at the beginning of the saving & loan cleanup. A year later, we faced the insolvency of the Bank Insurance Fund and also faced multiple failures of large financial institutions as well as a severe credit crunch, with businesses and consumers unable to get credit on affordable terms.

I was deeply involved in addressing all of these serial crises and in the major legislation that typically followed, including the FDIC Improvements Act of 1992, or FDICIA. I also led the Administration's response to a major bidding scandal in the Treasury markets in 1991–92, which resulted in the Government Securities Act of 1992, as well as substantial revisions to the Treasury's auction rules.

Since leaving Treasury in 1993, I have remained a careful student of economic policy and events, always with the thought that I might have the opportunity to return to public service. Like many others, over the years I have grown increasingly concerned about our ever more unsustainable fiscal position, the performance of our economy, and most of all our collective failure to come together around a plan of action.

In 2010, I left the private sector with the intention of spending the rest of my career working on those issues. Since then, I have worked full time as a visiting scholar at the Bipartisan Policy Center, focusing on State and Federal fiscal issues. Last summer, I authored a widely distributed study of the operation of the Federal debt ceiling. After that, I put together a public simulation of the failure of a large, global financial institution under the new provisions of Dodd-Frank. In 2010, I also led another public simulation of the financial collapse of a large, fictitious American state, among other projects.

Economic policymakers, including those at the Fed, will be working in the shadow of the financial crisis for some time, and there are enormous challenges on every front. This is a time to apply the lessons we have learned from the crisis and set the stage for another long period of prosperity.

In monetary policy, the task will be providing support for the still weak economy but exiting the current highly accommodative policies in time to avoid higher inflation. Along with other governments and central banks around the world, the Fed is also in the middle of a once-in-a-generation refashioning of the global financial regulatory architecture. There is much work to be done in implementing the decisions that Congress has made and in finalizing and implementing international accords like Basel III.

At the heart of these broad reforms is the project of ending our practice of protecting creditors and sometimes equity holders of large global financial institutions in extremis—or "too big to fail." What we have long needed is a mechanism to handle an orderly resolution of a large, failing institution. Realizing this objective will be the work of many years, and I would love to play a part in that.

Thank you again for the honor of this hearing, and I look forward to responding to your questions.

Chairman JOHNSON. Thank you.

Dr. Stein, please proceed.

STATEMENT OF JEREMY C. STEIN, PH.D., OF MASSACHUSETTS, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. STEIN. Chairman Johnson, Senator Shelby, thank you very much for giving me the opportunity to appear before you today. I am honored to have been nominated by President Obama to be a Member of the Board of Governors of the Federal Reserve. It is an important job at a challenging time for both the U.S. economy and the global financial system, and I am eager to contribute to our meeting those challenges.

I have spent most of my career as an academic economist, with a few breaks for Government service. I graduated from Princeton University in 1983, got my Ph.D. from MIT in 1986, and have since been on the faculties at both MIT and Harvard—most recently, since 2000, as a professor in Harvard's economics department. In between, I served on the task force appointed by President Reagan to investigate the 1987 stock market crash. I also spent a year as a senior staff economist on President George H.W. Bush's Council of Economic Advisers. And for 6 months in 2009, I was an adviser to NEC Director Summers and to Treasury Secretary Geithner, helping to formulate a policy response to the crisis that was then engulfing our financial system.

As an academic, my research and teaching have been focused on financial markets, and for many years I have been especially interested in the interplay between monetary policy and financial institutions, trying to understand the real-world details of how monetary policy filters through the banking system to ultimately impact both borrowers and lenders. Other topics that I have worked on that are of relevance to a position at the Fed include: the role of small banks in small business lending; the housing market; risk management in financial firms; and financial regulation.

In the last few years, my research and teaching have been heavily influenced by my experiences working at the NEC and Treasury in 2009. For example, I developed and taught a new course on the financial crisis, which has given me a chance to step back and reflect on the many policy decisions taken during this eventful period, the mistakes made, and the lessons learned.

This reflection has reinforced one of my core beliefs as an economist: the need to be humble and honest about the limitations of our understanding. I am a big believer in the value of economic theory, but the role of theory should be to help organize the jumble of evidence before us in such a way that when new facts come in, we can most clearly see how and why we have had it wrong in the past and adjust our thinking accordingly. Too often in economics, theories have been used in a rigid fashion, making us less not more open to learning from what happens in the real world. This is when things have gone badly off the rails for economists, as well as for those who rely on us for policy advice.

The Federal Reserve's mission remains as it was before the onset of the financial crisis: to deliver on its dual mandate of price stability and maximum employment, and to help safeguard the stability of the financial system. But to pursue this mission in a dramatically altered economic environment, the Fed has shown a laudable ability to adapt and evolve—in terms of the tools it has used to conduct its monetary and lender-of-last-resort policies, and, importantly, in the substantially enhanced degree of transparency that it now offers the outside world. I am fully committed both to the mission of the Fed itself and to this spirit of pragmatic, open, and nonideological engagement with the unknown challenges that surely lie ahead.

Thank you again for the opportunity to testify before you today. I would be delighted to answer any questions you might have. Thank you.

Chairman JOHNSON. Thank you.

Mr. Norton, please proceed.

STATEMENT OF JEREMIAH O. NORTON, OF VIRGINIA, TO BE A MEMBER OF THE BOARD OF DIRECTORS OF THE FEDERAL DEPOSIT INSURANCE CORPORATION

Mr. NORTON. Thank you, Chairman Johnson, Ranking Member Shelby, and Members of the Committee. It is an honor and a privilege to be nominated by the President and to come before you today as a nominee for the Board of Directors of the FDIC.

I am very appreciative of the Chairman and Ranking Member for scheduling today's hearing and of Members and their staff for taking time to meet with me in the weeks and days leading up to this morning. I appear before you today with full and complete recognition of the serious responsibility associated with the position to which I have been nominated.

The FDIC performs a critical role in our Nation's financial system. Since its creation by the Congress in 1933, the FDIC has helped to maintain stability in the financial system through its provision of deposit insurance and supervision of banking entities. If confirmed to the position, I believe that my experience both in Government and in the private sector would bring meaningful value to the Board and to the regulation of financial institutions.

First, earlier in my career as an aide to Congressman Ed Royce, a member of the House Financial Services Committee, I learned not only the issues and challenges facing the FDIC and other financial regulators, but also gained an understanding of the role financial institutions play in the lives of individuals and communities within the real economy. I appreciate the important oversight role that the Congress plays in guiding the FDIC and other regulatory agencies.

Second, from 2007 to early 2009, I was privileged to serve in the United States Treasury Department as Deputy Assistant Secretary for Financial Institutions Policy. In that position, I oversaw the development, analysis, and coordination of the Department's policies on legislative and regulatory issues affecting regulated and nonregulated financial institutions. Additionally, while at the Treasury, I worked closely with the regulatory agencies—including the FDIC—to help the country quickly respond to the most severe financial crisis since the 1930s.

Last, in my current and most recent professional role, I work in the private sector providing investment banking services to financial institutions, both large and small. I believe this background enables me to provide an important perspective on the way in which regulation impacts financial institutions and the communities they serve, the capital markets, and the broader market for goods and services.

In this critical period for all financial regulators, including the FDIC, should I be confirmed to the Board, I will bring the collection of my experiences to help guide the FDIC as we continue to encounter challenges in the financial system and in the broader national and global economies. In addition to helping ensure that our country's banks are able to operate in a safe, sound, and balanced manner, I believe it is imperative that the FDIC work with the other regulators, both domestically and internationally, to prioritize and address issues that pose risks to the financial system.

If confirmed, I pledge to work with my colleagues at the agencies, the regulatory community, and the Congress as we address these and other important issues.

Thank you, and I look forward to your questions.

Chairman JOHNSON. Thank you.

Dr. Berner, please proceed.

STATEMENT OF RICHARD B. BERNER, PH.D., OF MASSACHUSETTS, TO BE DIRECTOR, OFFICE OF FINANCIAL RESEARCH, DEPARTMENT OF THE TREASURY

Mr. BERNER. Thank you, Chairman Johnson, Ranking Member Shelby. Thanks for the opportunity to be here today.

I am honored that President Obama and Secretary Geithner have asked me, if confirmed, to serve as Director of the Office of Financial Research at this critical moment for our Nation's economy and financial system.

Earlier I introduced my wife, Bonnie, and our children, Matt and Laura, but I want to thank them for supporting and encouraging me to return to public service.

As you know, the Office of Financial Research was established to serve the Financial Stability Oversight Council, its member agencies, and the public by improving the quality, transparency, and accessibility of financial data and information, by conducting and sponsoring research related to financial stability, and by promoting best practices in risk management.

Those goals all represent challenges. I am fully committed to help build this institution to fulfill those goals, and I believe that my family background and my educational and professional training have equipped me with the dedication and skills to meet those challenges.

My mother, who is 97, was a town meeting member and taught me the ingredients of good government. My father, who passed away in 2005, taught me respect for the virtues of free markets and capitalism, as well as an understanding of their shortcomings. My parents had different political views, but they agreed on the importance of public service.

In my education, I turned to economics and its power to make peoples' lives better. I received an A.B. from Harvard College and a Ph.D. from the University of Pennsylvania. My training in college and graduate school gave me the tools to analyze the economy and financial markets and to appraise economic and financial policies.

Most important, I believe my career has provided me with the skills in research, data, and markets necessary to serve as Director of the Office of Financial Research. My career helped me develop broad knowledge of the changing global economy, financial institutions, financial markets, and financial regulation. Through many market and economic cycles, I saw both the benefits of financial innovation and the costs of periods of severe market stress.

My professional experience has also equipped me to understand the needs of policymakers and risk managers. In my first job, I served as an economist at the Board of Governors of the Federal Reserve System. Subsequently, I directed the Policy Analysis Group at Wharton Econometrics. I served for 30 years at four major financial services firms, on the Senior Management Committee of one and on the Risk Management Committees of two; most recently, as co-head of Global Economics at Morgan Stanley. As Counselor in the Treasury, I currently advise Secretary Geithner on financial and regulatory issues.

My service on advisory boards has also kept me on the cutting edge of policymaking, research, and data. I have served on advisory boards for the Federal Reserve Bank of New York, the Congressional Budget Office, the National Bureau of Economic Research, and the Bureau of Economic Analysis. As an associate on the Counterparty Risk Management Policy Group II—that was a group of market participants assembled in 2005 to identify and resolve many of the problems in our financial system—I gained further insight into the complex plumbing of the financial system.

Finally, I believe I have the critical thinking skills to challenge conventional wisdom and a passion for a stronger, safer, and appropriately regulated financial system that guides my vision for how the office should fulfill its mission.

We face many challenges to rebuild the financial system, one that helps our economy grow and restore lost jobs. I am humbled and honored by the opportunity to help meet those challenges and to serve our Nation. If confirmed, I would look forward to working with the Members of this Committee and Congress. I will work hard to carry out my oath of office and to earn your trust and confidence.

Thank you. I look forward to your questions.

Chairman JOHNSON. Thank you.

Ms. Romero, please proceed.

STATEMENT OF CHRISTY ROMERO, OF VIRGINIA, TO BE SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM

Ms. ROMERO. Thank you, Chairman Johnson, Ranking Member Shelby. It is with great honor that I appear before you today as President Obama's nominee for Special Inspector General at SIGTARP. I want to thank each of you for the support that you have given to SIGTARP over the years.

I also want to thank my parents, who instilled in me a call to public service, one which I hope to live up to, and I also hope to instill in my three beautiful daughters—Chelsea, Brooke, and Julia. My father, Augusto Romero, who is here today, joined the United States Navy as a young man in the Philippines, and he served our country for 20 years. And every day, as a child, I would watch him with great pride putting on his Navy uniform each day. My mother, Audrey Romero, raised all seven of us kids alone while my father was deployed. And when my dad's ship would return back, all the sailors would line the deck of the massive ship, standing ramrod straight with their hands clasped behind their back in their full white dress uniform. And I would search for my dad's face, and when I would find it, he was always beaming with pride, and so was I.

My brother, Scott Romero, has also served our country, wearing camouflage, in year-long deployments in Bosnia, Afghanistan, and Iraq. So with two veterans in the family, there would be an expectation that I, too, would commit to public service. So I left private practice, and I went to the Securities and Exchange Commission where I investigated fraud in order to protect investors. I also had the privilege of serving as counsel to two SEC Chairmen—the current Chairman Mary Schapiro and former Chairman Christopher Cox—and I have much admiration for both.

During my time at the SEC, our Nation suffered a profound financial crisis, and the Government's response included TARP. I had a deep concern for who would safeguard the TARP money against fraud. And as I voiced these concerns to a friend of mine, he told me that if I was really concerned, I should volunteer by joining a new office called SIGTARP. And that is exactly what I did in August of 2009. And since then, I have had an unwavering commitment to SIGTARP's mission of transparency, oversight, and enforcement.

I am deeply humbled by the confidence that President Obama has shown in nominating me to such an important position. Our Nation continues to face challenges with $120 billion in TARP funds outstanding and $51 billion that still could be spent. There is also fraud by those who sought to exploit TARP, and I am committed to answering these challenges.

My experience of serving on the staff at the SEC, in leading the dedicated and courageous team at SIGTARP during the last year, and serving as SIGTARP's Chief of Staff for nearly 2 years, has prepared me to serve as Special Inspector General. As a result of my experience at the SEC, I developed a strong resolve to protect investors. Once again I am protecting investors—the very taxpayers who funded TARP.

In the last year, I have prioritized SIGTARP's criminal investigations, and under my leadership, 44 individuals have been criminally charged as a result of a SIGTARP investigation. And I will tell you that the 45th individual is being charged as we speak in a Federal courtroom right now in Alexandria. These charges carry severe repercussions such as prison sentences.

I also take very seriously SIGTARP's oversight role. In the last year alone, I have issued 28 recommendations designed to protect TARP funds against fraud, waste, and abuse. In addition, the American taxpayers have a right to know how TARP funds are spent, and I have led SIGTARP to issue a series of reports bringing significant transparency to TARP.

Although I may not wear a uniform like my father and my brother, I share their dedication to public service. If confirmed, I pledge to work closely with you to advance our mutual goal of protecting taxpayers. This Committee's support of SIGTARP has been instrumental in giving weight to SIGTARP's recommendations and in keeping a watchful eye over the TARP funds. I am committed to maintaining the close relationship between this Committee and the office which I am nominated to lead. It has certainly been the greatest privilege of my career to be nominated by President Obama for this important role and to be considered by this Committee for confirmation.

I thank you very much. I would be delighted to answer any questions that you may have.

Chairman JOHNSON. Thank you all for your testimony.

We will now begin asking questions of our nominees. Will the clerk please put 5 minutes on the clock for each Member for their questions?

Dr. Stein and Mr. Powell, as a Governor at the Fed, you will play a key role in finalizing a number of Wall Street reform rules, such as the Volcker Rule and new macro prudential and capital rules for large financial firms. What are your thoughts about this task? And how do you plan to work with the Chairman and other Governors? Mr. Powell.

Mr. POWELL. Thank you, Mr. Chairman. The Fed's role in the matter of Dodd-Frank is one of implementation, and my first thought is that the job is to implement the rules, the Volcker Rule and all the other rules, in a way that is faithful to the language of the statute but that minimizes any negative impact on credit availability and economic activity.

I would also say that we need to keep in mind that we had a financial system and a regulatory system that worked very well for a long period of time—reasonably well for a long period of time—and then in 2007, financial institutions failed broadly, and the regulatory system in a way failed with it. And so it is definitely time to try to learn the important lessons—mistakes were made by everyone involved—and try to rebuild a regulatory system that will do a better job of seeing problems coming and preventing them from coming and, frankly, build financial institutions that will be strong enough to withstand a big storm in case the radar does not work next time either.

So, really, that is how I see the role of the Fed in relation to implementing Dodd-Frank.

Chairman JOHNSON. Dr. Stein.

Mr. STEIN. Thank you, Mr. Chairman. As your question suggests, the implementation of Dodd-Frank is one of the most important and consequential tasks for the Fed over the next several years. As Mr. Powell suggested, at a broad level, the job of the Fed is to implement faithfully the statute while minimizing undue regulatory burden, especially, I should note, for the smaller community banks for whom such a burden is hard to bear and for whom many of the issues in Dodd-Frank are not intended to be front and center.

A couple of other specific things—obviously, there are many, many issues that fall into this, but a couple specific things that I think deserve particular focus. One is the general issue of international cooperation and harmonization so that on the one hand we can have appropriately robust capital and liquidity standards for the largest banks to help mitigate too-big-to-fail issues, while at the same doing the best one can to keep the playing field level and, importantly, level not only in terms of the rules as they are written, but the rules as they are, in fact, carried out and implemented.

A second point I would just like to note—it is also an international issue—is dealing with multijurisdictional issues having to do with the orderly liquidation authority element of the Dodd-Frank Act. The better a job that the Federal Reserve and the other regulators can do in nailing down the specifics—and these are very complicated issues in many cases of how a liquidation would work, the more credible will be the threat to impose losses on the shareholders and on the creditors of a large institution, and in turn the better a job one will be doing in terms of removing any perception of an implied Government subsidy.

So, again, there are other issues, but I think those are some of the important ones.

Chairman JOHNSON. Mr. Norton, one of my priorities is preserving the community banking model. There is a significant concern from this industry that the model is threatened from consolidation, regulation, competition, and the current exam environment. What do you see as the most significant threats to community banking? And how will you work with your colleagues on the Board to strengthen community banks?

Mr. NORTON. Thank you, Mr. Chairman. As you pointed out, community banks are an important mechanism for providing credit to our Nation's economy, especially small businesses and farmers. I think the smallest banks, those under $1 billion in assets, represent about 10 percent of the banking assets in the system but provide about 40 percent of loans to small businesses and farmers. So it is critically important that regulation recognizes that import and that the FDIC, which is the primary Federal regulator for a majority of those banks, takes that responsibility very seriously. If I were to be confirmed and join the Board, I certainly would share that burden and responsibility to get it right.

With regard to your second question, I am very committed to working with the other members of the Board, should I be confirmed. It is very important, given the number of rules that the FDIC and the other agencies must propose and finalize, to have a good working relationship and get our work done expeditiously.

Chairman JOHNSON. Dr. Berner, the OFR released its strategic framework. If confirmed, how do you intend to implement the strategic framework outlined in the plan and ensure that OFR is accountable?

Mr. BERNER. Thank you, Senator. The strategic plan that we just released that you referred to has five key goals that I think will guide us in implementing the work of the OFR.

The first is to serve the needs of the Financial Stability Oversight Council in providing data and research to help the Council identify threats to financial stability.

The second is to promote data-related standards and best practices and data management.

The third is to build a center for excellence in financial research, one that complements the work that is going on elsewhere in the Council but does not duplicate it, in effect fills in the gaps, helps to fill in the gaps in our knowledge.

The fourth key goal of our plan is to distribute data appropriately to the members of the public, to the Council for the benefit of them and their work, but to safeguard those data appropriately and to make sure that any confidential data are kept just that—confidential.

And, last, our goal is to make the Office of Financial Research an efficient and cost-effective and world-class workplace.

So those are the five goals of our strategic plan, and we plan to use them in implementing the work of the Office of Financial Research.

Chairman JOHNSON. Ms. Romero, how will you ensure that SIGTARP continues its investigative role over the use of TARP funds? And what ideas do you have to make it stronger under your leadership?

Ms. ROMERO. Thank you, Chairman Johnson. I appreciate your question. I also want to say I am very touched by the words that you said for me in your opening statement, and I thank you for that and for your support.

If confirmed, the investigations will be a very high priority for me, and it has been over the last year. I believe that we need to act very swiftly to try to detect and stop any fraud related to TARP before it is too late, for example, if a bank fails. So the time to act is now. And one of the focuses of the priorities of investigations, if confirmed, under my leadership will be in looking at the banks that have received TARP funds. And we have right now over 150 criminal investigations into a number of different areas, including the banks that have received TARP funds, and making sure that there is no fraud in the TARP funds, that there is no fraud in the application for the TARP funds.

This is very important for not only bringing accountability and justice through jail time, but also SIGTARP investigations actually bring money back to the Government and back to victims. And as a result of SIGTARP's investigations, there have been orders of forfeiture and restitution of nearly $4 billion.

We also stopped a very significant, one of the longest running and largest bank frauds in our Nation, and this was at Colonial Bank and Taylor, Bean & Whitaker where seven people were convicted, and Lee Bentley Farkas is serving 30 years, which is a very, very significant prison sentence for a white-collar crime.

The important thing about that case which is telling of SIGTARP's investigations is that Treasury was ready to send $553 million in TARP funds to Colonial Bank. We stopped that money from going out, and the prevention of the loss of all of that money, which is what would have happened, due to fraud will more than pay for SIGTARP during its entire existence.

Chairman JOHNSON. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

I would like to direct this question to Mr. Powell and Dr. Stein. The Fed's balance sheet stands at almost $3 trillion. And while the FOMC minutes reveal that the Board of Governors has discussed the principles that should "guide the strategy of shrinking the Fed's balance sheet," the Fed has not publicly announced a formal plan.

Do you believe that it is necessary for the Fed to announce its formal plan for shrinking its balance sheet? And if not, why should it remain a secret? Mr. Powell, you first, and then Dr. Stein.

Mr. POWELL. Thank you, Senator Shelby. I think the broad point I would make to start is that the timing of the exit from the balance sheet and from the highly accommodative monetary policy generally is one of the most critical questions that we would face, if confirmed, at the Fed, so very, very important.

I think that the Fed has gone maybe a little farther than your question might suggest. In the June 2011 minutes, they announced a plan, and they sort of announced a series of steps that they would take starting with—well, it is five steps. They do not come to mind right off the top of my head, but——

Senator SHELBY. To deleverage the balance sheet?

Mr. POWELL. Yes, ending with asset sales. It will come to me—as soon as I turn the mic off, I will remember them, but there are five steps. And so they have gone a little farther than you suggest, but getting out of a large balance sheet like that is unprecedented, it is terribly important, and it is not done until it is done. The plan is there, but it needs to be executed, and I am ready to play my part in that.

Senator SHELBY. But it has got to be done right; otherwise, it could cause havoc in the marketplace, could it not?

Mr. POWELL. Yes. There is tremendous risk in that, the exit, and I think that is well understood. You run the risk of inflation, disturbing inflation expectations, asset bubbles, and all of that. And so that is why it is terribly important to do it right and not to do it too early either. It is difficult. You do not want to do it too early and snuff out a recovery that is still weak.

Senator SHELBY. Absolutely.

Mr. POWELL. And you do not want to do it too late and let inflation out of the bag. So that is a challenge.

Senator SHELBY. Dr. Stein.

Mr. STEIN. Again, I know the Fed has made some broad principles clear, and my view is that the Fed on a number of dimensions has been very good about increasing transparency. And as your comments suggest, this is another place where I think it is important to think about these issues. My guess is that as the moment gets closer, it will be important to start letting markets know the tactics, the sort of tactical level decisions of how things will evolve. I have not been involved in the discussions enough to have a good sense of exactly when and how that will happen, but I am certainly committed to the principle of being transparent as we go. And obviously one does not want to have disruptive impact on markets by unwinding the balance sheet in an unexpected way.

So, I would fully endorse the principle that one be more transparent going forward as——

Senator SHELBY. But the bottom line here, the deleveraging has got to be done right.

Mr. STEIN. It will be one of the most important tasks, along with the regulatory implementation, one of the most important tasks for the Fed over the next several years for sure.

Senator SHELBY. This same question to both of you. The Wall Street Journal recently reported that the Board of Governors has held just two public meetings since Dodd-Frank was enacted. Do you believe whether or not it is important for Governors, the Board of Governors of the Fed, to meet in an open forum to publicly discuss their viewpoints prior to implementing rules? Or do you believe the Fed's practice of not publishing internal dissent should be changed? How do you go about this? Mr. Powell first.

Mr. POWELL. To begin, when I was in office before, the Fed did not even announce what it did in an FOMC meeting. There was no press release until 1994, which was after I left, so the level of transparency now with the press conferences and the forecasts, it is night and day, and all the things that the Chairman does.

But in terms of public meetings, I cannot think of a single reason why the Fed would not have more public meetings. It has done so historically. Given all the focus on transparency, for some reason the number of public meetings has come down, and I think it is a perfectly good question: Why would that be the case? I read the same article, and there was a comment in there by a couple of the Governors saying, "Yes, we will do more public meetings." So I suspect there will be more public meetings going forward.

Senator SHELBY. Dr. Stein.

Mr. STEIN. Just to underscore the progress that the Fed has made on transparency and the fact that it is clearly a work in progress, that one wants to continue on this path and with this broad theme. And I agree that on the regulatory dimension, more transparency would be a good thing.

Now, I have not been involved at a detailed level enough in the rulemaking process to know what the best mode of doing that is, whether it is open meetings, whether it is other things. But I am certainly sympathetic and committed to trying to do a better job on that dimension.

Senator SHELBY. I will direct this question to Mr. Norton. Are Basel III capital standards high enough? Some people think they are not; some think they are too high. What is your assessment of these capital standards, if you have had a chance to study them? And are they sufficient in your judgment to prevent another crisis or to mitigate a crisis?

Mr. NORTON. Senator, I think my view on the Basel III capital requirements is that it is a tremendous step forward, especially given where we were—both in the United States and globally—with regard to bank capital levels.

I am particularly pleased to see that not only the amount of capital has gone up as a result of Basel III, but also the quality of capital, and more common equity being a focal point of that agreement. As you know, the coordination of regulation, both domestically and internationally, is an important process, so I think from my perspective outside looking in, the United States has done a good job of encouraging higher capital and better quality capital, and I am supportive of that.

Senator SHELBY. Mr. Norton, do you know of any financial institution offhand that has been well capitalized, well managed, and well regulated that has failed?

Mr. NORTON. Senator, I cannot think of one. From my professional experience, you can see that institutions that have sufficient capital and have good management and take that responsibility seriously tend to do well.

Senator SHELBY. Thank you.

I want to direct this question to Mr. Berner. Under Dodd-Frank, sir, the Director of the OFR has the authority to collect information about the American people under the pretext of monitoring systemic risk. This type of authority raises serious privacy concerns with a lot of people, conservative and liberal both.

What are the statutory limits of your authority, as you understand it, to collect information about the American people? In other words, give us the full spectrum of financial information that you could collect, as you understand it, under the pretext of monitoring systemic risk. And is there any information that the OFR cannot collect even if it could help improve the monitoring of systemic risk?

Mr. BERNER. Senator Shelby, thanks for your question. First, let me state that, as you know, the goals of the Office of Financial Research are to collect those data on behalf of the Council that will help it in monitoring threats to financial stability, and that really is our primary focus. And those data, as a result, tend to be the ones that are involved with financial transactions between institutions or between institutions and their clients.

I also want to say that preserving the confidentiality of those data when they are confidential or secure is the highest priority for the Office of Financial Research. Likewise, preserving the privacy of individuals in our economy is of the utmost importance, and we take those goals and that mandate very seriously.

So I stated before that we will be extremely thoughtful and judicious about the way we collect data, where——

Senator SHELBY. And what you do with that data.

Mr. BERNER. And to be very thoughtful and judicious about what we do with those data as well, Senator. We are not collecting data for collection's sake. We are interested only in collecting those data that will help us fulfill our mandate. And we want to avoid duplication in the collection of data if they are already collected by other agencies.

You referred to the statute. The statute actually does provide several safeguards that are important in prescribing what the OFR can do. Specifically, we need to go to the supervisors of record, the other regulatory agency, to find out whether those data are, first, being collected already, and if so, then there is no need for us to do additional collection.

To that end, we are in the process of completing an inventory of the data that are held collectively by the Council to make sure that we do not duplicate and so that the Council is fully aware of the data that are being collected.

Senator SHELBY. Thank you.

I have one last question of Ms. Romero. Before the passage of the legislation that created the Small Business Lending Fund that you are familiar with, a lot of people warned that it would create a TARP II bailout. A lot of the concern was that banks receiving TARP loans would simply use the program to pay off TARP loans and then refinance into SBLF loans at a lower rate. You understand that, I think.

Ms. ROMERO. Absolutely.

Senator SHELBY. A recent Treasury report dispute this notion, stating that it is not a TARP program. But about how may banks that received TARP funds ended up refinancing into the Small Business Lending Fund?

Ms. ROMERO. Thank you for that.

Senator SHELBY. Do you have some data on that?

Ms. ROMERO. Absolutely. Thank you for that. This is an important issue, Senator. I am happy to have a chance to address it. One-hundred-thirty-seven banks came out of TARP and refinanced into SBLF, which is non-TARP——

Senator SHELBY. 137?

Ms. ROMERO. 137 of 332 banks went into SBLF.

Senator SHELBY. A lot of banks. What are the costs to the taxpayers here? Can you calculate that yet?

Ms. ROMERO. The amount of money that SBLF put out was around $4 billion. More than half of that went to refinance the banks out of TARP.

This goes to a bigger concern that I have. Really, if confirmed, this would be a high-priority area for me. What about the banks who were left? I mean, there are nearly 400 banks left in TARP, and there was this big push to get the largest banks out.

Senator SHELBY. And how much money is owed by these banks to TARP now, roughly?

Ms. ROMERO. For banks, there is owed——

Senator SHELBY. Still in TARP.

Ms. ROMERO.——$20 billion.

Senator SHELBY. $20 billion.

Ms. ROMERO. That is correct. And so there was no sort of corresponding big push to get the community banks out of TARP, except for this SBLF legislation, and this did end up having 137 banks come out of TARP and refinance into SBLF.

One of the recommendations that I just recently made in the last couple of months was to tell Treasury come up with a concrete plan for the rest of the banks, work with the banking regulators to try to get those banks back on their feet without Government assistance before the dividend, the TARP dividend rate increases from 5 percent to 9 percent, which happens next year.

Senator SHELBY. How much money is still owed to the Government through the TARP loans, unpaid?

Ms. ROMERO. Thank you. I appreciate that question as well. Taxpayers are owed $132 billion.

Senator SHELBY. $132 billion still outstanding.

Ms. ROMERO. That is correct. We are not going to get all of that back; $12 billion has already been written off, and the recent cost estimate——

Senator SHELBY. $12 billion has been lost, right?

Ms. ROMERO. That is correct.

Senator SHELBY. OK. And what is the rest, ma'am?

Ms. ROMERO. The recent cost estimate of TARP is $68 billion.

Senator SHELBY. $68 billion. So that is a long way from being a break-even place, isn't it?

Ms. ROMERO. That is a long way. There is a lot of work left to be done, a lot of challenges left in TARP.

Senator SHELBY. Thank you very much.

Ms. ROMERO. Thank you.

Senator SHELBY. Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

I would like to ask our two nominees to the Fed—there are those of us who have worked very hard to put policies and be supportive of policies in place to get this economy moving again, and we see that from a whole host of indicators it is moving in a positive direction. But many of us are still concerned that it is tenuous.

So the question for me is: Give me a sense of how you view tightening monetary policy. How do you know when you have reached a point where that is wise? What considerations will you take into account? For both of you, yes.

Mr. STEIN. If you would like, I will take the first shot. Thank you very much, Senator.

At the broadest level, I would want to be guided by the Fed's dual mandate, which is, on the one hand, price stability and, on the other hand, maximum employment. So as we go forward, as you know, the Fed has indicated an expectation, given the sort of current expectations for the economy's path, that monetary policy is likely to remain highly accommodative through 2014.

I just wanted to emphasize that my understanding and my interpretation of that is that that is not a commitment on the part of the Federal Reserve. That is what sometimes is called the Fed's reaction function, that is to say, given our estimates, this is what we expect. But, very importantly, it is not a commitment, and if the economic situation were to change, for example, as you suggest, if the economy were to strengthen materially faster than expected, it would be absolutely warranted to revisit—again, just guided by the dual mandate—the path of the easing. So I think, one will have to consider the data as it comes in, both the data for the strength of the economy as well as inflation data, and try and balance that on a going-forward basis.

Senator MENENDEZ. And in that duality of responsibility that the Fed has, is that an equal footing?

Mr. STEIN. Yes, it is my understanding that they are on an equal footing, with just the note that, of course, in many cases—and particularly, I think, in this case—the two goals are likely to be complementary because, of course, as the economy strengthens, it will both tend to push inflation up and to push employment up as well, so you will be moving in the same direction of converging on both of the two goals. So I think they are complementary in that sense.

Senator MENENDEZ. Mr. Powell.

Mr. POWELL. Thank you, Senator Menendez. I am in significant agreement with Dr. Stein's points. As discussed earlier, the timing of the Fed's exit from the balance sheet and from all other aspects of its now highly accommodative monetary policy is a critical question. And I cannot do better than to say that it has to be weighed under the dual mandate, of which both aspects are equal. And the Committee recently published its reaction function, which is to react in a balanced and symmetrical way, and I would certainly be bound by that and be open-minded. It is not a date that you could pick here today. It is going to depend on the future path of the economy.

Senator MENENDEZ. How do you both view how the housing market has responded to the Fed's low interest rate monetary policies? That should be helping homeowners. What is your assessment so far? And if you would change anything, what would that be?

Mr. STEIN. Well, as you know, the housing market continues to struggle in many parts of the country, and this is an issue not only of macroeconomic concern, but it is a wrenching issue for many of the families that are involved in the foreclosure process. It is costly not only at the macro level, but for the neighborhoods that are involved in foreclosure.

Typically, when the Fed eases monetary policy, that is quite helpful because families can refinance and thereby lower their mortgage burden. That has been a more difficult process this time around because it is hard to refinance when your loan-to-value ratio is so high that you cannot qualify for a new mortgage.

So that has been a challenge. I think that is one of the reasons that the Fed has maintained an accommodative policy, is because they are pushing effectively against a relatively strong headwind coming from this issue. So there are a number of policy options on the table for dealing with this. A number of them are fiscal in nature and so are more properly the role of Congress to consider. But it, again, remains one of the important challenges for us to kind of keep front and center.

Senator MENENDEZ. So would you do anything different than what is being done at this point in time with the indicators as they exist?

Mr. STEIN. I think one thing that is more in the Fed's bailiwick, if you will, which is worth considering, although I am not an expert on this issue, is its supervisory policy with respect to real estate owned; this is to say, the banks that own an inventory of foreclosed properties. And one wants to be careful not to create impediments to kind of the natural market adjustment which may involve more rental as opposed to putting a lot of properties on the market. So I think that there is room to be thoughtful about that, and I look forward to kind of learning more.

Senator MENENDEZ. Mr. Powell.

Mr. POWELL. When the Fed eases, one of the principal channels for its easing to take an effect on the economy is the housing market, and that is not happening to a significant degree now due to structural issues in the economy. So the stimulus that is being provided is not having that desired effect, as Dr. Stein indicated. And some of the things that can be done are perhaps within the Fed's jurisdiction, but many of them are not, about the structure of the housing market. And to the extent it is within the Fed's jurisdiction, it would have to do with bank regulatory policy and making sure that regulators do have—in my prior experience in Government, regulators crack down in a downturn. It is just human nature. Things happen that are embarrassing and they get tougher—and it is appropriate to some level—but it has a way of accentuating a downturn. So you have to be careful about that.

In addition, as an outsider, you can see the Fed racking their brains about ways to help the housing market. If there were a silver bullet, I think we would have used it by now, but I do think that both changing real estate owned policy and bringing private capital into that, as apparently is now happening, are constructive areas of focus.

Senator MENENDEZ. Mr. Norton, I want to take off where Mr. Powell just left off in his observation that in a downturn the ratcheting further creates a downturn. Do you believe the FDIC is currently striking the right balance between what many of us on this Committee have said to institutions that have come before us, which is we want responsible lending to take place, but we do want lending to take place, versus what I hear back at home that I have to give, you know, 10 or 12 points over LIBOR and my firstborn to get a loan? What do you think is the present balance? Is it the right balance, or can we do better?

Mr. NORTON. Senator, I see it today from my seat in the private sector, and I hear a lot of the same comments that you just alluded to, that there has been an effort in the field to perhaps restrict credit when there are some good loans out there to be made. So if I were to join the Board, it would be a critical component of something I would be focused on to make sure the message from Washington is consistent with the message in the field, that we need to recognize that especially community banks are an important mechanism to credit for the economy, and the business models of community banks are different than the business models of very large banks, and we can regulate both appropriately and safely and allow them to perform their role in the economy.

Senator MENENDEZ. I hope we can get the right balance struck here because I think the pendulum has swung too far the other way.

Let me ask you one other—two final questions, Mr. Chairman. What are your views on TAG?

Mr. NORTON. I was in the Government when the TAG program came to life in the depths of the financial crisis, so it was certainly an important tool that the official community used to stabilize the banking system. As we know, the program expires under the statute at the end of this year, so I think that provides a good opportunity for the FDIC, the Congress, and the regulatory community to review the program and see if it is merited for further extension or if it has served its purpose.

Senator MENENDEZ. Obviously, community banks are seeking an extension. They believe it would be very helpful. But you do not have a definite view at this point as to whether that is desirable?

Mr. NORTON. I think, if you would not mind, I would like to have a broader set of information if I were to be on the Board, if confirmed, to make that assessment. But I think it is certainly worthy of serious consideration.

Senator MENENDEZ. Finally, Dr. Berner, let me ask you—I think your position is very important. There are those—I chair the Housing Subcommittee for this Committee, and there are those who have said in hearings before us that the weak state of the housing market poses a systemic risk. What do you believe of that?

Mr. BERNER. Well, Senator, thanks for your question. There is no question that a weak housing market, if it threatens the economy and the health of financial institutions and the financial system more broadly, could pose a systemic risk. And I think what we saw in the crisis was that that certainly was a possibility.

If confirmed, I would think that that is a key area for research and for collecting more data so that we can evaluate the extent to which what is going on in housing markets and housing finance continues to pose not just a threat to housing per se but to the broader economy and the financial system, and that certainly is one of our goals.

Senator MENENDEZ. Well, the other thing I would commend to you is the commercial real estate mortgage market that is unfolding. It is a multi-trillion-dollar market. It is a market that I do not believe presently would be absorbed under the present system, and it is a real challenge that I think people are not paying attention to is unfolding.

I remember years ago, with a different set of witnesses, well before the housing market had its tremendous dive, I said we are going to face a tsunami of foreclosures. I was told that I was an alarmist and, unfortunately, I wish I had been wrong. But they were wrong and I was right. I am concerned about the commercial real estate mortgage market and what is unfolding, and an opportunity to try to think about that before it unfolds in a way that creates big challenges to a lot of our financial institutions should the marketplace not be able to absorb a couple trillion dollars of unfolding debt that will be due for refinancing but I just presently do not see in the existing marketplace. So we would look forward to some of your attention on that upon your confirmation.

Mr. BERNER. Thank you, Senator.

Senator MENENDEZ. Thank you, Mr. Chairman.

Chairman JOHNSON. Ms. Romero, I understand SIGTARP has partnered with CFPB and Treasury to combat HAMP mortgage modification scams. Please describe how this coordinated effort will better protect innocent homeowners. Are there other ways SIGTARP is working with other agencies to fight fraud?

Ms. ROMERO. Thank you for that question, Chairman. This is a very important area that I have focused on in the last year.

Mortgage modification fraud is really just an outrageous type of fraud. These are struggling homeowners who are seeking help, and someone promises them that if they pay them up front a fee and not pay their mortgage and not talk to their lenders, these scam artists will ensure that they get a HAMP mortgage modification and get their mortgage payment lowered.

This has been a very serious area that we have focused on as SIGTARP and, if confirmed, I would continue to prioritize. And as we have brought accountability and justice through stopping these frauds and supporting the prosecution against these people who are doing this, we were talking to victims and realize that a lot of these victims were falling prey to these schemes through the Internet.

So in working with the SIGTARP staff, what I decided to do was work with Google and Microsoft to shut down the advertising for these scams on the Internet, and we were able to do that with 125 Web sites that we identified. But that shut down advertising relationships with hundreds and hundreds of agents for these people.

On top of that, I have made a big push to try to educate homeowners, and what I would like is ultimately for homeowners to know these scams when they see it and know that they are a scam. I would like this to be as popularly known as the Nigerian email scams.

So what I did was I approached the CFPB and Treasury and asked them to join a task force with me where we would educate homeowners, and so we issued a fraud alert, and the next step that we are moving forward is working with military bases to try to educate our armed forces so that they do not fall prey to these schemes.

All of SIGTARP's investigative work is done with partners. This is how we leverage the resources that we have. And we work significantly on the President's Financial Fraud Enforcement Task Force. I spent the last year really building strong partnerships, particularly with our prosecutors, because SIGTARP just investigates cases and then we refer them on to prosecution, and the results of those partnerships have been very, very strong, and we have been able to have 100 percent of the cases we refer be accepted for prosecution.

Chairman JOHNSON. Senator Hagan.

Senator HAGAN. Thank you, Mr. Chairman. Thank you for your testimony today.

Dr. Berner, given your background at the Federal Reserve Bank in New York and as a senior executive at major financial services firms, I was hoping—I want to ask a couple of questions about primary dealers. As we all know, primary dealers serve as trading counterparties of the New York Fed in its implementation of monetary policy set by the Federal Open Market Committee. These dealers distribute our U.S. debt in exchange for revenue generated through the appreciation of financial positions they take on at weekly Fed auctions.

Is it common for primary dealers to enter into hedging transactions designed to mitigate risks that arise from participation in a Fed auction?

Mr. BERNER. Senator Hagan, thanks for your question. The primary dealer community is not something that is directly our focus in the Office of Financial Research, but certainly, if confirmed, we want to look at all the factors that might constitute threats to financial stability. So if you will permit me, again, if confirmed, that is something that we could focus on in the future.

Senator HAGAN. Does anybody else have any comments on that?

[No response.]

Senator HAGAN. OK. Thank you.

Let me ask about gasoline prices. Mr. Powell and Dr. Stein, in recent weeks we have seen an uptick in the price of oil and of gasoline at the pump. Yet at the same time, demand for oil in the United States is at its lowest level since 1997. Can you discuss your views on the drivers of these price increases if U.S. demand is low?

Mr. POWELL. Thank you, Senator Hagan. I am not an expert in the oil market, but I can tell you that what I have read suggests this explanation, and it makes sense to me: gasoline prices are significantly a function of crude oil prices, and crude oil prices have gone up very significantly in the last couple of months, to a big degree because of what is happening in the Middle East and the threat that there might be an outbreak of hostilities there and that the Strait of Hormuz might close. You know, it tracks very well with that series of events, so that makes sense to me.

In addition, because of the high price of crude, some of the refining capacity in the United States is being taken out, so it is kind of spring cleaning for refining capacity, so you have more expensive oil trying to go through a smaller and smaller funnel, and that leads to higher prices at the gas pump. So when I read a lot of commentary on that issue, that is what I take away.

Mr. STEIN. Senator, thank you for the question. Yes, so on top of the supply factors that Mr. Powell alludes to, while, as you noted, the demand here has not been overwhelming, the demand from abroad, from China and from others, is also helping to push the prices up. Obviously this is something of a first-order concern for the Fed, although it is important to say that energy prices and commodity prices in general tend to be quite volatile. So the right way to respond to that is one has to be a little bit careful given the lags in policy and so forth. So it clearly bears very, very careful watching these days, but one does not want to immediately overreact in terms of a policy response.

Senator HAGAN. Thank you, Mr. Chairman.

Chairman JOHNSON. I thank the witnesses for your testimony and for your willingness to serve our Nation.

I ask Members of this Committee to submit questions for the record by noon this Friday, March 23, and I request that the witnesses submit your answers to us by noon on Tuesday, March 27.

This hearing is adjourned.

[Whereupon, at 11:21 a.m., the Committee was adjourned.]

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

PREPARED STATEMENT OF SENATOR RICHARD C. SHELBY

Thank you, Mr. Chairman. Today, the Committee will consider five important nominations.

Jerome Powell and Jeremy Stein have been nominated to be Members of the Board of Governors of the Federal Reserve. Mr. Powell is currently a visiting scholar at the Bipartisan Policy Center. He has several years of experience working in financial markets as an attorney and investment banker. He served as Assistant Secretary and Under Secretary of the Treasury for Finance during the Savings & Loan crisis and the cleanup that followed.

Dr. Stein is currently a professor of economics at Harvard University. In addition to being an accomplished academic, he has served as a staff economist to the Presidential Task Force on Market Mechanisms after the 1987 stock market crash and as a senior advisor to the Treasury Secretary after the financial crisis. Dr. Stein has also served as an economic advisor to the Federal Reserve Bank of New York for several years.

I hope to receive assurances from both Fed nominees that they will work to increase the Fed's transparency and accountability to Congress and the public.

Jeremiah Norton has been nominated to be a Member of the Board of Directors of the Federal Deposit Insurance Corporation. Mr. Norton currently is an executive director with J.P. Morgan Securities. Prior to that role, he served as the Deputy Assistant Secretary for Financial Institutions Policy in the Treasury Department before and during the financial crisis. I look forward to hearing how his private and public sector experience will help guide him in the important challenges facing the FDIC as it implements the Dodd-Frank Act.

Richard Berner has been nominated to be the first Director of the Office of Financial Research in the Treasury Department. Dr. Berner is currently a counselor to the Treasury Secretary. He has worked as an economist at the Fed and four major financial services firms. Dr. Berner has also served on economic advisory boards to the Department of Commerce, the Congressional Budget Office, and the Federal Reserve Bank of New York. I look forward to hearing how he plans to build the office and what initiatives he will undertake to achieve the OFR's statutory mission.

Christy Romero has been nominated to be the Special Inspector General for the Troubled Asset Relief Program, or SIGTARP. Today, TARP has about $120 billion outstanding, and the government still owns 70 percent of AIG, 32 percent of General Motors, and almost 74 percent of Ally Financial, formerly GMAC bank.

Ms. Romero has served for over two-and-a-half years at SIGTARP, including as Acting Special Inspector General and Deputy Special Inspector General. During her tenure, SIGTARP investigations have led to criminal charges against 33 individuals. She has also managed efforts to combat widespread fraud associated with TARP loan modification programs. Ms. Romero brings with her years of experience in investigations and securities law, including as a Counsel to both the former and current Chairmen of the Securities and Exchange Commission. I look forward to hearing how she plans to lead SIGTARP and protect taxpayers while overseeing Treasury's management of TARP.

I thank all of the nominees for their willingness to serve and to appear before the Committee this morning. Thank you, Mr. Chairman.

PREPARED STATEMENT OF JEROME H. POWELL

NOMINEE FOR MEMBER OF THE BOARD OF GOVERNORS

FEDERAL RESERVE SYSTEM

MARCH 20, 2012

Chairman Johnson, Senator Shelby and Members of the Committee, I am honored and grateful to President Obama for the privilege of appearing before this Committee today as a nominee to the Federal Reserve Board. If I am confirmed, I will work to the best of my abilities to carry out the responsibilities of this office.

Most of my career has been in the private sector, including close to 30 years working in the financial markets as an attorney, an investment banker and finally as an investor. I believe that my practical experience of the private sector and the financial markets would provide a valuable perspective in the Federal Reserve Board's deliberations.

I also served as Assistant Secretary and then Under Secretary of the Treasury for Finance from 1990 through 1993. Throughout that period, I worked closely with this Committee, and appeared in this room a number of times as a witness in hearings and markups. Since I left public service in 1993, it has been my highest aspiration to serve again. It means a great deal to me to have the possibility to do so.

My earlier service also occurred during a period of great economic turmoil. I arrived at Treasury in June 1990 at the beginning of the saving & loan cleanup. A year later we faced the insolvency of the Bank Insurance Fund. We also faced multiple failures of large financial institutions as well as a severe "credit crunch", with businesses and consumers unable to get credit on affordable terms.

I was deeply involved in addressing these serial crises and in the major legislation that followed, including the FDIC Improvements Act of 1992, or "FDICIA". I also led the Administration's response to a major bidding scandal in the Treasury markets in 1991–92, which eventually resulted in the Government Securities Act of 1992, as well as revisions to the Treasury's auction rules.

Since leaving Treasury in 1993, I have remained a careful student of economic policy and events, always with the thought that I might have the opportunity to return to public service. Like many others, over the years I have grown increasingly concerned about our ever more unsustainable fiscal position, the performance of our economy, and most of all our collective failure to come together around a plan of action.

In 2010, I left the private sector with the intention of spending the rest of my career working on those issues. Since then, I have worked full time as a Visiting Scholar at the Bipartisan Policy Center, focusing on Federal and State fiscal issues. Last summer I authored a widely distributed study of operation of the Federal debt ceiling. After that, I put together a public simulation of the failure of a large, global financial institution under the new rules of Dodd-Frank. In 2010, I also led another simulation of the financial collapse of a large, fictitious American state, among other projects.

Economic policymakers, including those at the Fed, will be working in the shadow of the financial crisis for some time. There are enormous challenges on every front. This is a time to apply the lessons we have learned from the crisis, and set the stage for another long period of prosperity.

In monetary policy, the task will be providing support for the still weak economy but exiting the current highly accommodative policies in time to avoid higher inflation. Along with other governments and central banks around the world, the Fed is also in the middle of a once in a generation refashioning of the global financial regulatory architecture. There is much work to be done in implementing the decisions Congress has made, and in finalizing and implementing international accords such as Basel III.

At the heart of these broad reforms is the project of ending our practice of protecting creditors and sometimes equity holders of large global financial institutions in extremis—too big to fail. What we have long needed is a mechanism to handle an orderly resolution of a large, failing institution. Realizing this objective will be the work of many years. And I would like to play a part in that.

Thank you again for the honor of this hearing. I will be happy to respond to your questions.

PREPARED STATEMENT OF JEREMY C. STEIN, PH.D.

NOMINEE FOR MEMBER OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM

MARCH 20, 2012

Chairman Johnson, Senator Shelby, and Members of the Committee, thank you very much for giving me the opportunity to appear before you today. I am honored to have been nominated by President Obama to be a Member of the Board of Governors of the Federal Reserve. It's an important job at a challenging time for both the U.S. economy and the global financial system, and I am eager to contribute to our meeting these challenges.

I have spent most of my career as an academic economist, with a few breaks for government service. I graduated from Princeton University in 1983, got my Ph.D. from MIT in 1986, and have since been on the faculties at both MIT and Harvard-most recently, since 2000, as a professor in Harvard's economics department. In between, I served on the task force appointed by President Reagan to investigate the 1987 stock market crash. I also spent a year as a senior staff economist on President George H.W. Bush's Council of Economic Advisors. And for six months in 2009, I was an advisor to NEC Director Summers and Treasury Secretary Geithner, helping to formulate a policy response to the crisis that was then engulfing our financial system.

As an academic, my research and teaching have been focused on financial markets, and for many years I have been especially interested in the interplay between monetary policy and financial institutions-trying to understand the real-world details of how monetary policy filters through the banking system to ultimately impact borrowers and lenders. Other topics that I have worked on that are of relevance to a position at the Fed include: the role of small banks in small-business lending; the housing market; risk management in financial firms; and financial regulation.

In the last few years, my research and teaching have been heavily influenced by my experiences working at the NEC and Treasury in 2009. For example, I developed and taught a new course on the financial crisis, which has given me a chance to step back and reflect on the many policy decisions taken during this eventful period, the mistakes made, and the lessons learned.

This reflection has reinforced one of my core beliefs as an economist: the need to be humble and honest about the limitations of our understanding. I am a big believer in the value of economic theory, but the role of theory should be to help organize the jumble of evidence before us in such a way that when new facts come in, we can most clearly see how and why we've had it wrong in the past, and adjust our thinking accordingly. Too often in economics, theories have been used in a rigid fashion, making us less, not more open to learning from what happens in the real world. This is when things have gone badly off the rails for economists, and for those who rely on us for policy advice.

The Federal Reserve's mission remains as it was before the onset of the financial crisis: to deliver on its dual mandate of price stability and maximum employment, and to help safeguard the stability of the financial system. But to pursue this mission in a dramatically altered economic environment, the Fed has shown a laudable ability to adapt and evolve—in terms of the tools it has used to conduct its monetary and lender-of-last-resort policies, and the substantially enhanced degree of transparency that it now offers to the outside world. I am fully committed both to the mission of the Fed itself, and to this spirit of pragmatic, open and non-ideological engagement with the unknown challenges that surely lie ahead.

Thank you again for the opportunity to testify before you today. I would be delighted to answer any questions you might have. Thank you.

PREPARED STATEMENT OF JEREMIAH O. NORTON

NOMINEE FOR MEMBER OF THE BOARD OF DIRECTORS
FEDERAL DEPOSIT INSURANCE CORPORATION

MARCH 20, 2012

Thank you Chairman Johnson, Ranking Member Shelby, and Members of the Committee. It is an honor and a privilege to be nominated by the President and to come before you today as a nominee for the Board of Directors of the Federal Deposit Insurance Corporation (FDIC).

I am very appreciative of the Chairman and Ranking Member for scheduling today's hearing and of Members and their staff for taking time to meet with me in the days and weeks leading up to this morning. I appear before you today with full and complete recognition of the serious responsibility associated with the position to which I have been nominated.

The FDIC performs a critical role in our Nation's financial system. Since its creation by the Congress in 1933, the FDIC has helped to maintain stability in the financial system through its provision of deposit insurance and supervision of banking entities. If confirmed to the position to which I have been nominated, I believe that my experience both in government and in the private sector would bring meaningful value to the FDIC Board and to the regulation of financial institutions.

First, earlier in my career as an aide to Representative Edward R. Royce, a Member of the House Financial Services Committee, I learned not only the issues and challenges facing the FDIC and other regulatory agencies, but also gained an understanding of the role financial institutions play in the lives of individuals and communities within the real economy. I appreciate the important oversight role that the Congress plays in guiding the FDIC and other regulatory agencies. Second, from 2007 to early 2009 I was privileged to serve in the United States Treasury Department as Deputy Assistant Secretary for Financial Institutions Policy. In that position, I oversaw the development, analysis and coordination of the Treasury Department's policies on legislative and regulatory issues affecting regulated and nonregulated financial institutions. Additionally, while at the Treasury Department, I worked closely with the regulatory agencies—including the FDIC—to help the country quickly respond to the most severe financial crisis since the 1930s. Last, in my current and most recent professional role, work in the private sector providing investment banking services to financial institutions, both large and small. I believe this background enables me to provide an important perspective on the way in which regulation impacts financial institutions and the communities they serve, the capital markets, and the broader market for goods and services.

In this critical period for all financial regulators, including the FDIC, should I be confirmed to the FDIC Board, I will bring the collection of my experiences to help guide the FDIC as we continue to encounter challenges in the financial system and the national and global economies. In addition to helping ensure that our country's banks are able to operate in a safe, sound, and balanced manner, I believe it is imperative that the FDIC work with the other regulators, both domestically and internationally, to prioritize and address issues that pose risks to the financial system.

If confirmed, I pledge to work with my colleagues at the agency, the regulatory community, and the Congress as we address these and other important issues. Thank you.

PREPARED STATEMENT OF RICHARD B. BERNER, PH.D.

NOMINEE FOR DIRECTOR, OFFICE OF FINANCIAL RESEARCH

DEPARTMENT OF THE TREASURY

MARCH 20, 2012

Chairman Johnson, Ranking Member Shelby, and distinguished Members of the Committee, thank you for the opportunity to be here today.

I am honored that President Obama and Secretary Geithner have asked me, if confirmed, to serve as Director of the Office of Financial Research at this critical moment for our Nation's economy and financial system.

I am grateful to my wife, Bonnie, and to our children, Matt and Laura, for supporting and encouraging me to return to public service. Thank you for coming to this hearing today.

As you know, the Office of Financial Research (OFR) was established to serve the Financial Stability Oversight Council (Council), its member agencies, and the public by improving the quality, transparency, and accessibility of financial data and information, by conducting and sponsoring research related to financial stability, and by promoting best practices in risk management.

Those goals all represent challenges. I am fully committed to help build this institution to fulfill those goals, and I believe that my family background and my educational and professional training have equipped me with the dedication and skills to meet those challenges.

My mother, who is 97, was a town meeting member and taught me the ingredients of good government. My father, who passed away in 2005, taught me respect for the virtues of free markets and capitalism, as well as an understanding of their shortcomings. My parents had different political views, but they agreed on the importance of public service.

Summer jobs in high school, as a stock boy in a camera store and a lifeguard at a local pool, taught me about work and teamwork. I also learned the rewards of dedication and hard work as a competitive swimmer. These lessons carried through to my education and professional career.

In my education, I turned to economics and its power to make peoples' lives better. I received an A.B. from Harvard College and a Ph.D. from the University of Pennsylvania. My training in college and graduate school gave me the tools to analyze the economy and financial markets, and to appraise economic and financial policies.

Most important, I believe my career has provided me with the skills in research, data, and markets necessary to serve as Director of the Office of Financial Research. My career helped me develop broad knowledge of the changing global economy, financial institutions, financial markets, and financial regulation. Through many market and economic cycles, I saw both the benefits of financial innovation and the costs of periods of severe market stress.

My professional experience has also equipped me to understand the needs of policymakers and risk managers. In my first job, I served as an economist at the Board of Governors of the Federal Reserve System. Subsequently, I directed the Policy Analysis Group at Wharton Econometrics. I served for 30 years at four major financial services firms, on the Senior Management Committee of one and on the Risk Management Committees of two; most recently, as Co-Head of Global Economics at Morgan Stanley. As Counselor in the Treasury, I currently advise Secretary Geithner on financial and regulatory issues.

My service on advisory boards has also kept me on the cutting edge of policy-making, research, and data. I have served on advisory boards for the Federal Reserve Bank of New York, the Congressional Budget Office, the National Bureau of Economic Research, and the Bureau of Economic Analysis. As an associate on the Counterparty Risk Management Policy Group II—a group of market participants assembled in 2005 to identify and resolve many of the problems in our financial system—I gained further insight into the complex plumbing of the financial system.

Finally, I believe I have the critical thinking skills to challenge conventional wisdom and a passion for a stronger, safer, and appropriately regulated financial system that guides my vision for how the Office should fulfill its mission.

We face many challenges to rebuild the financial system, one that helps our economy grow and restore lost jobs. I am humbled and honored by the opportunity to help meet those challenges and serve our Nation. If confirmed, I would look forward to working with the Members of this Committee and Congress. I will work hard to carry out my oath of office and to earn your trust and confidence.

Thank you. I look forward to answering your questions.

PREPARED STATEMENT OF CHRISTY ROMERO

NOMINEE FOR SPECIAL INSPECTOR GENERAL

TROUBLED ASSET RELIEF PROGRAM

MARCH 20, 2012

Thank you, Chairman Johnson, Ranking Member Shelby, and Members of the Committee. It is with great honor that I am here before you today as the President's nominee for the position of Special Inspector General at SIGTARP. I am very grateful to the Committee Members for the support each of you has given to SIGTARP.

I am pleased to have my family here today. I would like to thank my parents who instilled in me a call to public service, which I hope to live up to, and hope to instill in my three beautiful daughters Chelsea, Brooke, and Julia. My father, Augusto Romero, who is here today, joined the United States Navy as a young man in the Philippines and served our country for 20 years. My mother, Audrey Romero, raised all seven children alone during my father's deployments. As a child, I was exceptionally proud to watch my Dad put on his Navy uniform each day. When his ship would return from deployment with every sailor lining that massive deck standing ramrod straight, hands clasped behind their back, I would find my Dad's face among the sea of white uniforms. He was always beaming with pride, and so was I. My brother Scott Romero has also answered the call to service, wearing camouflage to protect our country in yearlong deployments to Bosnia, Afghanistan, and Iraq.

With two veterans in the family and the expectation that I too would commit to public service, I left private practice to investigate fraud for the Securities & Exchange Commission. I also had the privilege of serving as counsel to two Chairmen of the SEC, the current Chairman Mary Schapiro and former Chairman Christopher Cox, and I have much admiration for both.

During my time at the SEC, our Nation suffered a profound financial crisis and the Government's response included TARP. I had a deep concern for who would safeguard TARP money against fraud. A friend told me that if I was really concerned, I should volunteer by joining a new office called SIGTARP. And that is exactly what I did in August of 2009. Since then, I have had an unwavering commitment to fulfilling SIGTARP's mission of enforcement, transparency, and oversight.

I am deeply humbled by the confidence that President Obama has shown in nominating me to serve in such an important role. Our Nation continues to face challenges with $120 billion in TARP funds outstanding, $51 billion not yet spent, and fraud by those who sought to exploit TARP. I am committed to answering these challenges.

My experience of serving on the staff at the SEC, in leading the dedicated and courageous team at SIGTARP during the last year, and serving as SIGTARP's Chief of Staff for nearly 2 years, has prepared me to serve as Special Inspector General. As a result of my experience at the SEC, I developed a strong resolve to protect investors. Once again I am protecting investors—the very taxpayers who funded TARP. I have prioritized SIGTARP's criminal investigations. In the last year under my leadership, 44 individuals have been criminally charged as a result of a SIGTARP investigation. These charges carry severe repercussions such as prison sentences. I also take very seriously SIGTARP's oversight role and in the last year, I have led SIGTARP to issue 28 recommendations to protect TARP from fraud, waste, and abuse. In addition, the American taxpayers have a right to know how

TARP funds are spent, and I have led SIGTARP to issue a series of reports providing significant transparency.

Although I may not wear a uniform like my father and brother, I share their dedication to public service. If confirmed, I pledge to work closely with you to advance our mutual goal of protecting taxpayers. This Committee's support of SIGTARP has been instrumental in giving weight to SIGTARP's recommendations and ensuring a watchful eye over TARP. I am committed to maintaining the close relationship between this Committee and the office that I am nominated to lead. It has certainly been the greatest privilege of my career to be nominated by the President to serve as the Special Inspector General at SIGTARP and to be considered by this Committee for confirmation.

Thank you very much. I would be pleased to respond to any questions.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MORAN FROM JEROME H. POWELL

Q.1. The regime that limits credit exposures in Europe is generally not comparable to the regime established in the Federal Reserve's proposed rule to implement Sections 165 and 166 of Dodd-Frank. Since the Federal Reserve's proposal currently contains significant differences and is generally more onerous than the European Union's Capital Requirements Directive, are you at all concerned that U.S. institutions will have a competitive disadvantage with their European peers?

A.1. Section 165 of Dodd-Frank requires the Board to establish enhanced prudential standards for those institutions that are covered, including concentration limits under Section 165(e). In carrying out this obligation, it is important that the Board avoid unnecessary negative competitive effects.

The December 2011 Notice of Proposed Rulemaking (the "NPR") is open for comment through the end of April 2012. In order to better inform decisions regarding a final rule, the NPR specifically invites comment on its quantitative impact. As the Board reviews comments on the NPR and moves toward development of a final rule, it is important that it avoid hampering the competitiveness of U.S. institutions, provided always that it remain faithful to the language of the statute.

It is also appropriate for the Board to seek international harmonization of large exposure rules. The NPR states that Basel Committee on Banking Supervision is considering such a harmonized approach, and that the Board may amend the proposed rule to make it consistent with such an approach.

Section 165(b)(2) also requires the Board to apply enhanced prudential standards, including concentration limits, to qualifying foreign banking organizations that it supervises, while giving "due regard to the principle of national treatment and equality of competitive opportunity." The Board has not yet issued regulations under this authority.

Q.2. Similar to the "Volcker Rule", U.S. Treasuries are exempted from the Federal Reserve's rules on counterparty credit limits while foreign high-grade sovereigns are not. Can you make the case that this is an appropriate distinction? What should the Federal Reserve be doing to understand how this would impact American firms and markets?

A.2. The proposed rule exempts U.S. Treasuries but not State and local government debt or foreign sovereign debt. My understanding is that the exemption of Treasuries was done in part to harmonize the rule with several other Federal lending restrictions that apply to U.S. banks. The NPR specifically seeks comments on the scope of this exemption and the Board's decisions on a final rule should be informed by such comments.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MORAN FROM JEREMY C. STEIN

Q.1. The regime that limits credit exposures in Europe is generally not comparable to the regime established in the Federal Reserve's proposed rule to implement Sections 165 and 166 of Dodd-Frank. Since the Federal Reserve's proposal currently contains significant differences and is generally more onerous than the European Union's Capital Requirements Directive, are you at all concerned that U.S. institutions will have a competitive disadvantage with their European peers?

A.1. The financial crisis has made clear the need to better understand and control single-counterparty concentrations at systemically important financial institutions (SIFIs), and to reduce inter-SIFI interconnectedness. At the same time, as the Federal Reserve and other regulators move forward with the implementation of Dodd-Frank, it will be important to make every effort to harmonize the rules for SIFIs internationally, to the extent that this can be done consistently with safety and soundness considerations, and with the intent of the statute itself. In the specific case of large exposure rules, it should be noted that the Basel Committee is currently exploring whether it makes sense to pursue international harmonization of these rules. This would be one way to reduce any potential adverse competitive effects of the Fed's single-counterparty credit limit rules on U.S. banking firms relative to foreign banking organizations. It should also be noted that the Fed's single-counterparty credit limits only apply to bank-holding companies with more than $50B in total assets. Accordingly, they do not apply to community banks or even medium-sized regional banks.

Q.2. Similar to the "Volcker Rule", U.S. Treasuries are exempted from the Federal Reserve's rules on counterparty credit limits while foreign high-grade sovereigns are not. Can you make the case that this is an appropriate distinction? What should the Federal Reserve be doing to understand how this would impact American firms and markets?

A.2. The exemption of U.S. Treasuries, but not foreign sovereign debt, is not specific to the Federal Reserve's rules on counterparty credit limits. Rather, it is a more general feature of other principal lending restrictions to which U.S. banking firms are subject. Other examples include national bank lending limits (Office of the Comptroller of the Currency), affiliate transaction limits (Fed's Regulation W), and insider lending limits (Fed's Regulation O). So the treatment in this particular case is arguably consistent with a significant body of precedent, and serves to harmonize the rules along this one dimension. The Federal Reserve has sought comment on its proposal on the treatment of sovereign exposures, and on the quantitative impact of the proposal on U.S. banking firms. The Fed should carefully consider any comments it receives on this issue as it crafts a final version of the rule.