

**MONETARY POLICY AND  
THE STATE OF THE ECONOMY**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON FINANCIAL SERVICES**  
**U.S. HOUSE OF REPRESENTATIVES**  
ONE HUNDRED FIFTEENTH CONGRESS  
SECOND SESSION

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FEBRUARY 27, 2018  
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# MONETARY POLICY AND THE STATE OF THE ECONOMY

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Tuesday, February 27, 2018

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FINANCIAL SERVICES,  
*Washington, D.C.*

The committee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Jeb Hensarling [Chairman of the committee] presiding.

Present: Representatives Hensarling, Royce, Lucas, Posey, Luetkemeyer, Stivers, Hultgren, Pittenger, Wagner, Barr, Rothfus, Tipton, Williams, Poliquin, Love, Hill, Emmer, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Tenney, Hollingsworth, Waters, Maloney, Sherman, Meeks, Capuano, Clay, Lynch, Scott, Green, Moore, Ellison, Perlmutter, Foster, Kildee, Delaney, Sinema, Beatty, Heck, Vargas, Gottheimer, Gonzalez, Crist, and Kihuen.

Chairman HENSARLING. The committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time. All members will have 5 legislative days within which to submit extraneous materials to the Chair for inclusion in the record.

This hearing is for the purpose of receiving the semiannual testimony of the Chair of the Board of Governors of the Federal Reserve System on monetary policy and the state of the economy.

I now recognize myself for 3-1/2 minutes to give an opening statement.

Notwithstanding the greatest monetary and fiscal stimulus in our Nation's history, the economy has limped along for 8 years, averaging only 1.6 percent GDP growth. Wages remained stagnant and personal savings failed to recover from the 2008 financial crisis.

A new phrase was coined by left-leaning academics in an attempt to rationalize the phenomena, namely secular stagnation. A far more accurate and descriptive phrase, though, is high taxes and heavy-handed regulatory policy.

Fortunately, with the election of Donald Trump and the passage of the Tax Cuts and Jobs Act, that has all changed. Unemployment is now at a 17-year low. Wage growth is the fastest in almost a decade. Companies all over America are now announcing bonuses to their employees and expansions in their communities. Economic growth is once again averaging 3 percent.

However, there are some concerns. We all recognize that there has been great volatility in our equity markets recently, although I note the S&P 500 is still up more than 14 percent since last year.

There is clearly concern now whether the Fed can successfully unwind a historically unbalanced balance sheet after a decade of radically unconventional monetary policy and artificially low interest rates. This was not particularly an issue when the economy was stuck in low gear, but now that the economic transmission has been shifted into high gear, it clearly is an issue.

With that backdrop, we welcome you, Chairman Powell, to your first of many Humphrey-Hawkins hearings. Please know we are all rooting for you, for much is at stake.

As we begin a new era in Federal Reserve leadership, I think it is a good time to reestablish Congressional expectations. Now more than ever the Fed must commit to a credible, orderly, and well-communicated normalization plan.

The Fed must do an even better job of communicating clearly to market participants, all the variables used to conduct monetary policy and their relative weightings and interactions. Certainly it is a positive sign that the Fed has begun to compare their policies with known policy rules so that the public can better evaluate their performance.

Next, monetary policy must remain independent but the Fed must also remain accountable to Congress, which incidentally created it and has the responsibility of coining money and regulating its value under our Constitution.

Furthermore, it is critical that the Fed stays in their lane. Interest on reserves, especially excess reserves, is not only fueling a much more improvisational monetary policy, but it has fueled a distortionary balance sheet that has clearly allowed the Fed into credit allocation policy, where it does not have business. Credit policies are the purview of Congress, not the Fed.

When Congress granted the Fed the power to pay interest on reserves, it was never contemplated or articulated that IOER (interest rate on excess reserves) might be used to supplant FOMC (Federal Open Market Committee). If the Fed continues to do so, I fear that its independence could be eroded.

Finally, in addition to its monetary policy responsibilities, we all know the Fed has an outsized prudential regulator role vastly expanded by Dodd-Frank. This responsibility is clearly not designed to be independent of Congress and must be made subject to appropriations, as are other prudential regulators.

Additionally, formal rulemaking must not be issued for de facto rulemaking through guidance, and all formal rulemaking must be subject to rigorous statutory cost-benefit analysis so as to not unduly hamper economic growth and the hopes and dreams of millions.

In closing, regardless of the exigencies of 2008, monetary policy is not and can never be a substitute for sound fiscal policy.

Chairman Powell, we look forward to a prudent path to normalization where interest rates are once again market-based and credit is allocated to its most efficient use.

I now yield 4 minutes to the Ranking Member for an opening statement.

Ms. WATERS. Thank you, Mr. Chairman, and welcome, Chairman Powell. I look forward to your testimony today on monetary policy, recent economic developments, and the outlook for our economy.

I am concerned that the hard-earned economic recovery, which came as a result of policies and reforms put in place by President Obama, Democrats in Congress, and the Federal Reserve, will be undermined by the reckless and misguided policies of this President and our Congressional Republicans.

This President and his allies in Congress are working every day to roll back the critical protections for consumers, investors, and the economy that Democrats put in place in the Dodd-Frank Wall Street Reform and Consumer Protection Act.

As they move to take an axe to Dodd-Frank, they seemingly have forgotten about the tremendous economic harm that resulted from the financial crisis and appear to be perfectly willing to pave the way right to another crisis.

With their tax scam, Republicans have engineered a massive giveaway to corporations and the ultra-rich at the expense of hard-working Americans. The tax scam balloons the national debt by \$1.8 trillion, gives corporations a \$1.3 trillion tax break, and will eventually raise taxes on 86 million American families.

Despite the huge windfall for corporations, most are not raising wages, but are instead buying back their own stock to boost share prices. Some corporations are giving one-time bonuses for optics, but these one-time bonuses represent a tiny fraction of the windfall the corporations will pocket.

On top of that, the latest Trump budget request is, again, a cruel, senseless proposal that would be deeply harmful to millions of families, seniors, veterans, and persons with disabilities. The budget request slashes the social safety net, cutting billions of dollars in funding for supplemental nutrition assistance and health care and housing programs.

These policies show that Donald Trump simply has no interest in standing up for Americans who need a hand up. Instead, he has put forth a series of harmful policies that tell families and communities that they are on their own.

Our majority colleagues have also launched a full-fledged legislative assault on the Federal Reserve. The majority is pushing damaging legislative proposals that roll back constraints on the influence of commercial banks within the Federal Reserve System, eliminate tools that proved critical to the Federal Reserve's support of the economy following the financial crisis, undermine the Federal Reserve's focus on employment, and eliminate its independence from the broken Congressional appropriations process.

The majority is also using the Federal Reserve as a piggy bank to pay for the cost of legislation like the latest short-term spending measure and now H.R. 4296, which will be on the floor today. These Republican efforts to undermine the Fed diminish its ability to support American workers if we face another crisis.

Chairman Powell, I look forward to hearing your views on the economy and the path to sustaining the economic progress that was set in motion during the Obama Administration.

I yield back the balance of my time.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr, the Chairman of the Monetary Policy and Trade Subcommittee, for 1-1/2 minutes.

Mr. BARR. Welcome, Chairman Powell.

Since the 2007 and 2009 financial crisis, the Federal Reserve's distortionary balance sheet has exploded from just under \$1 trillion to more than \$4.5 trillion, injecting new and unknown risks into the economy.

Clearly, whether you believe this unprecedented Government intervention into our economy had merit or not, it has distorted prices of key assets like housing, stocks, bonds, and treasuries. That was the intention.

Fortunately, the Fed has begun to unwind these distortions, and I hope that they stick to their plan, enabling a more free market environment that, like the recent tax cuts and regulatory relief, will help foster economic growth and opportunity for all.

Over recent weeks, we have seen more than usual levels of market volatility. Without question, Chairman Powell, this volatility is attributable to the fact that no Fed Chairman has ever inherited the task you have before you: The job of unwinding the most unprecedented and unconventional monetary experiment in the history of central banking.

Your task is to continue to unwind the Fed's asset purchases, gradually and predictably return to market-based interest rates, and remove monetary distortions from the economy without producing excessive market disruption.

This is a serious responsibility, but at least the Fed now has the backdrop of a strong economy and faster economic growth from tax cuts so that it can achieve this very difficult task.

I personally want to commend you, Chairman Powell, for leading the way on normalization and I encourage you to continue in this pursuit. I also commend your commitment to tailoring financial regulations for community financial intuitions and rightsizing our regulations.

I look forward to your testimony and wish you the best.

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentlelady from Wisconsin, Ms. Moore, the Ranking Member of the Monetary Policy and Trade Subcommittee, for 1 minute.

Ms. MOORE. Thank you so much, Mr. Chairman.

Thank you, Chairman Powell, for attending today. I look forward to your testimony and getting to know you through your tenure as Chairman.

You are taking over the Federal Reserve at a very precarious time. Your predecessor has talked about slowly tightening rates as employment has improved and thinking it was a return to normalcy. I am interested in hearing if that means an emphasis on increasing rates and/or unwinding the portfolio.

Your tenure comes at a time when the GOP tax bill will only make your task more difficult, I believe, as changes to health care may increase inflation for coverage.

The GOP tax bill is a windfall for shareholders that will untether the real economy that most of us live in, as distinct from Wall Street, leaving you stuck between competing problems: A contracting real economy and growing asset bubbles, with minimum room to lower rates if necessary.

We should thank Dodd-Frank that has buttressed the financial system and that we should hold on for, perhaps, a bumpy ride. I hope your term is successful and I look forward to your testimony. I yield back. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentlelady has expired. Today we welcome the testimony of the Honorable Jerome H. Powell. This is the first time that Chairman Powell has appeared before this committee. It will not be the last time he appears before this committee.

Chairman Powell took office as Chairman of the Board of Governors of the Federal Reserve System on February 5th, 2018, for a 4-year term. He has previously served as a member of the Board of Governors and took office on May 25th, 2012. Mr. Powell also serves as Chairman of the Federal Open Market Committee.

Prior to his appointment to the Board, Chairman Powell was a Visiting Scholar at the Bipartisan Policy Center, as well as a Partner of the Carlyle Group. Chairman Powell has previously served as an Assistant Secretary and as an Undersecretary of Treasury under President George H.W. Bush. Prior to joining the Administration, he worked as an attorney and an investment banker in New York.

Chairman Powell received an A.B. in politics from Princeton University and earned a law degree from Georgetown University, where he was the editor-in-chief of the Georgetown Law Journal. Without objection, the witness' written statement will be made part of the record.

Chairman Powell, again, welcome, and you are now recognized to give an oral presentation of your testimony.

#### **STATEMENT OF HON. JEROME H. POWELL**

Mr. POWELL. Thank you very much, Mr. Chairman. Thank you, Ranking Member Waters and members of the committee.

I am pleased today to present the Federal Reserve's Semiannual Monetary Policy Report to the Congress. On the occasion of my first appearance before this committee as Chairman of the Federal Reserve, I want to begin by expressing my appreciation for my predecessor, Chair Janet Yellen, and her important contributions. During her term as Chair, the economy continued to strengthen and Federal Reserve policymakers began to normalize both the level of interest rates and the size of the balance sheet.

Together, Chair Yellen and I have worked to ensure a smooth leadership transition and provide for continuity in monetary policy.

I would also like to express my appreciation for my colleagues on the Federal Open Market Committee.

Finally, I want to affirm my continued support for the objectives assigned to us by Congress: Maximum employment and price stability, and for transparency about the Federal Reserve's policies and programs. Transparency is the foundation for our accountability, and I am committed to clearly explaining what we are doing and why we are doing it.

Today, I will briefly discuss the current economic situation and outlook before turning to monetary policy.

The U.S. economy grew at a solid pace over the second half of 2017 and into this year. Monthly job gains averaged 179,000 from

July through December, and payrolls rose an additional 200,000 in January. This pace of job growth was sufficient to push the unemployment rate down to 4.1 percent, about three-quarters of a percentage point below that of a year earlier, and the lowest rate since December 2000.

In addition, the labor force participation rate remained roughly unchanged on net, as it has for the past several years. That is a sign of job market strength, given that retiring baby boomers are putting downward pressure on the participation rate.

Strong job gains in recent years have led to widespread reductions in unemployment across the income spectrum and for all major demographic groups. For example, the unemployment rate for adults without a high school education has fallen from about 15 percent in 2009 to 5-1/2 percent in January of this year, while the jobless rate for those with a college degree has moved down from 5 percent to 2 percent over the same period.

In addition, unemployment rates for African Americans and Hispanics are now at or below rates seen before the recession, although they are still significantly above the rate for whites.

Wages have continued to grow moderately, with a modest acceleration in some measures, although the extent of the pickup in wages likely has been damped in part by the weak pace of productivity growth in recent years.

Turning from the labor market to production, inflation-adjusted GDP rose at an annual rate of about 3 percent in the second half of 2017, a full percentage point faster than its pace in the first half of the year.

Economic growth in the second half was led by solid gains in consumer spending, supported by rising household incomes and wealth and upbeat sentiment.

In addition, growth in business investment stepped up sharply last year, which should support higher productivity growth in time.

The housing market has continued to improve slowly.

Economic activity abroad has also been solid in recent quarters, and the associated strengthening in demand for U.S. exports has provided considerable support for our manufacturing industry.

Against this backdrop of solid growth and a strong labor market, inflation has been low and stable. In fact, inflation has continued to run below the 2 percent rate that the FOMC judges to be most consistent over the long run with our Congressional mandate.

Overall, consumer prices, as measured by the price index for personal consumption expenditures, or PCE inflation, as we say, increased 1.7 percent in the 12 months ending in December, about the same as in 2016.

The core PCE price index, which excludes the prices of energy and food items, and is a better indicator of future inflation, rose 1.5 percent over the same period, somewhat less than in the previous year. We continue to view some of the shortfall in inflation last year as likely reflecting transitory influences that we do not expect will repeat.

Consistent with this view, the monthly readings were a little bit higher toward the end of the year than in earlier months.

After substantially easing during 2017, financial conditions in the United States have reversed some of that easing over the past

month. At this point, we do not see these developments as weighing heavily on the outlook for economic activity, the labor market, or inflation. Indeed, the economic outlook remains strong.

A robust job market should continue to support growth in household incomes and consumer spending. Solid economic growth among our trading partners should lead to further gains in U.S. exports, and upbeat business sentiment and strong sales growth will likely continue to boost business investment.

Moreover, fiscal policy has become more stimulative. In this environment, we anticipate that inflation on a 12-month basis will move up this year and stabilize around the committee's 2 percent objective over the medium term. Wages should increase at a faster pace as well. The committee views the near-term risks to the economic outlook as roughly balanced, but we will continue to monitor inflation developments closely.

Turning to monetary policy, the Congress has assigned us the goals of promoting maximum employment and stable prices. Over the second half of 2017, the FOMC continued to gradually reduce monetary policy accommodation. Specifically, we raised the target rate for the Federal funds rate by a quarter percentage point at our December meeting, bringing the target to a range of 1–1/4 percent to 1–1/2 percent.

In addition, in October, we initiated a balance sheet normalization program to gradually reduce our securities holdings, and that program has proceeded quite smoothly. These interest rate and balance sheet actions reflect the committee's view that gradually reducing monetary policy accommodation will sustain a strong labor market, while fostering a return of inflation to 2 percent.

Engaging the appropriate path for monetary policy over the next few years, the FOMC will continue to strike a balance between avoiding an overheated economy and bringing PCE price inflation to 2 percent on a sustained basis.

While many factors shape the economic outlook, some of the headwinds the U.S. economy faced in previous years have turned into tailwinds. In particular, fiscal policy has become more stimulative, and foreign demand for U.S. exports is on a firmer trajectory.

Despite the recent volatility, financial conditions remain accommodative. At the same time, inflation remains below our 2 percent longer run objective. In the committee's view, further gradual increases in the Federal funds rate will best promote attainment of both of our objectives.

As always, the path of monetary policy will depend on the economic outlook as informed by incoming data.

In evaluating the stance of monetary policy, the FOMC routinely conducts monetary policy rules that connect prescriptions for the policy rate with variables associated with our mandated objectives. Personally, I find these rule prescriptions quite helpful.

Careful judgments are required about the measurement of the variables used in these rules, as well as about the implication of the many issues that the rules do not take into account.

I would like to note that this monetary policy report provides further discussion of policy rules and their role in our policy process, extending the analysis we introduced last July.

Thank you very much, and I look forward to taking your questions.

[The prepared statement of Mr. Powell can be found on page 64 of the appendix.]

Chairman HENSARLING. Thank you, Chairman Powell.

The Chair now yields to himself for 5 minutes.

Chairman Powell, in your statement, you used the term “normalization.” I would like to explore that for a moment, and particularly with respect to interest on excess reserves. Is our expectation, should it be, that IOER is the new primary monetary policy tool, or will it instead be the fire extinguisher behind the glass that you break out in times of emergency? What should be our expectation?

Mr. POWELL. Mr. Chairman, interest on excess reserves is currently the principal policy tool that we use to keep the Federal funds rate in the range that we designate. We have not made a decision in the longer run whether that will continue to be our framework or whether we will return to something more like what we did before the crisis.

I don’t have a schedule for—I don’t expect to be returning to that decision in the near term. I would just say that our current approach seems to be working very well. It gives us control over rates, and the market seems to understand it.

Chairman HENSARLING. It remains an open question?

Mr. POWELL. In the long run. The long-run operating framework, does remain open, yes.

Chairman HENSARLING. OK. As you heard in my opening statement, it still remains a concern. You would be hard-pressed to find in the Congressional Record or any testimony from members of the Federal Reserve at the time Congress granted this power that it would be used to supplant open market operations of the FOMC. I trust we will be having further discussions about that.

With respect to normalization, I think you have said publicly that you expect the new normal, with respect to the size of the balance sheet, to be roughly \$2.5 trillion to \$3 trillion and get there over 3 to 4 years. Do I understand that correctly, Mr. Chairman?

Mr. POWELL. Yes.

Chairman HENSARLING. OK. As I understand it, though, I have not been able to see on the public record the expectation with respect to the composition of the balance sheet. I believe that currently you are carrying \$2.4 trillion of treasuries, \$1.8 trillion of mortgage-backed securities. Is our expectation—that is roughly back of the envelope, one-third, two-thirds ratio. Is it your intention to keep that same ratio of mortgage-backed securities?

Again, many of us are concerned about the possibility of the Fed involved in credit allocation decisions. Because right now, I don’t really see a glide path to a treasuries-only balance sheet.

Mr. POWELL. No, sir. Our intention over the long term is that the balance sheet would be no larger than it needs to be to implement monetary policy, and that it would consist primarily of treasury securities.

We purchased the mortgage-backed securities in the aftermath of the crisis. That was an unusual practice, and it was something that we did in unusual circumstances. Those will run off over time, and

I don't expect that we would use that tool again, other than in a very severe situation.

Chairman HENSARLING. The Monetary Policy Report that came out days ago shows the balance sheet roll off caps. What I am having a little trouble with is, as I look at the charts in the report, Mr. Chairman, you don't seem to have sufficient MBS (mortgage-backed security) redemptions that allow you to reach your \$20 billion runoff pace.

As I read the charts, I think the expectation is by the end of the year, we are looking at a \$50 billion balance sheet roll off. But as of today, I don't think you have sufficient treasuries in MBS to do that. How do you achieve it?

Mr. POWELL. In the case of mortgage-backed securities, the roll off is less predictable. Of course with treasuries, you know when they are going to mature and you can really see what that roll off is going to be. With mortgage-backed securities, roll off will depend on the level of interest rates and the level of people refinancing their mortgages.

As rates go up, refis will go down and you will see slower roll off—

Chairman HENSARLING. But should the public expect, by year's end, a \$50 billion roll off?

Mr. POWELL. No, I would say that the public should expect that there will be a consistent substantial roll off this year and the next year, that over the period of maybe 4 years will get us back to something approaching a new normal. I don't know that you can say it will be—

Chairman HENSARLING. But we don't know the exact pace.

Mr. POWELL. Yes, and I don't think that the—the caps are not going to be binding in the case of the MBS.

Chairman HENSARLING. My time is starting to wind down. I would like to explore inflation targeting. In your testimony, it appears the Fed is keeping to their 2 percent inflation target. I am still trying to—I struggle with how this is commensurate with a statutory mandate for achieving price stability.

But I also saw from the FOMC minutes, the most recent minutes, that there was at least discussion about moving from the 2 percent target to a target range. At least 2 percent is a linear function. A range, obviously, is not.

I am really struggling with how is this commensurate with price stability? Some commentators are calling for a 3 percent, 4 percent target.

Two questions, number one, do we have an expectation the Fed will move from its 2 percent target? At some point, at 3 percent, 4 percent, 5 percent inflation targeting, have you violated your price-stability mandate?

Mr. POWELL. Our current framework says that the committee would be concerned with sustained or persistent deviations of inflation above or below 2 percent. We understand that inflation is going to be buffeted by various factors, and that it may not be exactly at 2 percent. It will be above; it will be below. We see it as a symmetric objective.

I would say that framework is working. The market understands it. We have been trying to get up to 2 percent. But generally speaking, inflation has been low and stable for 15 or 20 years now.

Chairman HENSARLING. My time has long since expired.

The Chair now recognizes the Ranking Member for 5 minutes.

Ms. WATERS. Thank you very much.

Chairman Powell, with a permanent voting seat on the FOMC, and its role in supervising some of the largest and most complex financial institutions in the country, the president of the New York Federal Reserve has one of the most important economic policy-making roles in the Nation.

Bill Dudley will step down this year. The search for his replacement is under way. Historically, the New York Fed's close proximity to Wall Street has led to the selection of an individual with close ties to the financial sector.

In your view, how important is it that the individual chosen is a diverse candidate, with demonstrated independence from Wall Street and a strong commitment to the Fed's maximum employment mandate and regulatory responsibilities?

What steps is the board taking to ensure that candidates from diverse gender, racial, and ethnic backgrounds are given due consideration? If diverse candidates are not afforded due consideration, are you prepared to exercise your power as Chair to reject such candidates to serve as the next president of the New York Fed?

I know you have a lot on your plate, but I have to put this question to you because we have to do better about diversity, in particular at the highest levels. Not only am I looking at what is happening with the New York Fed and the possibility there, but we have to look at our own Fed, and think about how diverse is it at the top levels, management levels. Help me out. What do you think about this?

Mr. POWELL. Thank you, Ranking Member Waters. I have been involved. This is the seventh process to select a reserve bank president that I have been involved in since I joined the Fed in 2012, so I am very familiar with the way the process works.

We always insist that the search committee, which consists of the B and C directors of the Reserve Bank, hire a national search firm. We always insist—and they don't need to be pushed into this, this is something they want to do—we always insist that there is a highly diverse candidate pool and that diverse candidates are given serious consideration and every chance to become the successful participant in that process.

I can absolutely guarantee you that that will continue to be the case. We will always have diverse candidates. They will always have a fair shot.

I cannot in any individual case guarantee that there will be a diverse outcome, but I can guarantee that the process will be working in that direction.

Ms. WATERS. I appreciate that. I am sure that you are committed to that. But the diverse candidate question is a question that many of us have, and we don't know that there has been consideration for diverse candidates with these very, very important positions. I am wondering where do the recommendations come from? How is

the outreach done and how can you ensure that there are diverse candidates to be considered?

Mr. POWELL. Different Reserve Banks have done new and different things. We have really raised our game in this area. For example, the New York Fed has done extensive outreach to community groups and of that nature, universities and all sorts of things around the New York region and around the Nation.

In addition, the national search firms have a very large presence in the candidate population and know who is out there, know who would be a good candidate. They are always trying to find new candidates, and we are too.

It is something we work very hard at and are always interested in having new ideas for qualified candidates as well. We invite the general public generally to offer their thoughts, as well as some of the interest groups.

Ms. WATERS. There is an organization, maybe more than one that is made up of minorities in financial services, that include everything from those who are doing management in the financial services industry, working with hedge funds, with equity firms, et cetera. Have you reached out to those—not you, but do you know if those firms have been contacted?

Mr. POWELL. I know that our search committees and our headhunters have reached out to many, many groups of that nature.

Ms. WATERS. How can I follow up on that? Is it possible that those of us who know about these organizations can ask them if they have been contacted? If not, how can we refer them?

Mr. POWELL. We will be happy to provide you with the contact person at the New York Fed who is responsible for the current search and in case of any future searches will be able to do the same.

Ms. WATERS. I will follow up on that, and I thank you very much. I yield back the balance of my time.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes gentleman from Kentucky, Mr. Barr, Chairman of our Monetary Policy Subcommittee, for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman.

Chairman Powell, congratulations again on your confirmation. I appreciate your commitment in our conversations to transparency and your demonstration of that commitment to date to clearly communicate the Fed's monetary policy trajectory.

You have noted on numerous occasions that the remaining slack that may exist in the labor market is at least in part attributable to stagnant wage growth. In your confirmation hearing, a Senator on the Banking Committee cited a 2016 Fed research paper concluding that corporate tax cuts do not translate into higher wages.

But we have seen a wave of corporate announcements of bonuses and raises since the tax cuts were enacted. Specifically over 4 million workers and counting have received over \$3 billion in bonuses and raises during the last 8 weeks. The Labor Department recently announced the largest increase in wages since the end of the recession.

Based on these numbers, is the Senator in question, and are the Fed researchers that he cites, are they wrong and have tax cuts in fact helped increase wages as your testimony indicates that wages

should be increasing at a faster pace as a result of a more stimulative fiscal policy?

Mr. POWELL. Thank you, Chairman Barr. It is very hard to trace through the effects of a change in tax policy into things like wage growth in the economy. But let me try.

Lower corporate taxes should lead to higher investment. The effect is not easy to estimate but you would think and the studies find that it should lead to higher investment. Higher investment should lead to higher productivity over time, and higher productivity should lead to higher wages over time.

It is very hard to put your hands on exactly how much that would be, but higher productivity, of course, is very, very welcome, and will be driven by higher investment.

Mr. BARR. Clearly the wave of bonuses and raises and the announcements certainly suggest that there is upward pressure on wages as a result of these tax cuts.

In a 2015 speech, you expressed concern that quantitative easing and unconventional monetary accommodation could fuel dangerous risk-taking. Specifically, you said, quote, "The current extended period of very low nominal rates calls for a high degree of vigilance," unquote. Can you elaborate? What specific risks have been created that the Fed now has to watch?

Mr. POWELL. I do think this is a time when we need to be alert to buildup of either financial imbalances or to inflation building up. We don't really see those right now. I think I also said that in my 2015 speech.

But if you look at the financial stability situation broadly, we do see some high asset prices. What we don't see is the buildup of leverage among households. We see the banking system and the financial system generally as being very resilient. I think the financial stability picture shows at most modest risks.

Mr. BARR. If I could point out a possible risk that is out there and have you react to it that was created by the unconventional monetary policy. Some have blamed the Fed for contributing to the 2008 financial crisis by producing an inverted yield curve, where short-term interest rates exceeded long-term rates.

At the beginning of 2011, the spread between the 10-year and 2-year Treasury notes was almost 3 percent. But as of February of this year, that same spread has been whittled down to a mere 0.5 percent, and this is a 450 percent drop. Given a flattening yield curve, and economic conditions that you can see, call for raising the Fed funds rate, how will the Fed avoid another inverted yield curve?

Are there any plans within the balance sheet normalization strategy to roll off longer-term assets more quickly to counteract that flattening yield curve?

Mr. POWELL. Flattening of yield curves in the past has been a precursor of recessions, but largely because in many prior recessions the Fed had to raise rates quickly to hold inflation down.

That is not the situation we have now. It is very typical for the yield curve to flatten as short-term rates come up, as the economy strengthens. I don't see a particularly large—there is always a risk of a recession at any given point in time. I don't see it as at all high at the moment.

Mr. BARR. I don't either. But it is a risk that normalization after this unprecedented, unconventional policy is created. To dovetail off of what the Chairman's point was in terms of the roll off strategy, it would be important if there are not enough maturing mortgage-backed securities, that mature in order for the Fed to actually hit its monetary roll off targets. To that end, to avoid an inverted yield curve, do you anticipate perhaps selling assets?

Mr. POWELL. No, I certainly feel that our balance sheet normalization plan was carefully crafted and carefully rolled out, and the markets took it without much of a reaction. I think I would have little inclination to change the general parameters of it.

Mr. BARR. Thank you. My time has expired.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Mrs. Maloney, Ranking Member of our Capital Markets Subcommittee.

Mrs. MALONEY. Thank you.

Chairman Powell, the Fed's median projection is for three interest rate increases in 2018. What would cause you to raise rates more than three times this year? Would you have to see a material increase in inflation, faster GDP growth, higher wage growth? What would cause you to raise rates more?

Mr. POWELL. Thank you, Mrs. Maloney. You are right that every quarter each participant in the FOMC submits a projection of what they feel is going to happen in the economy and also their projection for appropriate monetary policy. At the December meeting, the median participant called for three rate increases in 2018.

Now, we will submit another projection, all of us, in 3 weeks. But since then, what we have seen is incoming data that suggests a strengthening in the economy. We have seen continuing strength in the labor market. We have seen some data that will, in my case, add some confidence to my view that inflation is moving up to target.

We have also seen continued strength around the globe. We have seen fiscal policy become more stimulative. I think each of us is going to be taking the developments since the December meeting into account and writing down our new rate pass as we go into the March meeting, and I wouldn't want to prejudge that.

Mrs. MALONEY. OK, the last time the Fed released its projections for the pace of interest rate increases was in mid-December. Since then, we have had two major financial events. One was the tax-reform legislation and the other was the major budget agreement.

My question is, has your outlook for how quickly the Fed should tighten monetary policy changed in light of tax reform and budget agreement?

Mr. POWELL. I would say that my personal outlook for the economy has strengthened since December. Again, each member of the FOMC is going to be writing down a new set of projections and a new estimate of appropriate monetary policy as we go into the March meeting, which begins 3 weeks from today. So I wouldn't want to prejudge that new set of projections, but we will be taking into account everything that has happened since December.

Mrs. MALONEY. Yesterday, Fed Governor Quarles, who is leading the Fed's review of post-crisis regulations stated, and I quote, "We are not looking to relax regulation," end quote. He also said, and

I quote, "We are not looking to reduce capital for banks," end quote. Do you agree with Governor Quarles that your goal is not to either relax regulations or to reduce bank's capital requirements?

Mr. Chairman, I ask unanimous consent to place his comments in the record.

Chairman HENSARLING. Without objection.

Mr. POWELL. The way I think about it is this. We have several primary pillars of post-crisis financial regulation that we want to strengthen and protect, and those are high-risk based capital, high liquidity, stress testing, and resolution. We want to make sure that we keep those strong and, by the way, transparent as they apply particularly to our largest institutions.

I think as we move down into smaller and smaller institutions, down to the community banks, we want to make absolutely sure that we have tailored regulation so that we are achieving our safety and soundness goals without creating excessive burden. That is really the way I think about what we are doing.

Mrs. MALONEY. Last, Chairman Powell, last week, several academics published a paper claiming that the Fed's quantitative easing programs during the Great Recession were largely ineffective at stimulating the economy. New York Fed President Dudley and Boston Fed President Rosengren disagreed and said that they thought that quantitative easing had been effective.

My question to you is, do you think the Fed's quantitative easing program was effective, and do you believe the Fed should keep this tool in its toolbox for future challenges?

Mr. POWELL. I do think our post-crisis policies were effective. I haven't carefully studied that report yet, but let me say that what these reports try to do is they try to identify the surprise element in a particular Fed announcement and isolate that from what was already priced into the market.

Most things that happen on announcement day are already priced in. It is very hard to isolate that surprise element. This paper takes a different way of doing that, and it comes up with the answer that comes in.

Overwhelmingly, studies of the effects of asset purchase programs suggest that asset purchase programs did their job, which was to create downward pressure on longer-term interest rates through the term premium. I would say that that is very likely the case.

Mrs. MALONEY. Thank you. My time is up.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, Chairman of our Financial Institutions Subcommittee.

Mr. LUETKEMEYER. Thank you, Mr. Chairman, and welcome, Chairman Powell. Congratulations, and it is nice to see a banker actually being the chief banker of this country instead of an economist. To me, I think we get to look at some different policies, and I think we have a different perspective, and I think that is healthy.

Just want to start by talking about leverage lending a little bit. I want to follow up on the GAO (Government Accountability Office), which determines that agency leverage lending guidance is a

rule under the Congressional Review Act (CRA), and is therefore ineffective because it was never submitted to Congress.

As I pointed out in the past, the same would presumably be true for other agency guidance. I have heard reports from banks that many of them have outstanding matters requiring attention, or MRAs, based on such guidance, and that they are still being told either by examiners or their compliance departments to treat guidance as binding regulations.

Mr. LUETKEMEYER. Although no one seems to be disputing GAO's conclusion, the word does not appear to be getting out. Would you agree that rules are rules and guidance is guidance, and guidance is not binding?

Mr. POWELL. Yes, Mr. Luetkemeyer, I would agree absolutely with that. I think in the case of the leveraged lending guidance, we do accept and understand that that is nonbinding guidance. In fact, since the GAO ruling, we have made it a point to go out and make sure that that message is getting out to supervisors of banks.

We are also thinking of—we are in discussions and thinking about other ways we can underscore that, perhaps putting it out for further comment.

Mr. LUETKEMEYER. I just left another meeting before I got here, of a group of bankers from more of the States around the country. We were discussing issues similar to this with regards to the culture within agencies and the ability of change to be taking place. Even though we changed the head of the agency, sometimes the message doesn't get all the way to the bottom.

When I made that comment, I saw a lot of heads nodding in the audience. There is concern that while the leadership has changed, good intentions may be there, that, again, this needs to filter down all the way through the entire agency and an understanding needs to take place by everybody that this is a new way of doing business, that guidance is guidance, rules are rules, and there is a big difference between how they are adjudicated and administered and enforced by the body itself. I sure appreciate your taking that into consideration.

Mr. POWELL. It is an important point, and it is a feature of our distributed Federal Reserve system, of which I am a big supporter, of the structure of our system. I think we know how to manage that problem, and I think we actually do a pretty good job at it. We are going to continue to try to do the best job we can.

The heads of supervision at all Reserve Banks are in close and constant conversation and discussion with Vice Chair Quarles and others at the board. I don't sense any reluctance to engage in those discussions, and I think it is on us to communicate well and successfully. We will try to do that.

Mr. LUETKEMEYER. I look forward to working with you on that, because I told the bankers when I left them, if you see a problem, let me know, because I have a chance to talk to Mr. Powell myself here this morning, so we will carry the message. Thank you for that.

With regards to data security and cybersecurity, this is an issue that we are working on right now. My committee, my subcommittee, has a bill that we are putting together. Data security, cybersecurity threats have the potential to wreck our economy, to

wreak havoc with it. We subject financial companies to an absurd maze of cybersecurity regulations.

The Federal Reserve is one of the many entities that examines for cybersecurity. There is zero harmonization between the agencies. The result is that financial firms spend thousands of hours complying with regulations, rather than actually protecting their systems and their customers. Do you see this as a problem?

Mr. POWELL. I do. I think cybersecurity overall is one of the really significant threats and we can never feel like we have done enough to deal with it. We have tried to harmonize through the FFIEC process, our supervisory guidance on what we expect from firms on cybersecurity issues and data safety and that kind of thing. I am sure we can do a better job, and we are committed to trying.

Mr. LUETKEMEYER. I know that is an issue that—financial institutions in particular are right in the crosshairs of this because of the amount of personal data that they hold and the risk that is there. They are an easy target. We want to make sure that we work on that issue and work with you.

You sit in a position where you can harmonize those rules and regulations, I think, pretty easily with the different discussions and different groups of regulatory agencies that actually meet on a regular basis discussing things.

Is this ever discussed at all in your meetings with the Fed, the Treasury, FDIC (Federal Deposit Insurance Corporation), Comptroller, CFPB (Consumer Financial Protection Bureau), any of those meetings? Is this ever discussed at length?

Mr. POWELL. Yes, it is. In fact, there is a group Chaired by Treasury which focuses on cybersecurity issues which the Chair—I haven't attended one of those yet, but as Chair, I will attend those meetings. It is certainly a very big focus for Treasury and for us.

Mr. LUETKEMEYER. My time has expired.

Thank you, Mr. Chairman. I yield back.

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. Chairman Powell, welcome. As the Chair of our committee points out, you are required to be independent and accountable. You are also required to be tall and short.

Your opening statement mentions great exports. But you don't mention that our trade deficit has gone up by \$60 billion in the last year. I would point out that the entire economic establishment in this country has made it almost prohibited to discuss the trade deficit. That is why the country elected Donald Trump President.

Now, the Chair of the subcommittee boasts that we had a good economy in 2017. He is right. We had Obama's fiscal policies, Obama's tax policies, Obamacare, Dodd-Frank, Janet Yellen's monetary policies and her big balance sheet, and we had a great year.

As a matter of fact, we have been on a roll since 2011. We were closing in on having a high enough employment rate so that we would have a labor shortage and higher wages. We were going well, and so instead of continuing to be on a roll, we have abandoned those policies and adopted a profligate tax and spending policy,

throwing away the budget caps, \$1.5 trillion plus interest of the debt from the tax bill.

But I think that we will still do well because our scientists, our entrepreneurs, and our workers are the best in the world, and they will make up for all the mistakes we are making here in Washington.

I see behind you, sir, the green shirts that call for full employment. It is not enough to go with the economists' definition of full employment, say 4 percent. We need real full employment that causes a labor shortage and desperate employers bidding up the price of labor.

That is also consistent with the fact that many economists are saying that you should be aiming not for 2 percent, but 2-1/2 percent inflation. That is the kind of expansionary economy that will allow these folks to come back in fancy polo shirts with the same slogan on it in a couple years from now.

Now, when we talk about some workers getting a \$1,000 bonus, yes, a few have, but a family of five's share of the increase in the national debt from the tax bill is \$26,000. What greater proof do we need of the need for financial literacy in this country than that some charlatan can say, "Here is the deal. I will give you \$1,000. It is money in your pocket, and we will just slap a \$26,000 mortgage on your future."

Now, Chairman Powell, in your confirmation hearings, you said that, I believe, that no bank is any longer too big to fail. I would point out that the biggest banks are bigger now than in 2008 when they came to us and said they were too big to fail; they would pull the entire economy down. We had to bail them out with \$700 billion.

I would point out that the Wall Street prices into the value of the banks' stock, but more importantly, to the value of their unsecured debt, an implicit Federal guarantee, an assumption that they will be bailed out.

I have a number of questions for the record, but I will actually ask one for you to respond to. We have adopted these profligate fiscal policies. Huge tax cuts leading to a massive increase in the deficit number that is right behind you, then we busted the budget caps.

Is our monetary policy going to need to be more restrictive this year than it would have been had we not adopted these profligate fiscal and tax policies?

Mr. POWELL. Thank you. Of course when we are setting monetary policy we are focused on achieving stable prices and maximum employment. In doing that, we consider many, many factors all around, the global economy, et cetera.

Fiscal policy changes can have an effect, and changes of this size can have an effect. That can be seen, of course, in the path to policy. It is very hard to say in advance what that would be, but the answer to your question is generally we take all those things into account.

Mr. SHERMAN. The more profligate the fiscal and tax policies, the higher the interest rates you need to set all other things being equal?

Mr. POWELL. I would just say our own job is to focus not on fiscal policy, but on monetary policy, and so that is our frame of reference.

Mr. SHERMAN. Thank you for evading my question.

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentleman from California, Mr. Royce, Chairman of House Foreign Affairs Committee.

Mr. ROYCE. Thank you, Mr. Chairman. Chairman Powell, thank you very much for being with us here today. I also wanted to thank you for another effort you undertook, and that was in 2011. You spent a considerable amount of time with members of the House, trying to walk them through the debate that we had on raising the debt ceiling.

You were trying to get us focused on all the unintended consequences, which would occur if we did not raise that debt ceiling, and I very much appreciated the time, effort, and facts that you put forward.

You have a new voice now at the Fed. I assume your opinions on the severe consequences of failing to raise the debt ceiling remain. I know that in August, it looks as though the Federal Government is going to have to borrow, or have to roll over, \$500 billion of debt in August.

If we are in a quasi-default situation in August, then clearly it is a real question as to who would want to purchase that debt and at what cost would they purchase that debt? Clearly a premium on that, a 10 percent premium, it would be a \$50 billion hit right there to the interest expense, but there is much more than that that would befall the impact on our markets and, frankly, at corporate debt.

Maybe I could just give you this opportunity to explain some of the concerns about that issue?

Mr. POWELL. Thank you, Mr. Royce. Of course we don't do fiscal policy at the Fed, but I will accept your invitation and just say that it is very important that the Federal Government and government generally be on a sustainable fiscal path, meaning as the baby boomer generation retires, we will need to address the significant fiscal issues that are coming to us over time. I think it is important that Congress do that.

At the same time, the debt ceiling should be something that we always raise in a timely fashion. There is no other country in the world that has a separate vote over whether to pay bills that we have already agreed to incur. I think the United States has never defaulted on a principal or interest payment and never should.

I think doing so would be something I would really hate to see and could bring very significant consequences.

Mr. ROYCE. I appreciate your articulating that. You have also said that raising the ceiling is only the first step. The job that must be attacked is deficit reduction and addressing the cost associated with mandatory spending.

We heard a similar thing from Chairman Greenspan, we heard that from Chairman Bernanke and Chairman Yellen. We are on an unsustainable budget path, are the remarks that Fed Chairmen have traditionally shared with us.

As I have raised with previous Chairs, I don't think the American public really understands the magnitude of the problem we are facing. We certainly haven't galvanized the political action necessary to address it.

What do you think we, and what do you think you can do to raise the alarm that the biggest and fastest growing costs in mandatory spending must be addressed?

Mr. POWELL. I think I will follow the path of my predecessors and not become a regular commentator on fiscal issues, but rather limit myself to a couple of overarching points.

Mr. ROYCE. Fair enough.

Mr. POWELL. The first of which is just that we really need to get on a sustainable fiscal path, and that the time to really be doing that is now. The second thing I will say is that when fiscal changes are made, it is important that, to the extent possible, they be directed at enhancing the productive capacity of the economy.

We can't affect productivity other than through keeping prices stable and regulation on a balanced basis. Productivity is the thing that allows incomes to rise, per capita incomes to rise, over time.

We don't control the potential long-run growth rate. You have much more authority over that, and I think to the extent fiscal policy can focus on ways to increase attachment to the labor force, create incentives for more skills and aptitudes among our labor force and greater investment in R&D and that kind of thing, that is a healthy thing.

Mr. ROYCE. Thank you very much, Chairman.

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentleman from New York, Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman. Mr. Powell, welcome.

The Treasury Department is currently undergoing a review of the CRA, Community Reinvestment Act's regulations. We will be recommending changes to the banking agencies, including the Federal Reserve.

My question to you, Mr. Powell, is do you believe that a financial firm's demonstrated pattern and practice of racial discrimination in lending should be considered during a CRA examination?

Mr. POWELL. Thank you, Mr. Meeks. I am familiar with that process, and I take the point of it to be, what I am understanding about it, is to inquire into whether CRA policies are, in fact, providing benefits to their intended beneficiaries. I think we are part of that. We are providing our own input into that process.

In terms to the answer to your question, I think it is currently the practice that such considerations are considered in CRA exams.

Mr. MEEKS. It is currently, but I am concerned that some want to defang CRA and take away as part of the process the history as far as discrimination practices and pattern. That is why I am asking you, since the Treasury will be looking at a new—and I am a fan—I think we need to update CRA, but I believe that in looking at CRA you should take into consideration one's practice and pattern of racial discrimination. I am asking you, sir, what is your position on that?

Mr. POWELL. I haven't taken a position on that. I want to see the overall work that comes out of this and evaluate it on that basis.

I may well come to the view that you have, but I really haven't thought carefully enough about it.

Mr. MEEKS. All right. I just want to remind you, sir, that the CRA was Congress' response to widespread racial discrimination, and in the form of redlining. That was one of the primary reasons of the implementation of CRA. If you are even thinking about stripping out practice and patterns of discrimination, you are thereby gutting the reason Congress did CRA in the first place.

It seems to me that that should not even be a part of the dialog. In fact, as just given to me by the Ranking Member, we have an article, Lending Discrimination and Redlining Still Plaguuing St. Louis, that all the new data shows. We can go from city to city across America.

I have real concerns about your answer just now, because to even think about removing that from the CRA, as much as I am an advocate of renewing, because I think that when you look at where we are now and how banking is done and financial services are rendered, is completely different than when it was done when we initiated, but the essence of it was to stop redlining and racial discrimination.

Mr. POWELL. Let me say that we take a very serious view of any kind of racial discrimination in lending, and we look at it through a variety of our consumer affairs tools, and it is something we take very seriously.

Mr. MEEKS. Now, let me ask this question, and I would like to follow up with you on this matter particularly.

But let me ask you this when we just talk about these tax cuts. How much of corporate tax savings do you think will actually go toward wages, as opposed to stock buybacks, capital investments, and mergers?

I say this because I want to just let you know, even before you answer, Morgan Stanley announced it is estimated that 43 percent of corporate tax savings will go to buybacks and dividends, which enriches just the top 1 percent of those major investors; 19 percent would go toward mergers and acquisitions; 17 percent would go toward investments; and only the crumbs, 13 percent, would go to one-time bonuses and scant raises.

In fact, there are nine pharmaceutical companies that have already announced over \$50 billion in buybacks since the tax law was passed. How much of these taxes will go into salaries and wages? Or how much of it will really help the income disparity to increase and grow wider?

Mr. POWELL. We have particular responsibilities, maximum employment, stable prices. We don't have estimates of that kind of thing. There are many other estimates out there, but honestly we don't have a Fed estimate for what that number would be.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Minnesota, Mr. Emmer.

Mr. EMMER. Thank you, Chair Hensarling.

Thank you, Chair Powell, for being here. Good to see you again.

I want to go back to something that I think was touched on when you began your testimony this morning. During your confirmation

hearing, you spoke about the importance of tailoring regulations to fit the specific scope and practices of a financial institution.

I think your quote was actually, “Even as we have worked to implement improvements to the banking system, financial system, we have also sought to tailor regulation and supervision to the size and risk profile of banks, particularly community institutions.”

I just want to make sure that your view on continuing to tailor regulations to the specific institution has remained the same. You are still committed to doing that?

Mr. POWELL. Very much so. It is at the heart of what we are doing at the moment, which is to focus on smaller institutions and, without losing any safety and soundness, try make sure that our regulation is no more burdensome than it needs to be and then work our way up the food chain.

Mr. EMMER. Right, because you would agree that we need everyone in the financial services food chain, all the way from the largest banks in the world to the small family community banks on Main Streets all across this country?

Mr. POWELL. Indeed. Small businesses create a lot of the jobs and small banks have a disproportionate share of small business lending, although the bigs lend to the small businesses. We really want that credit to flow and we don’t want regulation to inappropriately create too much burden.

Mr. EMMER. Right. Earlier this month, Secretary Mnuchin testified before this committee. He expressed his commitment to working with Congress to make changes in statute to the way regulators tailor regulations based on the size and complexity of a financial institution. Would you also support this type of legislative effort, where necessary, to put these tailored regulations in statute?

Mr. POWELL. Yes, we would and we have. Of course, the devil is in the details. But as a general matter, I think we could see some law changes that would enable us to better and further tailor regulation to small or medium-sized institutions.

Mr. EMMER. I want to move onto another topic, but continuing the discussion on the importance of getting our regulations right to benefit Main Street and rural America.

Minnesota’s 6th Congressional District, which I represent, is home to some of the finest and most productive farmers and manufacturers in the world. Many of these same individuals and businesses, who are making such a positive economic impact on my district, are inadvertently harmed by the current formulation of the supplemental leverage ratio (SLR) that fails to recognize the exposure-reducing nature of initial client margin.

This bank capital rule is increasing clearance costs for farmers and manufacturers, making it more expensive for them to use the cleared derivatives market.

I hope that as you and your colleagues at the Fed review the SLR that you come to the same conclusion that a coalition of Republican and Democrat members on this committee have, that we must recognize the exposure-reducing nature of initial client margin in a revised bank capital rule.

Will you commit to working with us and our colleagues on the Ag Committee who want their constituents to have access to affordable and competitive cleared derivatives markets?

Mr. POWELL. Yes, I will. We think we need the leverage ratio as a high and hard backstop to risk-based capital. We think that the current calibration of the enhanced supplemental leverage ratio is not appropriate. We are looking at a recalibration that would address that exact concern.

Mr. EMMER. Thank you. I want to move on to one other topic before my time runs out. Pages 1 and 5 of your monetary policy report dated February 23 refers to the labor market. There are a couple of specific entries with respect to numbers of people that our unemployment rate is at 4.1. It is essentially full employment.

But I believe it is on page 5 where it references the percentage of—and I am going to add able-bodied working aged adults that are actually in the workforce is about 62 percent.

This is still abnormally low. Don't you have any concern about that number and, well, why don't I add this? You talk about retirements being part of this, the baby boomers leaving the marketplace, the labor force.

But doesn't this also have something to do with the disincentives created by our welfare system in terms of giving people an opportunity to get back into the job market?

Chairman HENSARLING. Time of the gentleman has expired. A very brief answer from the witness, please?

Mr. POWELL. We focus on labor force participation all the time. It is a really important thing and certainly worthy of a longer discussion, which I would be delighted to have with you.

Mr. EMMER. We will do that, thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman. Thank you, Mr. Powell, for being here, welcome.

Some of my colleagues have talked about how we are, where we are. The economy is—clearly seems to be getting better. We all agree with that. We will disagree on why and how. I personally think that a lot of the good we are seeing today is the result of the actions we took several years ago to stabilize, secure, and improve the economy and is now working its way through the system. But I will leave that debate for another day.

I also want to associate myself with the comments made by Mr. Meeks. I would encourage you as well to keep a close eye on the CRA.

I also want to take that and I will expand it a little bit, just a little bit more. I presume that the Fed would not be interested in an economy that just worked for Wall Street and did not work for Main Street.

I assume that the Fed would not be interested in an economy that just worked for Texas and didn't work for New York. Therefore, I presume the Fed has some degree of interest not in perfect equity, but at least some equitable distribution of the benefits of a good economy. Is that a fair assumption, or am I completely off?

Mr. POWELL. I would say I think we want prosperity to be high and broadly spread. We don't actually have a lot of tools for—distributional tools.

Mr. CAPUANO. I understand that.

Mr. POWELL. There are much more things that the Congress has.

Mr. CAPUANO. I respect that. I understand you have limited tools for lots of things but as long—I agree that that is obviously one of the things. A good economy for three people doesn't help for the 300 and some odd million people that live here. Thank you for that.

Are you familiar with a relatively new British law that has just been enacted just being imposed that requires companies of over 250 employees to report income and wages on the basis of gender? Are you familiar with that at all?

Mr. POWELL. No, sir, I am not.

Mr. CAPUANO. OK, well that just came out. The first company to do that report was Barclays, one of the largest banks in the world. That report, pursuant to British law, shows that women at Barclays earn 26 percent less than men and receive bonuses that are 60 percent lower than men.

Now, I know that some of those reasons might be reasons as to who owns which position. But it certainly goes toward the idea of equitable distribution of the benefits of the economy.

Are you familiar with a rule that was proposed by the Equal Employment Opportunity Commission in 2016 that was supposed to go into effect in March that would have required similar reporting by American companies over 100 employees, not just on the basis of gender but also on the basis of race and ethnicity?

Mr. POWELL. No, sir.

Mr. CAPUANO. OK, fair enough. The reason you are not familiar with it is because the Trump Administration stopped it. It was proposed in 2016. Companies were given 2 years to work their way in. But as of last August, the Trump Administration said no, we don't want to know how you pay women, how you pay people of racial groups or ethnicity groups. We don't care about that.

Now, I personally think that is horrendous and I would actually say that, again, if you are interested in an economy that has some degree of equitability you need statistics. You need numbers. Anecdotal answers are very interesting and they make for good political commentary, but they don't help us address the problems.

I would ask therefore if something like that, that is new to Britain, doesn't seem to have impacted Barclays in any particularly bad way, but provides us the information we have to go forward to argue for pay equity across the board.

Now, I am a white male, but I am not interested in my success being at the expense of people who are not white men. I would ask, is the Fed interested in all, would you be interested in pursuing something—you oversee 7,000 entities, some of them large, some of them small, most of them pretty large.

Would you be interested in pursuing some degree of, not intrusive, but some degree of investigation as to how they pay their employees, if it is equitable or not?

Mr. POWELL. First, again, I am not at all familiar with either the British bill or the EEOC proposed rule that was—I am not familiar with either of those. These are the things that Congress should consider. We have a job, we have a really important job to do that you have assigned us to do. For now we are going to stick to that and try to achieve—

Mr. CAPUANO. I respect that, and I want you to stick to that. But as we talked about earlier, some degree of equitable distribution of the benefits of a good economy is your job. Not perfect equity, not every aspect, but in the one aspect you can control—overseeing 7,000 financial institutions.

Don't you think it is a fair thing to ask how they pay their women, how they pay their African Americans, how they pay their Hispanics, if it is based on fairness or if it is based on some degree of discrimination? You don't think that is a fair thing for you to ask?

Mr. POWELL. I don't think it is a question for the Fed. I think it is a question for other agencies and for really—

Mr. CAPUANO. You think it would be—boy, that is a great answer. I think we are going to hear more about this.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger.

Mr. PITTENGER. Thank you Mr. Chairman. Thank you Chairman Powell for coming before the committee, congratulations on your confirmation. We look forward to working with you.

Chairman Powell, it is my understanding that the Fed has been actively involved in developing a potential alternative to LIBOR (London Inter-bank Offered Rate), called SOFR—the Secured Overnight Funding Rate.

Has there been a robust cost-benefit analysis conducted by the Fed regarding the potential economic impact to consumers and commercial borrowers relative to shifting from LIBOR to SOFR?

Mr. POWELL. Let me say that the situation with LIBOR is such that the Financial Conduct Authority (FCA) in London has said that they will no longer compel banks to submit their submissions to the LIBOR panel after the end of 4 years.

At that time, the FCA can no longer guarantee the continuation of LIBOR. Now if LIBOR were to stop being published then, there are \$300 plus trillion worth of LIBOR-based contracts in the world. That has all the potential of being a pretty significant financial stability problem.

Solving it is very high priority for us and I think for financial regulators around the world. There will be costs to doing so, but they would be trivial in comparison to the failure to be ready for this change, should it be necessary.

Mr. PITTENGER. What type of borrowing costs do you project for businesses as a result of the impact of this change?

Mr. POWELL. We are actually seeking a lot of input from businesses that will be subject to this at the moment. But honestly, though, the cost of failure to act would be, potentially, quite high.

Mr. PITTENGER. Yes, sir. Since repo rates go the opposite direction to LIBOR during market stress, do you anticipate any new systemic risks that arise in the banking sector from shifting to SOFR?

Mr. POWELL. Yes, I do, I think systemic risk would be decreased by moving to SOFR. LIBOR spreads blew out during the crisis, and I think a risk-free rate, which is really used to price the vast derivative markets and not so much the bank lending markets. It is really much more in a derivatives based now, would be an improve-

ment from a financial stability perspective to have SOFR over LIBOR.

Mr. PITTENGER. When, SOFR was selected through the process of the Alternative Reference Rates Committee in 2014, were community banks and regional banks a part of that process?

Mr. POWELL. Some of the regional banks were. It is principally affecting the derivatives business, at least in the first instance. We had a lot of different groups around the table, and at this point we are very much broadening that circle to include other financial institutions, including community banks and other parts of the financial system.

Mr. PITTENGER. Do you anticipate any potential cost relative to community banks in this shift?

Mr. POWELL. I don't think it—there shouldn't be meaningful costs, and we would sure like to know if there are.

Mr. PITTENGER. If banks do continue to participate in the LIBOR panel, would you encourage a multiple rate approach that was driven by market choice?

Mr. POWELL. Yes, we are—

Mr. PITTENGER. Or would you support LIBOR for banking lending for SOFR, for derivatives?

Mr. POWELL. Yes sir, we have always said that if people want to keep using LIBOR, that is fine, as long as it is continuing to be published. What we are doing is preparing for the risk that it wouldn't be published. We are not saying that that is what will happen. But we need to be ready, just in case that does happen.

Mr. PITTENGER. Yes, sir. On another subject, what do you anticipate will be any changes you will bring to the Fed relative to transparency in the Fed?

Mr. POWELL. I think we are committed to being as transparent as we possibly can about monetary policy and about regulation. I think, if I remember what it was like back when I was an undersecretary of the Treasury in the 1990's, the Fed didn't even publish a post-meeting statement.

Now you look at the massive number of things we publish, we are much more transparent. I think we can continue on that path. We are never done with that.

In regulation, I think it is very important that we be transparent. In fact, we are working across a broad range of issues there, including, I would point out, stress testing. We have a package of transparency regulations. In general, I think it is appropriate for us to always be working on that, and it is just—

Mr. PITTENGER. One last quick question, I have 50 percent fewer banks in North Carolina today than we had in 2010. Do you foresee Fed policies that would enhance and assist community banks in particular?

Chairman HENSARLING. Time of the gentleman has expired. A very brief answer from the witness, please?

Mr. POWELL. It is a long running trend and we don't like to see it and we don't want to make it any worse. I would be happy to continue this with you.

Mr. PITTENGER. Thank you.

Chairman HENSARLING. Again, the time of the gentleman from North Carolina has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Clay, Ranking Member of our Financial Institutions Subcommittee.

Mr. CLAY. Thank you, Chairman Hensarling, for holding this hearing.

Thank you, Chairman Powell, for your testimony today.

Chairman Powell, do you agree that the U.S. housing is in a recovery mode, as far as transactions and housing market in general is healthy?

Mr. POWELL. Yes, sir, it has been a gradual recovery, but it is ongoing.

Mr. CLAY. Along those lines, I want to pick up where Mr. Meeks and Mr. Capuano questioned you. I have shared with your staff a recent article from my hometown newspaper about black home buyers continuing to be denied conventional mortgage loans at a much higher rate than whites, even when controlling for income, loan amount, and neighborhood.

In the St. Louis metropolitan area, African Americans who applied for conventional mortgages are two and a half times more likely to be denied than non-Hispanic whites. That is according to 2 years of recent HMDA (Home Mortgage Disclosure Act) data.

Where there is loan activity houses have a chance to sell. Where houses sell, people move in. Where people move in, restaurants, community centers, and grocery stores are built. None or very little of that is happening in low- to moderate-income neighborhoods in St. Louis or elsewhere in this country.

My question is, what can the Federal Reserve do to ensure that applicants for home mortgages are treated equally and the bad actors who steer and redline communities of color are eliminated from this process or change their policies? Can you give me any direction in that area?

Mr. POWELL. I would be glad to, sir. First of all, racial discrimination in mortgage lending, in any kind of lending, is completely unacceptable. Wherever we have authority we will use it to stop that from happening and punish it when it does happen.

We have some authority here. The CFPB has quite a lot of authority in this area as well, but where we have it for the banks that we supervise, we supervise carefully and aggressively to try to find these problems and address them.

Mr. CLAY. As you know, the Fair Housing Act of 1968, a law that has been on the books for 50 years prohibited those practices of steering and redlining. Now, I share with you this article because I want a more extensive response from you on what action we can take against bad actors like U.S. Bank, who is cited in that article, the fifth largest financial institution in this country, who have denied mortgages across the board in the community that I represent. That stymies economic activity. It doesn't help it.

I would love to collaborate with your office on how we stop these policies and practices that are discriminatory and hopefully you will be willing to work with me on that.

Mr. POWELL. Yes, sir.

Mr. CLAY. While President Trump recently tried to take credit for December unemployment numbers, showing African American unemployment at its lowest recorded level, this too is part of a long-term trend that started under the Obama Administration in

which African American unemployment has steadily declined for the past 7 years.

In addition, racial disparities continue to persist, with the unemployment rate for whites currently at 3.5 percent, unemployment for African-Americans stands at 7.7 percent. With African American unemployment more than twice as high as white unemployment, clearly more progress is needed.

Share with us your vision for the Fed attacking persistent unemployment among African Americans.

Mr. POWELL. What we can do on that front, sir, is we can take seriously our obligation to pursue maximum employment. We understand fully that while the national unemployment rate is low and while, in many regions, the unemployment is actually even lower than 4.1 percent, you meet a lot of Congressmen and Senators who come from places where unemployment is in the twos.

Mr. CLAY. I would like to explore that with you—

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentleman from Oklahoma, Mr. Lucas.

Mr. LUCAS. Thank you, Mr. Chairman.

Chairman Powell, I thank you for being here. Before I ask a general question and a broader question, I do note that I think you are my fourth Chairman to be able to visit within this environment since I have been a member of this committee.

I would like to discuss an issue with you today that you and I have already discussed. My good colleague, Subcommittee Chairman Mr. Luetkemeyer has a bill regarding, and that is the supplemental leverage ratio clearing margin.

I know that Blaine's bill has strong bipartisan support from members of this committee and the Ag Committee. In essence, it would offset those margin amounts for purposes of SLR because margin is inherently a risk management tool and legally must be kept separate from a bank's own funds.

The Fed can effect this change without legislation, however, and your predecessor showed a willingness to look at the issue. I was hoping you might be willing to consider that situation, that sort of a fix yourself?

Mr. POWELL. Thank you, Mr. Lucas. What we are doing right now is we are taking a careful look at the enhanced supplemental leverage ratio. I think our view is that the leverage ratio is a very important requirement for banks, but it should be a backstop. It should be a high and hard backstop to risk-based capital.

I think that the enhancement to the supplemental leverage ratio that we put into place in, I guess 2013 in that range, went a little too far. It unfortunately seems to be deterring some low-risk wholesale-type activities that we really want financial institutions to engage in. One of those is client clearing, and particularly not counting margin.

But I think our way of addressing that is going to be, I think, to lower the calibration of the enhancement to the supplemental leverage ratio. That does seem to get done what needs doing there.

Mr. LUCAS. Clearly something needs to be addressed.

Now, let me ask a more broader question. I represent the north-west half of the great State of Oklahoma. It is ag and it is energy

and it is Main Street business. We are a commodity-driven economy and the price of commodities, of course, is a reflection of both supply and demand.

While supply is not an issue for the Fed to be concerned about, I represent industries where technology advancement has been used successfully, whether it is precision agriculture and increasing the output of our farms and ranches with fewer inputs or, on the energy side of the equation, 3D seismographic, horizontal drilling, just the most amazing technological advances of the last 10 years. That is increased supply.

But my producers see, since 2014, that whether it is oil and gas or wheat and cattle, that literally prices are half of what they were in 2014. Let us discuss for just a moment, expand on your comments earlier about where you think the Fed projections would have economic growth and demand in a year or two or three down the road in the United States. Because we have a supply equation, that is our challenge. But if demand picks up, life gets better economically at home.

Mr. POWELL. That is typically the case, as you know. I haven't updated my own projections, but I will just say generally that it does feel to me that the next couple of years look quite strong, and you should see strong demand from consumers. You should see businesses investing. I would expect the next 2 years on the current path to be good years for the economy.

Labor markets continuing to improve, inflation moving up to 2 percent, and I would think that that should create a good environment for people in your district who are in the commodities businesses as well.

Mr. LUCAS. The old adage about the rising tide raises all ships. Thank you, Mr. Chairman.

Mr. POWELL. Thank you.

Chairman HENSARLING. Would the gentleman yield to the Chairman?

Mr. LUCAS. Of course, Mr. Chairman.

Chairman HENSARLING. In the 1-1/2 minutes that he had remaining, I had a question, Chairman Powell, back on the interest on excess reserves.

I had asked your predecessor this question, and the answer was not clear to me. I think as you know, under statute, that the rate must be—and I am trying to find the exact language—cannot be above the usual level of short-term market interest rates.

Yet we know that the Fed has been paying a price over the Fed funds rate—paying over LIBOR and certainly I think it is currently paying 150 basis points, yet our constituents typically receive about 10 basis points on their savings account. I am just curious on what does the phrase above the usual level of short-term market interest rates mean?

In your 2012 rulemaking that implemented IOER, it allowed the rate to get pegged to your primary credit rate, but that is an administered rate, which means you can set it where you want to set it. Legally is there any cap to the interest rate you can pay in IOER? Could you pay 300 basis points, 400 basis points, 500 basis points?

Mr. POWELL. I think, as you have suggested, we are not permitted under the law to pay above—I think the language is the general level of short-term interest rates. That is, I think, something like that.

I would look at that and I would see commercial paper, I would see repo, I would see wholesale deposits, I would see short-term interest rates, money market funds, things like that, less than a year.

I think where IOER is set is—the whole idea of IOER is to use it as a tool to move those kinds of interest rates around and they tend to be highly—

Chairman HENSARLING. But you are paying 150 basis points, our constituents are getting 10 basis points. You can—

Mr. POWELL. Retail deposits are sticky on the way up. They generally come up with a lag.

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman. Thank you, Mr. Chairman. Thank you for your attendance, appreciate that. A couple of weeks ago, there was a story in the Wall Street Journal around ETFs (exchange-traded funds), and I wanted to get your thoughts on this.

The particular story noted that shares of everything from manufacturers to banks to oil production companies are all rebounding together after tumbling in unison earlier in the month.

The article noted that one factor contributing to the close correlation among the S&P's various sectors was driven by the growing popularity of exchange-traded funds. I know that ETFs usually invest in wide swaths of the market, and when that is all correlated it can sometimes increase the volatility. At least that is what the data would suggest.

I am just wondering, does the Fed think that there are risks to the broader financial system associated with complex ETFs? Is the Fed concerned about that? Any ideas?

Mr. POWELL. It is an interesting question. I saw that article and, of course, we looked after the volatility came and then subsided. We looked carefully to try to understand, really, what did happen. It seems that the markets were generally orderly through almost all of that time.

ETFs are a particular form of fund, and I don't think they were particularly at the heart of what went on in those days. But it is something we are talking to our fellow agencies, particularly the SEC, I think, would be best positioned to look at this. But it is a question that we are looking into.

Mr. LYNCH. OK. Thank you. On a completely different topic, in your remarks you talked about the historically low unemployment rate among people of color. But again, you acknowledge that the rate of unemployment for people of color is much higher than for white workers.

Given the fact that the participation rate, according to your own testimony, has been fairly constant, does the Fed have any suggestions to the Trump Administration about if the wind is at our backs now, if we are putting more people to work, how do we close

that gap? How do we get more people of color into the workforce so that, again, we close that gap?

Mr. POWELL. As I mentioned, Mr. Lynch, our part of it is to take seriously our obligation to achieve maximum employment, and I think we are doing that. We don't have tools that are good at addressing these kind of disparities, and those—

Mr. LYNCH. I am not asking you to do it. I am asking you to suggest recommendations to the White House. That is they have the power to do it. They have the tools to do it.

Mr. POWELL. Right. I wouldn't want to presume to recommend policies that are away from our general mandate, but I will just say, generally, that I think that policy—

Mr. LYNCH. Let us just say we are trying to reduce unemployment. That is certainly part of your—

Mr. POWELL. I think the constructive thing in this area is really to focus on—and it is a long-run problem—but to focus on education and training. We want everyone to have opportunity. We want this to be a society where everyone has opportunities to succeed. Part of that is reaching people through the educational system, and I would point you in that direction.

Mr. LYNCH. Very good.

Thank you, Mr. Chairman, I yield back.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Illinois, Mr. Hultgren.

Mr. HULTGREN. Thank you, Chairman Hensarling.

Chairman Powell, good to see you. Thank you for your work. Thank you for being with us today.

On June 22, 2017, you testified before the Senate Banking Committee. You said, and I quote, “We believe that the leveraged ratio is an important backstop to the risk-based capital framework, but that it is important to get the relative calibrations of the leverage ratio and the risk-based capital requirements right.

Doing so is critical to mitigating any perverse incentives, and preventing distortions in money markets and other safe asset markets. Changes along these lines also could address concerns of custody banks, that their business model is disproportionately affected by the leverage ratio,” end quote.

I have worked with my colleagues on this committee, especially Keith Rothfus and Bill Foster, on legislation that was passed out of the committee, 60 to 0, that would provide relief from the supplementary leverage ratio for institutions who are predominantly in the business of providing custody services.

The Treasury Department's June 2017 report recommends changes to the supplementary leverage ratio for cash on deposit with central banks, which is in line with legislation reported by the committee.

I wonder, do you support the Treasury Department's recommendation, and how will you work with the OCC and FDIC to make those changes?

Mr. POWELL. I agree with you, sir, that the leverage ratio can deter banks from engaging in low-risk wholesale activities, particularly the custody banks. We have looked carefully for some time now at how to provide relief.

Our preference for the way to do that, is to just recalibrate the enhanced supplemental leverage ratio. The custody banks would feel significant relief because they have the smallest surcharges. That is our preferred way to do that.

Mr. HULTGREN. Following up on that, with these considered changes to the enhanced supplementary leverage ratio, they only cover the G-SIBs (global systemically important banks). Do you believe changes to the Basel leverage ratios are only necessary for the G-SIBs, or would you also support changes to the larger supplementary leverage ratio?

Mr. POWELL. The regular supplementary leverage ratio, based on my conversations with financial institutions including the custody banks, is not particularly binding for them, certainly as it relates to the custody banks.

We chose to make this enhancement, and I think we have the calibration a little bit wrong and so our plan is to roll that back.

Mr. HULTGREN. OK. One last thing on this, then I will move on, but CBO (Congressional Budget Office) recently provided a cost estimate for the implementation of H.R. 2121. As you probably know, the CBO oftentimes relies upon input from the Executive Branch for such estimates.

I wonder if you could commit to sharing this correspondence between the Fed and CBO with my staff and with the committee of determination of costs for implementation of 2121? Would you be willing to work with us on that?

Mr. POWELL. I would be willing to work with you. I have to look into how we would do that sort of thing.

Mr. HULTGREN. That is great. My concern for this is that the bank regulators are only providing relief to the G-SIBs. G-SIBs are subject to the enhanced SLR, as you said, while the less-large banks are only subject to SLR.

Northern Trust is important in Chicago, amazing institution. 120-some years, more than that, that they have been around, but they are not a G-SIB and, thus, not subject to the eSLRs. However, they are still subject to binding capital constraints, so it is a concern of mine.

Moving on, similar to my question regarding adjustment to the Basel leverage ratios, I want to ask you about the treatment of centrally cleared options.

The Treasury Department's October 2017 report on capital markets notes, and I quote, "The current exposure method model, for example, requires options contracts to be sized in their notional face value, rather than allowing for a risk adjustment to notional to reflect the actual exposure associated with these derivatives. Specifically, CME does not permit delta adjustment for the notional value measurements of options," end quote.

It also notes, and I quote, "The CME may be responsible for a corresponding reduction in a bank's ability and willingness to facilitate access for the market-makers' clients, who are the primary liquidity providers in these markets," end quote. I understand this concern was realized by some market-makers during some of the volatility incurred by markets in recent months.

I wonder if you agree with the Treasury report's recommendations. Specifically, do you believe there should be a risk-adjusted

approach for valuing options for purpose of the capital rules to better reflect the exposure, such as potentially weighting options by their delta?

Mr. POWELL. I actually believe there is an alternative, a more risk-sensitive approach that we are moving to in that area. But I want to check back with our experts and I will follow up with you.

Mr. HULTGREN. That would be great, if you can let us know that. My time is up, but thank you again. I appreciate your willingness to work with us.

I yield back to the Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you very much, Mr. Chairman. Welcome Chairman Powell. What is disturbing me and what is remarkable and I think downright disturbing to me are the policies coming out of this Trump Administration in three specific areas that you, as the Chairman of the Fed, our chief economic balancing officer, shall we say, has direct input on.

Did you know, for example, there are three areas particularly? First, the tax cuts of the President. Are you aware that 83 percent of the President's tax cuts go to benefit just 1 percent of the American families? That is not fair at all.

If we go to his budget cuts, you know who is impacted the most because of his budget cuts? It is the African American community.

Let me go to his draconian, terrible proposals to cut \$17.2 billion away from food stamp recipients. Then if that is not mean and ugly enough, they want to turn out and now stop food stamp recipients from even being able to go into the grocery stores and buy groceries, just like you and I. This is mean, man.

I want you—you seem like a very reasonable person. Tax cuts going to 1 percent, the wealthiest people? Then on the same token, they want to send food? We can do without a lot of things, but not food. They want to send food in boxes, canned food, dried milk, powder milk, to the poor people in this country.

Now, Mr. Chairman, you have the dual mission of inflation, unemployment. On top of that, they are crushing. The most primary group that's being crushed are African Americans and people of color, and I am here to tell you, we are going to stand up and fight this Administration.

I want to ask you to get on our side, the side of the American people, because it is clear to me that President Trump is not on the side of the American people. You tell me, getting 83 percent of the benefits of the tax cut to the 1 percent of the wealthiest?

Then turn around, cutting \$17.2 billion out of the thing we need the most; food for the poorest people? Then on top of that, shipping their food in boxes to sit on their porch. Dried milk for their babies.

You tell me, Mr. Chairman, is this the way you think about America?

Mr. POWELL. Thank you, sir. I can only say these are very important issues, and I take it to heart. But these are not issues that we have authority over or—

Mr. SCOTT. Now, I was waiting on you to say that, Mr. Chairman.

There is nobody better suited. You are the Chairman of the Federal Reserve. Do you know when you sneeze Wall Street crumbles? That is why I am pointing this at you, Mr. Powell. I have looked at your background. You are well-prepared for this.

Your experience, as I have read it, shows that you have a deep compassion for people. All I am asking you to do is to every once in a while, if you could say hold on, Mr. President, this isn't right, to be shipping the food to the poorest people in this country and denying them a right to go into the grocery store, just like me and you buy food. It is not—

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentleman from Pennsylvania, Mr. Rothfus.

Mr. ROTHFUS. Thank you, Mr. Chairman, and welcome Chairman. It is good to have you here. The Fed supervises several insurance companies that own thrifts. An insurance company that has been designated as a non-bank SIFI (systemically important financial institution), Congress has taken a strong interest in ensuring that Fed supervision reflects the business of insurance and the privacy of State regulation of insurance.

Most notably, Congress passed legislation in 2014 to ensure that capital rules for insurance companies are tailored to the business of insurance. We appreciate all your work on this rule.

Separate from the pending capital rule, I believe that more could be done to ensure that on-the-ground supervision of insurance companies is proportional to the risk these companies pose in terms of safety and soundness and also reflect the existing system of State supervision. What are you doing to ensure this, and what more could the Federal Reserve do here?

Mr. POWELL. Thank you, sir. Thanks for your comments. We do. I think from the beginning, as I think you see, we have tried hard to look at insurance as a new area for us where we needed to develop expertise and where it is different from banking and it needs to reflect the risks of the insurance business.

We have really invested in that and we have tried to be open with it. Continue to do that in developing our capital requirement. We have tried to reflect that. I think we were very open to the views of experienced insurance regulators, some of whom we have hired, and also people from the industry.

Mr. ROTHFUS. By my count, there are four vacancies on the Board of Governors. How do these vacancies impact the ability of the Fed to fulfill its mission?

Mr. POWELL. I am glad you mention that. We could really use some more faces on the hall. I don't think we have been down to three Governors, certainly not for an extended period before, so I am eager to have more colleagues.

As you may know, I wore an awful lot of hats before I took over my current role, and so I have handed those hats out to my two colleagues. We are all three quite eager to have more people on board. We don't necessarily need all seven immediately, but we would sure love to get there.

Mr. ROTHFUS. We have talked a little bit about diversity of backgrounds, I would like to talk a little bit about diversity of experiences. Professor Charles Calomiris of Columbia University has

highlighted the importance of bringing individuals with a diversity of experiences to the table when discussing monetary and regulatory policy.

He describes the culture of the Federal Reserve system as academic dominated. While academics surely need to have an important voice in these highly technical debates, I can also see how a nonacademic practitioner perspective can be helpful. Can diversity of experiences like yours help support a more reliable monetary and regulatory policy?

Mr. POWELL. I strongly believe that. Let me say, I think we need great economists around the table and we need lots of them, but we also need people from other backgrounds, people experienced in business and from managing profit and nonprofit institutions and from the financial markets. I think—and from law. Those people bring diverse perspectives and they make our decisions better and our discussions better.

Mr. ROTHFUS. As you may know, our national debt exceeds \$20 trillion and continues to grow rapidly. At the same time, the Fed has been engaged in an unprecedented monetary policy experiment. Some have argued that in carrying out this experiment, the Fed has stepped beyond what is necessary for the conduct of monetary policy and ventured into credit policy.

Do you worry that unsustainable public debts and the Fed's engagement credit policy may increase political pressures on the Fed?

Mr. POWELL. It is not a near-term risk, I would say. I just would mention, of course, that we are now in the process of normalizing our balance sheet and shrinking it. We are moving back to a more normal level balance sheet, and I think we will be there in 3, 4, 5 years.

Mr. ROTHFUS. One thing that has always puzzled me is this target 2 percent inflation rate. Just as a layman and looking at this and this suggestion seems like it is benign. But, over 20 years, you mentioned about 20 years, then we hear about 100 bucks, 20 years ago and you had 2 percent every year the purchasing power for that 100 bucks went down. Can you educate us a little bit from your perspective about this 2 percent target?

Mr. POWELL. Sure.

Mr. ROTHFUS. Because my count, what was \$100, 20 years ago at 2 percent it might cost around 150 bucks today.

Mr. POWELL. This was a big debate which was settled around 2 percent as opposed to 0 for central banks to aim at, and it has become a global standard all around the world. Central banks are aiming at 2 percent. The reason why that was picked over 2, in essence is that it gives us a little more room to cut real interest rates.

If the interest rate—if inflation is 0 then interest rates would be, in the 1, 2, 3 range. Then when a recession comes, we would have very little to cut. Having 2 percent inflation we think oils the wheels of the economy and gives central banks a little more ammunition. It has now become the global standard. It would be hard for any bank to diverge from it.

Mr. ROTHFUS. I yield back.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Texas, Mr. Green, the Ranking Member of our Oversight and Investigations Subcommittee.

Mr. GREEN. Thank you, Mr. Chairman, thank the Ranking Member. Also I would like to thank the persons who were here who call themselves full employment defenders, welcome.

Mr. Chairman, what do you consider full employment? I have the number 5.5 percent, but if you differ, I would like to hear your number please.

Mr. POWELL. Yes, so if I had to make an estimate, I would say it is somewhere in the low 4s, but I would stress that it could be that—what that really means is it could be 5 and it could be 3.5

Mr. GREEN. Let us take the low 4s or 3.5. When is the last time that African American unemployment was in the low 4s or 3.5?

Mr. POWELL. I don't think it ever has been in the years we have been measuring it.

Mr. GREEN. Quite frankly speaking, it hasn't been since slavery. That is the last time there was full employment for black people.

Mr. Chairman, 6.8 percent seems to be the lowest number that I can find since we have been keeping numbers. For the last 47 of the last 54 years, it has always been twice that of white unemployment, twice. Do you agree?

Mr. POWELL. Do I agree?

Mr. GREEN. Yes sir.

Mr. POWELL. That is—

Mr. GREEN. Do you agree that black unemployment is, generally speaking, twice that of white unemployment?

Mr. POWELL. I think that is what the numbers would support, yes.

Mr. GREEN. Mr. Chairman, do you agree?

Mr. POWELL. I agree. Yes.

Mr. GREEN. OK. Thank you.

Mr. POWELL. It is a true statement.

Mr. GREEN. All right. Thank you. It is a true statement. Mr. Chairman, do you also agree that invidious discrimination still exists in the United States of America?

Mr. POWELL. I would.

Mr. GREEN. Do you agree that when we have had an opportunity to test banks we have found that invidious discrimination exists in lending?

Mr. POWELL. Yes.

Mr. GREEN. Do you agree that testing is an effective means by which we can acquire empirical evidence necessary to show that discrimination exists?

Mr. POWELL. I do believe it is used in that way, yes.

Mr. GREEN. Then Mr. Chairman, would you support legislation to help us acquire the empirical evidence to show that this exists so that we can do something about it?

You see, we now know the facts. The question is what are we going to do about it? Your charge is the promotion of full employment. I take that to mean full employment not just for white people. I take that to mean for everyone.

At some point, black unemployment has to be addressed because it is chronically twice that of white people. We have to use terms

like black people and white people to make the point. We also have to ask that our friends on the other side join black people in doing something about this.

Mr. Chairman, that which we will tolerate, we will not change. We have learned to tolerate African American unemployment being twice that of white unemployment. I refuse to tolerate it. That is why I use language that is clear and concise. There is no question about what I say. The question is what are we going to do about it?

We know that discrimination exists in banking in terms of lending. We know that it exists in other areas of the economy as it relates to African Americans. The question is what will we do about it?

By the way, I am not assigning all of the responsibility to you. That is why I mentioned my friends on the other side and my friends on this side. I am a liberated Democrat. Democrats and Republicans have to do more about black unemployment.

Unfortunately, when a black person challenges the system, such as I do, it becomes playing the race card. Let me say today that I am playing the race card because we have for too long allowed this condition to exist.

Mr. Chairman, I am going to send you a letter and in the letter I will request that you explain the role that covert and overt unemployment plays in this issue of black unemployment being twice that of whites. I will ask you to identify the primary factors that limit African Americans' access to employment opportunities in sectors that are protected from cyclical downturns in the economy.

I am going to ask you, if allowed, would testing provide beneficial empirical data? You have already said that you think it would. I will ask you to put that in writing, Mr. Chairman.

I respect you and I ask that you be of service to all Americans, not just white Americans.

I yield back.

Chairman HENSARLING. The time of the gentleman is expired.

The Chair now recognizes the gentleman from Colorado, Mr. Tipton.

Mr. TIPTON. Thank you Mr. Chairman. Chairman Powell, appreciate you taking the time to be able to be here.

One of the big challenges I think we have really faced as a country is the policies in the previous Administration have yielded a lethargic growth that impacted communities across the country.

We are now seeing policies starting to step into place that are actually getting the economy moving, creating job opportunities, putting the resources back into the pockets of the individuals who actually earn it, and creating that opportunity for people to be able to increase their prospects for their families, for their communities as well, which I applaud but want to make sure that they are applied across the board in the country, as well to each community.

Now, I would like to be able to highlight one of the benefits that I have seen in my district from the Tax Cut and Jobs Act in Colorado. The Bank of Colorado, which has a significant presence in the western slope of Colorado, the Four Corners region that I represent, wrote me after passage of the Tax Cut and Jobs Act that they anticipate the passage of the reform is going to be having a

positive effect on the growth of their businesses and our local economy.

In fact, the Bank of Colorado added a special bonus at the end of the year for all 641 of their associates in Colorado and New Mexico. They are going to be receiving \$1,000 in terms of a bonus and part-time associates are going to be receiving \$250 to \$500.

Mr. Chairman, in my part of the country, that is real money. It is not a crumb. It is how we pay a mortgage. It is how we pay for the electric bill. It is how we provide, literally, for our children. To be able to boost those opportunities for those employees is actually helping Main Street right now.

The Bank of Colorado's actions, I think, provide an example for us in terms of new possibilities that exist in the current economy and also looking forward.

I guess what I would like to be able to speak to you on is in my State of Colorado we have—and I often spoke to it as a tale of two economies—urban Colorado has been doing well. Their unemployment is down.

However, when we move into rural Colorado, we are just now starting to see the signs of the recovery and those opportunities for the people who live at those rural areas.

One of the real challenges that I have heard in our communities has been from our small community banks, in terms of the trickledown effect over regulation that came out of Dodd-Frank. The best practices that are being employed that may not have been on paper but are implied and they are feeling those real impacts.

I know Mr. Loudermilk had brought up with you earlier in the questioning, in regards to being able to tailor some of the rules and regulations to be able to meet the size, the risk portfolio, the institution.

Can you give us an idea of what you see as that real tailoring? When we could expect that to start to take place, to be able to open up those doors of economic opportunity for rural America?

Mr. POWELL. In the regulatory space for smaller institutions, first of all, we are mindful that the number of small banks in rural and non-urban areas has declined very sharply over the years. We don't see that as a good trend and we don't want to be any part of making it worse. There are bigger forces at work there as people move to the cities and that kind of thing.

But as it relates to our regulation, I think we have, just recently here, dramatically reduced the scope and burden of the call report. We have made exam frequency longer so you have longer gaps between exams.

I think we tried hard to find ways to simplify the capital requirements because you just don't need that kind of—you don't have the resources to be managing these highly complex capital requirements. We went through and, in a number of areas, we simplified. We tried to address the shortage of appraisers in many rural areas.

But, honestly, you could go on forever. I think there are a lot of small things. I will just tell you that we are committed to doing more, and I hope you will hold us accountable for that.

Mr. TIPTON. I appreciate that Mr. Chairman. I have a piece of legislation, the Taylor Act, to be able to make sure that we have rules and regulations that are going to be written to be able to

meet the size risk portfolio of the institution and appreciate your commitment and hopefully willingness to be able to work with us.

Because the objective is to be able to open up those doors of economic opportunity for all of our communities across the country. One issue which has been brought up to me is also in regards to the Community Reinvestment Act, and if you would be able to work with us on that as well.

Our banks do want to be able to make those real contributions back in but we have some outdated rules that I think we need to address.

Thank you, and I yield back Mr. Chairman.

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentlelady from Wisconsin, Ms. Moore, Ranking Member of the Monetary Policy and Trade Subcommittee.

Ms. MOORE. Thank you, Mr. Chairman, and thank you again, Mr. Chairman, for appearing.

Just want to appreciate the fact that in your written and your oral statement you have doubled down on your commitment to tend to your dual mandate to look at unemployment as well as the monetary policy. I just want to thank you for—appreciate you for that.

Given that, I just want to focus a little bit on some of the things that I think previously Mr. Green just talked about and also my good friend, colleague, Mr. Barr, talked about in terms of trying to figure out how the Fed is going to balance things.

When we look at unemployment for the general public, I am wondering if we continue to have 2 percent as our inflation rate, is that, in fact, discouraging toward getting some of those groups, like African Americans, mobilized and moved toward more full employment? Do you take any guidance from some suggestions that perhaps the target, inflation target, ought to be 2.5 percent?

Mr. POWELL. I think we are pretty committed to our—we are strongly committed to our 2 percent inflation goal. Over time the level of employment in the economy is not a function of—you can't increase it by increasing the inflation rate.

We are committed to having a symmetric 2 percent goal so that we would be equally concerned with persistent undershoots of 2 percent and persistent overshoots.

Ms. MOORE. OK. Given that, I am wondering what your thoughts are about the increased income inequality we see in this country.

According to the United Nations Rapporteur Report, the United States is on track for being the most unequal, having the most inequality in the world. Given the recent tax bill where we see, despite what Mr. Barr has indicated about all the bonuses and wage increases, that about 43 percent of these moneys are being spent in buybacks, another 19 percent mergers and acquisitions. That is like 62 percent, those two together.

Only 17 percent in capital investment improvements and then the 13 percent that are in bonuses and raises. We know bonuses are one-time only events, which pale in comparison to the economic benefit that the company gets. What concerns does the Fed have about the increase of income inequality?

Mr. POWELL. It is a big, very complicated set of issues, and I will just point to a couple of things. The first is that we have seen stag-

nation of middle-class median incomes. That seems to be closely tied to the flattening out of educational attainment and skills attainment by our workers.

I think we need to have the best-trained workforce and the most highly educated workforce. That will translate into productivity. That will translate into higher wages. I think that should be an important focus for us.

Ms. MOORE. OK. Before my time expires, Mr. Chairman, and thank you for your patience, I am wondering if you think, as the Chair, that we are going to have this tremendous GDP growth?

As you might know, the CBO and the JCT (Joint Committee on Taxation) put additional GDP growth of the tax bill, under 1 percent, despite the \$1.5 trillion tax cuts which will increase the deficits by that amount over 10 years. Do you agree with the CBL and JCT that this GDP growth is going to be under 1 percent?

Mr. POWELL. The tax bill was passed about a week and a half after our December meeting and then the spending bill was about a week and a half after our January meeting. In each case, we didn't really have the full set of information.

I think my personal view would be that there will be a meaningful increment to demand, at least for the next couple of years, from the combination of those two things.

Ms. MOORE. There will be increased demand.

Mr. POWELL. Yes.

Ms. MOORE. Although wages aren't necessarily going to keep up with that, given the way these moneys are being spent.

Mr. POWELL. I would expect wages to increase this year, too, as I mentioned.

Chairman HENSARLING. Time of the gentlelady has expired.

The Chair now recognizes the gentleman from Texas, Mr. Williams.

Mr. WILLIAMS. Thank you, Mr. Chairman. Chairman Powell, thank you for being here this morning.

Sound monetary policy is critically important to unleashing the economic opportunity of this great Nation and her citizens. In 2018, I can tell you—I am a small business owner for 47 years on Main Street—we are off to a great start. With a booming economy, low unemployment, and Americans having more money in their pocket due to the Tax Cuts and Jobs Act.

While I am encouraged by the strides we have made in the last year, I do acknowledge that there is still so much work to do. I look forward to working with you to ensure that our economy is fully empowered and never unnecessarily restricted.

Question: Federal Reserve Bank presidents serve a critical role in providing local information to the FOMC. This bottom-up flow of information is one of the Federal Reserve system's most productive features. However, the voting rotation exposes an inconsistency in that some of the largest district economies cast a vote every 3 years while smaller economies are represented annually or every other year.

Chairman, is it your opinion that each region is properly represented under the current voting structure?

Mr. POWELL. Let me begin by saying that I am a very strong supporter of our federated system and I think that what the Re-

serve Bank system does, among other things, is it guarantees that we will have a diversity of perspectives around the table.

You have 12 reserve banks. You have 12 economic staffs. I think you make mistakes when everybody agrees, generally, has been my experience, when you have diverse perspectives and people disagreeing.

In terms of the structure, I really don't think it is broken. I will just say when we have an FOMC meeting, you look around the table, all 12 Reserve Bank presidents are there and they all speak. Honestly, I have to go find the list to remember who the voters are and who aren't the voters. It is really not so much about who has the vote. It is who has persuasive things to say.

I really do think the current equilibrium served us well, and I wouldn't see a reason to change it.

Mr. WILLIAMS. OK. I believe that monetary policy would be better informed if district representative, voted consistently and San Francisco, Atlanta, Richmond, and Dallas vote every 3 years, while New York votes every year and Chicago and Cleveland every other year. I fear that this underrepresents certain economies and that the needs of regions that vote more frequently could be unjustly prioritized.

The presence of Federal Reserve Bank presidents on the FOMC helps to drive power away from Washington and New York and empower every economic constituency across the country.

For that reason, I have introduced H.R. 4759, the FOMC Representation Improvement Act that would provide every Federal Reserve Bank president consistent voting rights, just as New York currently enjoys.

Chairman, do you support a policy that would allow all districts consistent voting rights? Be as detailed as you want to be.

Mr. POWELL. I would just say I really think the current system has served us well, and I think you have a great Reserve Bank president in Texas and his voice is certainly well heard, as it should be.

Mr. WILLIAMS. OK.

Mr. Chairman, I yield my time back. Thank you.

Mr. POWELL. Thank you.

Chairman HENSARLING. If you would yield to the Chairman?

Mr. WILLIAMS. I yield to the Chairman. I yield my time to the Chairman.

Chairman HENSARLING. Following up on the gentleman from Texas, though, Mr. Chairman, again, as we rely more on the IOER and less on the FOMC to determine the Fed funds rate, then haven't we diminished the role of these regional Fed presidents? I know that the FOMC is similar to the Board of Governors, but it is the Board of Governors that set IOER, correct?

Mr. POWELL. As a legal matter, yes. But it is always set consistent with the broader decision of the FOMC.

Chairman HENSARLING. OK.

Mr. POWELL. We don't disagree on that.

Chairman HENSARLING. I would just say, Mr. Chairman, perhaps that is one more reason we should attempt to normalize monetary policy to ensure that this diversity of view is represented at the table.

Speaking of diversity of view, last year in a speech, New York Fed Reserve Bank President William Dudley commented on the Volcker Rule and said, quote, “The line between market making and proprietary trading is not always clear-cut, which makes regulation in this space difficult. It may be worth considering giving greater discretion to trading desks that facilitate client business to intervene when markets are illiquid and volatile.”

We know we have seen historic volatility and illiquidity in our fixed income market since the advent of the Volcker Rule. Do you agree or disagree with President Dudley’s analysis?

Mr. POWELL. I would agree. My view is that we can—and we are taking a fresh look at the Volcker Rule to try to implement it in a way that is faithful to the spirit and letter of the law, but do it in a way that is—

Chairman HENSARLING. We have had a lot of testimony in this committee about how this does inhibit job creation and economic growth. In the Financial Choice Act, we repeal the Volcker Rule.

An alternative, we have legislation to make at least the Fed the lead regulator so there would be one centralized regulator in exempt community banks. Would the Fed be ready to take on that role should this be signed into law?

Mr. POWELL. We would. I think we would probably take it on even without law. I think we are the natural group to have the pen there, and it is a multiagency rule and someone needs to coordinate it and we would be happy to do that.

Chairman HENSARLING. Thank you, the time of the gentleman from Texas has expired.

The Chair now recognizes the gentleman from Nevada, Mr. Kihuen.

Mr. KIHUEN. Thank you, Mr. Chairman, and thank you, Chairman Powell, for being here and for your testimony.

I just have a couple of quick questions. I represent Nevada, which had the highest unemployment rate in the country during the recession. Despite the progress in reducing the overall level of unemployment since the recession, wage growth has largely remained low and stagnant for the vast majority of Americans.

In fact, the average American hasn’t seen a real pay increase since the early 1990’s. Many working people have not seen one since the 1970’s.

According to the Economic Policy Institute, middle-aged workers, hourly wage is up only 6 percent since 1979. Low-wage workers’ wages have decreased by 5 percent, while those with very high wages have seen an increase of 41 percent.

Piggybacking on what Mrs. Beatty was saying, we live right now in a country where the rich are getting richer at the expense of middle-class people.

I say this, from somebody who has been unemployed before, who has woken up, gotten dressed up, and having nowhere to go, but just knowing that if you keep your head up, you are going to find something and everything will be OK. But most of the people who are receiving the tax breaks today don’t understand that struggle that most Americans have gone through.

With that in mind, what steps can the Fed or Congress take to help combat this wage inequality, to piggyback on what Mrs.

Beatty was saying, and ensure that further wage gains are shared by middle-wage and lower-wage workers?

Mr. POWELL. I think our part of this, sir, is to take seriously our obligation to achieve maximum employment. That is what we are doing. I would say more broadly on wages, over long periods of time the only sustainable way for wages to go up is for productivity to increase. Productivity is a function of investment in people's skill and investment in plant and equipment by businesses and by people.

Those are things that, I think, that Congress should—we don't have those tools. Those aren't things we control. But those are things that Congress and the Administration, I believe, would be well served to focus on.

Mr. KIHUEN. Thank you, Mr. Chairman. Do you think that the minimum wage requirements offset the failure of the private market to afford workers a livable wage? We have seen this discussion in the last couple of years, whether we should be raising the minimum wage nationally.

People have been talking about \$12 an hour. People have been talking about \$15 an hour. Do you think that this is something that needs to happen here in America?

Mr. POWELL. Minimum wage policy is really a form of fiscal policy, it is really not for us. There is research that shows, for example that people who provide less value than the minimum wage, entry-level workers and that kind of thing, can be disadvantaged.

Then there is research that shows that they aren't. I think these are questions that are really best left for you.

Mr. KIHUEN. Mr. Chairman, you are the Chairman of the Federal Reserve, and I know you are an expert. You probably know more about this than I do. But I believe that when you increase the wages of workingclass families, they spend more money.

They go out there and stimulate the economy. Businesses make more money, they hire more people, they expand. They open up a second and a third store and so on and so on.

I know some of my colleagues believe that somehow you give these big tax breaks to the millionaires and the billionaires and somehow it is going to trickle down to the workers. I don't believe in that.

I represent part of Las Vegas where a lot of the folks are hard-working people—janitors, housekeepers, cooks, chefs, waiters. Those folks are the people who make Las Vegas run. If you increase the wages to those folks, they are going to go out there and spend more money and stimulate the economy. That is the reason why I believe we have had this wage inequality in this country.

But with that being said, Mr. Chairman, my last question is why has the Fed been so focused on pre-empting inflation since the 1980's, when wages have barely budged?

Mr. POWELL. I think it serves all constituencies well, including by the way, the people in the lower income groups to have inflation low and under control. It really hits those groups the hardest when inflation gets out of control.

I think it is a good thing for the economy that we have managed to control inflation. I think the way we get at wages, again, is by taking maximum employment seriously. I think, at the moment we

have really done that, and for some years we have really done that. It will show up in wages.

Mr. KIHUEN. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Arkansas, Mr. Hill, the Majority Whip of the committee.

Mr. HILL. Thank the Chairman. I thank Chairman Powell for his testimony today. In listening to the discussion this morning, I think we need to be clear on the record, both Chairmen—Chairman of the committee and Chairman of the Fed—that the biggest thief for working people in this country and across the world is inflation.

Nothing depresses buying power more than inflation, and nothing cuts into those at the hardest working part of our society than inflation. I think minimizing inflation and having dollar stability and safe and sound capital markets are a worthy objective of the Fed. Thank you and your colleagues for fighting for modest inflation so that people have real wage increases.

I do believe that one of the benefits of the restructuring of our tax system will be to increase productivity, and productivity will see wages go up. We have certainly seen that here in the first 2 months of the year, as company after company has talked about that.

Ms. Moore referenced it as well, but I saw a Morgan Stanley research study this week that calls for earning projections for 2018 to be up 8 percent.

That over 44 percent of those companies fully expect to reinvest in their companies, in training and capital expenditures and both these efforts will produce higher wages. Another 30 percent of companies plan to increase CapEx to increase productivity, as well as distribute more earnings. I view these things as positive for our economy.

I want to follow up on Chairman Hensarling's comments a bit, Chairman Powell, about your exchange you had on the Volcker Rule. The Chairman talked about a bill I have introduced to harmonize regulatory oversight, because you have noted in previous testimony, President Dudley has, even Mr. Tarullo has about the complex of this rule that we are not getting it done. We are not doing a good job of even enforcing the rule.

But on this harmonization bill, I have had some difficulty in getting members to understand that giving relief to banks under \$10 billion, community banks, which is what is in Senator Crapo's bill over in the Senate, is somehow letting those community institutions off the hook of safe and sound banking practices. I would like for you to respond to what I told them.

Saying our community banks are not subject to the Volcker Rule, that doesn't mean that they are not subject to the careful scrutiny of our bank regulators for safe and sound banking practices.

Isn't it true that if one of your regulators went in a bank under \$10 billion, a holding company, and they were doing something that you deemed unsafe and unsound related to Volcker-type activities, that they could be disciplined for that under the existing banking rules?

Mr. POWELL. Yes, sir. It is absolutely true that we don't need Volcker to go in and find unsafe and unsound practices. In addi-

tion, certainly in the bill you mentioned that Senator Crapo has introduced, you can't have anything more than a very small trading book in the first place—

Mr. HILL. Right.

Mr. POWELL. —Even if you are under \$10 billion.

Mr. HILL. Right.

Mr. POWELL. We don't see significant safety and soundness implications at all from that.

Mr. HILL. I appreciate that. I just think it needs to be clear in this committee that we have the tools necessary to enforce safe and sound banking practices for banks of all sizes, particularly those in the smaller size that is referenced in my legislation.

But that the real mission here, by designating the Fed as the principal regulator among your colleagues, that we will get better, more discrete, interpretive guidance on how to properly enforce the Volcker Rule, which I think is a big source of confusion around the capital market system. Do you agree with that?

Mr. POWELL. I do. It has been difficult with these multi-agency groups to get to agreement. Just the Volcker Rule in particular, I think, is quite complex and we can certainly simplify it.

Mr. HILL. I think when you have testified previously, said that some trading desks needed a Ouija board to figure out the decision to make. That freezes up capital markets in times of illiquidity that I am the most concerned about is misinterpreting that rule by compliance departments

Mr. POWELL. I think we—

Mr. HILL. Have you seen that in your work with your district bank presidents about that exact thing where we are hurting illiquid securities?

Mr. POWELL. We do hear that. I think it stands to reason, if you provide more certainty about where the law applies and where it doesn't, if you don't have to convene a giant meeting and break out the Ouija board to find out whether you are complying with the law or not, then you are going to have more certainty and you are going to have people being able to do their business better.

Mr. HILL. I appreciate you, and I wish you my very best wishes for your service as our Chairman of the Federal Reserve.

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentleman from Minnesota, Mr. Ellison.

Mr. ELLISON. Thank you, Mr. Chairman, Ranking Member.

Welcome to the committee, Mr. Chairman.

Now, Mr. Chairman, the Cato Institute estimates that ending the Deferred Action for Childhood Arrivals program and making those young people deportable could cost the U.S. economy over \$280 billion in reduced economic growth over 10 years.

The Center for American Progress puts that number at about \$460 billion—bigger, but still a loss. The U.S. Chamber of Commerce does not put a number on it, but they do say, and I will quote, "Ending DACA would be a nightmare for America's economy." What economic impact would ending DACA and making 700,000 Dreamers deportable have on our economy?

Mr. POWELL. Let me say that these are difficult and important issues. We, of course, don't do immigration policy at the Fed—

Mr. ELLISON. But I am not asking you about immigration policy. I am asking about economic impact of taking 700,000 people, 90 percent of whom are employed, out of the economy suddenly. That is what I am asking you about.

Mr. POWELL. I don't want to wade into a very hot political discussion. But I will say this. You think about economic growth, it can really come from only two ways. You can simplify it. It is either going to be more people working or it is going to be higher productivity.

We have talked a lot about productivity, but the workforce is now growing, only at about 0.5 percent per year. Some of that has been from immigration. To the extent you care about potential growth, you need to be considering that in your discussions about immigration.

Mr. ELLISON. What I hear you saying is that taking 700,000 people, 90 percent of whom are employed, out of the workforce could cause problems.

Mr. POWELL. I am just not going to comment on that particular situation.

Mr. ELLISON. I hear you. But I am asking you about the economics of it. I am asking you as somebody who leads an institution that has a mandate not just to keep inflation down, but to pursue full employment. You have a dual mandate. I am asking you about employment. You are declining to answer my question.

Would you like to just talk about what it means—what it would mean to take 700,000 people out of the economy? Let us just say they all went to Mars for some reason.

Mr. POWELL. In fairness, Congressman, I really am not going to get into the debate over DACA. I am just not going to do that.

Mr. ELLISON. I am not asking you to, sir. I am just asking you to talk about the economics of it.

Mr. POWELL. Well, and I—

Mr. ELLISON. Let me ask you this.

Mr. POWELL. I said the—

Mr. ELLISON. Let me see if you can answer this. What does it mean to have a group of people in their prime working years suddenly disappear from the economy?

Mr. POWELL. All else held equal you would lose some productivity from that, some output from that.

Mr. ELLISON. OK. Thank you very much. There is a research group known as REVEAL. They did a study looking at, literally, millions of HMDA reports.

I would like to ask for unanimous consent to have their report submitted for the record?

Chairman HENSARLING. Without objection.

Mr. ELLISON. Yes. But they looked at 31 million HMDA records in a year-long analysis and found that 61 municipal areas across the United States had denied people of color, black and brown people, the right to take on a mortgage compared to equally qualified whites.

What is the economic impact of that discrimination, in your view? When people can afford a mortgage and are told you can't have one, what sort of impacts could we expect to see when that happens on a systematic basis?

Mr. POWELL. I think it is so fundamental to our society that there should not be racial discrimination along the lines of credit availability—

Mr. ELLISON. But see, that is a moral position, and I agree with you. But I want to know how does it affect the economy?

Mr. POWELL. Start with those people. I think if people are denied access to credit, then they are going to be less able to attend school, perhaps less able to start a family, less able to move to a new job, all kinds of things.

Economic outcomes for individuals would be, potentially, significantly reduced. I think if you take that out across a broad population, it would certainly hurt the growth of the country.

Mr. ELLISON. I do want to get your views on whether you agree with Fed Chairman Neel Kashkari that increasing legal immigration would grow our economy. But I will probably have to get that answer another time.

I yield back, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. Budd.

Mr. BUDD. Thank you, Mr. Chairman.

Chairman Powell, again, congratulations. I know you have heard it many times today, but we are glad to have you here.

Would it be fair to say that the current Administration is willing to review and perhaps even question decisions made by the FSB, the Financial Stability Board, in the past? I would love to have some of your thoughts on that, about looking back at decisions that they have made. Would you be willing to review and question those?

Mr. POWELL. Sure. I think we always—the FSB doesn't make decisions about U.S. regulation. They make recommendations. Then if we were to enact something into law, in a regulation we would put that out for comment and anything like that could be reconsidered in principle, sure.

Mr. BUDD. Sure. As much as their—

Mr. POWELL. I can't think of anything that comes to mind, but maybe you will help me.

Mr. BUDD. Certainly. As much as—I have one in particular, but as much as their opinions have influenced policy, here is one in particular that I am thinking about.

In 2013, FSB instructed the International Association of Insurance Supervisors (IAIS) to create a new international capital standard for internationally active insurance groups. There seems to be universal concern among U.S.-based insurers that the current trajectory of these discussions would be bad for the U.S. market and U.S. policyholders.

Many times when questioned, the IAIS leadership attempts to hide behind the FSB. They say, FSB told us to do this, they told us to do that. It is my view that these negotiations on an international capital standard, if they don't move in a more positive direction, we might just need to rethink how the FSB just gets affected by this.

Just wanted to have your thoughts on that and about going back and reviewing that, particularly with the international capital standards?

Mr. POWELL. I served on the supervisory committee for several years but I haven't been involved with it for some time now, and I am not exactly sure where that one is. But I know that we had rolled out a capital requirement in broad form. I will have to come back to you on where that stands, if that is all right?

Mr. BUDD. Sure. One of the things is just, and it may have the FSB involved, new directives, but just can I have you confirm or that you are willing to work through the FSB to redirect the IAI—excuse me, there are so many acronyms in this place, aren't there?

Mr. POWELL. There are a lot.

Mr. BUDD. But the IAIS if needed, would you have the FSB review that?

Mr. POWELL. Can I just confer with our people who do insurance regulation?

Mr. BUDD. Absolutely.

Mr. POWELL. I promise to come right back to you.

Mr. BUDD. No problem at all, thank you.

Mr. POWELL. Thank you.

Mr. BUDD. I yield back.

Chairman HENSARLING. Would you yield to the Chairman?

Mr. BUDD. Yield to the Chairman.

Chairman HENSARLING. I appreciate the gentleman for yielding. Chairman Powell, I just want to revisit an area that we had spoken about briefly during my questioning, and I am still not sure I am completely clear on the answer. This has to do with the run off of the balance sheet.

Again, the monthly cap on your security rollofs, your treasury security rollofs, rather, will rise to \$30 billion, in the report that you just released Friday.

But according to data from the system's open market account, you don't have \$30 billion of treasury securing every month. I am trying to figure out, are you making up the shortfalls? Did I understand you to say these caps are flexible? I still don't quite understand what you intend to do when you don't have enough treasuries that are actually maturing to hit the \$30 billion.

Mr. POWELL. The purpose of the caps was to give us a way to gradually start the run off. You are right. The caps are not going to be binding either for treasuries or MBS in most months. I think only for treasuries in the big treasury refinancing months.

You can think of them as not really restraining either. We didn't. We weren't saying—our projections don't say we are going to roll off exactly \$50 billion per month. That is not how it works.

That is never how it was intended. Of course we don't know how fast MBS are going to run off because they run off depending on where interest rates are. We do know with treasuries, and we do know that we are moving right along. These are significant reductions this year and next year in the size of the balance sheet.

Chairman HENSARLING. As of a couple of weeks ago, the balance sheet, if I saw it right, was at \$4.4 trillion. By year's end, at the current rate of roll off, it ought to be at \$4 trillion. If you kept to the pace, \$3 trillion, 2 additional years of roll offs, about \$2 trillion

4 years from now. Does that sound about right? Is that the current expectation?

Mr. POWELL. Something like that, yes.

Chairman HENSARLING. OK. But that still leaves your balance sheet roughly twice of what it was pre-crisis era. Do you expect it again to stay there? Do you not expect the demand for cash to wane as interest rates rise?

Mr. POWELL. Right now we have \$2.2 trillion in non-reserve liabilities. That is to say—and when we shrink the balance sheet, what goes away is the reserves. That is the liability that goes away.

That \$2.2 trillion in liabilities, you then have to add on whatever the equilibrium demand for reserves is. It is probably going to be at least several hundred billion no matter what we do. That is how I get to 2.5 to 3.

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentleman from Illinois, Mr. Foster.

Mr. FOSTER. Thank you for appearing here. This is an important part of communication with Congress.

I would like to follow up on Representative Royce's line of questioning about the dangers of default. I would like to repeat his thanks to you for being involved in educating Members of Congress about the necessity of taking seriously our payments on principal and interest. They are really two different kinds of defaults.

They are defaults driven by fundamentals. When a country simply does not have the ability to repay its debt if you think about Iceland where there were debts from the banking crisis of 700 percent of GDP, and just no way to get people to pay it off, much less the country.

There are other ones that are just self-inflicted wounds, like our voluntary failure. This is when a country that has more than enough money to pay its debts, simply has, for some political reason, refuses to do it. Over time, both parties have been guilty of abusing and weaponizing the debt limit.

I just want to encourage you that there is a bipartisan consensus that could be assembled to permanently get rid of it. It is always being abused by whichever party is in the minority. At some point, I think everyone should step back. You are an important part of opinion-making in Washington and in financial circles so I wanted to—anything you can do to encourage that to actually happen.

There may be a moment when the stars align and we can just get rid of this uniquely dumb thing that we do, of threatening to not pay our debt.

Now, there is also the question of, is there enough money? You hear often, oh, there is just not enough money because of things like the publicly held debt. There is just not enough money and we have to cut Medicare, and that we have to cut all the things that, frankly, poor people depend on. I would like to go into that.

The U.S. household net worth sometime this year it is going to go over \$100 trillion. OK? \$100 trillion and debt, publicly held debt, is 75 percent of GDP, so it is around 16, 17, I would guess. Would you agree that there is clearly enough money in the United States to pay off our national debt?

Will we ever reach a situation where the world says there is so much debt in the United States, public or private, that we simply cannot do it? We cannot cover our debts?

Mr. POWELL. I wouldn't want to run the test. I do think there would come a time that which—and it is not this time by a long shot. But there could come a time where the public, the global debt-buying public would come to the view that we either weren't prepared to honor our debts or that we couldn't service them. But we are a long way from that.

Mr. FOSTER. But that is different. For example, in Japan where the debt is more than 200 percent GDP, the markets are not concerned simply because the amount of private wealth in Japan is more than enough to cover that.

The situation is different in China where there is a huge amount of often unacknowledged private-sector debt. When you think of what will happen when that debt fails that will land first on regional banks and then the main banks and basically on the government's balance sheet.

There is a real danger in the case of China that there is just not enough money in China and enough wealth in China to cover the debt. Would you agree there is a fundamental difference in the United States, that we actually do have the money to pay off our debts by a long margin, because of the large public wealth in this country? That really it is a political problem that we face rather than one of just not having enough money?

Mr. POWELL. Yes. We certainly have enough money to service our debts and honor them without question.

Mr. FOSTER. Yes.

Mr. POWELL. But really the issue, I think, is servicing them gets more and more expensive as they accumulate, as the numbers go up and those bills are going to be borne by our children.

Mr. FOSTER. No, I agree completely. The wisdom of lowering taxes at a time when the economy, frankly, doesn't need to be stimulated is something that, well, it is elementary macroeconomics that you run a deficit when the economy is in trouble and then when the economy recovers you pay off the debt that you have accumulated in order to smooth things out.

You have a section on pages 14 and 15 of your report that you are presenting on the low inflation in advanced economies, which is something that is a wide spread. Do you have any thoughts on really what your main suspicion is for why that is taking place?

Mr. POWELL. It has been a long-run trend. Inflation has been coming down for 25 to 30 years all over the world. It probably has something to do with the aging of the population and with low productivity and those sorts of things. It probably also has to do though with—sorry.

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentleman from Maine, Mr. Poliquin.

Mr. POLIQUIN. Thank you, Chairman Hensarling, very much, and welcome Chair Powell. It is wonderful to meet with you again, and I know it is your first time before us and thanks for being so direct and giving us the answers to the questions that we ask.

Sir, I represent probably the most stunningly beautiful part of the world. It is rural Maine. If you haven't been there Mr. Powell, we are blessed with such natural beauty. We have 3,600 miles of breathtaking coastline. We have thousands and thousands of lakes and ponds and hundreds of miles of rivers and streams. We are also called Vacationland.

Now, you look like a fellow that probably needs a vacation, and I am not sure if you booked your Maine vacation yet but if you have a problem, Mr. Powell, you just call up our office and we will help you out.

Now, when you go on your Maine vacation, and this is a great time to go by the way, if you like to snowmobile or the summer, you are going to find throughout our district, the rural part of Maine mostly, that we have a lot of shutdown factories and mills.

When I was a kid growing up we had maybe 2 dozen paper mills. We have six left and they are healthy. You look at a lot of our textile and tanneries and shoe factories, mostly shutdown.

We have in many cases, Mr. Powell, done that to ourselves with trade agreements that were unfair and hurt our workers, high taxes that didn't allow us to be competitive. I know we have partially fixed that problem back in December with passing the tax cuts and then costly regulations.

Now, I am sure you are familiar, Mr. Powell, with the Competitive Enterprise Institute computation, which says, and I summarize, about \$1.9 trillion a year cost is paid by our employers and through them, pass through to some of our consumers. \$1.9 trillion cost just to comply with Federal regulations, not State and local, just Federal.

Is it fair to say, Mr. Powell, that unnecessary and costly regulatory burdens hurt the economy's growth and hurt job creation? Is that a fair thing to say?

Mr. POWELL. I think it is. Yes.

Mr. POLIQUIN. OK. Would you look at the past year, 2017, and up until now when you have the economy growing at roughly 3 or so percent as compared to about 1.7 percent the last, roughly, 8 to 10 years, is part of that increased economic growth and more jobs and fatter paychecks, the result of repealing unnecessary and expensive regulations?

Mr. POWELL. Intuitively I would guess that it is, but it is very hard to pin that down. It is very hard to—

Mr. POLIQUIN. I think anybody, with all due respect, Mr. Powell, who has run a business as I have, realizes that if it is less burdensome to run my business and sell product or services, that I am going to be more competitive. I will be able to hire more people and do better.

Let me give you an example. This morning I met with about 100 folks from our credit unions in Maine. These are wonderful people who are spending more time or too much time dealing with compliance as compared to pushing money into community so businesses can grow and hire more workers.

Can you commit today, Mr. Powell, that you will do everything humanly possible within your purview to make sure that the regulatory burden for our small financial institutions are controlled and hopefully repealed?

Mr. POWELL. I will make you that commitment.

Mr. POLIQUIN. You will or will not?

Mr. POWELL. Will.

Mr. POLIQUIN. Thank you, sir. Have you taken a look at Senate Bill 2155 which deals with part of the Choice Act that we sent over to the Senate and they are dealing with issues, in particular with small credit unions, community banks that help them deal with the regulatory burden. Have you taken a look at that sir?

Mr. POWELL. I am not so good on the numbers of the bill. Does this bill have a name?

Mr. POLIQUIN. It is, I believe, Mr. Crapo's bill.

Mr. POWELL. Yes. No. I am familiar with that bill.

Mr. POLIQUIN. Great. You are supportive of that I take it, because it deals with exactly with what you and I are talking about.

Mr. POWELL. It is a big bill. There is a lot in there. I think it is a very constructive enterprise, and I think the aspects of it that you are talking about and I certainly think are sensible.

Mr. POLIQUIN. Perfect. Let us move on. Thank you, Mr. Powell. I appreciate that. Let us talk a little bit about what Mr. Foster was talking about.

This is just wonderful talking about the national debt. We have \$21 trillion and Chairman Hensarling is very good to put that number up every time we come in here and you can see it on both sides of the room. I am looking at it, and I tell you it makes my belly sick.

Now, we have had other folks in the last Administration, Mr. Powell, that have come here and said, well, this no big deal, Bruce, \$21 trillion in national debt. I used to be the State treasurer in Maine and I will tell you we knew how to balance our books and spend only what we took in. When I was there, the debt clock was unwinding.

Now we have about \$240 billion, \$245 billion per year interest payments on that debt. Mr. Powell, do you take a different tack from the folks that were here earlier, the last Administration? Do you think this is a problem?

Mr. POWELL. Do I think is a—

Mr. POLIQUIN. Yes, this \$21 trillion in debt.

Mr. POWELL. Yes, I think we are not on a sustainable fiscal path and I think—

Mr. POLIQUIN. I would agree with that. We can agree that this is a problem. With that said, sir, my second day here in Congress, I co-sponsored—the first bill I co-sponsored was a balanced budget amendment to the United States Constitution to finally force Washington to live within its means, stop balancing our books and start paying down the debt. Do you, sir, think that is a good idea?

Mr. POWELL. Not a supporter of the balanced budget approach. Am a supporter of a sustainable fiscal path.

Mr. POLIQUIN. Mr. Chairman, I am going to come back to Mr. Powell on that at some time.

Chairman HENSARLING. Time of the gentleman has expired.

Mr. POLIQUIN. Yes, sir.

Chairman HENSARLING. The Chair now recognizes the gentlelady from Ohio, Mrs. Beatty.

Mrs. BEATTY. Thank you, Mr. Chairman, thank you, Ranking Member, and thank you, Mr. Chairman.

Certainly, as one would expect, with you being the Chair of the Federal Reserve, that the questions would be centered around economic projections, economic developments, financial stability, monetary policy.

But I am going to keep in my true form of asking you the same question that I have asked everyone who has sat in that seat. Are you familiar with Section 342 of Dodd-Frank?

Mr. POWELL. Yes, ma'am, I am.

Mrs. BEATTY. OK, the OMWI, so with that, the Office of Minority and Women Inclusion, can you tell me, in your short time, which I recognize, but you also have almost a half-decade of being Chairman of that board. Tell me what you are proud about that is under your leadership with OMWI.

Mr. POWELL. I will be glad to. A couple of things, first, as I mentioned, I have been involved in now my seventh Reserve Bank Presidential search, and I think, in every case, we have been able to expand the universe of diverse candidates and select diverse candidates, too. I am proud of that. I think the Reserve Banks do a good job, by the way, on this.

I think, at the board, Chair Yellen started a group of us to meet regularly and try to advance diversity and inclusion agendas at the board. I was an enthusiastic—

Mrs. BEATTY. Let me ask you this. Who is your OMWI person?

Mr. POWELL. Sheila Clark.

Mrs. BEATTY. OK. Do you think you can increase your numbers, as Chairman Yellen had worked on rising them? While it was a fair job under her, I asked her the same question, and she admitted it could be better.

While I am saying you the entity, has done something, I want to hear how we can do more, because it is still not at bragging rights, in my opinion. I want you to think about that.

We have a lot of people who are in the audience today in green T-shirts, who represent many of the people who I represent in the 3rd Congressional District, many of them women, many of them women of color, who also are concerned.

The only difference with them is they put the people face, the human resources, on the same monetary policy and all the questions my colleagues on the other side have been asking you about numbers.

Have you met with these individuals?

Mr. POWELL. Yes, I have.

Mrs. BEATTY. OK. Can you share with me some positive progress that you or the people who work with you are doing with them?

Mr. POWELL. We met with a group with the green T-shirts a couple years back. They just wanted to tell us about what was going on in their communities, and frankly, I thought it was a proud day. We sat there and listened to what was going on in their communities, and it was very respectful, and it was useful. We also have other meetings.

Mrs. BEATTY. Would someone on your staff be able to send me a report so I would have something in writing to know some benchmarks? Because I know, in meeting with them and their represent-

atives, they have specific questions that they want to see, and they are asking about interest rates. They are asking about how we can help improve the economy for what we call working middle-class Americans.

Let me put it a different way. I would like to get a report from your staff sharing with me, since you have had a meeting, what type of commitments or things you are going to work on. I would like to have that.

Second, let me move to another financial question. I noticed in your report that there wasn't anything about the stock market. Can you tell me if you think the stock market is one of the best or better indicators of the strength of the economy or the strength of the financial conditions for everyday Americans?

I ask you this because a lot of my colleagues on the other side have been bragging a lot about the stock market and how the stock market is going up.

Mr. POWELL. There was one reference in there about the recent volatility. I don't think we called out the stock market by name, but that was what we were talking about. We don't manage to the stock market. We manage to stable prices and maximum employment.

The stock market enters into our thinking. It is an important place for businesses to raise capital. It is an important place for investors to invest.

Mrs. BEATTY. Is that a yes or a no, in your opinion?

Mr. POWELL. In my opinion is it what? Is it an important indicator of the overall state of the economy?

Mrs. BEATTY. Yes.

Mr. POWELL. I think the general thing is the stock market is not the economy, but it is a factor. It plays a factor as a role—

Mrs. BEATTY. Would you say that only 50 percent of Americans own stock market, so the other 50 percent, who may be women and minorities, don't?

Mr. POWELL. That is right, yes.

Mrs. BEATTY. I yield back.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Georgia, Mr. Loudermilk.

Mr. LOUDERMILK. Thank you, Mr. Chairman. Chairman Powell, thank you for being here today and spending so much of your day with us. We really appreciate it. But it is important that we have this dialog.

I want to talk about something. I don't know that it has been discussed much here today, but it is something that is very important for me, especially spending over 20 years in the IT industry, dealing with securing data. That is something that has been on the mind of most Americans, and that is cybersecurity and protecting the data of Americans.

One of the areas of interest of mine, and I have stated this in almost every hearing that we have had on this topic, when I was in the military working intelligence, I worked on the technology side of it. Of course, when you are dealing with the Nation's secrets, there is a huge responsibility to protect that information.

We had a simple principle. That principle was, you don't have to protect what you don't have, which means, if you don't absolutely need it, get rid of it. Otherwise, it becomes a risk.

The Federal Board of Governors has experienced more than 50 data breaches since 2011. Of course, that is very alarming, given how much data the Government collects, and not only collects itself, but requires private sector businesses to collect, which means they have to protect it, as well.

Your predecessor, Chair Yellen, told me, when I asked these type of questions, that the Fed follows the NIST cybersecurity framework and was working on minimizing access to sensitive data.

I would like to follow up. What are you working on to strengthen the Fed's cybersecurity profile and to protect the data that you have?

Mr. POWELL. Thank you.

I am just getting started on this. I am going to place a high priority. I think Chair Yellen and others did before her, too. We need to protect the sensitive information that we do have, and we don't need to collect sensitive information that we don't need. That is a very fair point.

Mr. LOUDERMILK. Thank you. Yes.

Mr. POWELL. I think we have done a good job. We can certainly do better. It is going to be a high priority.

Mr. LOUDERMILK. I appreciate that, and that is one of the areas, and I am glad to hear you say that you are looking at disposing of or not keeping certain data unless you need it, because that is something I think that we overlook as a Government, because access to information is power. But when you have it, you have to secure it.

Transition over into another area that we have been dealing with here. I understand that you are supportive of some of the regulatory relief proposals that we have pending in Congress, such as increasing the SIFI threshold to \$250 billion from the current \$50 billion.

While I believe that Mr. Luetkemeyer's SIFI designation reform bill takes a more thoughtful approach to measuring and designating systemic risk, I think it is still a step in the right direction.

Can you help explain why banks under \$250 billion in assets don't pose a systemic risk to the economy?

Mr. POWELL. As a general matter, banks under \$250 billion are more engaged in the traditional business of banking, less complex activities and, of course, they are much smaller. They have smaller footprints.

The way that Senator Crapo's bill works is we would still have the ability to create a framework to look below \$250 billion down to \$100 billion institutions, to identify places where, perhaps, enhanced prudential standards might need to be applied.

That is the way the bill works. But I think our view has been that that combination of raising the threshold and giving us the ability to go below it, in cases where needed, gives us the tools that we need.

Mr. LOUDERMILK. From what I understand, even some of the authors of the Dodd-Frank bill are saying that \$50 billion was the wrong threshold and we need to adjust it. I appreciate that.

One last question. What is the Fed doing with the private sector on faster payment technologies? Are you engaged in that at all?

Mr. POWELL. I am glad you asked. I was right in the middle of that in my prior life at the Fed. This really came out of the thought that we are falling behind other countries in faster, widely available mobile payments and that sort of thing.

We have really convened a group of companies and consumer groups and regulators and customers and everything around a table and tried to make progress toward faster mobile payments. I am really proud of what we have done.

Esther George at the Kansas City Fed has had the lead on that the last several years and has done a great job at it. It is something we are continuing to work on. We think it is very important.

Mr. LOUDERMILK. All right. I thank you for your leadership. I am looking forward to working with you over the next few years. Thank you.

I yield back.

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentleman from Washington, Mr. Heck.

Mr. HECK. Thank you, Mr. Chairman. Chairman Powell, congratulations on assuming this incredible and awesome responsibility for the country.

I am going to ask you the same question I have asked each of your predecessors since I have been a member of this committee. When does America get a raise?

The reason I am asking that question is because we have obviously been through a protracted period of time in which wage growth has been fairly stagnant.

Before you answer, sir, I know you are probably going to make some indication of the uptick in the latest report to wage growth of 2.9 percent. I just want to qualify your response by reminding you that that 2.9 percent was probably impacted by some transitory or one-time bonus payments.

If you disaggregate the data between supervisory and non-supervisory employees, non-supervisory employees didn't get anywhere near 2.9 percent. It was quite a bit below that.

2.9 percent, even in and of itself, despite how encouraging we may or may not put it in the context of the last 18 months or so, is significantly below modern historical averages of closer to 4 percent. I am really interested in when is this economy going to function and grow in a fashion that enables Americans to get a meaningful raise?

Mr. POWELL. Over time, wages should grow in keeping with the sum of inflation and increased productivity. If we assume inflation is going to be around 2 percent, it really comes down to productivity.

Productivity since the financial crisis has averaged, output per hour, has averaged an increase of about 0.5 percent, and if you think about wages have been increasing at about 2.5 percent. That is why. Before the crisis, wages were increasing, at full employment, maybe 3.5 percent, and that is because productivity was 1.5 percent.

If we want wages to go up on a sustainable basis over a long period of time, and that is what we want, we need to have more productivity. Unfortunately, those are not the things that we have the tools for. But that really is—

Mr. HECK. But is that true, Mr. Chair? It seems to me that they are not unrelated. To the degree that you keep your foot off the brake and allow unemployment to continue to fall, and I am going to return to this issue in some things you have said on the record in the past about whether or not we should be looking at unemployment rates or wage growth as a measure of full employment per se.

But to the degree that we keep our foot off the brake and allow U-3 or U-6 or pick your measure to continue to drop and continue to create pressures in the economy for wage growth to continue, does that not in and of itself incentivize businesses and employers to invest in labor-saving devices, read here, improve productivity?

Is it not possible that improved wages themselves can help lead to improved productivity, which can create a virtuous cycle with wage growth over time?

Mr. POWELL. Yes. That is exactly what we hope is happening right now.

Mr. HECK. You are committing to keep your foot off the brake?

When I was getting ready for this hearing, I went back and read something that you said in your very first year on the FOMC committee. At the very first meeting, one of the bank presidents mentioned tighter labor markets. You noted that you haven't seen anything in the wage data yet to support that.

It struck me as interesting, because it got me into thinking about U-3 and U-6 and my frustration with both, and how it has been, I think, 2-1/2 years since we hit the supposed definition of full employment, yet U-3 keeps dropping and the definition of full employment keeps chasing it.

It made me wonder, as it relates to what you said earlier, why don't we just use wage data to help define what full employment is?

Mr. POWELL. We use it as a factor to look at. But, look, I think it is important to see, though, that for a long time, there was slack in the labor market. That argued for continuing to support lower unemployment.

We have reached the point where the risks are really two-sided, now. We need to take that into account, because if we do get behind and the economy does overheat—we don't see that now, I hasten to add—but if that does happen, then we will have to raise rates faster, and that raises the chances of a recession. Recessions tend to hit vulnerable populations the most.

That is why we are raising rates on a gradual path. We are trying to balance the risk of getting inflation up to 2 percent with the risk of the economy overheating.

Mr. HECK. Fair enough, Mr. Chair, but I would only observe that you tap the brakes at the expense of the people who have, over a long period of time, not received a raise.

Thank you, sir.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Ms. Tenney.

Ms. TENNEY. Thank you, Mr. Chairman. Thank you, Mr. Powell. I appreciate your long time here. I think I am the end of the line here for you today. I just have a couple of quick questions that deal with in-the-weeds policy.

First, would like to ask you about the Federal Open Markets Committee and their role in determining interest on excess reserves. Back in 2006, Congress passed the Financial Services Regulatory Relief Act, which authorized the Federal Reserve to pay interest on excess reserves at Reserve Banks.

However, when the bill was amended, the Federal Reserve, in determining those interest rates, was left to the Board of Governors and not to the entire Federal Open Markets Committee. We know this is a valuable tool, using the entire committee to determine monetary policy.

My question for you is would you support an initiative or a legislation that would give the full role of determining what the excess interest on reserve—interest on excess to an entire expanded FOMC and the Federal Reserve?

Mr. POWELL. I would say this is less of a problem than it seems to be.

Ms. TENNEY. OK.

Mr. POWELL. The full FOMC decides the range for the Federal funds rate, and the IOER is only set at the top of that range. So it really is the voting members of the FOMC who decide that.

It would have been a reasonable decision for Congress to do that. I always loathe to support changes to the Federal Reserve Act, because that opens up the act. But I would say, as a practical matter, this is not a problem that we need to solve, because there is no difference between the two things.

Ms. TENNEY. Would you be supportive or not supportive of legislation that would allow the district presidents to weigh in on that decision, as well?

Mr. POWELL. Yes, I—

Ms. TENNEY. If not, why not?

Mr. POWELL. I don't think we are looking for legislation.

Ms. TENNEY. OK. Obviously, I always like less legislation. But in this case we are looking for more stakeholders to be part of the decision process, I think.

Mr. POWELL. I think that the real decision that is made is the one that the bank presidents do take part in. It is the one that sets the range for the Federal funds rate. They make that decision with us, under the law.

This is just an implementing thing. If I thought it was really unfair or a problem, then I would support a change. But I don't really think it is a problem. It is less so than it would appear.

Ms. TENNEY. OK. It has been expressed by them that they would be interested in having input on that. I just wanted—if you would consider support of that.

Let me go to the next thing, and that would be the Federal Open Markets Committee blackout period and how you feel about that and whether we could restore some transparency to that period, whether it is necessary to go through that part? Just so we know

we have an ability to find out what is going on during that period, that 8 times a year when the committee is meeting, where we don't have an opportunity to hear from the stakeholders.

Mr. POWELL. I would want to look at what you are proposing.

Ms. TENNEY. OK.

Mr. POWELL. The whole idea of that period is that we don't speak publicly to market participants or anybody about monetary policy during that period. That gives us a chance to keep our mouths shut for a while and let us get in a room and do our thinking. Then we come out of that at the end of the FOMC meeting and make an announcement. Then there is a day or two, and then people can give speeches and that kind of thing.

Ms. TENNEY. Do you think there would be anywhere in there on certain parts of the policy that would be better off with more transparency on certain issues? Obviously, there are some that you would like to keep in the negotiating process, but others where we could at least speak on it and know what was going to come out at that point?

Mr. POWELL. I think I would be happy to discuss this with you offline.

Ms. TENNEY. OK.

Mr. POWELL. Why don't we commit to do that? I don't—

Ms. TENNEY. Thank you. I know I would love to talk. It is just I have legislation that would just offer a little more transparency in that aspect of it. Just not to eliminate the blackout period, but to minimize some of the issues that we are not allowed to be revealed during that blackout period.

Mr. POWELL. We are concerned that when we are actually thinking about what to do at the next meeting, that we take a step away from our public conversations. That generally has been seen by us as a healthy thing.

Ms. TENNEY. OK. One other quick question on another topic.

The Wall Street Journal recently reported that two monetary policy specialists will serve as your senior advisers. You may recall that our House-passed FORM Act, the Federal Oversight Reform and Modernization Act, provides for each Federal Reserve board Governor to also have access to two senior advisers.

Chairman Powell, would you be willing to allow two senior advisers to help a more diverse set of perspectives to your committee's monetary policy deliberations?

Mr. POWELL. I do remember that provision of the bill, as a matter of fact.

But, I think the board has changed, really, in the time since I have been there. We are back to where every Governor has one or two advisers. We don't need legislation on that.

Ms. TENNEY. OK. That is something you would support.

Chairman HENSARLING. Time of the gentlelady has expired.

Ms. TENNEY. Thank you.

Chairman HENSARLING. The Chair now recognizes the gentleman from Ohio, Mr. Davidson.

Mr. DAVIDSON. Thank you, Mr. Chairman. Chairman Powell, thank you so much for your testimony today.

Before I get into my prepared questions, I have two follow-ups to previous questions.

One, Chairman Barr asked you about intervention in terms of selling assets in a particular scenario where the yield curve may become inverted, whether monetary policy might be appropriate, up to and including selling assets, in order to prevent a yield curve inversion.

Just for clarity, if yield curve inversions are generally seen as bad, why wouldn't intervention to prevent a yield curve inversion be seen as good?

Mr. POWELL. In terms of yield curve inversions, I think the history is what it is, but it really is a history of times when the Fed, to some extent, has gotten behind and had to raise rates really fast. That is not where we are right now. I think most observers of this environment don't see that problem.

If you look at projections of the likelihood of a recession in the next year or so, they are very low. They are as low as they normally are. I don't look at the current yield curve situation as a problem needing solution.

Also, going to the issue of selling assets, though, I really like our current plan of allowing these MBS and treasury securities to roll off passively. The market has accepted it. I would have a high bar for wanting to change something that is working very well.

Four years is not a long time. We will be back to some kind of new normal within 4 years. I think my strong prior would be to let the successfully announced and created program just run its course.

Mr. DAVIDSON. Thank you. Thank you, Chairman.

Also, Chairman Hensarling asked you about the IOER payments, and I think your answer was that they are constrained by commercial rates, so things that are available in the marketplace. But I would note that an interest rate consists, generally, of two parts. One is time value of money and the other is default risk.

Presumably IOERs don't have a default risk, so I am not sure that is the right metric. Would you care to comment on that?

Mr. POWELL. What the law, I think, says is that we shouldn't pay interest on reserves that is greater than the general level of short-term interest rates. That is—

Mr. DAVIDSON. But those short-term interest rates—so I see perhaps a need for clarification on the law, because those short-term interest rates contain time value of money risk, but also default risk, whereas IOER does not contain default risk.

The real alternative for a financial institution in the market isn't a one-for-one rate. It is if they make loans out in the marketplace, they inherently have default risk that the IOER does not have.

Mr. POWELL. We are trying to manage—what we are trying to use that tool to do is to set short-term interest rates for the public. A lot of those will have a credit risk component. These short-term interest rates really don't have a big window, particularly repo, which is secured by treasuries.

Mr. DAVIDSON. Great. All right. Thank you, Chairman.

I do have a question about the two roles of the Fed, two basic roles, as a regulator and as a monetary policy entity. Would that be consistent with how you see the structure of the Fed?

Mr. POWELL. Yes.

Mr. DAVIDSON. OK. To understand the internal operations, do you actually track the budget between the two activities separately? Are there people who are generally involved in regulatory activity and then a different body of people that are generally involved in monetary policy?

Mr. POWELL. Different divisions do have different budgets, and we do look at it from a functional basis. But it is pretty intertwined, as a matter of fact.

We do call upon what we learn in the supervisory, regulatory space. We do get a lot of input. The board gets briefed on that all the time. It informs our monetary policy. I think our knowledge of the transmission mechanism also informs supervision. There is quite a lot of intertwining there. It is not a clean separation.

Mr. DAVIDSON. OK. But internally there is already at least some level of a separate budget for the activities involving regulators. My particular curiosity involves a bill that we have put together called H.R. 4755. It is the Federal Reserve Regulatory Oversight Act.

This would put the regulatory component of the Federal Reserve on appropriations, which would be, to me, a compromise position, because we could propose putting the entire Federal Reserve on appropriations.

The purpose would be to focus on the regulatory side so that all the standard strings attached to an executive agency that is engaged in rulemaking apply to the regulatory side of the Federal Reserve in the same way that others do. I hope that we can enact that later in the year.

My time is expired.

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentleman from Indiana, Mr. Hollingsworth, and informs all members that a vote is currently pending on the floor. The gentleman is recognized.

Mr. HOLLINGSWORTH. I appreciate you being here and I have heard great things about the testimony that you have given so far. Looking forward to the opportunity to continue to interact with you and work with you in supporting the Fed's stated goals.

I wanted to ask some questions that I hear a lot about in district, which is as we continue to see unemployment tick lower and lower, one of the questions I get a lot is why aren't we seeing more wage growth across the country?

What is constraining some of the wage growth that may be happening as we tend to push down unemployment, whether that reflects on—whether the Phillips curve theory is somehow incorrect, or whether it is kinked and a nonlinear curve, or what your views are on that?

Mr. POWELL. There are two ways to think about it. One is that for wages to go up sustainably you need higher productivity. We have had very low productivity since the crisis, and it is averaging about 0.5 percent per year. We need to get that up if we want wages to go up sustainably.

Mr. HOLLINGSWORTH. Right.

Mr. POWELL. But maybe more relevant to your question is, as you get this close to full employment, you would think that there would be some tightness in the labor market. You would think wages would be getting bid up. We are going to be looking at that

as one of many indicators of where the natural rate of unemployment is.

Mr. HOLLINGSWORTH. Yes.

Mr. POWELL. I wouldn't say it is a great mystery, but I would have expected to see more increases in wages. Frankly, I do expect to see more increases in wages in the next year or so.

Mr. HOLLINGSWORTH. I know one of the theories that I think the Fed has put out quite a bit is that there is a—called a shadow labor market. There are a great number of people that aren't currently participating in the labor market, either looking for employment or currently employed, that might be tempted to come back in or lured back in.

Do you still think that is the case, that higher wages or just more employment opportunities might lead to more people getting to the workforce? Or is there some sort of decay in their skill set if they have been unemployed for a period of time that might lead to them not being able to participate meaningfully in the workforce and need some help getting back into it?

Mr. POWELL. We have seen the labor force participation rate go sideways now for 4 straight years.

Mr. HOLLINGSWORTH. Right.

Mr. POWELL. That is actually a big gain against what is a downward trend due to aging and other things. I think we have seen some of that. We have seen people either not leaving or coming back into the labor force as it has gotten tighter. How much more of that can there be? I hope there is a lot more, but I am not really sure—

Mr. HOLLINGSWORTH. There are still some statistics about working-age population individuals, though, that are less employed or less likely to be looking for employment than they were 20 or 30 or 40 years ago.

I have certainly heard the demographic argument made quite a bit, and I think you made it in one of our private meetings before, is that holding on to current labor force participation is actually a gain, once you look at those that demographically would be falling out.

But it seems like working-age population individuals are still somewhat challenged to get back into the workforce. Have you guys seen some of that or seen some anecdotal or statistical evidence as to what that might be leading to or what the cause might be?

Mr. POWELL. Actually, labor force participation by prime-age workers is still more than a full percentage point below where it was before the crisis.

Mr. HOLLINGSWORTH. Right.

Mr. POWELL. That is the other—the two things were, you are getting a signal that there might be more slack on wages, and prime-age labor force participation.

Mr. HOLLINGSWORTH. Right.

Mr. POWELL. That is the other place. There are many other ones that suggest that we are at or above full employment.

It may be that there are some portion of those people that can come back in. It may be that it is mostly structural. The only way to know is to find out.

I think we are, with relatively low unemployment, we are close to full employment now. We should be finding out whether we can keep these people, get them back in the labor force.

Mr. HOLLINGSWORTH. Right.

Does that imply, and I have read in other comments that you have made, and please don't let me misconstrue them, because I don't want to mischaracterize what you are trying to say, that there might be a tolerance to continue to see more and more tightening in the labor market and maybe run above historical average inflation and a goal to try to drive more wage growth and get more people back into the workforce? Is that a fair characteristic of what you have said before, or—

Mr. POWELL. I think we are engaged in a process of discovering the natural rate. I think the median SEP participant says it is in the mid-fours. That sounds about right to me.

Mr. HOLLINGSWORTH. Yes.

Mr. POWELL. I think, in terms of inflation we haven't said that we are seeking inflation above target. What we say is that we would look at persistent deviations from inflation, both above and below target, as being undesirable. We will conduct policy to move inflation back to target.

Mr. HOLLINGSWORTH. When you think about—just one last question, maybe more generic. When you think about the economy today, you think about monetary policy today and maybe its future, as well, what keeps you up at night? What are you most worried about with regard to the economy; you mentioned productivity, monetary policy?

Mr. POWELL. Yes. I think right now the economy is in the best shape it has been in a while, and that is true around the globe. We are having a moment of global growth. It is great to see.

We have the problems associated with strong growth, and that is a great relief. My hope is that we can sustain that for as long as possible.

Mr. HOLLINGSWORTH. Understood.

With that, I yield back, Mr. Chairman.

Chairman HENSARLING. Time of the gentleman has expired.

There being no further Members in the queue, I would like to thank the witness for his testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing now stands adjourned.

[Whereupon, at 1:19 p.m., the committee was adjourned.]

# **A P P E N D I X**

February 27, 2018

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Statement by

Jerome H. Powell

Chairman

Board of Governors of the Federal Reserve System

before the

Committee on Financial Services

U.S. House of Representatives

February 27, 2018

Chairman Hensarling, Ranking Member Waters, and members of the Committee, I am pleased to present the Federal Reserve's semiannual *Monetary Policy Report* to the Congress.

On the occasion of my first appearance before this Committee as Chairman of the Federal Reserve, I want to express my appreciation for my predecessor, Chair Janet Yellen, and her important contributions. During her term as Chair, the economy continued to strengthen and Federal Reserve policymakers began to normalize both the level of interest rates and the size of the balance sheet. Together, Chair Yellen and I have worked to ensure a smooth leadership transition and provide for continuity in monetary policy. I also want to express my appreciation for my colleagues on the Federal Open Market Committee (FOMC). Finally, I want to affirm my continued support for the objectives assigned to us by the Congress--maximum employment and price stability--and for transparency about the Federal Reserve's policies and programs. Transparency is the foundation for our accountability, and I am committed to clearly explaining what we are doing and why we are doing it. Today I will briefly discuss the current economic situation and outlook before turning to monetary policy.

#### **Current Economic Situation and Outlook**

The U.S. economy grew at a solid pace over the second half of 2017 and into this year. Monthly job gains averaged 179,000 from July through December, and payrolls rose an additional 200,000 in January. This pace of job growth was sufficient to push the unemployment rate down to 4.1 percent, about 3/4 percentage point lower than a year earlier and the lowest level since December 2000. In addition, the labor force participation rate remained roughly unchanged, on net, as it has for the past several years--that is a sign of job market strength, given that retiring baby boomers are putting downward pressure on the participation rate. Strong job gains in recent years have led to widespread reductions in unemployment across the income

spectrum and for all major demographic groups. For example, the unemployment rate for adults without a high school education has fallen from about 15 percent in 2009 to 5-1/2 percent in January of this year, while the jobless rate for those with a college degree has moved down from 5 percent to 2 percent over the same period. In addition, unemployment rates for African Americans and Hispanics are now at or below rates seen before the recession, although they are still significantly above the rate for whites. Wages have continued to grow moderately, with a modest acceleration in some measures, although the extent of the pickup likely has been damped in part by the weak pace of productivity growth in recent years.

Turning from the labor market to production, inflation-adjusted gross domestic product rose at an annual rate of about 3 percent in the second half of 2017, 1 percentage point faster than its pace in the first half of the year. Economic growth in the second half was led by solid gains in consumer spending, supported by rising household incomes and wealth, and upbeat sentiment. In addition, growth in business investment stepped up sharply last year, which should support higher productivity growth in time. The housing market has continued to improve slowly. Economic activity abroad also has been solid in recent quarters, and the associated strengthening in the demand for U.S. exports has provided considerable support to our manufacturing industry.

Against this backdrop of solid growth and a strong labor market, inflation has been low and stable. In fact, inflation has continued to run below the 2 percent rate that the FOMC judges to be most consistent over the longer run with our congressional mandate. Overall consumer prices, as measured by the price index for personal consumption expenditures (PCE), increased 1.7 percent in the 12 months ending in December, about the same as in 2016. The core PCE price index, which excludes the prices of energy and food items and is a better indicator of future inflation, rose 1.5 percent over the same period, somewhat less than in the previous year. We

continue to view some of the shortfall in inflation last year as likely reflecting transitory influences that we do not expect will repeat; consistent with this view, the monthly readings were a little higher toward the end of the year than in earlier months.

After easing substantially during 2017, financial conditions in the United States have reversed some of that easing. At this point, we do not see these developments as weighing heavily on the outlook for economic activity, the labor market, and inflation. Indeed, the economic outlook remains strong. The robust job market should continue to support growth in household incomes and consumer spending, solid economic growth among our trading partners should lead to further gains in U.S. exports, and upbeat business sentiment and strong sales growth will likely continue to boost business investment. Moreover, fiscal policy is becoming more stimulative. In this environment, we anticipate that inflation on a 12-month basis will move up this year and stabilize around the FOMC's 2 percent objective over the medium term. Wages should increase at a faster pace as well. The Committee views the near-term risks to the economic outlook as roughly balanced but will continue to monitor inflation developments closely.

#### **Monetary Policy**

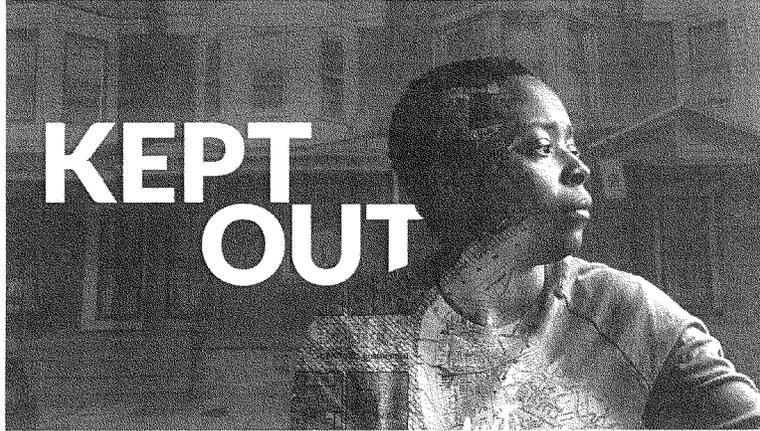
I will now turn to monetary policy. The Congress has assigned us the goals of promoting maximum employment and stable prices. Over the second half of 2017, the FOMC continued to gradually reduce monetary policy accommodation. Specifically, we raised the target range for the federal funds rate by 1/4 percentage point at our December meeting, bringing the target to a range of 1-1/4 to 1-1/2 percent. In addition, in October we initiated a balance sheet normalization program to gradually reduce the Federal Reserve's securities holdings. That program has been proceeding smoothly. These interest rate and balance sheet actions reflect the

Committee's view that gradually reducing monetary policy accommodation will sustain a strong labor market while fostering a return of inflation to 2 percent.

In gauging the appropriate path for monetary policy over the next few years, the FOMC will continue to strike a balance between avoiding an overheated economy and bringing PCE price inflation to 2 percent on a sustained basis. While many factors shape the economic outlook, some of the headwinds the U.S. economy faced in previous years have turned into tailwinds: In particular, fiscal policy has become more stimulative and foreign demand for U.S. exports is on a firmer trajectory. Despite the recent volatility, financial conditions remain accommodative. At the same time, inflation remains below our 2 percent longer-run objective. In the FOMC's view, further gradual increases in the federal funds rate will best promote attainment of both of our objectives. As always, the path of monetary policy will depend on the economic outlook as informed by incoming data.

In evaluating the stance of monetary policy, the FOMC routinely consults monetary policy rules that connect prescriptions for the policy rate with variables associated with our mandated objectives. Personally, I find these rule prescriptions helpful. Careful judgments are required about the measurement of the variables used, as well as about the implications of the many issues these rules do not take into account. I would like to note that this *Monetary Policy Report* provides further discussion of monetary policy rules and their role in the Federal Reserve's policy process, extending the analysis we introduced in July.

Thank you. I would be pleased to take your questions.



## For people of color, banks are shutting the door to homeownership

*By Aaron Glantz and Emmanuel Martinez / February 15, 2018*

Fifty years after the federal Fair Housing Act banned racial discrimination in lending, African Americans and Latinos continue to be routinely denied conventional mortgage loans at rates far higher than their white counterparts.

This modern-day redlining persisted in 61 metro areas even when controlling for applicants' income, loan amount and neighborhood, according to a mountain of Home Mortgage Disclosure Act records analyzed by Reveal from The Center for Investigative Reporting.

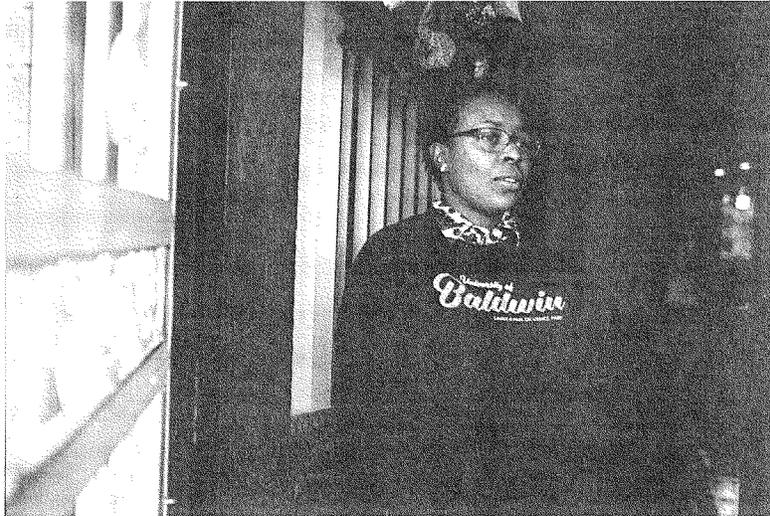
The yearlong analysis, based on 31 million records, relied on techniques used by leading academics, the Federal Reserve and Department of Justice to identify lending disparities.

It found a pattern of troubling denials for people of color across the country, including in major metropolitan areas such as Atlanta, Detroit, Philadelphia, St. Louis and San Antonio. African Americans faced the most resistance in Southern cities – Mobile, Alabama; Greenville, North Carolina; and Gainesville, Florida – and Latinos in Iowa City, Iowa.

## MODERN-DAY REDLINING

No matter their location, loan applicants told similar stories, describing an uphill battle with loan officers who they said seemed to be fishing for a reason to say no.

“I had a fair amount of savings and still had so much trouble just left and right,” said Rachelle Faroul, a 33-year-old black woman who was rejected twice by lenders when she tried to buy a brick row house close to Malcolm X Park in Philadelphia, where Reveal found African Americans were 2.7 times as likely as whites to be denied a conventional mortgage.



*Rachelle Faroul, 33, called the experience of being rejected twice by lenders when she tried to buy a Philadelphia home on her own “humiliating.” Credit: Sarah Blesener for Reveal*

The analysis – independently reviewed and confirmed by The Associated Press – showed black applicants were turned away at significantly higher rates than whites in 48 cities, Latinos in 25, Asians in nine and Native Americans in three. In Washington, D.C., the nation’s capital, Reveal found all four groups were significantly more likely to be denied a home loan than whites.

“It’s not acceptable from the standpoint of what we want as a nation: to make sure that everyone shares in economic prosperity,” said Thomas Curry, who served as America’s top bank regulator, the comptroller of the currency, from 2012 until he stepped down in May.

Yet Curry’s agency was part of the problem, deeming 99 percent of banks satisfactory or outstanding based on inspections administered under the Community Reinvestment Act, a 40-year-old law designed to reverse rampant redlining. And the Justice Department has sued only a handful of financial institutions for failing to lend to people of color in the decade since the housing bust. Curry argued that the law shares part of the blame; it needs to be updated and strengthened.

“The Community Reinvestment Act has aged a lot in 40 years,” he said.

Since Curry departed nine months ago, the Trump administration has gone the other way, weakening the standards banks must meet to pass a Community Reinvestment Act exam. During President Donald Trump’s first year in office, the Justice Department did not sue a single lender for racial discrimination.

The disproportionate denials and limited anti-discrimination enforcement help explain why the homeownership gap between whites and African Americans, which had been shrinking since the 1970s, has exploded since the housing bust. It is now wider than it was during the Jim Crow era.

This gap has far-reaching consequences. In the United States, “wealth and financial stability are inextricably linked to housing opportunity and homeownership,” said Lisa Rice, executive vice president of the National Fair Housing Alliance, an advocacy group. “For a typical family, the largest share of their wealth emanates from homeownership and home equity.”

The latest figures from the U.S. Census Bureau show the median net worth for an African American family is \$9,000, compared with \$132,000 for a white family. Latino families did not fare much better at \$12,000.

### **What lenders keep secret**

Lenders and their trade organizations do not dispute the fact that they turn away people of color at rates far greater than whites. But they maintain that the disparity can be explained by factors the industry has fought to keep hidden, including the prospective borrowers’ credit history and overall debt-to-income ratio. They singled

out the three-digit credit score – which banks use to determine whether a borrower is likely to repay a loan – as especially important in lending decisions.

“While quite informative regarding the state of the lending market,” the records analyzed by Reveal do “not include sufficient data to make a determination regarding fair lending,” the Mortgage Bankers Association’s chief economist, Mike Fratantoni, [said in a statement](#).

The American Bankers Association [said](#) the lack of federal enforcement proves discrimination is not rampant, and individual lenders told Reveal that they had hired outside auditing firms, which found they treated loan applicants fairly regardless of race.

“We are committed to fair lending and continually review our compliance programs to ensure that all loan applicants are receiving fair treatment,” Boston-based Santander Bank [said in a statement](#).

New Jersey-based TD Bank, which denied a higher proportion of black and Latino applicants than any other major lender, [said](#) it “makes credit decisions based on each customer’s credit profile, not on factors such as race or ethnicity.”

Reveal’s analysis included all records publicly available under the Home Mortgage Disclosure Act, covering nearly every time an American tried to buy a home with a conventional mortgage in 2015 and 2016. It controlled for nine economic and social factors, including an applicant’s income, the amount of the loan, the ratio of the size of the loan to the applicant’s income and the type of lender, as well as the racial makeup and median income of the neighborhood where the person wanted to buy property.

Credit score was not included because that information is not publicly available. That’s because lenders have deflected attempts to force them to report that data to the government, arguing it would not be useful in identifying discrimination.

In an April [policy paper](#), the American Bankers Association said reporting credit scores would be expensive and “cloud any focus” the disclosure law has in identifying discrimination. America’s largest bank, JPMorgan Chase & Co., has [argued](#) that the data should remain closed off even to academics, citing privacy concerns.

At the same time, studies have found proprietary credit score algorithms to have a discriminatory impact on borrowers of color.

The “decades-old credit scoring model” currently used “does not take into account consumer data on rent, utility, and cell phone bill payments,” Republican Sen. Tim Scott of South Carolina wrote in August, when he unveiled a bill to require the federal government to vet credit standards used for residential mortgages. “This exclusion disproportionately hurts African-Americans, Latinos, and young people who are otherwise creditworthy.”



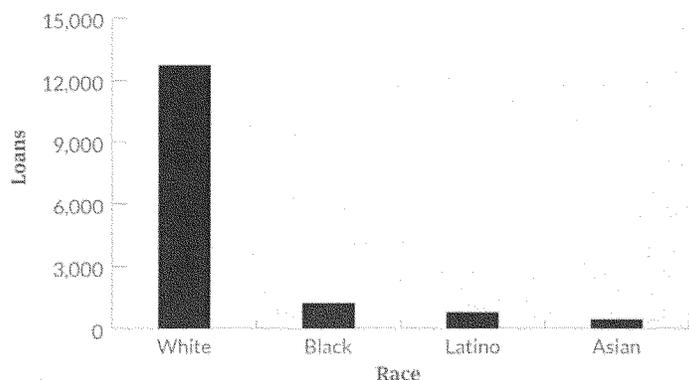
*Point Breeze is a rapidly gentrifying neighborhood in Philadelphia. Most of the loans there are going to white newcomers. Credit: Sarah Blesener for Reveal*

### **A case study: Philadelphia**

Philadelphia was one of the largest cities in America where African Americans were disproportionately turned away when they tried to buy a home. About the same number of African Americans and non-Hispanic whites live in the City of Brotherly Love, but the data showed whites received 10 times as many conventional mortgage loans in 2015 and 2016.

Banks also focused on serving the white parts of town, placing nearly three-quarters of their branches in white-majority neighborhoods. Reveal’s analysis also showed that the greater the number of African Americans or Latinos in a neighborhood, the more likely a loan application would be denied there – even after accounting for income and other factors.

### Conventional home purchase loans in Philadelphia, 2015 and 2016



Source: Reveal analysis of Home Mortgage Disclosure Act data

When Faroul applied for a loan in April 2016, she thought she was an ideal candidate. She holds a degree from Northwestern University, had a good credit score and estimates she was making \$60,000 a year while teaching computer programming as a contractor for Rutgers University. Still, her initial loan application was denied by Philadelphia Mortgage Advisors, an independent broker that made nearly 90 percent of its loans to whites in 2015 and 2016.

“I’m sorry,” broker Angela Tobin wrote to Faroul in an email. Faroul’s contract income wasn’t consistent enough, she said. So Faroul got a full-time job at the University of Pennsylvania managing a million-dollar grant.

But that still wasn’t enough. When she tried again a year later, this time at Santander Bank, a Spanish firm with U.S. headquarters in Boston, the process dragged on for months. Her loan officer kept asking for new information, she said – or sometimes the same information again.

By this time, Faroul had been trying to get a mortgage for over a year, and the process itself was damaging her credit. Every time a lender pulls a hard inquiry on a credit report, the score goes down to guard against people who are trying to take on a lot of debt.

“They had done so many hard pulls that my credit score had dropped to 635,” she said.

Then, an unpaid \$284 electric bill appeared on Faroul’s credit report. It was for an apartment she didn’t live in anymore. She paid the bill right away, but the bank said it couldn’t move forward.

Civil rights groups and real estate professionals said Faroul’s experience follows a familiar pattern of discrimination by banks and mortgage lenders that has kept people of color from building wealth.

“It’s one thing after another. It’s like pulling layers off an onion,” said Arlene Wayns-Thomas, president of the Philadelphia chapter of the National Association of Real Estate Brokers, which represents African American real estate professionals.

Wayns-Thomas, who has been selling real estate for 30 years, said her black clients are treated differently by lenders.

“They may not like what happened between the last time you were working on this particular job to this one. They may see there was a gap,” she said. “I have seen situations where they’ve asked people for the children’s birth records.”

“The things that happen behind the scenes is what’s disturbing,” she said.



*Rachelle Faroul (right) and her partner, Hanako Franz, sit outside their new home in Philadelphia in November. Faroul, who works at the University of Pennsylvania, wasn't able to get a mortgage loan until Franz agreed to sign on to her loan application. Credit: Sarah Blesener for Reveal*

### **A change of tune from lenders**

For Faroul, things suddenly took a turn for the better after her partner, Hanako Franz, agreed to sign on to her loan application. At the time, Franz – who is half white, half Japanese – was working part time for a grocery store. Her most recent pay stub showed she was making \$144.65 every two weeks. Faroul was paying for her health insurance.

The loan officer had “completely stopped answering Rachelle’s phone calls, just ignored all of them,” said Franz, 32. “And then I called, and he answered almost immediately. And is so friendly.”

A few weeks later, the couple got the loan from Santander and bought a three-bedroom fixer-upper. But Faroul remains bitter.

“It was humiliating,” she said. “I was made to feel like nothing that I was contributing was of value, like I didn’t matter.”

Contacted by Reveal, the lenders defended their records. Tobin, who turned down Faroul on her first application, said race played no role in the rejection.

“That’s not what happened,” she said and abruptly hung up. A statement followed from Philadelphia Mortgage Advisors’ chief operating officer, Jill Quinn.

“We treat every applicant equally,” the statement said, “and promote homeownership throughout our entire lending area.”

Faroul’s loan officer at Santander, Dennis McNichol, referred Reveal to the company’s public affairs wing, which issued a statement: “While we are sympathetic with her situation, ... we are confident that the loan application was managed fairly.”

Reveal’s analysis of lending data shows that nationally, Santander turned away African American homebuyers at nearly three times the rate of white ones. The company did not address that disparity in its statement but said it was more likely to grant a loan application from an African American borrower than five of its competitors.

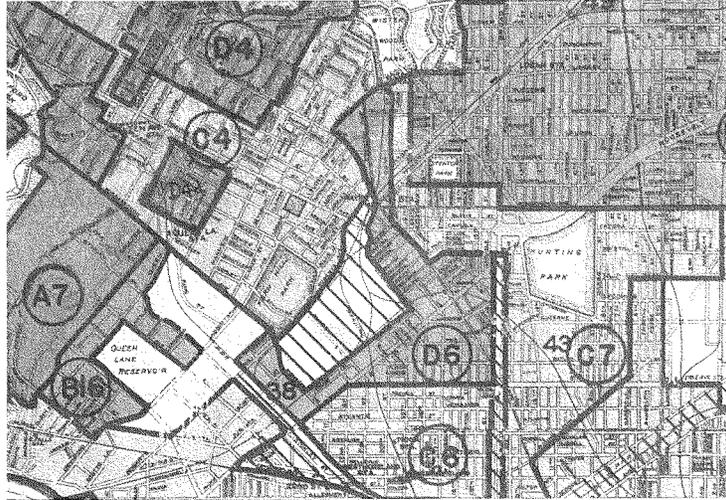


*Pedestrians pass a now-closed Santander Bank branch in Philadelphia late last year. Credit: Sarah Blesener for Reveal*

### **Redlining history repeating**

Lending patterns in Philadelphia today resemble redlining maps drawn across the country by government officials in the 1930s, when lending discrimination was legal.

Back then, surveyors with the federal Home Owners' Loan Corporation drew lines on maps and colored some neighborhoods red, deeming them "hazardous" for bank lending. Leading causes of risk, according to government officials, included the presence of African Americans or immigrants.



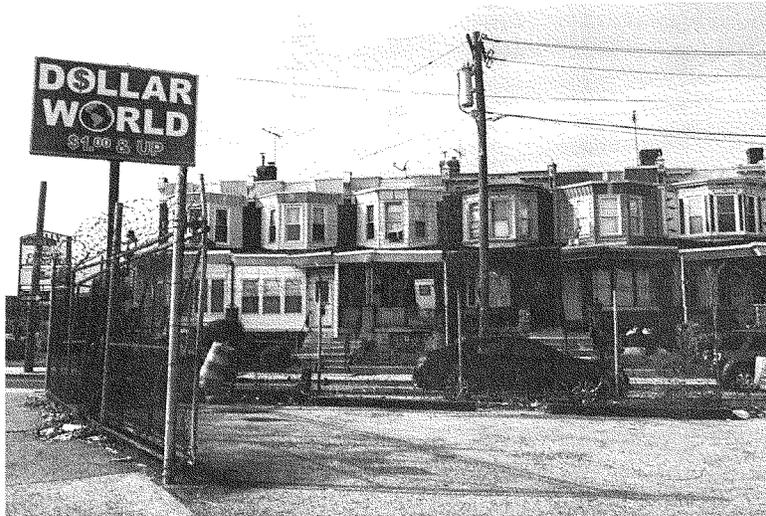
*A 1937 map from the federal Home Owners' Loan Corporation shows Philadelphia's Nicetown neighborhood (labeled D6) colored red, marking it as "hazardous" for bank lending. Credit: Mapping Inequality at the University of Richmond Digital Scholarship Lab*

This practice has been outlawed for half a century. And for the last 40 years, banks have had a legal obligation under the Community Reinvestment Act to solicit clients – borrowers and depositors – from all segments of their communities.

But in many places, the law hasn't made much difference. When you combine home purchase loans, refinancing and home equity lines of credit, banks were more likely to deny a conventional loan application than grant it in more than 40 percent of Philadelphia. People of color were the majority in nearly all those neighborhoods.

"You're killing us here," said Cindy Bass, a member of the Philadelphia City Council, who worked for a mortgage company before entering politics. The data shows banks have frozen out borrowers in much of her district – including Nicetown, a North Philadelphia neighborhood where boarded-up row houses dot the landscape.

"We need dollars. We need investment," Bass said, "like every neighborhood needs investment."



*In Nicetown, a North Philadelphia neighborhood that was redlined in the 1930s, banks and mortgage brokers largely stay away. Lenders have been particularly stingy when it comes to home improvement loans. Credit: Sarah Blesener for Reveal*

Nicetown is among the neighborhoods redlined in the 1930s. In his assessment, government surveyor W.R. Hutzel said the hazardous neighborhood had some positives, including “new industry – good transportation” and a high school. On the other hand, he wrote, it had a “heavy concentration of negro.”

Today, the economic recovery largely has bypassed Nicetown. Blight is a major concern. Some of the vacant homes, empty for years, have attracted squatters. Although it’s just a few blocks from Temple University Hospital, banks and mortgage brokers largely stay away. Lenders have been particularly stingy when it comes to home improvement loans. From 2012 to 2016, they made 67 home improvement loans here and denied 315.

“It creates this cycle where properties fall into dilapidation for a long period of time,” said contractor Eric Marsh Sr., 48, whose family has lived in Nicetown for three generations.

Marsh started his own construction business “because I saw dilapidation and empty houses,” he said, and wanted to help. But because banks rarely lend here, there’s no

capital to improve the neighborhood. So Marsh gets most of his jobs in more affluent sections near the center of town.

“I was wondering why people weren’t purchasing these houses or renovating them,” he said. “As I’ve gotten older and talked to people, I’ve found out that a big part of it is the lack of lending in neighborhoods like this.”

### **‘It’s like a glass ceiling’**

It’s not only historically redlined areas that suffer from a lack of credit. Some neighborhoods that were predominantly African American decades ago have since gentrified and are now majority white. Today, they benefit from a large number of home mortgages from banks.

#### **LISTEN TO THIS STORY**

Other neighborhoods that experienced white flight after World War II have become home to a substantial black middle class. And in those neighborhoods, banks are more likely to turn away borrowers.

Four miles from Nicetown, toward the suburbs near the Awbury Arboretum, the homes of Germantown are set back from the street behind garden patios and beautiful stone facades.

This area wasn’t redlined in the 1930s. Government officials colored it green – “the best” – and blue, which meant “still desirable,” and told banks to lend here. Back then, most residents of Germantown were white.

Today, this part of Philadelphia is majority African American, and the homes are occupied by middle-class workers – teachers, nurses and union craftsmen. Yet in every year from 2012 to 2016, banks denied more conventional loans of all types than they made in Germantown.

“It’s like a glass ceiling,” said Angela McIver, CEO of the Fair Housing Rights Center in Southeastern Pennsylvania. “OK, we’ll allow you to go this far, but ... you’re not going to go any further.”



The Latest (1/5)

AMERICAN BANKER

## 'We are not looking to relax regulation': Fed's Quarles

By John Heltman  
Published February 26 2018, 5:01pm EST

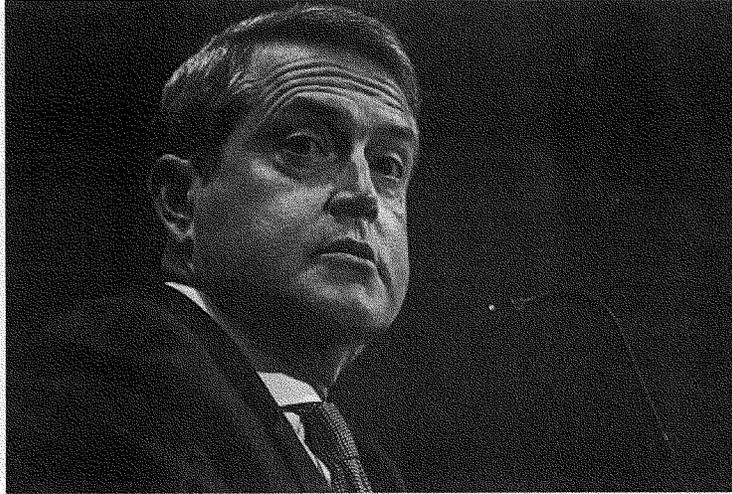
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Print Reprint

WASHINGTON — The Federal Reserve's top regulator said Monday that he did not view the agency's review of post-crisis regulations as an exercise in relaxing rules or reducing capital levels, emphatically pushing back against claims that certain proposals could lead to weaker supervision.

"It's not just semantically that I want to stress this: As we are looking at enhancing the efficiency of regulation, we are not looking to relax regulation," said Federal Reserve Vice Chairman for Supervision Randal Quarles. "We are not looking to significantly reduce the level of risk-weighted capital in the [banking] system. That has been a strength ... a global competitive advantage, relative to the capital levels of non-U.S. competitive institutions."



"We are not looking to relax regulation. We are not looking to significantly reduce the level of risk-weighted capital in the [banking] system," said Federal Reserve Vice Chairman for Supervision Randal Quarles.

Bloomberg News

Speaking at a conference sponsored by the National Association for Business Economists, Quarles said the aim of current and any forthcoming regulatory proposals is simply to improve the efficiency of post-crisis regulation, not to ease or lower the requirements for their own sake.

"We're not looking to reduce capital, or really, I don't view our objective as relaxing regulation," he said.

"We're looking to achieve regulatory objectives in the most efficient way, and it would be the first time in the history of man since the expulsion from the Garden [of Eden] that a project like this [Dodd-Frank] has been undertaken that could not be improved and made more efficient."

Quarles added that areas the agency is reviewing, along with other regulators, are the supplementary leverage ratio and Volcker Rule, as well as previously announced changes to the transparency of the Fed's stress testing models.

"I think there will be calibrations ... calibrations to the supplementary leverage ratio, we'll certainly look at that. The leverage ratio should be a backstop, not a predominant feature," Quarles said. "I think ... there are Volcker Rule recalibrations over the next several months, which, again, is an area where I think we can make regulation much more efficient without in any way undermining its statutory mandate."

Quarles' comments came as he delivered remarks on his perspectives on the U.S. economy. In those remarks, he said that investments sparked by last year's tax bill could improve long-term growth by increasing productivity, undergirding an argument forwarded by the administration that the economy will grow faster than most economists suggest.

Quarles — who was appointed by President Trump and sworn in last October — said that while the prognosis for long-term economic growth is inherently uncertain, there are reasons to believe that the recent bump in the economy since Trump's inauguration may be more durable than it might otherwise appear.

"The sustainability of the recent upturn in growth will depend importantly on whether some of the factors that have been holding back growth for the past decade diminish, including weak investment and productivity," he said. "On balance, I am cautious, but I am also optimistic enough to believe that the factors that have been holding back growth need not be permanent and could turn, even fairly rapidly."

The primary growth impediments, Quarles said, are slow growth in the productivity of the workforce and a lack of capital investment since the financial crisis.

He argued that recent indications that capital investment is on the rise could lead to a secondary effect of increasing worker productivity, thus overcoming some of the other secular trends in workforce productivity and paving the way for a more robust economic growth pattern.

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3h ago

"Slow investment growth — which, as already mentioned, had prevailed until recently — damps the contribution of new capital to worker productivity," he said. "It could also be that new investment is a necessary step for the spread of new technologies, especially if technology is embodied in capital equipment."

Quarles said that recent fiscal policies — including last December's tax bill and the recently passed two-year budget deal — could lead to higher long-run growth than what was prevalent since the crisis.

"After subtracting from growth over much of the period from 2011 onward, the impetus from fiscal policy has turned distinctly positive with the passage of recent tax and budget legislation," he said. "Fiscal policy is likely to impart considerable momentum to growth over the next couple of years not only by increasing demand, but also by boosting, to some degree, the potential capacity of the economy."



Print 

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**John Heltman**



▶ Comment

**Questions for The Honorable Jerome H. Powell, Chairman, Board of Governors of the Federal Reserve System from Representative Royce:**

**I. You have previously called for housing finance reform stating that “we need to move to a system that attracts ample amounts of private capital to stand between housing sector credit risk and taxpayers.”**

**I could not agree more. Even in their current state, I think there is much more Fannie & Freddie could do to offload credit risk.**

**To be fair, you said, last summer, that this is not a normal issue on which the Fed would comment, but that we are in a “now or never moment” for reform as there is “not a current risk” with a healthy economy and housing system.**

**How long will this “now or never moment” last and what are the consequences of inaction?**

The Federal Reserve is responsible for regulating and supervising banking institutions to ensure their safety and soundness, and more broadly for the stability of the financial system. A robust, well-capitalized, well-regulated housing system is vital to achieving those goals, and the long-term health of our economy.

Considering housing finance reform in the current environment is important for two key reasons. First, the economy and housing sector are healthy. It would be far more disruptive to implement fundamental structural changes during difficult economic times. Second, as we move further out from the crisis, we are at risk of settling for the status quo -- a government-dominated mortgage market with insufficient private capital to protect taxpayers.

Housing is the single largest asset class in our financial system, with total outstanding residential real estate owned by households of over \$24 trillion and roughly \$10 trillion in single-family mortgage debt. While post-crisis regulation has addressed mortgage lending from a consumer protection standpoint, the important risks to taxpayers and the broader economy and financial system have not been robustly addressed.

There has been some meaningful progress in reforming the system. In 2008, Congress enacted the Housing and Economic Recovery Act, which, among other things, created the Federal Housing Finance Agency (FHFA), modeled on and with similar powers to the Federal Deposit Insurance Corporation. Under the FHFA’s oversight, the two government-sponsored enterprises’ (GSE) retained investment portfolios have declined to about half of their pre-crisis size, and are expected to continue to shrink. Further, the GSEs have raised about \$50 billion in private capital through their credit risk transfers programs, in essence laying off some credit risk to private investors.

The primary consequence of inaction is a government dominated mortgage market with insufficient capital. The federal government’s domination of the housing sector has grown significantly since the financial crisis. Fannie Mae, Freddie Mac, FHA, and U.S. Department of Veterans Affairs have a combined market share of about 80 percent of new purchase mortgages.

While Fannie Mae and Freddie Mac have more than \$5 trillion of mortgage backed securities and corporate debt outstanding, they hold only about \$3 billion of capital each.

Enacting housing finance reform will protect taxpayers, be good for households and the economy, and go some distance toward mitigating the systemic risk that the GSEs still pose.

**2. Before the Senate Banking Committee you mentioned that the Federal Reserve had “started a unit of economists and policy makers” focused on the cost/benefit analysis of financial regulations.**

**Can you give us an update on these efforts?**

The Policy Effectiveness and Assessment section has begun the work on the type of cost/benefit analysis of financial regulations mentioned in my testimony. The section has a manager in place (an economist by training). Presently, the team consists of a small number of Ph.D. economists and support staff. Additional Ph.D. economists were recently hired and will be joining in the coming months. These additions will enable the section to engage more fully.

Section staff are currently working on an internal evaluation of the effectiveness of the post-crisis regulatory reforms. In addition, building upon our existing effort, the section staff are working with the leadership of the Supervision and Regulation division on crafting a policy document that lays out how the division will approach cost-benefit analysis. Similar documents are used to guide cost-benefit analyses that are conducted at other agencies. Once this work has been completed, staff will participate more actively in the rulemaking process.

**3. Also, specifically, does the Fed weigh the impact of regulation on U.S. economic growth when we create standards that are higher than global norms – as with the so-called “gold plating” of the largest U.S. institutions?**

Strong regulatory standards enhance the stability of the U.S. financial system. The recent financial crisis showed that the standards in place before the crisis were not strong enough to constrain banks’ risk-taking. Since the crisis, the Federal Reserve, working with the other U.S. bank regulatory agencies, has put stronger standards in place, notably for capital and liquidity. The United States now has a strong banking system that has earned back the market’s confidence, allowing U.S. banks to expand their lending at a healthy pace in recent years.

The Federal Reserve considers the impact of a regulation prior to putting it in place. This includes consideration of the potential benefits of a regulation from the increased safety and soundness of the banking and broader financial system, as well as any costs associated with adverse effects on economic activity. Such considerations also apply when we are implementing global standards.

Importantly, standards discussed or recommended by international bodies are not binding in the United States. None of the policy actions recommended by international forums have any effect in the United States unless they are adopted by U.S. authorities, acting under U.S. laws and through a public notice and comment period. The Federal Reserve and the other banking agencies can, of course, adopt different standards in the United States than those discussed

internationally, and we have often done so to better reflect the nuances of U.S. financial institutions and markets. In addition, the international forums on financial regulation in which the Federal Reserve participates typically put their policy proposals through a public notice and comment process, similar to that of the rulemaking process in the United States, which provides additional valuable transparency.

**4. Do you share the concern voiced by some that an unlevel playing field could impact the capacity of U.S. banks to lend to consumers and businesses as these activities become increasingly expensive vis-à-vis foreign banks?**

Our financial system is stronger and more resilient than it was a decade ago, in large part as a result of higher levels of high quality capital and liquidity in the system. Stronger risk-based capital and liquidity regulations, together with our stress testing program, help ensure that large U.S. banks are better positioned to continue lending through periods of economic stress and market turbulence. Although U.S. banking organizations are subject to high regulatory capital and liquidity standards, these firms have been successful competitors in the global financial markets in recent years. U.S. banking organizations have been able to expand lending while maintaining high capital and liquidity buffers required by the Federal Reserve.

Since the crisis, the U.S. banking system has provided substantial support for the economy, with total loans and leases increasing by over 34 percent since December 2010. As of September 2017, domestic banks held 84.7 percent of total loans and leases in the United States, which has grown slightly since a post-crisis low of 83.8 percent at year-end 2014. We have seen no evidence that U.S. bank lending has been constrained relative to foreign banks, and we believe that strong prudential requirements, particularly for large banking firms, will produce more sustainable credit availability and economic growth through the economic cycle.

**5. Your colleague Randall Quarles noted in a recent speech that there are 24 different loss absorbing requirements coming out of Dodd-Frank and that he was “reasonable certain” that this was too many. Are there specific work streams underway at the Federal Reserve that will better ‘tailor’ such requirements in an efficient, effective manner, and which utilize a more measured/streamlined approach to supervision and enforcement?**

Yes, the Federal Reserve Board (Board) is actively working to streamline such requirements. One good example of this is our recently issued proposal for banking organizations subject to Comprehensive Capital Analysis and Review that would integrate the forward-looking stress test results into the Board’s non-stress capital requirements. A result of this proposal would be to reduce the current capital-related ratio requirements these firms are subject to from 24 down to 14.

**6. On a related supervisory issue, please elaborate on your earlier public comments about it being “important to acknowledge that a [bank] board’s role is one of oversight, not management.” Have you completed the reassessment you noted of whether the Federal Reserve’s supervisory expectations for boards needs to change to ensure that this is the guiding principal and not an “ever increasing checklist?”**

On August 3, 2017, the Federal Reserve announced that it was seeking public comment on a proposal regarding supervisory expectations for boards of directors. The Federal Reserve is in the process of finalizing the proposal based on consideration of the comments received.

The proposal includes proposed supervisory guidance on board effectiveness that is intended to shift our supervisory focus to boards' core responsibilities and better distinguish supervisory expectations for boards from those for senior management. The guidance focuses on five key attributes of an effective board rather than on process-oriented supervisory expectations that do not directly relate to the board's core responsibilities.

The proposal also discusses the Federal Reserve's comprehensive review of all existing supervisory expectations and regulatory requirements relating to boards of directors of bank and savings and loan holding companies of all sizes. The purpose of the review is to identify supervisory expectations for boards of directors that do not relate to their core responsibilities or do not clearly delineate the roles and responsibilities of boards from those of senior management. The Federal Reserve believes that revising or eliminating unnecessary, redundant, or outdated expectations, as appropriate, will allow boards to focus more of their time and resources on fulfilling their core responsibilities.

The Federal Reserve is conducting this review in two phases. The first phase is focused on reviewing supervisory expectations for boards set forth in existing Supervision and Regulation (SR) letters that communicate Board guidance. The preliminary results of the review, as discussed in the proposal, identified 27 SR letters for potential elimination or revision, which collectively include more than 170 supervisory expectations for holding company boards.

The Federal Reserve is in the process of considering comments received on the first phase of the review and will publish the final results of the review when the proposal is finalized.

The second phase of the review will focus on requirements and supervisory expectations for boards set forth in Board regulations or in various forms of interagency guidance. Revising Board regulations will take more time to complete, and revisions to interagency guidance involve consultation and collaboration with other federal banking agencies.

**Questions for The Honorable Jerome H. Powell, Chairman, Board of Governors of the Federal Reserve System from Representative Sherman:**

**1. Recently, you discussed the need for comprehensive, legislative GSE reform. What are the elements of a reformed system that you believe are “must-haves”? Do you believe competition in the secondary market is one of these must-haves?**

The Federal Reserve is responsible for regulating and supervising banking institutions to ensure their safety and soundness, and more broadly for the stability of the financial system. A robust, well-capitalized, well-regulated housing system is vital to achieving those goals, and the long-term health of our economy.

There are a number of principles that should be considered as a part of housing finance reform. First, we ought to do whatever we can to make the possibility of future housing crises as remote as possible. Reform should be designed to attract large amounts of private capital into the housing finance system. As with banks, the goal should be to ensure that our housing finance system and its underlying institutions can continue to function even in the face of significant house price declines and severe economic conditions.

Second, any government guarantee resulting from housing finance reform should be explicit and transparent, and should apply to securities, not to institutions. Reform should not leave us with any institutions that are so important as to be candidates for too-big-to-fail.

Third, we should promote greater competition in the secondary mortgage market. The economics of securitization do not require a duopoly. Yet there is no way for private firms to acquire a government-sponsored enterprise (GSE) charter and enter the industry. Greater competition would help to reduce the systemic importance of the GSEs, and spur more innovation. Greater competition also requires a level playing field, allowing secondary market access to a wide-range of lenders and thereby giving homebuyers a choice among many potential mortgage lenders and products.

Fourth, we should consider simple approaches that restructure and repurpose parts of the existing architecture of our housing finance system. We know that housing reform is difficult; completely redrawing the system may not be necessary and could complicate the search for a solution. Using the existing architecture would allow for a continued smooth, gradual transition.

Fifth, we need to identify and build upon areas of bipartisan agreement. We should be looking for the best feasible plan to escape the unacceptable status quo of indefinite conservatorship.

**2. Large data breaches are wreaking havoc on small and midsized financial institutions. Is the Federal Reserve reviewing any policies to ensure that financial institutions do not remain solely liable for the cost of breaches?**

The Federal Reserve requires financial institutions, and the service providers supporting their activities, to have robust information security programs. The Federal Reserve tailors its supervisory approach based on the risks, size, and complexity of the organizations it supervises. This tailored approach is reflected in our rulemaking, supervisory guidance, reporting

requirements, as well as in the execution of supervision. Under the authority of the Bank Service Company Act, the Federal Reserve provides the report of examination to serviced financial institutions, which they can use to better manage Information Technology (IT) risk.

In lieu of issuing new guidance, the Federal Reserve has been working with other financial regulatory agencies on harmonizing cybersecurity regulatory expectations across the financial services sector. Specifically, we are focused on aligning our cybersecurity expectations with existing best practices and identifying opportunities to further coordinate cyber risk supervisory activities.

Our analysis of many cyber breaches indicates most breaches could have been prevented through basic information security practices and routine security training. It is essential that financial institutions implement controls to effectively maintain basic security hygiene practices and adopt security training programs for all employees.

It also is essential that banks have appropriate cyber risk management programs in place to mitigate the risk of a data breach. Management should understand the institution's insurance needs and the limitations of insurance coverage.<sup>1</sup> These policies generally exclude, or may not include, liability for all areas of IT operations and cybersecurity. Financial institutions of all sizes may use cyber insurance to manage their exposure to breaches.

Financial institutions supervised by the Federal Reserve are required to follow the Gramm-Leach-Bliley Act<sup>2</sup> (GLBA) and maintain an information security program to protect customer data. The Federal Financial Institutions Examination Council (FFIEC) member agencies design and supervise examinations and publish the Information Technology (IT) Handbook,<sup>3</sup> which provides guidance for the IT security controls that can be used by financial institutions to safeguard their customers' data.

The Federal Reserve and FFIEC members recommend that financial institutions of all sizes participate in information sharing forums as a part of their process to identify, respond to, and mitigate rapidly evolving cybersecurity threats and vulnerabilities.<sup>4</sup> Financial institution management is expected to monitor and maintain sufficient awareness of cybersecurity threat and vulnerability information so that they may evaluate risk and adjust their information security programs accordingly.

### **3. Is the Federal Reserve coordinating in any way with the Treasury Department to provide access to banking for state-legal marijuana businesses?**

In general, the decision to open, close, or decline a customer account or relationship is made by a bank, without involvement by the Federal Reserve. The Federal Reserve's supervisory

<sup>1</sup> Per the FFIEC IT Examination InfoBase: <https://ithandbook.ffiec.gov/it-booklets/management/iii-it-risk-management/iiic-risk-mitigation/iiic7-insurance.aspx>.

<sup>2</sup> GLBA, also known as The Financial Services Modernization, requires companies acting as "financial institutions," to explain their information-sharing practices and to safeguard sensitive customer data; CFR part 208, Appendix D.

<sup>3</sup> <https://ithandbook.ffiec.gov/it-booklets.aspx>.

<sup>4</sup> The FFIEC recommended that regulated financial institutions participate in information sharing forums in a press release, November 3, 2014.

expectation is that a banking organization should develop and maintain adequate controls to address appropriately the risks associated with a particular customer relationship, and comply with applicable laws and regulations, including the requirements of the Bank Secrecy Act (BSA).

In 2014, the Financial Crimes Enforcement Network (FinCEN), a bureau of the Treasury Department and the administrator of BSA, issued guidance addressing the obligation of a bank to file suspicious activity reports (SARs) with respect to marijuana-related business customers.<sup>5</sup> This guidance was issued in connection with a Department of Justice (DOJ) statement of enforcement priorities related to marijuana-related businesses, which stated that the DOJ did not intend to prosecute those in compliance with state law, but in violation of the federal law, unless the conduct implicated one of DOJ's stated priority matters.<sup>6</sup> As you may know, the DOJ rescinded the 2014 statement of enforcement priorities earlier this year, however, the FinCEN guidance remains in place.<sup>7</sup>

Consistent with the Federal Reserve's longstanding practice, we have incorporated FinCEN's expectations related to SAR filings into our supervisory program. Specifically, in 2014, the Federal Reserve and other federal banking regulators modified the Federal Financial Institutions Examination Council's BSA/Anti Money Laundering Examination Manual and added expectations for examiners to assess whether a bank is complying with the requirement to file SARs for marijuana-related transactions.<sup>8</sup> We are not aware of any additional coordination efforts by the Treasury Department with the Federal Reserve to provide banking access for marijuana-related businesses.

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<sup>5</sup> FinCEN, "BSA Expectations Regarding Marijuana-Related Businesses", FIN-2014-001, (Feb. 14, 2014), at <https://www.fincen.gov/sites/default/files/shared/FIN-2014-G001.pdf>.

<sup>6</sup> Memorandum to United States Attorneys from James M. Cole, Deputy Attorney General, "Guidance Regarding Marijuana Enforcement" (Aug. 29, 2013), at <https://www.justice.gov/iso/opa/resources/3052013829132756857467.pdf>.

<sup>7</sup> Memorandum to United States Attorneys from Jefferson B. Sessions, III, Attorney General, "Marijuana Enforcement" (Jan. 4, 2018), at <https://www.justice.gov/opa/press-release/file/1022196/download>.

<sup>8</sup> See Federal Financial Institutions Examination Council, "Bank Secrecy Act/Anti-Money Laundering Examination Manual" (2014).

Questions for The Honorable Jerome H. Powell, Chairman, Board of Governors of the Federal Reserve System from Representative Wagner:

I. Thank you, Chairman Powell.

In comments you made shortly after being sworn in as Chairman of the Federal Reserve, you noted that you were committed to “explaining what we’re doing and why we are doing it (...) and will continue to pursue ways to improve transparency both in monetary policy and in regulation.”

How much value do you place on being as transparent as possible, so that not only Congress, but the American people understand the decisions the Fed is making?

In 2012, the Fed dealt with a leak of confidential information relating to the deliberation of the Federal Open Markets Committee (FOMC). Information relating to the confidential documents and deliberations of the FOMC were obtained by a political intelligence firm, who shared the information in a newsletter to their clients. As you know, access to that information is valuable to markets and investors because the Fed does not make clear what it is likely to do in the future.

The leak has plagued two Fed Chairmen, and triggered an internal investigation and two Inspector General investigations, one of which that was conducted jointly with the FBI. The leaker of the information has not been found.

The Committee believes that a monetary policy rule would provide the public transparency into future monetary policy decisions, and eliminate the value of leaks.

Again, you have talked a lot about being transparent, but you are the new boss - what is going to change on the issues of securing confidential information and transparency to prevent this going forward?

Were you satisfied with how the leaker was dealt with?

Chairman Powell, the Fed is helping neither itself nor the economy here. When will the Board improve its internal governance so episodes like these don’t repeat themselves?

The Congress established the Federal Reserve more than a century ago to provide a safer and more flexible monetary and financial system. The Federal Reserve is committed to transparency, which is important for any government institution. We are and should be accountable to the American people.

The need to be clear and transparent is a core principle of our approach to monetary policy, as well as our approach to regulatory and supervisory responsibilities. However, we would not be serving the goal of transparency about our conduct of monetary policy by setting the federal funds rate in a mechanistic way that would frequently be inconsistent with the achievement of our mandate. And of course transparency in supervision must balance the need to maintain confidentiality in the supervisory process.

I plan to continue our tradition of independence and nonpartisanship by fostering an environment that supports objective analysis and research, and promoting a culture in which policymakers express their viewpoints and achieve consensus. I will also continue my predecessors' commitment to transparent communications with the Congress and the public, so that the Federal Reserve can be held accountable for its work. I welcome opportunities to discuss with members of Congress ways to further improve transparency and accountability.

The Federal Open Market Committee (FOMC) and I take seriously our commitment to maintain the confidentiality of our deliberations and planning. We recognize, in particular, the importance of safeguarding confidential information that could advantage individuals who obtain access to it. For this reason, the FOMC adopted a Program for Security of FOMC Information (Program) and Policies on External Communications of FOMC Participants and Staff (together with the Program, referred to as the Policies) that require confidential treatment of all FOMC information. FOMC participants (all members of the Federal Reserve Board and all Reserve Bank presidents, whether voting or non-voting) and all FOMC staff must annually agree to the Program, and must abide in their contacts with the public by the principles laid out in the Policies. (The Program for Security of FOMC Information and FOMC Policies on External Communications are available on the Board's public website.)

The Policies aim to protect the confidentiality of the FOMC's monetary policy deliberations, and to prevent the disclosure of information in a manner such that any individual, firm, or organization could profit from acquiring that information. To this end, the Policies contain a variety of self-imposed limitations on communications by FOMC participants and Federal Reserve staff with access to FOMC information. For example, the Policies state that:

- An FOMC participant may publicly discuss his/her own views about monetary policy. However, participants have agreed not to describe the views or statements of other participants if the other participant has not already made his/her views public.
- Participants have agreed not to describe discussions at FOMC meetings beyond what is disclosed in the public minutes.
- Participants have agreed to refrain from describing their personal views about monetary policy in any meeting or conversation with any individual, firm, or organization who could profit financially from acquiring that information unless those views have already been expressed in their public communications.
- Participants have agreed to avoid giving a "prestige advantage" to outsiders through meetings or discussions.
- Similar policies apply to staff with access to FOMC information.

Over recent years, the Federal Reserve has taken numerous steps to further enhance its overall program for FOMC information security.

- All staff members with access to FOMC information must complete annual training on FOMC information security policies and procedures.
- Documents prepared for the FOMC are stored in a very secure way. Access to paper and electronic versions of such documents is limited and carefully controlled.
- Various controls in automated systems have been implemented to guard against accidental breaches of information security protocols.

With respect to the 2012 disclosure of confidential FOMC information, the Federal Reserve fully cooperated with the law enforcement community that investigated this matter. I am confident that they had access to all information and individuals and records to make the judgment they made in concluding their work.