Monetary Policy

1. In 2018, the Fed began a review of the strategy, tools, and communications it uses to conduct monetary policy.[1] If confirmed, you will be responsible, along with the other Board members, for evaluating the results of this review and determining if changes are appropriate.
    a. Describe the implications of the apparent decline in the neutral rate of interest for future recessions and economic downturns.
        i. Do you believe the Fed's current monetary policy tools will be sufficient to alleviate an economic downturn?
        ii. What role do you believe fiscal policy will need to play in the next downturn?
            1. In response to prior economic downturns, policy makers have used a number of different fiscal policy tools as part of stimulus packages including tax cuts, investments infrastructure and emerging technologies and transfers to state governments. Which fiscal policy tools do you believe would be most effective?
            2. Under what circumstances would you support additional spending in response to a recession even if it adds to the deficit?
        iii. President Trump has repeatedly advocated for negative interest rates, arguing that they would boost economic growth.[2] Do you agree? Describe the implications of negative interest rates.
    b. Former Fed Chair Bernanke has argued that the decline in the rate may be partly due to structural factors such as demographic and technological change.[3] Do you agree?
        i. If so, should the Fed proactively thinking about the trends in these structural factors and how they could impact the effectiveness of monetary policy in the future?
2. In response to developments in overnight lending markets in September 2019, the Fed began conducting repo operations to "stabilize money markets and provide reserves to keep the federal funds rate within its target range.[4]"
    a. Some have pointed to the repo market concentration, with the largest banks being almost exclusively responsible for engaging in transactions with the Fed and lending that money out.[5] Can you describe the implications of the concentration levels of the current repo market structure and how the concentration of participants may have impacted the Fed's recent interventions?

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[1] Board of Governors of the Federal Reserve System, "Review of Monetary Policy Strategy, Tools, and Communications," June 25, 2019, https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications.htm

[2] NBC News, "Trump keeps pushing 'negative' interest rates. What would that mean for your wallet?," Ben Popken, September 23, 2019, https://www.nbcnews.com/business/consumer/trump-keeps-pushing-negative-interest-rates-what-would-mean-your-n1056546

[3] The Brookings Institution, "The new tools of monetary policy," Ben Bernanke, January 4, 2020, https://www.brookings.edu/blog/ben-bernanke/2020/01/04/the-new-tools-of-monetary-policy/

[4] Board of Governors of the Federal Reserve System, "Monetary Policy Report," February 7, 2020, https://www.federalreserve.gov/monetarypolicy/files/20200207_mprfullreport.pdf

[5] Wall Street Journal, "Big Banks Loom Over Fed Repo Efforts," Daniel Kruger, September 26, 2019, https://www.wsj.com/articles/big-banks-loom-over-fed-repo-efforts-11569490202

b. If the Fed were to adopt a standing repo facility, as it has been considering even before the market disruption in September[6], what factors should the Fed use to determine which counterparties would be eligible?

Financial Stability

1. In previous questions regarding the Fed's response to climate change, Chairman Powell claimed that the Fed uses "its authorities and tools to prepare financial institutions for severe weather events."[7] At the same time, science has clearly demonstrated that extreme weather events are becoming increasingly common as a result of climate change.[8]
    a. To the extent that these weather events continue becoming more common and having a greater impact on the business cycle itself, do you believe that it would be appropriate for the Fed to more explicitly consider the risks associated with climate change in its decision-making?
    b. Do you believe it would be appropriate for the Fed to hire economists that specialize in climate economics to address these changes? Should the Fed hire natural scientists to inform economic models?
    c. Do you support the Fed officially joining the Network for Greening the Financial System (NGFS)? If not, why not?
2. The most recent report from Shared National Credit (SNC) Review program conducted jointly by the Fed, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC), stated that "credit risk associated with leveraged lending remains elevated" and "lenders have fewer protections and risks have increased in leveraged loan terms through the current long period of economic expansion since the last recession."[9]
    a. Please explain how you believe the Fed should evaluate and monitor the credit-risk management practices of a financial institution to ensure that these procedures, some of which are untested, will be sufficient during an economic downturn.
    b. Do you believe that the Interagency Guidance on Leveraged Lending[10] issued in 2013 is sufficient to address the risks associated with leveraged lending, particularly with respect to the growth of non-bank lenders?
        i. Do you believe these loans made by non-banks currently pose a risk to financial stability? If not, please explain why and under what circumstances the Fed should begin to judge them a threat to financial stability.
        ii. Many of these non-bank lenders fall into a regulatory gap. What tools does the Federal government have to mitigate the risks from the growth of leveraged lending and the deterioration of the terms of those loans?

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[6] Board of Governors of the Federal Reserve System, "Minutes of the Federal Open Market Committee," June 18-19, 2019, https://www.federalreserve.gov/monetarypolicy/fomcminutes20190619.htm

[7] Letter from Federal Reserve Chairman Jerome H. Powell to Senator Elizabeth Warren, April 18, 2019

[8] National Oceanic and Atmospheric Administration, "Report: Climate change is making specific weather events more extreme," December 9, 2019, https://www.noaa.gov/news/report-climate-change-is-making-specific-weather-events-more-extreme

[9] Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System Federal Deposit Insurance Corporation Office of the Comptroller of the Currency, "Shared National Credit Program: 1st and 3rd Quarter 2019 Reviews," https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200131a1.pdf

[10] Federal Reserve Board of Governors, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, "Interagency Guidance on Leveraged Lending," March 21, 2013, https://www.federalreserve.gov/supervisionreg/srletters/sr1303a1.pdf

iii. Private equity firms often finance acquisitions through highly leveraged loans. According to the private equity industry, firms acquired in these acquisitions now employ 8.8 million workers.[11] In an economic downturn, what would you expect to happen to employment in these firms?

Regulation

1. The OCC and FDIC made the decision to heed to the concerns of the Fed with respect to their plan to modify the Community Reinvestment Act (CRA) and issued a new proposed rule on the law jointly enforced by the three agencies without the Fed last December.[12] On January 8, 2020, Governor Brainard released her own alternative plan to modernize the CRA.[13]
    a. Would you have voted to join the OCC and FDIC proposal? If not, what aspects to you disagree with? If so, please explain why you believe it is right approach.
    b. Much of the criticism of the other agencies' plan focuses on the lack of analysis demonstrating the economic impact of the changes. However, according to Governor Brainard, the Fed has conducted some analysis with relevant data and would like to publish that data so the public can provide feedback.
        i. Do you believe it is important for any new metrics included in a new CRA plan are grounded in data?
        ii. Do you believe that it is important for the public to have ample time to examine these data to provide input and ensure that reforming this critical civil rights law is done correctly?
    c. Do you believe there are consequences of having two separate CRA regimes for institutions with different regulators? If so, what are these consequences?
2. On January 30, 2020, the Fed finalized a rule to determine "when a company controls a bank or a bank controls a company." [14]
    a. Reporting has indicated that the rule could allow private equity funds to control a greater portion of a bank's equity and thereby allow private equity investors to influence the operations of banks.[15] Given the various risks associated with the private equity business model and documented research that demonstrates that private equity investments in financial companies can increase the risk profile of those companies[16], do you believe that this rule increases the level of risk in the financial sector?

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[11] Office of Senator Elizabeth Warren, "Letter from Senator Elizabeth Warren et al to Carmine Di Sibio, Global Chairman and Chief Executive Office of Ernst and Young AG, November 18, 2019, https://www.warren.senate.gov/imo/media/doc/Letter%20to%20Ernst%20and%20Young%20re%20PE%20report.pdf.
[12] Comptroller of the Currency and Federal Deposit Insurance Corporation, Federal Register Notice, "Community Reinvestment Act Regulations," January 09, 2020, https://www.federalregister.gov/documents/2020/01/09/2019-27940/community-reinvestment-act-regulations
[13] Board of Governors of the Federal Reserve System, "Strengthening the Community Reinvestment Act by Staying True to Its Core Purpose," Governor Lael Brainard, January 08, 2020, https://www.federalreserve.gov/newsevents/speech/brainard20200108a.htm
[14] Board of Governors of the Federal Reserve System, "Federal Reserve finalizes rule to simplify and increase the transparency of the Board's rules for determining control of a banking organization," January 30, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200130a.htm
[15] New York Times, "The Fed Wants to Loosen Rules Around Big Banks and Venture Capital," Jeanna Smialek and Emily Flitter, January 30, 2020, https://www.nytimes.com/2020/01/30/business/economy/volcker-rule-banks-venture-capital.html
[16] Harvard University, " Private Equity Ownership, Risk-Taking, and Performance in the Life and Annuities Industry," Divya Kirti and Natasha R. Sarin, April 2, 2018, https://scholar.harvard.edu/nsarin/publications/private-equity-ownership-risk-taking-and-performance-life-and-annuities-industry

b. In her statement, Governor Brainard suggested that it will be important to "monitor the ownership structures of banking organizations in light of this control framework and industry trends" and "how the control framework interacts with other regulations that involve ownership thresholds." [17]
   i. Do you agree with Governor Brainard?
   ii. If so, please describe how the Fed should monitor these ownership structures and how the Fed will determine if there is a financial stability risk associated with a banking organization's ownership structure?

Supervision

1. In Wells Fargo's Q4 2019 Earnings Call, newly appointed CEO Charlie Scharf acknowledged the bank's many misdeeds, claiming "we made some terrible mistakes and have not effectively addressed our shortcomings."[18]
   a. These comments suggest that Wells Fargo has not made substantial progress in remedying the issues at hand. In a written response to me in 2018, Chairman Powell stated that the terms of the Fed's current Consent Order require that "the firm must make significant progress in remedying its oversight and compliance and operational risk management deficiencies before relief from the asset growth restriction would be forthcoming."[19] Chairman Powell has committed to me that the Board of Governors would have a formal vote before the Fed's asset cap on the bank could be lifted. Under what circumstances would you vote to lift the asset cap?
2. In a recent speech, Fed Vice Chair for Supervision Randal Quarles suggested that Fed bank supervisors use of MRAs should be limited, and that they should only be permitted to institutions "to violations of law, violations of regulation, and material safety and soundness issues"[20] -- a severe narrowing of Fed's authority.
   a. Do you agree that the Fed should alter the process, standards, and requirements under which MRAs and/or MRIAs are issued? If so, why?
      i. Do you believe there should be a formal notice and comment process so that outside experts and consumer advocates can review and comment on any proposal?
   b. The 2013 guidance in the communication of supervisory findings states, that standardization of the terms MRAs or MRIAs "facilitates the Federal Reserve's national systems of record for information related to examination and inspection issues" and "enables the Federal Reserve to access information about supervisory issues and remediation efforts and aids in the identification of systemic and programmatic challenges facing banking organizations supervised by the Federal Reserve."[21] If, as proposed, certain supervisory findings will no longer be categorized as MRAs, do you believe this could impact the Fed's ability to access this information?

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[17] Board of Governors of the Federal Reserve System, "Statement by Governor Lael Brainard," January 30, 2020, https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20200130a.htm
[18] Bloomberg, "Q4 2019 Earnings Call," Wells Fargo, January 14, 2020
[19] Letter from Federal Reserve Chairman Jerome H. Powell to Senator Elizabeth Warren, May 10, 2018, https://www.warren.senate.gov/download/20180510-powell-response-re-wells-fargo
[20] Federal Reserve Vice Chair for Supervision Randal K. Quarles, " Spontaneity and Order: Transparency, Accountability, and Fairness in Bank Supervision," January 17, 2020, https://www.federalreserve.gov/newsevents/speech/quarles20200117a.htm
[21] Federal Reserve Board of Governors, " Supervisory Considerations for the Communication of Supervisory Findings," https://www.federalreserve.gov/supervisionreg/srletters/sr1313a1.pdf

c. Do you believe that it is possible for a bank examination to uncover an issue with a financial institution that could pose a threat to safety and soundness but does not represent a legal violation? Please describe some examples.
d. The impact of any proposed changes to MRAs is largely dependent on the definition of "material safety and soundness." How do you believe the Fed should determine this decision?

Clarifications Regarding Your Responses to My Letter

I appreciate your response to my letter by the requested date of February 13, 2020. However, many of your responses require further clarification:

1. In response to my question regarding your documented opposition to the concept of deposit insurance, you claimed that you were merely "emphasizing the importance of prudent capital and management standards being in place for banking institutions as the first bulwark against potential losses."
    a. Do you support the current set of prudential standards and capital requirements?
        i. Do you believe that there are any requirements that should be strengthened? If so, which ones? Which requirements and to what levels?
        ii. Do you believe that there are any requirements that should be further weakened or tailored? Which requirements and to what levels?
    b. Do you believe that the current overall level of capital in the financial sector is the appropriate amount? If not, why not?
2. In your response, you also claimed that "multiple factors caused the 2008 financial crisis, including errors in monetary and regulatory policies, which were further exacerbated by lack of transparency in assessing subprime lending and specific risk characteristics of mortgage-backed securities products."
    a. What were the errors in regulatory policy that you believe contributed the 2008 financial crisis?
    b. What were the errors in monetary policy that you believe contributed the 2008 financial crisis?
    c. Please clarify what you meant by "lack of transparency." Do you believe that there is currently a lack of transparency in some of the structures used in the financial sector today, such as collateralized loan obligations?
3. You also stated that "the most concerning aspect regarding the 2008 financial crisis is the Federal Reserve's lack of prescience in recognizing what was happening in credit markets, along with its failure to foresee the implications for global financial stability." What do you believe will cause the next recession? Do you believe that the levels of consumer debt are cause for concern?
4. You also talked about the danger of groupthink on the Fed Board. What perspectives do you believe are missing from the Board? What decisions would you have made differently?