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NOMINATIONS OF: MELVIN L. WATT, JASON FURMAN, KARA M. STEIN, MICHAEL S. PIWOWAR, AND RICHARD T. METSGER

HEARING

BEFORE THE

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

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

ON

NOMINATIONS OF:

MELVIN L. WATT, OF NORTH CAROLINA, TO BE DIRECTOR, FEDERAL HOUSING FINANCE AGENCY

JASON FURMAN, OF NEW YORK, TO BE A MEMBER AND CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

KARA M. STEIN, OF MARYLAND, TO BE A MEMBER, SECURITIES AND EXCHANGE COMMISSION

MICHAEL S. PIWOWAR, OF VIRGINIA, TO BE A MEMBER, SECURITIES AND EXCHANGE COMMISSION

RICHARD T. METSGER, OF OREGON, TO BE A MEMBER, NATIONAL CREDIT UNION ADMINISTRATION BOARD

JUNE 27, 2013

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NOMINATIONS OF:

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JASON FURMAN, OF NEW YORK, TO BE A MEMBER AND CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS;

KARA M. STEIN, OF MARYLAND, TO BE A MEMBER, SECURITIES AND EXCHANGE COMMISSION;

MICHAEL S. PIWOWAR, OF VIRGINIA, TO BE A MEMBER, SECURITIES AND EXCHANGE COMMISSION; AND

RICHARD T. METSGER, OF OREGON, TO BE A MEMBER, NATIONAL CREDIT UNION ADMINISTRATION BOARD

TUESDAY, JUNE 27, 2013

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

The Committee met at 10:30 a.m. in room SD–538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN TIM JOHNSON

Chairman JOHNSON. I call this hearing to order.

Today, we consider five nominations, Congressman Melvin Watt, to be Director of the Federal Housing Finance Agency; Dr. Jason Furman, to be a Member and Chairman of the Council of Economic Advisers; Ms. Kara Stein and Dr. Michael Piwowar, to be Members of the Securities and Exchange Commission; and Mr. Richard Metsger, to be a Member of the National Credit Union Administration Board.

These five nominees before us exemplify public service and we are grateful to them for agreeing to serve in their new capacities. If confirmed, they will play an integral role in strengthening our economy and in the continued implementation of Wall Street Reform.

One of the most important issues currently before the Committee is the health of the housing market and the future of housing finance. It has been almost 5 years since Treasury Secretary Paulson and the FHFA took Fannie Mae and Freddie Mac into conservatorship and the FHFA still not have a confirmed Director. We need a Senate-confirmed Director in place to ensure that the conservatorships of Fannie and Freddie provide stability to the recovering housing market while Congress continues to seek a broad consensus on a long-term solution for our housing finance system.

Congressman Watt has represented the 12th District of North Carolina for over 20 years, and before that, he specialized in minority business and economic development law after graduating from Yale Law School. As a member of the House Financial Services Committee, Congressman Watt showed leadership and foresight in his repeated efforts early on to improve lending standards, to better protect borrowers and the borrowing economy. Our housing market and our economy need a confirmed Director in place at FHFA. Congressman Watt is well qualified for the job and should be confirmed without delay.

Both the National Association of Realtors and the Congressional Hispanic Caucus have sent support letters for Congressman Watt that I would like to submit for the record.

Chairman JOHNSON. On the economic front, we continue to recover from the worst recession since the Great Depression. Millions of jobs have been created, but too many Americans remain out of work. Dr. Furman's extensive experience as an economist for the NEC, the World Bank, and the CEA will serve him well as he advises the President on our economic challenges.

Financial markets are facing a challenging environment in the wake of the financial crisis. As the SEC works to better protect investors on a wide range of issues, such as capital formation, credit rating agency reform, derivative regulation, and market structure, I know Ms. Stein and Dr. Piwowar will bring focused and innovative thinking to the Commission. Ms. Stein is well qualified for the position, with a wealth of legislative branch experience and a keen understanding of the issues before the SEC. Dr. Piwowar has served as a Staff Economist for the SEC and as Chief Economist for Ranking Member Crapo and Ranking Member Shelby. Kara and Mike are familiar faces on this side of the dais and I wish them the best.

Last, the NCUA plays an important role in the strength and the success of the credit union industry across this Nation. Mr. Metsger is a good candidate for the NCUA Board, having served on the Board of the Portland Teachers Credit Union, as an Oregon State Senator, and on the Oregon Treasury Debt Policy Advisory Commission.

All of our nominees today are well qualified and I hope we can move them through the Committee in a timely manner.

I now turn to Ranking Member Crapo for his opening statement.

STATEMENT OF SENATOR MIKE CRAPO

Senator CRAPO. Thank you, Mr. Chairman.

We are here today to consider several nominations across the numerous Federal agencies that we have and I welcome all of you to our Committee.

I have met with each of the nominees today and look forward to hearing from them about their goals for the positions to which they have been nominated as well as their qualifications.

We have many introductions to make, so I will keep my remarks today focused on the highest-profile position before us, the Director of the Federal Housing Finance Agency, or FHFA. This is a unique position within all of the Federal Government and requires very specific expertise. Not only does the head of the FHFA act as a regulator to all of the Government-Sponsored Enterprises, but as conservator, this person actually operates Fannie Mae and Freddie Mac, whose combined portfolios exceed $5 trillion.

Because the powers of this position are so unique and unparalleled within Government, any nominee to this important position must be politically independent and have the necessary policy and technical expertise. Specifically, a nominee must understand the traditional economics and concerns of financial service regulators, such as credit risk, market risk, operation risk, and liquidity risk. Additionally, the nominee must understand the business strategies necessary to operate two multi-trillion-dollar companies in a manner that conserves their assets until Congress determines our future housing finance system.

Finding anyone with that expertise is a challenge, but on top of that knowledge, it is essential that the individual have a history of demonstrated political independence. This position is not a Presidential adviser or a member of a commission who must work in a collaborative fashion. As the conservator, the Director of the FHFA acts alone, on his own authority, and possesses all of the powers of the officers, board of directors, and shareholders of Fannie Mae and Freddie Mac.

The current person holding this job, Acting Director Ed DeMarco, is a career civil servant and a Ph.D. economist named to his post by President Obama in 2009. Since that time, I have not heard anyone question his technical expertise. He is also an apolitical financial regulator who has resisted political pressure from all sides of the political spectrum. Yet, since he decided against supporting the Administration's push for principal reductions in underwater mortgages, an effort has been waged for his removal.

Within that context, we have received the nomination of Representative Watt. I have previously expressed my concern about the President choosing to make an appointment of this political nature. This is not a reflection on Representative Watt. The Congressman has a long and successful career in Congress and on the Housing and Financial Services Committee, representing his constituents very well. He is also a member who is well liked by his colleagues and someone who is respected and with whom I enjoy discussing these issues.

My concerns, rather, reflect the unique position of the FHFA Director, who needs to be the regulator, operator, and shareholder of Fannie Mae and Freddie Mac. As I said, the Director has virtually unchecked power to control two multi-trillion-dollar companies, and through them, the entire mortgage market. This requires an in-

depth knowledge of the operations of the mortgage industry, the mortgage-backed security industry, structured securitizations, investment portfolios, the operations of both public and private insurance and guarantees, and the expertise to oversee the nearly 12,000 employees employed by these entities. In addition, the Director must be able to adequately transition both the FHFA and Fannie Mae and Freddie Mac for whatever Congress ultimately decides for the GSEs.

Recently, earning reports indicate that perhaps we have turned a corner, at least for now, as it relates to the losses at Fannie Mae and Freddie Mac. However, the taxpayers have already spent nearly $190 billion bailing out these two companies. With the size of their operations, a decision resulting in even the smallest negative variation could mean the loss of billions more and a return to the Treasury draws that have plagued these conservatorships.

With that in mind, we must gain a better understanding of Representative Watt's positions on a great variety of issues as well as how he plans to insulate himself from the political winds that surround Fannie and Freddie.

Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you, Senator Crapo.

Senator Crapo and I have agreed that in the interest of time, opening statements today are limited to the Chair and Ranking Member. The record will remain open for Senators who wish to submit an opening statement.

We will now proceed to witness introductions. Senators Burr and Hagan will introduce Congressman Watt. Senator Burr.

STATEMENT OF RICHARD BURR, A U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Senator BURR. Thank you, Mr. Chairman, and thank you, Senator Crapo and my esteemed colleagues, for this opportunity.

Mr. Chairman, I want to thank you for holding this hearing and for giving me the opportunity and the pleasure to introduce Mel Watt to my colleagues. I know his wife, Eulada, and his children, Brian and Jason, are proud of him today, and his wife is behind him.

Finding a nominee for Director of the Federal Housing Finance Agency has been a long time coming. I sat in this seat introducing a fellow North Carolinian only a few years ago for the same position before the Banking Committee, so I would like to note that the President obviously thinks my State holds a key answer to addressing the very complex nature of the FHFA and how we reform Fannie and Freddie.

[Laughter.]

Senator BURR. Congressman Watt and I share a personal history, serving together in the House for many years. Our districts bordered each other during the time, so I had the opportunity to get to know Mel quite well. I saw his commitment to his constituents and, more importantly, to North Carolina. Above all, Mel always prioritized service to North Carolina during his more than 20 years in the U.S. Congress.

Mel is a true North Carolinian, having grown up in Charlotte. As a graduate of Wake Forest, I have come to overlook his attend-

ing the University of Chapel Hill. I might say that since I had two sons that graduated from there, I have become soft on the rivalry between the two schools.

From there, Mel received his law degree from Yale and entered private practice for over 20 years. He went on to serve with distinguished tenure in the House, representing one of the most geographically diverse and challenging districts in America. Those who know Mel or have worked closely with him will say that he is an honest, kind, and truly thoughtful individual.

Let me just say to my colleagues, Mel is a good man. He is a good husband. He is a good father. I am proud to call him my friend. Without a doubt, the job Mel has been nominated for will not be easy. In my conversations with him, I have made it perfectly clear that he is not going to be able to go back to North Carolina as often. He is going to have to stay in Washington, which is something most of us fear.

[Laughter.]

Senator BURR. But I have promised him, Mr. Chairman, that if he got homesick for barbecue, I would bring some up so that he could stay here and fix this problem once and for all.

With that said, I want to thank the Committee for the opportunity to speak before you and offer my personal thoughts on this nomination and some of the characteristics that I think Mel Watt brings to this position, if confirmed.

Mr. Chairman, I thank you, I thank the Ranking Member, and I thank my colleagues for their time.

Chairman JOHNSON. Thank you, Senator Burr.

Senator Hagan.

STATEMENT OF SENATOR KAY HAGAN

Senator HAGAN. Thank you, Mr. Chairman and Ranking Member Crapo.

I certainly want to echo my colleague, Senator Burr's, comments on Representative Mel Watt. It is certainly a pleasure to join with Senator Burr in welcoming and introducing my friend and colleague, Congressman Mel Watt, to my colleagues here on the Senate Banking Committee.

I also want to thank his wife, Eulada, who has been with Mel for many, many years, and also, thank you for being here today with certainly your steadfast support.

And I am honored to introduce Congressman Watt today. Congressman Watt is a true North Carolinian. He was born in North Carolina. He was a Phi Beta Kappa graduate of the University of North Carolina at Chapel Hill. He had an undergraduate degree in business administration and was the President of the Business Honors fraternity. He received a law degree from Yale and was a published member of the Yale Law Journal.

Congressman Watt practiced law for over 20 years, specializing in minority business and economic development law. Since 1992, Congressman Watt has spent his distinguished career working for the people of North Carolina as a member of the House of Representatives.

Congressman Watt is an outstanding choice to lead the Federal Housing Finance Agency. Over his 20 years on the House Financial

Services and Judiciary Committees, Congressman Watt has been a champion for affordable housing in North Carolina and across the country. He has worked tirelessly to protect families from predatory and deceptive lending practices. He has been able to work across the aisle to find common ground on issues that promote economic opportunity for the middle class.

Before the housing crisis, Congressman Watt raised concerns that predatory lending practices were harming consumers and putting the housing market at risk. Since the housing market collapsed, Congressman Watt has advocated for legislation to turn around communities hit hardest by the foreclosure crisis and to support hundreds of thousands of jobs across the country. He was instrumental in enacting the Dodd-Frank Act and in supporting its anti-predatory lending provisions that are working to protect middle class families and our service members.

Congressman Watt has also worked across the aisle on other issues during his distinguished tenure in Congress. He worked with Republicans to pass legislation that addressed Patent and Trademark Office backlogs and on legislation that ensured adequate transparency for ATM fees while eliminating excessive regulatory burdens.

With experience in the private sector and more than two decades of service on the House Financial Services Committee, Congressman Watt has the background, the skills, and the history of bipartisan cooperation necessary to confront the challenges facing our recovering housing market. I know Congressman Watt will work successfully with Congress, with us, to strengthen the backbone of our current housing finance system, and I look forward to today's hearing and his confirmation by the full Senate.

Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you, Senators Burr and Hagan. Senator Burr, please feel free to excuse yourself at your own convenience.

Senator Schumer will introduce Dr. Furman. Senator Schumer.

STATEMENT OF SENATOR CHARLES E. SCHUMER

Senator SCHUMER. Thank you, Mr. Chairman.

First, I want to acknowledge—I just see our Member from North Dakota came in. She hit a great single yesterday at the women's softball game, so congratulations, Heidi.

Anyway, it is my honor to be here today to introduce Jason Furman, the nominee to be the next Chairman of the Council of Economic Advisers. I see sitting behind him, all three, happy as could be, are his wife, Eve, and his son, Henry, and his daughter, Louisa. Welcome, particularly you kids.

Now, Mr. Chairman, this is not the first Furman that I have introduced to the Senate. Two years ago, I introduced Jason's younger brother, Jesse, to be a Federal judge, and he is now serving with distinction on the bench in the Southern District of New York. Welcome, Jesse. He is here, too.

But, this is the first time that I have introduced someone the President has referred to as, quote, "one of the most brilliant economic minds of his generation." Dr. Furman has served the President for the past four-plus years, working on virtually every facet

of economic policy. Early on, he developed a reputation as a brilliant academic economist. But above all, his career is marked by a commitment to public service. Time and time again, Jason has heeded the call to serve, including at the World Bank in the late 1990s, in the middle of the Asian fiscal crisis, and this will not be Jason's first stint at the Council of Economic Advisers. He worked there and at the NEC under President Clinton.

Jason's work has garnered him praise from across the political and ideological spectrum. He has brought together both sides in a way that I wish we could do more often here in the Senate. He is supported by both liberal and conservative think tanks and organizations, from CAP and SEIU on the more liberal side to the AEI and National Association of Manufacturers on the more conservative side. And he receives uniformly high praise from economists of all stripes, from Jared Bernstein, Larry Summers, and Christina Romer to Martin Feldstein, Greg Mankiw, and Glenn Hubbard.

Apparently, Mr. Chairman, the only thing economists can agree on is that Jason is abundantly qualified to be the next CEA Chairman, and I am confident that the Senate will feel the same say. I am also confident he will not have to rely on his boyish good looks to get confirmed. He is thorough, accurate, balanced, and as the President noted, he is pretty smart to boot. As 11 conservative economists from the American Enterprise Institute wrote, quote, "We are confident he will provide President Obama with advice that presents both the advantages and disadvantages of the policy proposals under consideration."

In short, Mr. Chairman, Dr. Furman is exactly what we always look for in the Chairman of the CEA, someone who can deliver rigorous, unvarnished economic advice to the President and help the President translate good economics into good public policy. I am confident that, if given the opportunity, Jason will prove to be an outstanding Chairman of the Council of Economic Advisers and I urge all my colleagues to support his nomination.

Thank you.

Chairman JOHNSON. Thank you.

Senator Reed will introduce Ms. Stein. Senator Reed.

STATEMENT OF SENATOR JACK REED

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

It is indeed a privilege to be able to introduce Kara Stein as a nominee to the United States Securities and Exchange Commission, but simply stated, Kara really does not need much of an introduction to the Members of this Committee. She has worked in a collaborative spirit with us for years on both sides of the aisle. I am pleased to see her husband, Steve, and Isabel and Rowan here, her proud family. We have all benefited from her counsel, her expertise, and I am delighted that she is going to continue, with our help, to bring that expertise and that sense of public spirit to the Securities and Exchange Commission.

Kara is an extraordinarily gifted individual. She graduated Cum Laude from Yale College, then received her J.D. from Yale Law School. She has been in both public and private practice, including working at firms such as Wilmer Cutler Pickering on financial services issues. She worked on banking, municipal securities, and

insurance matters in private practice and was a law professor. She could have taken a very lucrative career as a lawyer in one of the biggest firms in the country, but she chose public service, and for over a decade, she has worked for the people of Rhode Island and for the people of this country, and she has done extraordinary work for me. I am and will be forever in her debt.

She has expertise and, importantly, the temperament to be an extraordinarily effective Commissioner in the Securities and Exchange Commission. She understands the complexities of the financial system. She understands how integral a well-functioning financial system is to the health of our economy. She is someone who not just talks, but listens carefully and wisely. She is inherently fair. She values transparency and accountability. And I am confident she will be an extraordinary addition to the Commission.

It, indeed, has been a privilege both personally and professionally to work with Kara. I am in her debt, and today, I will recommend her without reservation to my colleagues to assume a position as a Commissioner in the Securities and Exchange Commission.

Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you.

Senator Crapo will introduce Dr. Piwowar. Senator Crapo.

STATEMENT OF SENATOR MIKE CRAPO

Senator CRAPO. Thank you, Mr. Chairman.

I am pleased to introduce Dr. Michael Piwowar today for consideration by the Committee as a Commissioner for the Securities and Exchange Commission. I also want to acknowledge and welcome Dr. Piwowar's family, several of whom are joining us in the audience today, and I am sure you are all quite proud of him.

Dr. Piwowar's experience and expertise will be a real asset to the SEC. Not only has he served on the Senate Banking Committee for a number of years, but he also worked in the SEC's Office of Economic Analysis and served on the Council of Economic Advisers for two Presidents.

With a Ph.D. in finance, he appreciates the value that economic analysis plays in SEC rulemaking, examination, and enforcement processes. Dr. Piwowar will bring that appreciation to bear as the SEC moves forward with its demanding regulatory agenda.

Dr. Piwowar also recognizes the significant and important effect that securities legislation and regulation have to protect individual investors, as well as bringing about fair, efficient, and orderly markets for market participants and investors.

Both he and fellow nominee Kara Stein have faced the rigors of legislating the Dodd-Frank Act, the JOBS Act, and a number of other securities-related matters during their time on the Banking Committee. This battle scar expertise, if you will, will serve them both very well at the SEC. As a Commissioner, he will make informed decisions and be able to fully appreciate and understand the consequences of the agency's actions.

I congratulate Dr. Piwowar on his nomination to be an SEC Commissioner and I also congratulate you, Kara Stein, for your nomination, as well. I am very happy that your family is here to witness this, Mike, and thank you, Mr. Chairman.

Chairman JOHNSON. I will now introduce Mr. Richard Metsger. Senator Merkley wanted to be here, but is unable.

Mr. Metsger is President at Parakletos Strategic Public Affairs LLC, a public affairs firm dedicated to forging strategic solutions to issues of important public policy. Mr. Metsger served as an Oregon State Senator from 1999 to 2011 with Senator Merkley, where his Committee work centered around the areas of finance, transportation, and economic development. He was selected by his colleagues as Senate President Pro Tem in 2009. Mr. Metsger also served for 10 years concurrent to his Senate responsibilities as one of five Commissioners on the Oregon State Treasury Debt Policy Advisory Commission, which advises the legislature on prudent management of the State's long-term indebtedness.

We will now swear in the nominees. Will the nominees please rise and raise your right hand.

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

Mr. WATT. I do.

Mr. FURMAN. I do.

Ms. STEIN. I do.

Mr. PIWOWAR. I do.

Mr. METSGER. I do.

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

Mr. WATT. I do.

Mr. FURMAN. I do.

Ms. STEIN. I do.

Mr. PIWOWAR. I do.

Mr. METSGER. I do.

Chairman JOHNSON. Please be seated.

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

Congressman Watt, please proceed.

STATEMENT OF MELVIN L. WATT, OF NORTH CAROLINA, TO BE DIRECTOR, FEDERAL HOUSING FINANCE AGENCY

Mr. WATT. Chairman Johnson, Ranking Member Crapo, and Members of the Committee, I appreciate very much the opportunity to appear before you today to discuss my nomination to become the Director of the Federal Housing Finance Agency and to request formally that your Committee recommend that the Senate confirm me to this position.

I want to express my thanks to Senator Hagan and Senator Burr for taking the time to introduce me and for the kind comments they made.

I am deeply honored by the nomination and I am honored that members of my family and others are here to support me in this effort, especially my wife of 45 years, Eulada, who is seated right behind me, my brother-in-law, and my friend and freshman roommate at the University of North Carolina. Our friendship goes back 50 years, to a time that was critically important in my life, as a

freshman at Chapel Hill. I am deeply honored by the nomination, also.

In the interest of time, I will just give a brief summary of my background. I was born and grew up in a little community called Dixie out in the country, but with a Charlotte, North Carolina, address. I attended the Charlotte-Mecklenberg Public Schools, obtained a degree in business administration from the University of North Carolina at Chapel Hill, and a law degree from Yale University Law School.

I returned to Charlotte in 1971 to join a law firm that was best known as a civil rights law firm. But the definition of civil rights law was changing to include economic and business development, and I joined the law firm to stand up a business practice.

Over the course of 22 years in the practice of law, I practiced business law, representing individuals, partnerships, and corporations of all sizes and descriptions. Over half of my legal practice was real estate or related to real estate, and I also became the managing attorney of the law firm. Representing the city of Charlotte, my joint venture partners and I became the first North Carolina lawyers to do municipal bond work.

When I came to Congress in 1993, I was fortunate to be assigned to the House Banking Committee and the House Judiciary Committee. I have served on both of these committees continuously since then. Counting my 22 years in the practice of law and my 21 years in Congress, I have had 40-plus years of experience in housing, real estate, and other financial matters. I learned housing and real estate from the bottom up and have learned and worked on it from the top down.

Let me express my thanks to the Members of the Committee who have met with me leading up to today's hearing. During those meetings, the two questions I have been asked more than any others are why do you want this position, and what do you see as the role of the Director of the FHFA? I would like to spend the balance of my time addressing those questions.

Let me start with the latter question, because Congress has, in fact, provided clear statutory directions on the role that the FHFA and the Director should play. In the Housing and Economic Recovery Act, which authorized the creation of the FHFA, Congress directed the FHFA and its Director to carefully and prudently, quote, "oversee the prudential operations of each regulated entity," and to, quote, "foster liquid, efficient, competitive, and resilient national finance markets" during the transition period until decisions are made about housing finance and how it will be done in the future.

While a broad consensus, which I fully support, has emerged that the future of housing finance must move toward a system driven by private capital that minimizes risk to taxpayers, what that system will look like will, of course, be up to the House and Senate. In the interim, however, I want to assure you that if I am confirmed, I will rigorously follow the directives of the Housing and Economic Recovery Act in an open and transparent manner, working with all stakeholders. You can be assured that we will continue to build a solid bridge from where we are now to whatever you decide the future housing finance system will be, that we will continue to test risk-sharing models that move housing finance aggres-

sively to the private sector, and that we will cooperate fully and be a resource to members of the Senate and the House as you decide the future of housing finance.

The answer to the other question, why I want this position, is perhaps a little more complex, but to me, it is equally clear. Throughout my life, I have come to understand deeply just how important where you live is to who you are. I have observed that having a place to live is basic, and that is true regardless of whether you rent or whether you own. I suspect that my recognition of this started when I spent the earliest years of my life in a run-down house my mom rented, which had a tin roof, holes in the floor, no electricity, and no inside plumbing.

I still get emotional when I recall as a little boy watching a big, long truck maneuver what had been a four-room omni-barracks slowly down the road from the Charlotte airport to place it on a little lot that someone gave to my mother. That became the house I grew up in. I also get emotional when I recall watching them drill the well on that lot so we could have running water for the first time, and helping my Uncle Leonard dig the septic tank lines so we could have a bathroom inside.

While home ownership and home equity have become primary assets and source of retirement security for many families over the years, a place to live is still a basic necessity, whether you rent or whether you own. Having a place to live provides a sense of stability. It impacts our decisions about schools and transportation. It impacts our sense of community.

Growing up, there was nothing more basic to me except family, food, and the little country church that adjoined our front yard. You could say that where I lived even predestined that I would become a Presbyterian, because I am still a member of that church today.

Because a place to live is basic, over the years, I have worked to eliminate homelessness and I have been active in community development and neighborhood revitalization. And, of course, I have walked hundreds of families through real estate closings, for many of them, the most important financial transaction they will ever make.

So I was devastated when our housing finance system started to lose its way, and I was among the first to realize that. And Representative Brad Miller and I became the first to introduce anti-predatory lending legislation, 4 years before the housing meltdown precipitated our economic meltdown.

Now, we are at a unique moment in the history of how housing finance will be carried out in our country. Coming through the worst housing crisis in our history, we are struggling to find the right path out of a status quo that no one believes is desirable, and I cannot think of anything I would rather do now than help build the bridge and facilitate the transition to a more reliable housing finance future.

I look forward to answering any questions the Committee may have. Thank you.

Chairman JOHNSON. Thank you, Congressman Watt.

Dr. Furman, please proceed.

STATEMENT OF JASON FURMAN, OF NEW YORK, TO BE A MEMBER AND CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. FURMAN. Chairman Johnson, Ranking Member Crapo, and other distinguished Members of the Committee, I am honored that President Obama nominated me to serve as Member and Chairman of the Council of Economic Advisers and I am honored to appear before you today as you consider my nomination. Thank you, as well, to Senator Schumer for those kind and generous words.

I want to begin by introducing my family members who are here today. My first exposure to economics was from my father, Jay Furman, who is back there somewhere, who was pursuing graduate studies in economics when I was a young child. From an early age, I knew that I wanted to follow a similar path, and when I was 13, I got my first subscription to The Economist magazine. My mother, Gail Furman, also here today, a child psychologist, has always set an example for me when it comes to her unrelenting commitment to helping others.

I also want to acknowledge my brother, Judge Jesse Furman, his wife, Professor Ariela Dubler, and my father's wife, Vicki Moran Furman.

When I was in graduate school, focusing on starting a career in pure research, I met a woman who changed my future and eventually became my wife. Eve Gerber convinced me to follow her to Washington for my first job in government, not just because I would have followed her anywhere at that time, but because she convinced me that I could use my training to help contribute to better public policy. Eve has been supportive of me ever since.

When my daughter was just born and my son was barely one, Eve encouraged me to return to public service, even though it entailed hardship for her and early sacrifices for my children, Henry, who is now 6-years old, and Louisa Bettina, who is now five. Their future remains an important motivation for all of my work.

The job Eve convinced me to take at 25 was as a staff economist at the Council of Economic Advisers, then under the leadership of Joe Stiglitz. My time at CEA imbued me with a deep respect for the institution, its nonpartisan professional staff, and the role that unvarnished economic policy advice can play in helping to shape and advance the President's agenda. If confirmed, I would be proud to continue in that tradition, one that has strived in both Democratic and Republican administrations. I would also be guided by the example of former CEA Chairs Marty Feldstein and Greg Mankiw, among others. Marty was my first formal teacher in economics and Greg was my principal dissertation adviser at Harvard.

As you all know, economists certainly do not always agree with each other, but economists do agree on a lot, most importantly, that questions should be addressed with a combination of logical theories and careful reading of the data, and that is exactly what CEA does, applying the tools of economics to the fundamental challenges facing American families. That is the approach I have always tried to bring to my research, teaching, policy advising, and public service, and that is the approach I would bring to advising the President on the economic goals we strive for today, including job growth, fostering sustainable growth, and helping families share in that growth.

Thank you, and I look forward to your questions.

Chairman JOHNSON. Thank you, Dr. Furman.

Ms. Stein, please proceed.

STATEMENT OF KARA M. STEIN, OF MARYLAND, TO BE A MEMBER, SECURITIES AND EXCHANGE COMMISSION

Ms. STEIN. Chairman Johnson and Ranking Member Crapo and distinguished Members of the Committee, thank you for the opportunity to be here with you this morning. It is an incredible privilege to appear before you as one of President Obama's nominees to be a Commissioner of the Securities and Exchange Commission. I would also like to thank Senator Jack Reed for the kind introduction that he gave.

I would like to begin by thanking my family for their tremendous support. I am grateful to be joined today by my husband, Stephen Miller, and my children, Isabel and Rowan, who are sitting directly behind me. I also would like to thank my mother, Norma Stein, and my sister, Katherine Stein, both of whom are here, as well. I also would like to thank and congratulate my colleague, Mike Piwowar, who, like me, is sitting here next to me, has been nominated to serve on the Commission.

The United States has the largest, most robust, and most dynamic securities markets in the world. As the Federal securities regulator, the SEC has a critical three-part mission: To protect investors, to facilitate capital formation, and to ensure the integrity, transparency, and efficiency of these constantly evolving markets. The breadth and scope of that mission and the responsibilities and duties that flow from it are significant.

I am honored to be nominated to serve in such a vital agency with a proud and distinguished history and alongside a staff known for its tremendous skill and expertise.

Whether as a practicing attorney, an assistant law professor, or a person deeply involved in Senate Banking Committee policy for the past 15 years, including my time as Staff Director of the Securities, Insurance, and Investment Subcommittee, I have learned how essential it is to listen to a variety of viewpoints and develop public policy solutions to complex issues from the facts. If confirmed, I would look forward to engaging with the Commission, the SEC staff, and interested members of the public on an array of issues currently in the Commission's jurisdiction.

I also believe that capital formation and strong investor protections go hand in hand, as a lack of fairness and transparency in the markets can lead to higher transaction cost and less capital. If confirmed, I would strive to meet the challenge of protecting investors while ensuring that businesses have access to the financial services they need to grow and create jobs.

Beyond this, strong enforcement is critical to investor confidence and well-functioning markets. If confirmed, I would endeavor to be fair in assessing enforcement recommendations that come before the Commission, supporting aggressive actions and sanctions when supported by the facts and the law.

Thank you again for the opportunity to appear before you today, and I look forward to answering any questions you may have.

Chairman JOHNSON. Thank you.

Dr. Piwowar, please proceed.

STATEMENT OF MICHAEL S. PIWOWAR, OF VIRGINIA, TO BE A MEMBER, SECURITIES AND EXCHANGE COMMISSION

Mr. PIWOWAR. Thank you, Chairman Johnson. Chairman Johnson, Ranking Member Crapo, and Members of the Committee, I am honored to appear before you here today. I am humbled by the confidence the President has shown in me by nominating me to serve as Commissioner of the United States Securities and Exchange Commission.

I would like to thank Senator Crapo for that very kind introduction. Thank you. I would also like to express my sincere gratitude to Senator Crapo and Senator Shelby for allowing me to work on a wide range of Dodd-Frank Act, JOBS Act, and other SEC-related issues during my time on the Senate Banking Committee.

Mr. Chairman, thank you for allowing me to introduce my family members who are here with me today. First, I would like to introduce you to my wife, Eileen. I am incredibly fortunate to have the encouragement and support of such a wonderful wife.

I would also like to introduce you to my daughter, Brigid, who is here with Eileen. My son, Sean, could not be here. He is at Boy Scout summer camp in Pennsylvania. Apparently, he thinks that is more fun than being here with his dad, so——

[Laughter.]

Mr. PIWOWAR. Eileen and I are extremely proud of both Sean and Brigid.

I would also like to introduce you to my mom, Linda Dulan, and my step-father, Jim Dulan. I am glad they could be here with me today, as well, too.

Sitting here today, I recall the first time I was in this hearing room. It was almost exactly 9 years ago at a June 2004 hearing on an overview of the regulation of the bond markets. I was a visiting academic scholar at the SEC at the time. I was extremely proud that empirical evidence from two SEC-related research projects, one on the municipal bond market and one on the corporate bond market, were included in the testimony of the Director of the Division of Market Regulation at the SEC and the subject of a question by the Chairman of the Committee at the time, Senator Shelby. It was through work like those research projects that I learned how valuable the economic analysis could be to advance the mission of the SEC.

As a visiting academic scholar and later as a Financial Economist at the SEC, I provided economic analysis and other technical support to the Commissioners and the Division Directors and other staff in the divisions and offices at the SEC in rulemaking, compliance, and enforcement matters. While at the SEC, I had the privilege of working with a number of outstanding economists, accountants, lawyers, and other professionals. Some of them are still at the Commission, and if I am confirmed, I look forward to working with them again.

Over the past almost 4 years, I have had the privilege of working on many important issues under the jurisdiction of this Committee with a number of talented and professional Banking Committee staff on both sides of the aisle. These include a number of SEC-re-

lated issues, such as securities, over-the-counter derivatives, investor protection, market structure, and capital formation issues.

For many of the SEC-related oversight and informational meetings, hearings, and briefings, I have had the privilege of working directly with my fellow nominee, Kara Stein. If we are confirmed, I look forward to continuing our collegial, bipartisan working relationship to advance the important mission of the SEC: To protect investors, maintain fair, orderly, and efficient markets, and promote capital formation.

As Senator Crapo likes to point out, the U.S. capital markets must remain the preferred destination of investors throughout the world. For that to happen, the SEC must remain the preeminent securities regulator in the world. If I am confirmed, I will faithfully work with my fellow Commissioners to achieve that goal.

On a final note, the President has nominated me to fill the seat being vacated by Commissioner Troy Paredes. Commissioner Paredes has been an outstanding Commissioner who has earned widespread praise for being a thoughtful regulator, a friendly colleague, and a dedicated public servant. If I am confirmed, I hope to serve as ably as he has.

Thank you again for the opportunity to appear before you today. I am happy to answer any questions you may have.

Chairman JOHNSON. Thank you.

Senator Merkley would like to briefly introduce Mr. Metsger.

STATEMENT OF SENATOR JEFF MERKLEY

Senator MERKLEY. Thank you very much, Mr. Chair, and to be very brief, you have all heard—I want to say Senator Metsger, since he served in the Oregon Senate—his extensive background in credit union work, but I wanted to add a little bit.

I want to make sure people know that his life has included being an award winning journalist, being a high school teacher, being involved on a board that pursues financial literacy, going back just recently to teach financial literacy in high school, serving on the Oregon State Debt Policy Advisory Committee, but most of all, that as the chair for 8 years of the key committee on the Oregon Senate on financial issues, he did an extraordinary job of bringing the conversation together with the points of view of stakeholders from many different directions and working to execute sound public policy.

It was a job well done in Oregon and I know that he will be a terrific Member of the National Credit Union Administration Board.

Chairman JOHNSON. Thank you.

Mr. Metsger, please proceed.

STATEMENT OF RICHARD T. METSGER, OF OREGON, TO BE A MEMBER, NATIONAL CREDIT UNION ADMINISTRATION BOARD

Mr. METSGER. Thank you, Chairman Johnson, Ranking Member Crapo, and Members of the Committee. It is an honor to be before you today, and I want to thank the Chairman and Senator Merkley for their kind introductory remarks, and it was an honor and privilege to serve with you in the Oregon Legislature.

While my mother could not travel to be here today, she got up early in Oregon and she is watching the Web cast online of this Committee proceeding.

I would also like to recognize my father, who would have loved to have been here. He passed away recently. My dad served honorably in the U.S. Marine Corps in World War II in some of the most difficult situations possible in the South Pacific and later served as a public servant himself as a Postmaster in my home town of Sandy, Oregon. So my thoughts are about him today, as well.

It is indeed a privilege to be nominated for this very critical position. If confirmed, I will do everything in my power to fulfill the trust placed in me to maintain the integrity and the safety and soundness of the credit union system and in an ever-changing marketplace.

Maintaining a safe and sound credit union system requires visionary, attentive, and proactive leadership by those charged with regulating federally insured credit unions. In my view, the qualities inherent in serving successfully in this position include consideration of competing viewpoints, effective communication skills, and the wisdom to act prudently and decisively when action is required. And, if confirmed, I will bring those qualities to the NCUA Board.

As an Oregon State Senator for 12 years and as chairman of the committee charged with most financial legislation, I gained great experience and, I hope, wisdom, in weighing varied viewpoints, testing assumptions, and acting in a manner that effectively balanced consumer needs with the needs of the industries that serve them to produce good public policy.

Earlier in my career, I spent 16 years as a journalist, where my old school news director, Ted Bryant, instilled in me and the staff on a regular basis, he said that accuracy, relevance, and fairness were the cornerstones of responsible reporting, and I also believe that they are the building blocks for responsible regulating.

Additionally, as a small business owner, I have worked with credit unions and their regional associations. These experiences have helped me to better understand the perspectives of the regulated community and the importance of clear, open, and ongoing communication with the institutions that the regulator has under its jurisdiction.

My first credit union experience was as a 19-year-old working my way through Lewis and Clark College as a night custodian at an elementary school. There, I found I could join Portland Teachers Credit Union, and there, I got my first loan, a $350 loan for my first car, a 1957 Chevrolet two-door hardtop. Twenty years later, I was privileged to be elected by the members to the Board of Directors of that very same credit union. Through this experience, I saw the importance of visionary, effective leadership in guiding a credit union.

These collective life and work experiences have given me a strong understanding of the role credit unions play in our Nation's financial system, the significance of credit unions to their members, and the importance of maintaining safety and soundness. If confirmed, my experiences would also inform the independent judgments and

sometimes difficult decisions I would need to make as a member of the NCUA Board.

I firmly believe that a regulatory agency should also strive to be its own best critic. To that end, NCUA already has in place a policy to review one-third of its rules every year. I can assure you that, if confirmed, I will approach this rolling review with diligence and vigor, with the aim of updating, simplifying, eliminating, and clarifying existing rules to ensure that they are effective, but not excessive, and consistent, though, with safety and soundness.

Of utmost importance is the continued protection of the Share Insurance Fund. Now, because the fund is capitalized by the member credit unions themselves, it is in the best interest of member credit unions to have a strong, proactive regulator committed to protecting the fund from losses. The safety and soundness of the fund is job one of the regulator.

If confirmed, my vision for NCUA is to be recognized as an agency that manages its own fiscal house well, proposes regulatory action that is effectively targeted to achieve the desired outcomes, without placing unnecessary burden on the credit unions themselves, and above all, maintains the confidence and trust that the American public places in their local credit union.

Thank you, and I would be happy to answer any questions you may have.

Chairman JOHNSON. Thank you for your testimony.

If any Member has questions for the record for the nominees, I ask that you please submit them by COB on Monday, July 1. I also ask that the nominees respond to the QFRs quickly so that we can move the nominations forward.

We will now begin asking questions of our witnesses. Will the Clerk please put 5 minutes on the clock for each Member.

Congressman Watt, well before this crisis, you helped lead multiple efforts in the House to improve lending standards to better protect borrowers. You helped draft legislation reforming the GSEs that garnered bipartisan support. How does your legislative experience translate to running the regulator that you helped create? Will you be independent and pursue policies that are in the best interest of the public?

Mr. WATT. Thank you, Chairman Johnson, for the question. You are correct that I was in on the ground floor of anti-predatory lending legislation. We recognized probably earlier than a lot of people, because we were dealing with situations out in the community and seeing what was happening, that loans were being made that were not responsible loans and that the borrowers were not going to be able to pay them and that was an unsustainable thing.

So we started from that premise and tried to build a system that would take some of the perverse incentives out of it. Brokers, lenders were making more money for directing people to loans that they could not afford than they were making directing people to loans that they could afford. The system was essentially out of control.

And we tried to put together a coalition of people to recognize that. It took us one term after we introduced the legislation the first time to even get people's attention to the matter. The second term, we actually tried to put together a strong bipartisan coalition

in the House Financial Services Committee but we were not able to pull it together. By the third term, the meltdown had occurred and everybody had recognized that there was a serious problem.

That translates, because I think understanding that you cannot make an unsustainable loan, you cannot make a loan to somebody who cannot afford to pay it, is basic to the entire system of mortgage finance in this country. And that translates all the way up through the system. So, understanding the system all the way through, I think, is critical. And legislating to correct problems, you cannot legislate unless you really have an understanding of the system that you are legislating about.

I kind of relate it to when I was practicing law, I never wanted to walk into a courtroom unless I understood the totality of what I was litigating about because I had to anticipate questions from both sides. And I think that is critical when we are legislating, also, and it is critical to be able to work with people and I have demonstrated my ability to do that over the years.

Chairman JOHNSON. Thank you.

Dr. Furman, what more should the Federal Government do to promote a rapid and broad-based recovery in order to create even more jobs and strengthen the middle class?

Mr. FURMAN. Thank you, Mr. Chairman, for that question. The United States has had 37 straight months of job growth, nearly seven million jobs created. But, at 7.6 percent, the unemployment rate is unacceptably high.

I think there are a number of steps that we can take, but very briefly, increasing our investments in infrastructure and tax credits to help small businesses expand their payroll and invest, combined with measures that over the medium- and long-term would reform our entitlements, reform our tax code, and put our deficit on a more sustainable course, and, finally, measures in housing that would expand access to credit to help us continue the housing progress that we have been making.

Chairman JOHNSON. Ms. Stein and Dr. Piwowar, if confirmed, how will you balance the complex issues on the SEC's agenda, including Wall Street Reform, the JOBS Act, market structure and enforcement, to name a few? Ms. Stein, let us start with you.

Ms. STEIN. As you know, the SEC has a multi-pronged mission, and I think as Chairman White said in her confirmation hearing, you need to be pursuing all of those objectives at the same time. Dodd-Frank and implementing Dodd-Frank is, to some degree, trying to remedy and learn from the lessons of the past financial crisis. JOBS Act implementation is critical, and other efforts to improve capital formation while still protecting investors. Equally important is allowing the SEC to evolve so that it can keep up with a very rapidly changing computerized marketplace.

I think these things are not mutually exclusive, because if investors believe the market is fair and efficient and transparent and well regulated, they are more willing to put their money into the markets, and there is greater capital formation, which creates more jobs. So I think you need to pursue all of those things at one time.

Chairman JOHNSON. Dr. Piwowar.

Mr. PIWOWAR. Thank you. Yes, I agree that we have to work on all those at the same time. So, if confirmed, I will definitely work

with Chair White, who actually sets the rulemaking agenda for the SEC, to make sure that priorities are placed on rulemaking that is mandated under the JOBS Act and under the Dodd-Frank Act.

With respect to enforcement, there is a steady slate of cases that come forward that the SEC has to deal with on a consistent basis and that is just part of the job.

In terms of rulemaking outside of the JOBS Act and the Dodd-Frank Act, obviously, the SEC has a rule proposal on money market funds which has to be addressed. And then outside of that, there is certainly a need to take a holistic approach at market structure issues. That is going to be a longer-term issue. But in the short run, I think there is one discrete issue that the SEC could move forward on and that is the pilot study on the tick size for small cap companies.

Chairman JOHNSON. Senator Crapo.

Senator CRAPO. Thank you, Mr. Chairman.

Representative Watt, Fannie and Freddie loans are currently exempted from the qualified mortgage, or QM, underwriting requirements and the QRM risk retention requirements. And while Acting Director DeMarco has indicated that Fannie and Freddie will only purchase QM loans, this standard is only as strong as the FHFA leadership requires it to be in the future. Exempting them from QRM risk retention requirements seems to grant them additional market advantages, but requiring them to retain that risk builds their portfolios. Do you believe that Fannie and Freddie should only purchase or guarantee loans that meet market-wide QRM requirements?

Mr. WATT. I do, and I am not saying that loans should not be made by the private sector to people outside the QM, but understand that it was the anti-predatory lending provisions in Dodd-Frank that led to QM, and those are essentially the same standards that we started with 4 years before the meltdown. So I have always believed that you cannot make a loan to somebody who cannot afford to repay it. That is unsustainable, and so I think with taxpayers now explicitly at risk, we have got to even be more careful about it because all of those risks are being assumed now by the taxpayer. So I do agree with that.

Senator CRAPO. Well, thank you. And with regard to the QRM, do you believe that Fannie and Freddie should continue to be exempted from the QRM requirements?

Mr. WATT. Well, I think the rationale for it is that Fannie and Freddie are being phased out over a period of time. If they were ongoing operating entities, we should expose them to QRM standards, also. But the theory now is that taxpayers are providing an explicit backstop, so QRM standards, risk retention really is not relevant in this interim period and, hopefully, will not be relevant long-term because the portfolios of Fannie and Freddie are being wound down over time.

Senator CRAPO. With regard to the Fannie and Freddie portfolios, some politicians and analysts have begun to track the cumulative dividend payments to the Treasury by Fannie Mae and Freddie Mac and portraying those as offsetting the nearly $190 billion capital requirement that is owed to the taxpayers rather than recognizing that as a fee for the capital that is described in the con-

tract governing their conservatorships. Is it your view that the current payments being made to the Treasury by Fannie and Freddie are actually paying down their debt or is that a dividend-type obligation under the conservatorship?

Mr. WATT. It is certainly not. The way the preferred stock purchase agreement is structured, none of it is going to the payment of the debt. It is a return to the taxpayers for bailing out these entities, and that is the way I view it.

Senator CRAPO. Good. Thank you. And under the current contract governing the conservatorships, any revenue above a small and diminishing amount is swept into the U.S. Treasury to pay this dividend that is owed by Fannie Mae and Freddie Mac. Do you believe that under the contract there is the legal authority for the Director to use any of the Fannie and Freddie revenue to fund social initiatives, even if the Director believes that those social initiatives would be in the public interest, or, on the contrary, do you believe that the Director has an absolute legal obligation to ensure that Fannie and Freddie make business decisions to maximize their net worth and then submit their net worth above the levels established by that to the Treasury?

Mr. WATT. Ranking Member Crapo, that issue actually has been addressed in the statute that created the FHFA and there is a directive there that gives leeway to allow the GSEs to do things that do not yield the same kind of return in some cases. So there is kind of a built-in tension in the statute. What is important, though, is that we should definitely not be making any loans or guaranteeing any loans that cannot be repaid. Now, whether they get the maximum rate of return or not in some cases, you can argue about. But the primary responsibility ought to be protecting the taxpayers' investments at this point through this transition.

Senator CRAPO. Thank you. But just to be clear, you are saying that you think that there is legal authority for the Director to fund social initiatives?

Mr. WATT. It is quite explicit in the statute. It says, including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities. Now, that is not an authorization to go and make irresponsible loans——

Senator CRAPO. Understood.

Mr. WATT.——but that was built into the statute, and obviously there is tension in the statute and that has to be done responsibly, and my pledge to you is that I will continue to do it responsibly.

Senator CRAPO. Thank you.

Chairman JOHNSON. Senator Reed.

Senator REED. Well, thank you very much, Mr. Chairman.

I had the opportunity and the privilege to commend Kara Stein. I want to also commend Mike Piwowar for your collaboration, your cooperation, your insights, and your great service to this Committee. I think the President has chosen wisely in both cases, and very good luck, Mike, and thank you.

Mr. PIWOWAR. Thank you, Senator.

Senator REED. Let me also say I have had the privilege of serving with Congressman Watt and I have been impressed for many years with his intelligence, his integrity, and, as he explained

today, his knowledge of housing from Dixie, North Carolina, to Washington, D.C., and——

Mr. WATT. From the septic tank up.

Senator REED. Yes. Yes.

[Laughter.]

Senator REED. But I think the other thing that Representative Watt brings, which is, besides his personal qualities, is his understanding of sort of where we are, which is basically the next Director of FHFA has to continue to maintain the value of the assets of Fannie and Freddie and at the same time work collaboratively with the Congress, and many of my colleagues have done some very good work about proposed transitions. In fact, the goal is, essentially, to put you out of a job, basically, to eliminate Fannie and Freddie. And I just want to get your reaction to sort of that approach, Representative Watt.

Mr. WATT. Well, I think putting me out of a job would mean that we have gotten through this transition and built a sustainable future for housing finance and mortgage finance in this country. So, I would be delighted to have that happen. In the interim, however, we have a set of responsibilities that I would certainly apply and use the judgment, the good judgment, that I have built over the years to make responsible decisions, and I do not want anybody to have any doubt about that.

Senator REED. Well, I have no doubt about that, Representative. I have great confidence and, again, I think the President has made a very wise choice in many, many different ways—your experience, your, just, character——

Mr. WATT. Thank you.

Senator REED.——so thank you.

Dr. Furman, we had a chance briefly to chat in the office. America is undergoing this great revolution in natural gas. It is so cheap and so affordable and so available, except in New England.

[Laughter.]

Senator REED. Yes. We happen to be the largest consumers of natural gas because of many things, including air quality rules, and we are paying a very high price.

Henry Hub, which is down in Louisiana, but it is sort of the national pricing point, $3.25 per MMBtu. The Algonquin City Gate, that is the one that—the usual pricing reference for New England, $30 per MMBtu. So I think one of the things you have to work on is trying to figure out how the benefits of this great—and there are benefits to this great revolution in natural gas production and cost—can be extended to every region of the country, particularly the Northeast, and so that we can be competitive in terms of manufacturing, be competitive in terms of many things. So, any comments, I would appreciate, but it is more of a reiteration of our previous discussion.

Mr. FURMAN. Yes, Senator. I enjoyed that discussion and very much agree that natural gas plays a really important role in the economy. It directly creates jobs in a lot of States, like Senator Heitkamp's State, and then indirectly is a critical input into manufacturing and is part of why I think American manufacturing is undergoing somewhat of a renaissance right now.

But, as you said, those natural gas prices are very variable across the country, and figuring out what we can do, whether it is investment in infrastructure or other measures to help bring those prices down, I think is good for jobs, good for clean energy, good for dealing with climate change over the long run, and is something I would very much look forward to working on if confirmed as Chair of the Council of Economic Advisers.

Senator REED. Thank you very much, Doctor.

Just one quick question for Senator Metsger. I am cosponsoring legislation with Senator Udall that will increase credit union member business only cap to 27.5 percent of assets from the current 12.25 percent. Do you think that is a good idea?

Mr. METSGER. I think it is a good idea to recognize that it is the purview of Congress to make decisions.

[Laughter.]

Senator REED. Spoken like the Chairman of the Oregon Senate Committee on Finance and everything else. Thank you.

Thank you, Mr. Chairman.

Chairman JOHNSON. A series of votes has started on the floor. On the last floor vote, I ask Members to vote early and hurry back to the hearing so that we can resume. I apologize to our witnesses and ask them to be patient in hopes that we can resume quickly. Votes have started on the floor. Senator Toomey will be the last Member I recognize for questions before we recess for votes.

Senator Toomey.

Senator TOOMEY. Thank you very much, Mr. Chairman. I appreciate that, and I thank my colleagues for allowing me to go next, as I have a conflict later in the day, so thanks very much to all of you for your help.

Congressman Watt, I have got three quick questions, really. I want to start with a quote that is attributed to you from a financial—a House Financial Services Committee hearing, and in it, you said—in September of 2003, you said, quote:

> Private enterprises really have not done very well in achieving things other than making money. Most of them do not really give much of an [expletive deleted] about poor people and whether they have housing or not, and it seems to me that an over-emphasis in that direction can only make matters worse.

I guess my question is, is that still your view about the private sector with respect to the mortgage markets, and if so, how could we be confident that you would help lead a transition to a mortgage finance model that would rely more on the private sector?

Mr. WATT. Thanks for the question, Senator Toomey, and thank you also for meeting with me in advance of the hearing, leading up to the hearing.

We were observing a lot of very negative things that were going on in the housing industry at that time, some of which I alluded to in answering Chairman Johnson's questions. Loans were being made to people based on incentives for profit rather than on their ability to repay. There were substantial incentives built into the system that were negative incentives and they were taking advantage of them, both in the private sector, and Fannie and Freddie also got into the act, one foot in the public sector and one foot in the private sector.

So there are circumstances in which the profit motive overtakes anything else, responsibility, and I still believe that, but I think if you look at my record, you will know that I have worked in the private sector responsibly. I worked with the private sector responsibly. And I believe that the private sector is critical to our economy and I am hoping that we can incentivize as much of this business going back into the private sector as the private sector will assume as quickly as it will assume it.

Senator TOOMEY. OK. I have got another question here. With respect to the HAMP PRA program, are you prepared to commit now that you will not implement principal reductions on mortgages?

Mr. WATT. Well, as I told you previously, I can tell you what the principles will be if I am asked to look at that again, and I expect I will be asked to look at it again because some people still think it is a relevant question, despite the fact that housing prices have gone up and there are fewer and fewer people underwater at this point than there have been.

But I would start as I would with any issue that has been decided already by FHFA. I would start by studying carefully how that decision was reached, what it was based on, and then I would build on that new information. I think the information on which that decision was made is a year-and-a-half old now.

Senator TOOMEY. But, the problem——

Mr. WATT. And then I would make a responsible decision based on that.

Senator TOOMEY. The concern is that the decision was—the information was quite recent but available when you signed a letter in December urging exactly this principal reduction, despite the fact that the FHFA analysis was that this was not a good idea. It was not a good idea for the Enterprises. It was not a good idea for the taxpayers. And I do not think it is a good idea for mortgage credit availability generally.

And so the concern is that, based on the data then and the analysis then that suggested that this was a bad idea, you, nevertheless, recommended it. So that is why I am wondering——

Mr. WATT. Well——

Senator TOOMEY.——how we should view this now.

Mr. WATT. First of all, there was conflicting data out there. Obviously, FHFA had made a decision that reached one conclusion, but there was conflicting data.

Second of all, you have got to understand that I was a Member of Congress representing my constituents, many of whom were underwater, and advocating for relief for them. You should have no doubt that I will be a strong and aggressive advocate for the taxpayers in this role, because I view them as my constituents in this role, not the constituents that I represented before.

Senator TOOMEY. Mr. Chairman, do I have time for one more quick follow-up? It is very quick.

Chairman JOHNSON. Make it quick.

Senator TOOMEY. Very quick. Thank you.

You, no doubt, have seen that a number of municipalities are actively considering employing eminent domain to purchase underwater mortgages. Do you support that, and if you do not support that, would you make it the policy of Fannie and Freddie not to

make mortgage financing available within the boundaries of municipalities exercising that?

Mr. WATT. Well, I have been a long advocate for acknowledging the prerogatives that State governments have in our Federal system. We cannot make every decision, and eminent domain is essentially a State and local issue. But I would insist that any decision not put local governments in front of our taxpayers and that if a decision was being made, it was being made for strictly public reasons, and I think that would be the analysis I would make.

Senator TOOMEY. Thank you very much, and thank you, Mr. Chairman.

Chairman JOHNSON. The Committee now stands in recess.

[Recess.]

Chairman JOHNSON. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

Mr. Chairman, I would just like to start by saying that I think the President of the United States has made five very strong choices, and I particularly want to say he has made a strong choice with Congressman Mel Watt to be the permanent head of the FHFA. I worked with Congressman Watt many, many years—starting many years before the financial crisis on a number of housing-related economic issues. He has always been a thoughtful policymaker. He has a deep background in finance. He has been a champion of working families. There is much work still needed to stabilize the housing market and FHFA is going to play an important role in that. And so I very much hope that we will not succumb to political bickering, that we will confirm a truly excellent candidate for this role.

So that is my only question for Congressman Watt. Should I say, do you agree with me?

[Laughter.]

Mr. WATT. I just want to say thank you. I was hoping that I would not deflect from the rest of the panel the entire day, so——

Senator WARREN. There we go. There we go.

But I do want to—I do have a question for Mr. Piwowar and Ms. Stein. We have talked in this Committee before about understanding how important it is for the SEC and other agencies to settle with companies that have engaged in wrongdoing, but we also understand that if the SEC does not go to trial and does not require admissions of guilt, either because it is too timid or because it lacks the resources, that they will have less leverage in their settlements.

And now we know that Chairman White has said that the SEC will require admissions of guilt in select enforcement cases. I think this is a very important step. I think this indicates that the SEC will show some backbone in critical cases and I think that has important benefits, spillover effects, even in other cases, in helping create some credibility behind any SEC threat to go to litigation.

So the question I have, and I will just start with you, Mr. Piwowar, do you agree with Chairman White's new policies here?

Mr. PIWOWAR. Absolutely. The "no admit, no deny" policy seemed to be on autopilot, and by definition, enforcement cases should be on a case-by-case basis. So I was pleased to see that she said that,

you know, in some cases it is appropriate, in other cases, it is not. They have to be dealt with on a case-by-case basis.

Senator WARREN. Fair enough, but that she is making an important change here. Thank you.

And, Ms. Stein?

Ms. STEIN. I would agree. I am supportive of the policy change and I think that the SEC should use all of the tools it has at its disposal to enforce the Federal securities laws. Nothing should be on automatic pilot.

Senator WARREN. Good. Thank you very much. I think that is very important. I think that Chairman White is onto something really important here and I hope other regulators are paying attention to the changes that she is instituting. You know, every District Attorney and every U.S. Attorney knows that plea bargainings will break down and have no real impact if, in fact, the Government is unwilling to go to trial. So I think this is true. I hope that the other agencies follow suit.

And I hope that we follow up. It is important that everyone know when we are talking about litigation that you do not have to have a perfect record. We can tolerate sometimes you will bring someone to trial and you may not succeed, but you are out there trying. It is important. Thank you. Good.

Dr. Furman, I have a question for you. We have also spent a lot of time in the Banking Committee talking about too big to fail, and I think I understand the policy of the Administration right there. Chairman Bernanke has said too big to fail is not yet in the rear-view mirror, and he and others in the Administration have said, but Dodd-Frank is chipping away at the too big to fail system that we have right now.

But, we also know that a recent study has indicated that the big banks are receiving a subsidy of about $83 billion a year in lower borrowing costs because the market believes that too big to fail is still out there, and that is a subsidy that boosts big banks over community banks in terms of attracting capital.

So my question is one about timing, Dr. Furman. I understand the point the Administration is making, but it has now been almost 5 years since the financial crisis, 3 years since we put Dodd-Frank into place. So, at what point will we determine whether or not these tools are sufficient or it is time to do more, like instituting Glass-Steagall? Do we wait a year? Two years? What do you think, Dr. Furman?

Mr. FURMAN. Senator, thank you for that question. I think what you would want to see is very steady progress and ideally rapid progress. As Chairman Bernanke has said to you in this Committee, too-big-to-fail is over. The Federal Reserve would not be bailing out an institution. You are right that the market continues to have a perception that there is—the credit rating agencies, for example, that there is some backstop there.

It is important to understand, markets can be wrong. They might have that perception, but that perception is not matched in reality. Part of what policy needs to do is continue that implementation of Dodd-Frank, everything from the capital requirements, the supervision, the reduced risk taking, and the resolution authority, so that you are making it crystal clear that that perception is wrong.

But, at the same time, I agree, we would need to continue to monitor the data on things like the funding premium for large, complex, risky institutions.

Senator WARREN. Good. Thank you very much, Dr. Furman.

And, Mr. Metsger, the only thing I would ask is did you keep that 1957 Chevy that you bought with the credit union money? It is a great investment now.

Mr. METSGER. Well, it would certainly be worth 60 to 70 times more now, so my long-term investing decision was not very wise on that one.

Senator WARREN. Thank you. Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Corker.

Senator CORKER. Thank you, Mr. Chairman, and I thank each of you for your willingness to serve.

Over the last, I guess, 9 months, I have worked with Mark Warner and others here, as a matter of fact, eight of us, on a very detailed piece of legislation dealing with GSEs, and during that time, I spent some time with Jason and others, but realize the tremendous complexities that Fannie and Freddie have within their portfolio and overseeing them is something that is very complex.

Congressman Watt, I know that you and I have a very friendly relationship. I see you traveling back home sometimes and passing through Charlotte and worked with you on the Dodd-Frank conference and know that we have had, again, a very, very warm relationship. While we had a pretty tough meeting the other day privately, we also had a warm meeting, and I do appreciate the public service that you have offered. I know you have served your district with distinction. I know you have been married for many, many years, the number I will not say because it does not look possible that that could be.

[Laughter.]

Senator CORKER. But, in any event——

Mr. WATT. You are obviously looking at me, right?

[Laughter.]

Senator CORKER. I was actually looking a little off to the side, to be honest.

But I think you know, and I have said this publicly and I have said this privately, I have—I said this long before your name ever came up—that I really thought this position, because of the nature of it—and I am all for politicians going on to do great things—but I really thought, because of the nature of it, this was a job that needed a real technician.

We have sat down with the Fannie and Freddie CEOs. These are people who have come in at diminished pay to try and run these organizations, $5 trillion worth of very, very complex financial instruments, $2 trillion worth of derivatives. We have sat down with just people involved in this business and it is the most complicated thing I have ever been involved in.

You know, I have mentioned publicly how disappointed I was that anyone other than a technician—you know, we do not have, typically, people who oversee the FDIC that are politicians. We do not have folks that oversee the OCC. These are people that really are specialists in their areas.

Again, I would just ask you this question, and again, you know this is not about you. I do not know of many—as a matter of fact, I am not sure I know of anybody today in Congress that I would feel good about in this position. Maybe there are one or two. I do not know who they are at this moment. But, as you know, it is very complex. I know you have spent a lot of time looking at this and cramming, and I very much appreciate you doing that, and I appreciate the preparation prior to our meeting.

But, in reality, I mean, if you were going to select someone to oversee the risk-sharing arrangements that are going to be so complex as we move ahead, the winding down of Fannie and Freddie, if you were President, would you have selected you?

Mr. WATT. Well, first of all, I want to express my thanks to you for meeting with me and for the warm relationship that we have had leading up to this. As I told you in our private meeting, qualifications for a position is a relevant criteria and I have discouraged people privately from taking a position other than that, so we should be clear on that.

I would—if I were the President, I would select me, yes. That is exactly what I would select, because I would want somebody who understood this business from the ground up. I would understand—I would want somebody who had technical qualifications, but not arrogance about it, understanding that the people who resulted in this meltdown theoretically had technical qualifications and they did not do all that great.

I would want somebody who would surround themselves with expertise and not think that they knew everything, but most of all, I would want somebody with good judgment who could listen to all of the stakeholders and work with all of the stakeholders and try to facilitate the transition from where we are now to where the House and Senate are going to take us in the future.

So—and be clear, a number of people throughout my life have questioned my qualifications to do things. I mean, I got it questioned when I went to the University of North Carolina. I got it questioned by the Dean of the Law School at the University of North Carolina when I selected Yale University Law School over UNC's Law School. I have had it questioned time after time after time.

And so it is hurtful to have been doing something for 40-plus years, be on a panel with people who, most of whom could be my children, and I be the person designated out for "this guy is not qualified." But, if you have any questions about——

Senator CORKER. You notice, I put us all in that category.

Mr. WATT. Beg your pardon?

Senator CORKER. I put us all in that category.

Mr. WATT. Well, but understand, I have been doing this from ground-up and from top-down.

Senator CORKER. Yes.

Mr. WATT. Those are the criteria that I would want applied to a candidate for this position. You can put as many zeroes behind a trillion dollars as you want. The same principles that apply in spending $10 a week to work my way through college apply at that level. And I tell people all the time, I do not understand what a billion dollars or a trillion dollars is, but I do know that regardless

of how many zeroes you put back there, you have got to apply the very same principles that you would apply as if you were making a decision when you had only $10 a week to live on.

One final thing, and I just—you know, this helps me get it off my chest as we——

[Laughter.]

Senator CORKER. Go ahead.

Mr. WATT.——as we did——

Senator CORKER. I have thought about going into therapy down the road, but go ahead.

[Laughter.]

Mr. WATT.——as we did in private, so, I mean, you have heard some of these things before. I just—I think I have the skill set to do this job. I think it requires good judgment above everything else. I have demonstrated good judgment throughout my life. I am not under anybody's thumb. I mean, I have been elected to Congress 11 times. You are right, I am an elected official. But very few people in my life have called me a politician. I have taken some very difficult stances in my life, regardless of who the President of the United States was, Democrat or Republican, and I will place my record against anybody in the House or the Senate when it comes to independence and doing what the facts and the substance prove to be the right thing to do.

And that is the kind of person I think I would want for this position, and I think on those criteria, I fit your—technician, I can get somebody to do the technician part. I can help them do it. You want somebody who is going to make good judgments about the technical work that is being done here, and I think that is what I bring to this position.

Senator CORKER. Mr. Chairman, some of my time was eaten up during this therapy session. I am wondering if I could ask one more question.

Chairman JOHNSON. One more question.

Senator CORKER. OK. First of all, thank you.

I know that the Chairman and others have gotten into this a little bit, and for what it is worth, you know that we just confirmed your good friend as Secretary of Transportation, somebody I think was——

Mr. WATT. A very good choice.

Senator CORKER. And I think he was confirmed 100-to-nothing on the floor, 100-to-0. I think many of us look at these kinds of positions different than a cabinet Secretary. We know that a cabinet Secretary is going to be oriented toward the agenda of the White House. I mean, that is the purpose and we give the President a lot of leeway.

I think in jobs like this, though, and for what it is worth, I have had to go through this over and over and over again, the plumbing of how all this ties together. And we have had the CEOs and CFOs and others in, and Mel, you know, over and over, I have got to go through it.

And so my point is, I understand about the judgment piece, and certainly, you have lived the American dream due to your hard work and I applaud you for that. But I do think there is a high

level—a large degree of technical skills that come with this, OK——

Mr. WATT. And I am the first to acknowledge that——

Senator CORKER.——and that is what has troubled me as I have gone through it. But I think Senator Crapo brought up a point, and I know you answered a question earlier about eminent domain and you would not hesitate to use eminent domain to foreclose on mortgages. I understand. I know that is sort of out in the intellectual way of sort of——

Mr. WATT. I do not think that is what I said. If you heard that, then I need to certainly clarify my answer. I respect the right of local authorities. Some people think I am too States' rights oriented, given my background. But if somebody is going to try to put States' rights or individual eminent domain authority above the taxpayers of the United States, that is where I would certainly draw the line——

Senator CORKER. Well——

Mr. WATT.——and I thought I was clear on that.

Senator CORKER. And what I might do is just have a follow-up QFR so I do not take everybody else's time.

But here, I guess, is the issue. You know, we have talked a little bit about you being a bridge, if you will, because of—and that was one of the skills you brought. You know, to be candid, I do not really want a bridge to Congress on this particular job in that we have had so many difficulties with Congress trying to influence Fannie and Freddie. I think that Congress aided in big ways the problems that occurred. I really believe that. And that was the reason, especially with potentially—I know the Committee is taking up some, hopefully, GSE legislation this fall after FHA. It is certainly their decision as to when that occurs.

But to attach, quote, "politics" to it, to me, was another element that you and I discussed, and, you know, let us face it, that is an element that none of us really want to see. I mean, we want some tough, hard-nosed decisions that have nothing to do with politics. We do not want the Administration influencing. Once we pass a piece of legislation, we want to see it happen.

And I know you want to respond, and I am glad to let you do that if the Chairman will, but I would also, in that response, would like to, in the event we pass legislation to wind Fannie and Freddie down out of business over a short but reasonable amount of time, is that something, based on your past, you would feel comfortable in doing?

Chairman JOHNSON. Please briefly respond.

Mr. WATT. OK. Thank you, Mr. Chairman.

Let me address the bridge part of this, because I do not want you to misinterpret what I mean by bridge. I am not talking about a political bridge. The bridge that has been started to be constructed here is the single securitization platform, and it is going to be important on the other side of that bridge, regardless of what you all come up with as the next iteration of mortgage finance in this country, for every different kind of element to link into that bridge. Big lenders, community banks, credit unions, co-ops, if you all see fit, everybody is going to have to connect into that bridge.

So I hope nobody leaves here thinking that I am talking about playing the role of a political bridge builder in this process. That is not what I am talking about. I am talking about a technical bridge that Fannie and Freddie jointly are trying to build that I think needs to continue to facilitate whatever you all agree to.

I applaud the bipartisan effort that you all have made. I am glad to see somebody stepping into this space, and I would hate for it to be a partisan effort. But in my role, I think I have got to cooperate with, as I said in my opening statement, with anybody who, in the House or the Senate, has ideas about what the next iteration of housing finance should be. And you can be assured that I will cooperate fully with you, but not in the sense that I am thinking that I am a bridge between you and the White House or you and the House. I am talking about a technical bridge. That is the bridge I am talking about.

Chairman JOHNSON. Thank you, Congressman Watt.

Senator CORKER. Thank you.

Senator WARREN. Mr. Chairman, could I just make one quick statement, that I think all five of these positions are based on good judgment. That is what we are looking for, people with good judgment. And I just want to say, based on my past experiences, if I could, I would vote for Congressman Watt twice.

Mr. WATT. You might need to do that to offset his——

[Laughter.]

Chairman JOHNSON. Dr. Piwowar and Ms. Stein, what do each of you believe is the best way to address the resources challenge at the SEC? Dr. Piwowar.

Mr. PIWOWAR. Sure, Senator Johnson. Being here during Dodd-Frank, I was actually pleased, working for Senator Shelby when he worked on the SEC match funding provision with Senator Schumer that actually hard-wired in increases in the SEC's funding over time.

In addition, it put in something called the reserve fund that actually helped add some certainty to the SEC funding during times of uncertainty. That is a key one, is to have that fund be able to do that.

And then, third, the ability of the SEC, when they submit their budget to OMB, also do a direct submission to Congress, and that allows Congress to have the information as to what the SEC would want before OMB gives them the pass-back, which sometimes includes a haircut off of what they want, and then be able to have the conversation, so Congress could have a frank and open conversation with the SEC in terms of what would you do with those additional monies in the case that there was a haircut there.

Chairman JOHNSON. Ms. Stein.

Ms. STEIN. As you know, Chairman, the SEC collects fees based on transactions in the securities markets that are matching what the appropriators set as their budget that particular year. So I would agree with Dr. Piwowar that the SEC has the capability of getting the resources it needs, with Congressional approval. However, in a world of limited resources, the SEC needs to be doing what it does smartly, effectively, efficiently, and some of that, I think, at the end of the day, is going to mean improvements in technology, being able to keep up with fast-paced markets, and

oversee them more efficiently, allowing employees at the SEC to use what they do have more effectively.

Chairman JOHNSON. Mr. Metsger, what lessons have credit unions learned from the financial crisis, and are there additional steps that NCUA should take to further strengthen the credit union system?

Mr. METSGER. Thank you, Mr. Chairman. I think one of the key lessons is that the regulator needs to be watchful in good times and bad.

Number two, that the rules need to be modernized to look at the threats in the modern marketplace.

I think there are some things on the horizon now that the NCUA needs to look at, and if I am confirmed, will be part of that agenda moving forward. Number one is interest rate risk. Credit unions are very involved in the mortgage industry. We all know what happens in low interest rate environments. It is going to change eventually. We do not know when or where or how much. Just look in the last 30 days on the average 30-year mortgage or look at the 10-year Treasury and what has happened, 60 basis points in the last 30 days. So credit unions need to be prepared. As a regulator, I will work to ensure that credit unions are prepared for interest rate risk and can manage that risk, number one.

Number two is access to emergency liquidity. Because of the crisis that hit in the last 5 years, the Central Liquidity Facility is not subscribed to now by a lot of credit unions, and to insist that all credit unions have a plan to access liquidity for emergency situations.

The third is, as we all know, no matter how well a credit union is run, how well their underwriting is, the technology that has helped our lives so much has also now created tremendous risk, systemic risk, to the Share Insurance Fund. A credit union can, in a matter of milliseconds, possibly have tens of millions of dollars taken away. I will work diligently, if I am confirmed, to see that the rules and regulations of the NCUA are as contemporaneous as possible to meet the technological risk, particularly in the area of cyber security.

Chairman JOHNSON. Senator Crapo.

Senator CRAPO. Thank you, Mr. Chairman. I just have a couple more questions of Mr. Watt.

Representative Watt, when we were discussing this issue prior to the break, I asked you a question about whether it would be legally permissible under the conservatorship, in your view, to utilize some of Fannie and Freddie's revenue to fund social initiatives, and you read me the authorization under the statute.

My understanding is—and you indicated at the time, there were some competing tensions in the statutes, and I agree with that. I just want to confirm this issue with you, because the statute that you were reading to me was the National Housing Act, which lays out the authorities for Fannie and Freddie, among other things.

But as I see it, we have now moved Fannie and Freddie into a conservatorship, which is an exceptional circumstance, and we have actually passed subsequent legislation, the HERA legislation, that established the conservatorships and the rules under which the conservatorships will be operated. And the language of the con-

servatorship is—in multiple cases details the powers of the conservator to be, and I quote, "to conserve and preserve the assets of the regulated entities." And so that is a tension that I see there.

As I see it, the conservatorships are a unique circumstance and the HERA legislation trumps, if you will, other policy considerations that were established when Fannie and Freddie were operating under normal circumstances. And so, again, I want to come back to that.

Do you interpret this circumstance in the statutes to give the conservator, or the Director of FHFA, the authority to utilize revenue of Fannie Mae and Freddie Mac to fund social programs which would then reduce the function of conserving and preserving the assets of the regulated entity?

Mr. WATT. Senator Crapo, you are right that the conservatorship built in an additional tension that was in addition to the tensions that existed in the original authorizing statute that stood up FHFA and you have got to respect both of those things. I agree with that.

I am not sure I understand, and perhaps I should have clarified it when you first asked the question, what a social expenditure is. I do not think the GSEs should have ever been in the business of carrying out any kind of social agenda. Their authorization was to do housing, and as I have indicated previously, I do not think you should ever be doing housing where people cannot afford to repay the loans that they are getting.

So unless you are defining some other—something else as social, I think you and I would be in complete agreement. I just think that is how we lost our way in the first place, making loans to people who could not afford to pay them, not looking at their creditworthiness, not assessing their ability to repay, and that is what the QM standards are all about, and I was the first to support that and continue to support it and you can count on it.

Senator CRAPO. Well, it sounds like we are talking the same thing. Let me give you just an example of what could be. As you indicated, for those who are not in a position to be able to repay their loans, we should not be incentivizing Fannie or Freddie to create such loans, which got us into the kinds of troubles that we got into earlier. And there is the potential, and I am just coming up with an example, of the possibility that some would say that the resources of Fannie and Freddie should be utilized to establish, say, a housing fund to provide subsidies for loans that otherwise could not work out, or—and that may actually be a policy decision that we would want to establish here in Congress as we develop the ultimate outcome for our national housing policy.

Mr. WATT. As, in fact, you did in the original bill.

Senator CRAPO. Exactly.

Mr. WATT. Yes.

Senator CRAPO. And so I am not saying that that should not be established. My question is whether you see that you have the role to establish that as opposed to Congress when we determine the outcome of what housing policy should be.

Mr. WATT. I do not see that as my role to establish it. The conservator made a determination, and it might be my role to evaluate that determination of whether there is sufficient capital to do that. I mean, there are criteria that the conservator has to apply under

the conservatorship statute for cutting on or cutting off contributions to the trust fund. And as I have said before, my starting point on making that determination would be to fully understand how the determination was made before, why it was made before, and whether there have been additional developments since then that would result in a different outcome.

Senator CRAPO. Well, thank you. I would just wrap up with a statement rather than another question to you, and that is as I see the role that you would fulfill as the Director of the FHFA, in the conservatorship role, I think that Congress very specifically intended that the assets of Fannie Mae and Freddie Mac be conserved and be managed in such a way that they return the maximum support back to the taxpayer and then let Congress make the decision as to how those assets should be managed in terms of housing policy moving forward. And that is what I think the statute clearly says, and I just wanted to be sure that I got your perspective on that.

Mr. WATT. Thank you.

Chairman JOHNSON. I thank you all for your testimony today and for your willingness to serve our Nation.

I ask that a letter of support from the Congressional Black Caucus regarding Congressman Watt's nomination also be included in the record.

Chairman JOHNSON. I remind Members to submit questions for the record by COB on Monday, July 1. I also ask that nominees respond to the QFRs quickly so that we can move the nominations forward.

This hearing is adjourned.

[Whereupon, at 1:12 p.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF MELVIN L. WATT

NOMINEE FOR DIRECTOR, FEDERAL HOUSING FINANCE AGENCY

JUNE 27, 2013

Chairman Johnson, Ranking Member Crapo and Members of the Committee, I appreciate very much the opportunity to appear before you today to discuss my nomination to become the Director of the Federal Housing Finance Agency and to request formally that your Committee recommend that the Senate confirm me to this position. I am deeply honored by the nomination and I am honored that members of my family and others are here to support me in this effort.

In the interest of time, I'll give just a brief summary of my background. I was born and grew up in a little community called "Dixie," out in the country but with a Charlotte, North Carolina address. I attended the Charlotte-Mecklenburg public schools at a time when they were still segregated. After graduation, I gained admission to the University of North Carolina at Chapel Hill where I graduated with a degree in business administration in 1967. I obtained my law degree from Yale University Law School in 1970 and returned to Charlotte to join a law firm that was best known for its civil rights reputation. However, the definition of "civil rights law" was changing to include economic and business development and I agreed to join the law firm with the understanding that my role would be to stand up a business practice.

Over the course of 22 years in the practice of law, I practiced business law, representing individuals, partnerships and corporations of all sizes and descriptions. Over half of my legal practice was real estate or related to real estate and I also became the managing attorney of the law firm. Representing the city of Charlotte, my joint venture partners and I became the first North Carolina lawyers to do the legal certifications required to issue municipal bonds.

When I started in Congress in 1993, I was fortunate to be assigned to committees that matched my background, the House Banking Committee (now the House Financial Services Committee) and the House Judiciary Committee. I have served on both of those committees continuously since then. Like the Senate Banking Committee, the House Financial Services Committee has general jurisdiction over housing, banking, insurance and other financial services matters. I have served on subcommittees that deal with all the various matters under the Committee's jurisdiction. Counting my 22 years in the practice of law and my 21 years in Congress, I have had 40+ years of experience in housing, real estate and other financial matters.

As part of the nomination process, I have had the opportunity to meet with a number of members of the Senate. During these conversations I've been asked two questions more than any others. The questions are:

- "Why do you want this position?" and
- "What do you see as the role of the Director of the FHFA?"

For me, the answers to these questions are very much related and I'd like to roll my answers to them together in the short time I have left.

Throughout my life, I've come to understand deeply just how important *where you live* is to who you are. I've observed that having a place to live is "basic" and that's true, regardless of whether you rent or whether you own. I suspect that my recognition of this started when I spent the earliest years of my life in an old house my Mom rented which had no electricity and no inside plumbing. My brothers and I could see the stars at night through the tin roof and we could see the ground through our rickety floors. I still get emotional when I recall, as a little boy, watching a big, long truck maneuver what had been an army barracks slowly down the road from the Charlotte airport to place it on a little lot that someone gave to my mother. That's the house I grew up in, four rooms—one bedroom for my Mom, one for me and my two brothers, a kitchen and a living room. I also get emotional when I recall watching them drill the well on our lot so we could have running water for the first time and helping my Uncle Leonard dig the septic tank lines so we could have a bathroom inside.

Over the years, home ownership and home equity have become the primary asset and source of retirement security for many families. A place to live is a basic necessity, however, whether you rent or whether you own. Having a place to live provides a sense of stability. It impacts our decisions about schools and transportation. It impacts our sense of community. Growing up, there was nothing more basic for me, except family, food and the little Presbyterian Church that adjoined our front yard and made it impossible for us to get to the road without crossing the church lot.

I'm still a member of that church. So where I lived even guided my choice of religions.

A place to live is basic. So over the years, I've worked to eliminate homelessness and I've been active in community development and neighborhood revitalization. And, of course, I've walked hundreds of families through real estate closings, which for many of them was the most important financial transaction they will ever make. So I was devastated when our housing finance system started to lose its way. And I was among the first to realize that which is why Representative Brad Miller and I became the first to introduce anti-predatory lending legislation, 4 years before the housing meltdown became obvious. And much of what was in that that legislation became a central part of the anti-predatory lending standards in Dodd-Frank.

I really can't think of anything I'd rather do now that would be more important than helping our housing finance system find a reliable way forward. I believe we're at a unique moment in the history of how housing finance is carried out in our country. Coming through what is arguably the worst period in our history related to housing, we're struggling to find the right path out of a status quo that no one believes is desirable.

The good news is that a broad consensus has emerged on the direction that our next steps must take us—toward a system driven by private capital that minimizes the risk to taxpayers. The legal framework for getting to that destination will, of course, be up to the House and Senate. But in the Housing and Economic Recovery Act, the House and Senate authorized the creation of the FHFA and provided clear statutory directions on the role that the FHFA will play in the interim to help get from here to there. That statutory role directs the FHFA and its Director to carefully and prudently "oversee the prudential operations of each regulated entity" through the transition in a way that protects the interests of the taxpayers and to make sure that each of these entities continues to "foster liquid, efficient, competitive and resilient national finance markets" in the meantime, until decisions are made about how housing finance will be done in the future. Acting Director DeMarco and the FHFA have followed these mandates effectively and I applaud their work.

I want to be clear about my role and the role of the FHFA under my leadership should I be confirmed. The Housing & Economic Recovery Act clearly defines the role of the FHFA and the Director. And, if confirmed, you can be assured that I will rigorously follow the statute in an open and transparent manner working with all stakeholders. You can also be assured that we'll continue to build a solid bridge from where we are now to whatever you decide the future housing finance system will be, we'll continue to test risk-sharing models that move housing finance aggressively to the private sector and we'll cooperate fully and be a resource to members of the Senate and the House as you decide the future of housing finance.

I look forward to answering any questions you may have.

PREPARED STATEMENT OF JASON FURMAN

NOMINEE FOR MEMBER AND CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

JUNE 27, 2013

Chairman Johnson, Ranking Member Crapo, and other distinguished Members of the Committee, I am honored that President Obama nominated me to serve as Member and Chairman of the Council of Economic Advisers (CEA) and I am also honored to appear before you today as you consider my nomination. Thank you.

I want to begin by introducing my family members who are here today. My first exposure to economics was from my father Jay Furman, who was pursuing graduate studies in economics when I was a young child. From an early age, I knew that I wanted to follow a similar path, and when I turned thirteen I got my first subscription to The Economist magazine.

Watching my mother Gail Furman, a child psychologist, helped teach me that analytical training can be used to make a meaningful difference in people's lives. I also want to acknowledge my brother, Judge Jesse Furman, and his wife Professor Ariela Dubler.

When I was in graduate school focusing on starting a career in pure research I met a woman who changed my future, and eventually became my wife. Eve Gerber convinced me to follow her to Washington for my first job in government, not just because I would have followed her anywhere but because she had persuaded me that I could use my training to help contribute to better public policy. Eve has been supportive of me ever since.

When my daughter was just born, and my son was barely one, Eve encouraged me to return to public service, even though it entailed hardship for her and early sacrifices for my children, Henry who is now 6 years old and Louisa Bettina who is now five. Their future remains an important motivation for all of my work.

The job Eve convinced me to take, at 25, was as a Staff Economist at the CEA, under the leadership of Joe Stiglitz. My time at CEA imbued me with a deep respect for the institution, its nonpartisan professional staff, and the role that unvarnished economic policy advice can play in helping to shape and advance the President's agenda. If confirmed, I would be proud to continue in that tradition-one that has thrived in both Democratic and Republican Administrations. I would also be guided by the example of former CEA Chairs Marty Feldstein and Greg Mankiw, among others. Marty was my first formal teacher in economics and Greg was my principal dissertation adviser at Harvard.

As you all know, economists certainly do not always agree with each other. But economists do agree on a lot—most importantly that questions should be addressed with a combination of logical theories and careful reading of the data. CEA applies the tools of economics—rigorous data based analysis—to the fundamental challenges facing American families.

That is the approach I have always tried to bring to my economic research, teaching, policy advising and public service. And that is the approach I would bring to advising the President on the economic goals we strive for today, including creating jobs, fostering sustainable growth and helping families share in that growth.

Thank you and I look forward to your questions.

PREPARED STATEMENT OF KARA M. STEIN

NOMINEE FOR COMMISSIONER, SECURITIES AND EXCHANGE COMMISSION

JUNE 27, 2013

Chairman Johnson, Ranking Member Crapo, distinguished Members of the Committee:

Thank you for the opportunity to be here this morning. It is an incredible privilege to appear before you as one of President Obama's nominees to be a Commissioner of the Securities and Exchange Commission (SEC).

I would like to begin by thanking my family for their tremendous support. I am grateful to be joined today by my husband, Stephen Miller, and my children Isabel and Rowan, who are sitting directly behind me. I also would like to thank my mother, Norma Stein, and my sister, Katherine Stein, both of whom are here as well.

I also would like to congratulate my colleague, Mike Piwowar, who like me has been nominated to serve on the Commission.

The United States has the largest, most robust, and most dynamic securities markets in the world. As the Federal securities regulator, the SEC has a critical three-part mission: to protect investors; to facilitate capital formation; and to ensure the integrity, transparency, and efficiency of these constantly evolving markets.

The breadth and scope of that mission—and the responsibilities and duties that flow from it—are significant. I am honored to be nominated to serve in such a vital agency with a proud and distinguished history, and alongside a staff known for its tremendous skill and expertise.

Whether as a practicing attorney, an assistant law professor, or a person deeply involved in Senate Banking Committee policy for the past 15 years, including my time as Staff Director of the Securities, Insurance, and Investment Subcommittee, I have learned how essential it is to listen to a variety of viewpoints and develop public policy solutions to complex issues from the facts. If confirmed, I would look forward to engaging with the Commission, the SEC staff, and interested members of the public on the array of issues currently in the Commission's jurisdiction.

I also believe that capital formation and strong investor protections go hand in hand, as a lack of fairness and transparency in markets can lead to higher transaction costs and less capital. If confirmed, I would strive to meet the challenge of protecting investors while ensuring that businesses have the access to the financial services they need to grow and create jobs.

Beyond this, strong enforcement is critical to investor confidence and well-functioning markets. If confirmed, I would endeavor to be fair in assessing enforcement recommendations that come before the Commission, supporting aggressive actions and sanctions when supported by the facts and the law.

Thank you again for the opportunity to appear before you today, and I look forward to answering any questions you may have.

PREPARED STATEMENT OF MICHAEL S. PIWOWAR

NOMINEE FOR COMMISSIONER, SECURITIES AND EXCHANGE COMMISSION

JUNE 27, 2013

Chairman Johnson, Ranking Member Crapo, Senator Shelby, and Members of the Committee, I am honored to appear before you today. I am humbled by the confidence the President has shown in me by nominating me to serve as a Commissioner on the United States Securities and Exchange Commission.

I would like to thank Senator Crapo for that very kind introduction. I would also like to express my sincere gratitude to Senator Crapo and Senator Shelby for allowing me to work on a wide range of Dodd-Frank Act, JOBS Act, and other SEC-related issues during my time on the Senate Banking Committee.

With your permission, Mr. Chairman, I would like to introduce the members of my family who are here with me today. First, I would like to introduce you my wife, Eileen. I am incredibly fortunate to have the encouragement and support of such a wonderful wife. I would also like to introduce you to my daughter, Brigid, who is here with Eileen. My son, Sean, could not be here today. He is at Boy Scout summer camp in Pennsylvania. Eileen and I are extremely proud of both Sean and Brigid. I would also like to introduce to my mom, Linda Dulan, and my step-father, Jim Dulan. I'm glad they could be here with me today.

Sitting here today, I recall the first time I attended a hearing in this room. It was almost exactly 9 years ago at a June 2004 hearing on "An Overview of the Regulation of the Bond Markets." I was a visiting academic scholar at the SEC at the time. I was extremely proud that empirical evidence from two SEC research projects I had collaborated on—one on the municipal bond market and one on the corporate bond market—were included in the testimony of the SEC's Director of the Division of Market Regulation and the subject of a question by then-Chairman of the Committee, Senator Shelby.

It was through work like those research projects that I learned how valuable economic analysis could be to advance the mission of the SEC. As a visiting academic scholar and later as a financial economist, I provided economic analyses and other technical support to the SEC Commissioners and other SEC divisions and offices on a wide range of rulemaking, compliance, and enforcement matters. While at the SEC, I had the privilege of working with a number of outstanding economists, accountants, lawyers, and other professionals. Some of them are still at the Commission, and if I am confirmed, I look forward to working with them again.

Over the past almost 4 years, I have had the privilege of working on many important issues under the jurisdiction of this Committee with a number of talented and professional Banking Committee staff on both sides of the aisle. These include a number of SEC-related issues, such as securities, over-the-counter derivatives, investor protection, market structure, and capital formation issues. For many of the SEC-related oversight and informational hearings, briefings, and meetings, I have had the privilege of working directly with my fellow nominee, Kara Stein. If we are confirmed, I look forward to continuing our collegial, bipartisan working relationship to advance the important mission of the SEC—to protect investors, maintain fair, orderly, and efficient markets, and promote capital formation.

As Senator Crapo likes to point out, the U.S. capital markets must remain the preferred destination for investors throughout the world. For that to happen, the SEC must remain the preeminent securities regulator in the world. If confirmed, I will faithfully work with my fellow Commissioners to achieve that goal.

On a final note, the President has nominated me to fill the seat being vacated by Commissioner Troy Paredes. Commissioner Paredes has been an outstanding Commissioner, who has earned widespread praise for being a thoughtful regulator, a friendly colleague, and a dedicated public servant. If I am confirmed, I hope to serve as ably as he has.

Thank you again for the opportunity to appear before you today. I am happy to answer any questions you may have.

PREPARED STATEMENT OF RICHARD T. METSGER

NOMINEE FOR BOARD MEMBER, NATIONAL CREDIT UNION ADMINISTRATION

JUNE 27, 2013

Chairman Johnson, Senator Crapo, and Members of the Committee, thank you very much for the opportunity to appear before you today as a nominee for the National Credit Union Administration Board. I would also like to thank my former legislative colleague, Senator Merkley, for his kind introduction.

It was an honor to serve with you Senator in the State legislature. The legacy of your thoughtful leadership continues to reverberate through the halls of the Oregon State Capitol.

While she could not travel here to join us today, my mother was also very pleased when I told her about my nomination to serve on the NCUA Board. She is watching today's proceedings online.

It is indeed an honor and privilege to be nominated for this critical role. If confirmed, I will do everything within my power to fulfill the trust placed in me by the President and the Congress to ensure both the integrity and the continued safety and soundness of our Nation's credit union system in a rapidly changing marketplace.

Maintaining a safe and sound credit union system requires visionary, attentive and proactive leadership by those charged with regulating federally insured credit unions. In my view, the qualities inherent in serving successfully in this position include experience in considering competing viewpoints, effective communication skills, and the wisdom to act prudently and decisively when action is required. I believe that, if confirmed, I will bring those qualities to the NCUA Board.

Over the last three decades, I have dedicated my professional life to analyzing, exploring and creating solutions to public policy issues that affect people from all walks of life.

As an Oregon State Senator from 1999 to 2011, I focused on business, finance and transportation policy. I believe each of these issues is integral to fostering an economic climate that provides individuals an opportunity to obtain financial stability in their own lives.

As Chairman of a State legislative committee charged with hearing most legislation involving the financial services industry in Oregon, I gained valuable experience, and I hope wisdom, in weighing varied viewpoints, testing assumptions and acting in a manner that effectively balanced consumer needs with the needs of the industries that served them to produce good public policy.

During my legislative career, I also served as one of the five appointed members representing both the public and private sectors on the Oregon State Debt Policy Advisory Commission. The Commission provides guidance to the legislature on prudent and risk-based management of the State's long-term debt obligations.

My private sector experience consists of leading a strategic communications and policy firm. I was energized by working with private sector clients who had a focus on job creation and improving the financial health of citizens across the economic spectrum.

Earlier in my career, I spent 16 years as a broadcast journalist. My "old school" news director, Ted Bryant, drilled into his staff, including me, that accuracy, relevance and fairness are the cornerstones of responsible reporting. They are also the foundation of effective regulating.

Additionally, as a small business owner, I have worked with both individual credit unions and a regional credit union association. These experiences have allowed me to better understand the perspectives of the regulated community and the importance of clear, open and ongoing communication between the regulator and the institutions it oversees.

My first credit union experience was as a 19-year-old paying my way through college by working as a night custodian at a local elementary school. I found myself eligible to join Portland Teachers Credit Union and that credit union gave me a $350 loan to purchase my first car. Twenty years later, I was privileged to be elected by the members to the board of directors of that very same credit union. During my 8 years on this board, I served in a time of extensive membership and asset growth.

A changing regulatory environment and evolving compliance requirements accompanied that growth. Through this experience, I saw the importance of visionary, expert and effective leadership in guiding a credit union. I also worked to position the credit union's executive team to better serve the needs of the credit union's growing membership while maintaining the membership's and the public's trust as a safe and sound, not-for-profit consumer financial cooperative.

My credit union policy background has only strengthened my ability to critically examine and thoughtfully consider the arguments by all stakeholders before deciding on any regulatory course of action. With safety and soundness in mind, I am committed to using the best available information to reach the right regulatory result and will do so by carefully testing stakeholder advocates and NCUA staff on issues that come before the Board, if confirmed.

These collective life and work experiences have further given me a strong understanding of the role credit unions play in our Nation's financial system, the significance of credit unions to their members, and the importance of maintaining safety

and soundness. If confirmed, my experiences would also inform the independent judgments and sometimes difficult decisions that I would need to make on the NCUA Board.

I firmly believe a regulatory agency should strive to be its own best critic. To that end, NCUA already has a solid policy in place to re-evaluate a third of its rules and regulations every year. I can assure you that, if confirmed, this will not be merely a mechanical exercise for me. I will approach this rolling review with diligence and with the aim of updating, simplifying, eliminating and clarifying existing rules to ensure that they are effective, but not excessive, consistent with safety and soundness.

Today's financial services industry, including credit unions, is more diverse and sophisticated than ever, and it is growing more complex every day. A large portion of our Nation is dominated by small communities that rely on the services of equally small credit unions and community banks as their economic lifeblood. Not only have I been a board member of Oregon's largest State-chartered credit union, I have also been a member of one of the smallest credit unions in the State. If confirmed, I will add a fresh set of eyes to policies old and new to reflect that diversity.

Of utmost importance is the continued protection of the Share Insurance Fund, which protects credit union member deposits up to $250,000. Because the fund is capitalized by member credit unions themselves, it is in the best interest of member credit unions to have a strong, forward-looking regulator, committed to protecting the fund from losses. The safety and soundness of the credit union is "job one" of the regulator. It goes to the very core of consumers trust and confidence. That must not be compromised. If confirmed, I will be vigilant in this regard.

Our Nation's credit unions have weathered the past 5 years of unprecedented financial challenges extremely well. This is due in large part to the dedicated efforts and innovative management of Chairman Matz, Board Member Fryzel and previous board members, along with the team of NCUA professionals who strive diligently and effectively to navigate those challenges to protect and ensure a strong federally insured credit union system depended upon by almost 95 million Americans.

If confirmed, my vision is for NCUA to be recognized as an agency that manages its own fiscal house well, proposes regulatory action that is effectively targeted to achieve the desired outcome without placing unnecessary burden on the credit unions themselves and, above all, maintains the confidence and trust the American public places in their local credit union.

Thank you again for the invitation to appear. I am happy to answer any questions you may have.

RESPONSE TO WRITTEN QUESTIONS OF CHAIRMAN JOHNSON FROM MELVIN L. WATT

Q.1. Congressman Watt, community banks are concerned that changes in the secondary market could make it more difficult to provide credit in rural areas and unfairly target small lenders. In the short term, would you commit to reviewing the policies at the GSEs regarding small lenders and mortgages in rural areas to ensure continued access to the secondary market?

A.1. Mortgage lending in rural areas is a very important part of housing finance and lenders in those areas face unique challenges under the current system. I am fully supportive of community banks and their important role in providing mortgage finance in rural and other underserved regions. I would certainly commit to reviewing the policies of the GSEs regarding small lenders and mortgage availability in rural areas to ensure continued and equitable access to the secondary market for community banks. I would also work to encourage Congress to ensure continued access to the secondary market by small lenders and lenders in rural areas in any legislation to reform the housing finance system.

Q.2. Congressman Watt, at your nomination hearing, you had a discussion with Ranking Member Crapo about the statutory role of the FHFA Director. The Emergency Economic Stabilization Act of 2008 (EESA), which passed the Senate on October 1, 2008 and passed the House on October 3, 2008 before being signed into law, states that the Director, at that time also the conservator, shall "implement a plan that seeks to maximize assistance for homeowners and use its authority to encourage the servicers of the underlying mortgages, and considering net present value to the taxpayer, to take advantage of the HOPE for Homeowners Program under section 257 of the National Housing Act or other available programs to minimize foreclosures." How would you balance the statutory directives from HERA and EESA?

A.2. The FHFA Director has several critical responsibilities to balance. HERA mandates the Director take necessary steps to protect taxpayers, and conserve and preserve the assets of the GSEs. The EESA statute requires the consideration of net present value to the taxpayer while taking steps to minimize foreclosures. I do not view the directives of HERA and EESA as being at odds as long as any plan that "seeks to maximize assistance to homeowners" and "minimize foreclosures" assesses each homeowner's ability and willingness to meet his or her mortgage obligations and insures positive "net present value to the taxpayer." The primary mandate under the statutory language of both HERA and EESA is to ensure that the FHFA protects the interest of and maximizes returns to the taxpayers. Accordingly, I will insist that any actions of the FHFA

be pursued only after careful and responsible analysis and undertaken to protect the taxpayers' interest.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM MELVIN L. WATT

Q.1.1. Twenty-nine States and the District of Columbia have redemption laws that obviously impact the disposition of Real Estate Owned portfolio, or REO, in those jurisdictions. These laws can range from 5 days to 3 years.

- Which State and local laws do you feel pose the most risk to the enterprises and why?

A.1.1. State redemption laws, which give homeowners the right to redeem (in some States for up to 6 months to a year) or require in some States that a court confirm any sale, present particular problems for the Enterprises because they delay the GSEs' ability to sell properties quickly when prospective homebuyers usually want to purchase a home quickly. These laws also typically result in extra costs to the GSEs for maintenance and upkeep before the disposition of the property. Similar problems may also arise under Federal bankruptcy laws or practice.

Q.1.2. Are there any legal positions regarding these matters that FHFA has taken that you plan to reverse or reexamine? Please be specific and explain why.

A.1.2. I am advised that the FHFA has taken the position that the Enterprises must comply with these laws. As Director, I would review this determination in a careful and diligent manner. However, in the absence of compelling legal precedent to the contrary, this would likely be the position of the FHFA and the Enterprises going forward.

Q.1.3. What are your plans for dealing with future laws both from the standpoint of:

i) your legal strategy if other States consider similar laws: and

ii) from the perspective of how it might affect Fannie and Freddie's disposition strategies in these jurisdictions?

A.1.3. If confirmed, I look forward to analyzing this issue carefully and determining what strategy FHFA might be able to pursue to reduce the costs that these laws pose. I understand that FHFA supports harmonizing these laws and I would intend to examine both the purpose of the laws as they stand—since it is a local issue—and the benefits to harmonizing them as a benefit to the taxpayer.

Q.1.4. Are there additional State laws in any other subject area that you believe pose risk to the value of Fannie and Freddie?

A.1.4. While the Enterprises and the national programs administered by the GSEs should work as smoothly as possible with State regulation, I have been advised that several State laws have posed or continue to pose some risks and challenges to the GSEs. From what I've been informed, they include laws that attempt to impose obligations on the GSEs for vacant properties even though the Enterprises are not the owners, create obligations on the GSEs to post

high bonds for REO property maintenance, collect "transfer fees" notwithstanding that the GSEs may be taxed only on real property ownership, and recent State enactments of homeowner protections that either create legal uncertainty or differ significantly from the Servicer Alignment Initiative that provides great benefits for homeowners. If confirmed, I will carefully study these issues and update FHFA policy where warranted by facts and circumstances at the time I make any decisions.

Q.2. A handful of local communities have discussed seizing underwater mortgages by eminent domain. Once that occurred, the homeowners would be offered a mortgage that would put them above water, with the previous mortgage owners absorbing the loss. In your hearing you indicated that you would oppose any plan that put any entity in front of the taxpayer.

- Do any of the current plans being considered by jurisdictions meet this test to oppose or take action to mitigate Fannie and Freddie's risk such that you would take action to prevent Fannie or Freddie from being involved? If so, please indicate specific examples.
- Would you allow for Fannie and Freddie to buy or guarantee mortgages in any of the jurisdictions if they adopted the current plans they are considering?
- Would you allow for Fannie and Freddie to buy or guarantee mortgages in any jurisdiction that adopted a plan to seize mortgages not currently owned or guaranteed by Fannie or Freddie, but then subsequently sought loans to be owned or guaranteed finance the new mortgages on these properties?
- Do you believe it appropriate for any Government entity to buy, guarantee or insure loans to replace seized mortgages, regardless of whether the original mortgage was an agency or private label mortgage?

A.2. As I indicated in my testimony, while I have deep respect for local and States' rights to take necessary steps to protect their communities, I will draw the line on any actions that are contrary to the interests of the taxpayers of the United States. As Director, I will insist that the FHFA evaluate any eminent domain proposals carefully and take the necessary actions to ensure that the Enterprises fully meet the statutory responsibility to protect taxpayers and conserve its assets.

Q.3.1. During your hearing you indicated that it would be up to the Congress to establish any kind of funds that might meet housing needs of various constituencies. You also noted that Congress has already done so through with the Housing Trust Fund.

- Is it your interpretation that the Director of the FHFA, while acting as conservator, currently has the authority to set aside revenue from Fannie Mae and Freddie Mac, to fund already established funds, such as the Housing Trust Fund, the Capital Magnet Fund, or any other currently established fund?

A.3.1. The Director of the FHFA has the authority to suspend allocations to the Housing Trust Fund and the Capital Magnet Fund based on the determination that such payment would contribute to the financial instability to the Enterprise, cause the Enterprise to

be classified as undercapitalized, or prevent an Enterprise from successfully completing a capital restoration plan as outlined in Section 1337(b) of the statute. As conservator of the GSEs' assets, I would be obligated to apply the same three statutory criteria to any future decision. As with any standing FHFA policy, I intend to start with the current determination and base any changes solely on new facts and circumstances that have arisen since the decision was made.

Q.3.2. If you believe there is this authority, while as conservator would you under any circumstances exercise this authority or evaluate the exercising of this authority without express authorization from the Congress granted after this date?

A.3.2. As stated above, as conservator of GSEs' assets, I would be obligated to apply the same three statutory criteria to any future decision. As with any standing FHFA policy, I intend to start with the current determination, and base any changes solely on new facts and circumstances that have arisen since the decision was made.

Q.4. At times the Director will necessarily find conflict between his requirements to protect the taxpayer and to support the housing market. Are there any circumstances in which you believe efforts to support the housing market should take priority over protecting Fannie and Freddie's value and thus the taxpayer?

A.4. The purpose of the conservatorships is to preserve and conserve each Enterprise's assets and property and restore the Enterprises to a sound financial condition so they can continue to fulfill their statutory mission of promoting liquidity and efficiency in the Nation's housing finance markets during the transition to the new housing finance system. Accordingly, I believe that the efforts of supporting the housing market is a core mission of the Enterprises and that helping maintain a healthy housing market protects Fannie Mae's and Freddie Mac's value and guards against taxpayer losses.

Q.5. The Emergency Economic Stabilization Act is cited for its mandate that FHFA "maximize assistance to homeowners." However, the bill also caveats that requirement with a stipulation that the agency "consider the net present value to the taxpayer." In evaluating the costs of approving an activity by Fannie and Freddie, do you believe that this requirement extends to considering the costs of all taxpayer funds, regardless of the agency or program from which those taxpayer funds originate, or is the duty of the Director to consider the taxpayer costs limited to the costs incurred by Fannie Mae and Freddie Mac?

A.5. Yes, I believe that the wording of the statute extends to considering the costs to *all* taxpayers funds, not just the taxpayer costs incurred by Fannie Mae and Freddie Mac.

Q.6.1. Given the involvement of both Treasury and HUD in loan modification programs in which Fannie and Freddie participate or have similar offerings, there may be instances in which these agencies have strong opinions as to what actions Fannie and Freddie should take regarding certain policies. Likewise, certain the White

House may also have strong opinions surrounding policies in which the President becomes politically active, as he has in the past.

- What is your view of the appropriate role for the Secretary of Treasury, Secretary of HUD or any other executive branch or White House official with respect to the management of Fannie Mae and Freddie Mac?

A.6.1. The Preferred Stock Purchase Agreements give the Treasury, as a party to the Agreements, certain rights to consult with the FHFA as conservator for the GSEs. However, the FHFA has complete management and regulatory authority over Fannie Mae and Freddie Mac and neither the PSPAs nor the applicable statutes give the Treasury any authority to manage or regulate the GSEs. Consequently, while I would consider input from the Administration, as I would consider input from Members of Congress, I would exercise the authority granted to me by the governing statutes consistent with the provisions of those statutes and consider external views, but make my own independent decisions.

Q.6.2. What specific barriers would you establish to prevent political influence that you believed to be improper?

A.6.2. I would maintain appropriate firewalls around myself and the FHFA consistent with firewalls that exist between other regulators and external political influences.

Q.6.3. Given your long political career, what specific steps would you further take to insulate you and your staff from the influence of your former political colleagues and the Administration across your decisionmaking as conservator?

A.6.3. In an effort to insulate myself from external influence as conservator, I will abide by the terms of the ethics agreement that I have entered into with FHFA's Designated Agency Ethics Official. Additionally, I will abide by all applicable prohibitions imposed on me by the Hatch Act (5 U.S.C. §§ 7321–7326).

Q.7.1. Fannie and Freddie a large Real Estate Owned, or REO, portfolio and face many options when choosing the appropriate disposition channel, such as: selling directly to an owner occupant; selling to an investor, either individually or in bulk; renting the property; or even demolishing the property. Choosing the appropriate disposition channel can be difficult, especially considering the answer can vary by region, localities or even individual properties.

- What specific criteria would you construct to evaluate the REO disposition strategy of Fannie and Freddie?

A.7.1. I believe that REO properties must be sold in a manner that is beneficial to the Enterprises and thus the taxpayer, which will generally mean ensuring the sale also benefits the neighborhoods in which the properties are located, so as to help preserve the value of other Fannie Mae and Freddie Mac REO properties. Consequently, the criteria I would evaluate include efficiency; timeliness and effectiveness in management, restoration and repair; sales preparation, and marketing of the properties.

Both Fannie Mae and Freddie Mac rely on retail sales strategies in which properties are sold one at a time, most often to buyers

who plan to use the properties as their primary residence. During 2011, approximately 65 percent of the GSEs REO properties were sold to owner-occupants, the majority within 60 days of listing and at close to market value. Properties that do not sell within 6 months are generally sold at auction or, alternatively, in small bulk sales if they are sufficiently concentrated in a particular geographic area. I would continue efforts to meet or exceed those results.

Q.7.2. Do you believe these are decisions most appropriately handled by Fannie and Freddie under the supervision of the conservator, or should these strategies actually be developed by the conservator?

A.7.2. I believe that decisions of this kind are best handled by the GSEs, but only after consultation with and approval by the conservator.

Q.7.3. As conservator, how would you evaluate situations where maximizing value to Fannie and Freddie (and thus the taxpayer) may conflict with other goals such as: neighborhood homeownership rates, affordable housing needs of a community, investor versus owner-occupied goals?

- If you find that meeting community goals is beneficial to those communities but would harm the financial return to Fannie and Freddie, as conservator, what do you believe is your number one priority in a decision of this nature?

A.7.3. REO decisions should take into account what is most beneficial to the GSEs and the neighborhoods in which the properties are located. I would try to balance and meet both of these objectives and believe that situations would rarely, if ever, arise in which these objectives are at odds with each other. If any such instances arise, however, my top priority would be protecting the taxpayer.

Q.8. During the time in which the Senate is considering your nomination, if there are any votes within the House Financial Services Committee or on the floor of the House of Representatives on legislation that could affect FHFA, any of the regulated entities or the future markets that FHFA may regulate, do you plan to recuse yourself from these votes?

A.8. No. Not unless there was a clear conflict of interest.

RESPONSE TO WRITTEN QUESTION OF SENATOR BROWN FROM MELVIN L. WATT

Q.1.1. You stated in your testimony that "a broad consensus has emerged. toward a [secondary housing market] driven by private capital that minimizes the risk to taxpayers. The legal framework for getting to that destination will, of course, be up to the House and Senate."

Given that Congress has yet to finalize the legal framework for how the secondary housing market will operate, what challenges do you foresee in your role as FHFA director to effectively execute the FHFA's mission given legal and institutional uncertainty?

A.1.1. If confirmed, I believe my responsibility would be to help form a bridge to whatever future housing finance system Congress

ultimately decides. While there are multiple challenges due to the uncertainty about the timing of the wind down of the GSEs, including maintaining competent and engaged staff and maintaining commitments to continuing upgrades to technology, my job would continue to build, solidify and test that bridge. For example, I plan to test different types of risk syndication efforts to help Congress determine how private capital can best be part of the future system. My mission, if confirmed, is clear and is set out in statute by HERA and EESA. My job is to adhere to those requirements even if there is near term uncertainty about what is ultimately decided about the future of the housing finance system.

Q.1.2. How do you plan to address this to ensure FHFA continues to support a stable housing finance market that includes access to affordable housing?

A.1.2. I plan to insist that we continue to support a deep and liquid secondary mortgage market while taking steps to encourage private capital to assume responsibility for as much mortgage credit risk as quickly as possible or until legislation informs how housing finance will take place going forward. This is consistent with the statutory mandate given to the Director and the FHFA.

RESPONSE TO WRITTEN QUESTION OF SENATOR VITTER FROM MELVIN L. WATT

Q.1. Congressman Watt, at a recent House hearing where Acting FHFA Director Edward DeMarco testified you recused yourself from asking questions because of the speculation that you were a candidate for the permanent job. There are now news reports today that Chairman Hensarling will introduce his GSE reform bill shortly after the House returns from the 4th of July district work period. If the Committee or House considers that legislation while your nomination is still pending in the Senate do you plan to also recuse yourself from debating and voting on that legislation?

A.1. No. I do not believe that the responsibilities I would assume if confirmed as the Director of the FHFA result in a conflict of interest that would prevent me from voting on GSE reform legislation while I am still a member of the House of Representatives.

RESPONSE TO WRITTEN QUESTION OF SENATOR TOOMEY FROM MELVIN L. WATT

Q.1. A number of municipalities are considering using the power of eminent domain to acquire underwater performing mortgages out of private label securities and then refinancing them into an FHA product. While the courts will ultimately decide the constitutionality of this scheme, I am concerned that using eminent domain this way will scare off private capital, dry-up new mortgage credit, and harm investors and taxpayers.

FHFA has previously expressed concerns with this proposal given that Fannie Mae and Freddie Mac are collectively the largest holders of private label securities and taxpayers would bear the losses from any seizures. Under Acting Director DeMarco, the agency published a notice in the Federal Register indicating its "significant concerns" with this proposed use of eminent domain.

FHFA noted that eminent domain would "[alter] the value of the companies' securities holdings." FHFA further stated "FHFA has determined that action may be necessary on its part to avoid a risk to safe and sound operations at its regulated entities and to avoid taxpayer expense. Additionally, FHFA has concerns that such programs could negatively affect the extension of credit to borrowers seeking to become homeowners and on investors that support the housing market."

The Obama administration, on the other hand, has been largely silent on the subject and FHA Commissioner Carol Galante recently went so far as to say in testimony before the Senate Appropriations Committee that "the idea of [using eminent domain] on mortgages is trying to get at an important issue of people's inability to refinance their mortgages that are in private label security . . . "

Eminent domain is a local issue, but its effects on Fannie Mae and Freddie Mac, particularly while these two companies are in Federal conservatorship, is a Federal matter.

So are the effects these local decisions would have on our broader goals, shared by many in Congress and within the Obama administration, to stabilize our Nation's housing markets and draw more private capital into the housing finance system. And the issue is national in scope because a mortgage seized in Richmond, California affects a pension fund in Charlotte, North Carolina.

If you are confirmed to serve as Director of FHFA, would you stand with the current FHFA leadership or the Obama administration on this potential use of eminent domain? Would you allow the GSEs, and by extension the taxpayer, to take the risk of continuing to purchase loans in communities that implement eminent domain programs for underwater mortgages?

A.1. As I stated in my response regarding eminent domain during my June 27, 2013, Senate Banking Committee confirmation hearing, while I have deep respect for local and States' rights to take necessary steps to protect their communities, I will draw the line on any actions that are contrary to the interests of the taxpayers of the United States. As Director, I will insist the FHFA evaluate any eminent domain proposals carefully and take the necessary actions to ensure that the Enterprises fully meet the statutory responsibility to protect taxpayers and conserve its assets.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR KIRK FROM MELVIN L. WATT

Expertise

Q.1. The Acting Director of FHFA has identified the "immediate goals"[1] of FHFA while the Enterprises are in conservatorship as "taking necessary actions to put the Enterprises in a sound and solvent condition and to preserve and conserve their assets and property." Do you agree with FHFA's stated goals and will these be the goals you would prescribe if confirmed?

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[1] *http://www.fhfa.gov/webfiles/23930/FHFA%20Draft%20Strategic%20Plan%202013-2017.pdf,* page 5.

A.1. I strongly agree with the stated goals and direction articulated in the FHFA's 2013 scorecard for the Enterprises. As conservator, FHFA's primary statutory responsibility is to preserve and conserve the assets of Fannie Mae and Freddie Mac in order to maximize returns to the taxpayers. As Director, I will continue to take every necessary action, including those articulated in the 2013 scorecard, to meet the statutory responsibility of the FHFA.

In particular, I commend the inclusion of risk-sharing pilots that will transfer more mortgage credit risk to the private sector. These transactions will take immediate steps to reduce taxpayers' exposure to the mortgage market, create mechanisms for more accurate price discovery of mortgage risk, and help inform the design of a more sound and safe future system of housing finance to be determined by Congress.

Transition to a Private Market

Q.2.1. You state in your written testimony that "[t]he good news is that a broad consensus has emerged on the direction that our next steps must take us—towards a system driven by private capital that minimizes the risk to taxpayers". Yet, in September 2003, you note that "private enterprises really have not done very well in achieving things other than making money". Are you committed to returning the two enterprises that currently control 90 percent of the mortgage market, to the private market? Are you now confident that the private market can take on a greater market share in the mortgage finance system successfully?

A.2.1. Long-term housing finance reform will ultimately be up to Congress to determine. That said, I am fully committed to ending the failed model of Fannie Mae and Freddie Mac, and bringing back private capital to the mortgage market as quickly as possible, while ensuring mortgage finance remains broadly available and accessible. I am confident that the private market can take on a greater share of the housing finance system successfully. My concerns expressed in 2003 were regarding predatory lending activities that contributed to the financial crisis. These types of predatory lending were wrong and irresponsible and I am proud to have cosponsored legislation that not only sounded the alarm but offered sensible solutions to rein in these practices years before the financial crisis.

In the interim, the FHFA's role will be to build a solid and reliable bridge (the single securitization platform) that private market participants of all sizes and descriptions can access and rely on in any future system. I am committed to building that bridge. On the other end of the bridge, I do believe that the private market can successfully take on a greater share in the mortgage finance system.

Q.2.2. In responding to a question before the House Financial Services Committee in March 2013, Acting Director Edward DeMarco stated that he believed that the time it would take to wind down Fannie Mae and Freddie Mac should be a "multiyear process" but that it "should not take more than 5 years". If confirmed do you feel that you could and will pursue a goal of winding down Fannie Mae and Freddie Mac within 5 years?

A.2.2. If confirmed as the FHFA director, I will aggressively pursue a wind-down of GSEs as quickly as possible, while ensuring that there remains broad availability of mortgage credit in the country during the transition to what Congress decides as the future system of housing finance. However, the specific timing of any wind-down plan will be up to Congress.

Q.3.1. The Director of FHFA is also a member of the Financial Stability Oversight Council (FSOC).

- What specific market trends/activities do you see the Director of FHFA as having a unique perspective on that he/she can bring to the Council?

A.3.1. As a member of the Financial Stability Oversight Council, the FHFA Director has a leading role in helping inform the members of the Council on how the housing markets are performing and where risks might be emerging. The Director also has the opportunity to help shape macro housing finance policy by coordinating with others members on the Council on key decisions that will impact the housing finance system.

Q.3.2. The Council has been tasked with identifying "systemically significant" institutions—what do you see are the critical activities/features within the housing finance system that you think could fall into these categories that would deem them as systemically important?

A.3.2. Housing and the housing finance markets play a key role in the U.S. economy and financial system. When the housing markets are healthy, the economy tends to perform well and when the housing markets are weak, significant financial risks can arise. If confirmed, I will work with the other members of the Council to study carefully what aspects of and participants in the housing finance system could pose systemic risk to our markets and economy if not functioning appropriately. I believe that it is imperative that the future housing finance system allow entities of all sizes (community banks, credit unions, cooperatives, *etc.*) to be active and important participants instead of allowing one or two entities to dominate. If one or two entities dominate the market they could easily become "systemically significant."

Principal Reductions

Q.4. Are you comfortable with implementing principal reductions for borrowers though it goes against the Director's requirement while the enterprises are in conservatorship to "protect the tax payer" above all else and preserve the quality of the assets of the enterprises?

A.4. My first priority as the FHFA director is to conserve the assets of the GSEs and to protect the taxpayers. I will not make any decision that conflicts with this first principle. Furthermore, in making any decision as the FHFA director, I will start with the standing decision of the agency, fully understand the original rationale, and give appropriate deference to the prior decision. I would then evaluate any new information and make the determination as to whether a different conclusion would be justified in light of new data or circumstances. In making any final decision, includ-

ing regarding principal reduction, I would be careful to fulfill my statutory responsibility to protect the taxpayers and preserve the assets of the enterprises.

Eminent Domain

Q.5. You have indicated that you are a strong supporter of States rights—though you have not indicated whether or not you would support the use by States of eminent domain. Eminent domain brings with it legal issues, and will be very destructive to U.S. mortgage markets. In general, if contractual relationships between borrowers and creditors are undermined, it is only logical that lenders and investors will contract credit availability weakening the housing recovery.

Given your strong legal background:

- Do you think the use of eminent domain is constitutional?
- Would you consider allowing States to use eminent domain to revise existing financial contracts and the alternation of the value of the companies' securities holdings?
- Pension funds, IRAs and other retirement funds are among the largest traditional investors in the mortgage back security market. Do you think it is prudent to create "winners and losers"—winners, if eminent domain is permitted, being fund managers and losers being investors on both sides with current investors in MBS (pension funds and retirement funds) taking the biggest hit?

A.5. As I indicated in my testimony, while I have deep respect for local and States' rights to take necessary steps to protect their communities, I will draw the line on any actions that are contrary to the interests of the taxpayers of the United States. As Director, I will insist the FHFA evaluate any eminent domain proposals carefully and take the necessary actions to ensure that the Enterprises fully meet its statutory responsibility to protect taxpayers and conserve its assets.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR COBURN FROM MELVIN L. WATT

Q.1. The previous directors of FHFA—James Lockhart and Edward DeMarco (acting director)—both had extensive backgrounds in finance and economics. Mr. Lockhart held various posts at the Federal Reserve, Treasury, HUD, and SEC. Mr. DeMarco studied the bank portfolios as part of the dissertation and then several in financial analysis positions at the Office of Federal Housing Enterprise Oversight, SSA, Treasury, and GAO. How do you feel your resume compares to those of these directors? How has your experience prepared you to manage multi-trillion portfolios?

A.1. I have enormous respect for both Directors Lockhart and DeMarco. Both Directors brought significant qualifications to this critical position.

I believe I also bring extensive qualifications to the position as I outlined in my testimony at my confirmation hearing. My 40+ years of private sector and public service experiences have pre-

pared me well to take on the challenges and responsibilities of the Director of the FHFA.

Q.2. The current leadership of FHFA has laid out a plan to promote risk-sharing between the GSEs and private market participants. The current goal is $30 billion in risk-sharing transactions for 2013. Can you lay out several examples of the types of transactions that might promote risk sharing? How will you measure the success or failure of these transactions? Do you plan to change the goal for 2013?

A.2. The FHFA's strategic plan for conservatorship and target for 2013 in the conservatorship scorecard is intended to evaluate and promote new alternatives for several types of risk sharing. Because these activities have different risks and advantages, I believe it would be prudent to allow data from these pilots to inform decisions regarding the best future strategy or mix of strategies.

Currently, Fannie Mae and Freddie Mac are engaged in developing their approaches and transactions to meet the 2013 scorecard target to transfer the credit risk on $30 billion of mortgage credit exposure through risk-sharing transactions. As appropriate based on market conditions, I intend to scale up the $30 billion goal in subsequent years and to begin to set timelines to provide greater certainty and clarity in an effort to move more of the housing finance market to the private sector as quickly as possible. Some of these strategies include:

- ***Credit risk sharing with mortgage insurers.*** A variety of insurance structures may deserve consideration. Several design choices exist including loan vs. pool level coverage and size of the pools. Risk-sharing with mortgage insurers inevitably involves some counterparty risk that must be considered and carefully evaluated.
- ***Credit risk sharing through senior/subordinate structures.*** The simplest form of credit risk taken through structured products is to create a senior/subordinate cash-flow structure. This would divide the actual cash-flows from a pool of mortgage collateral paid out to investors based on the credit risk they bear. The subordinate tranche holders would bear the bulk of the credit risk, while the senior tranches would carry a wrap provided by the GSEs similar to current agency MBSs.
- ***Credit risk sharing through synthetic senior/subordinate structures.*** GSEs could issue credit linked notes (CLN) to offset losses on diversified pools of mortgages. The proceeds of the bonds or CLNs are placed in a trust and provide a secured funding source to offset losses from the underlying pool of mortgages. One critical advantage of this structure is that it would not impact the existing TBA market as the investors in the CLNs would bear any losses in the underlying pools of mortgages. However, CLN deals are complex and technically a derivative.

I expect to be able to develop other strategies as well, in transparent consultation with the private sector, and to pilot and test those strategies.

Q.3. Explain, in your view, the role the GSEs played in the country's financial crisis in terms of the amount of risk the institutions posed to the financial system. In your view, what are the top three problems the GSEs have had to address since 2008?

A.3. While there are many factors that contributed to the financial crisis, the GSEs were a contributor to the financial crisis in that they used the benefits of an implicit Government guarantee to pass on risks to the taxpayers while overzealously seeking profits that benefited their executives and shareholders. Specifically, the poor judgment exercised by Fannie Mae and Freddie Mac in pursuing unsafe businesses in an attempt to maintain market share resulted in both of these institutions needing to be bailed out by the taxpayer. While I believe that the GSEs were contributors to the crisis, other participants in the housing sector also contributed the types of irresponsible behavior we witnessed leading up to the financial crisis. This shared responsibility includes politicians who too aggressively championed homeownership or were naive or turned a blind eye to the abuses that were taking place.

I believe the three major challenges facing the GSEs since 2008 are:

- Digging out of the terrible decisions made in the preceding years;
- Uncertainty about their future; and
- Technology shortcomings that contribute to their inefficiency (See Answer 4 below.)

Q.4. FHFA's 2012 annual report states of Fannie Mae, "Unresolved system issues continue to make the Enterprise difficult to manage, impede efficiency, and raise serious questions about the reliability and effectiveness of Fannie Mae's modeling and forecasting of data." Describe the key factors that have perpetuated these inefficient systems, how the Enterprise needs to resolve the problem, and the timeframe over which improvements can be made.

A.4. Both GSEs' businesses rely on extensive technology systems to purchase and securitize a high volume of mortgages in the secondary market, thereby freeing up capital for lenders to make more loans. Currently, they are processing about $100 billion in new loans each month. These complex systems require continual maintenance and upgrading, which has been a challenge for both GSEs and even more so in light of their uncertain future.

The conservatorships of the GSEs have continued for almost 5 years, forcing the FHFA and the GSEs to make decisions on longer term investments to upgrade and maintain their technology systems. This led the FHFA to direct the GSEs to invest in developing the common securitization platform, which will replace legacy systems at both GSEs when complete. The FHFA has projected that the platform will be operational within 5 years. I anticipate trying to shorten this timeline, but acknowledge the complexity and difficulty of this task and that this must be done carefully and responsibly.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BROWN FROM JASON FURMAN

Q.1.1. The Obama administration has consistently stated that policymakers should wait until Dodd-Frank is finalized before looking for additional policy solutions to address the existing moral hazard issues associated with too-big-to-fail (TBTF).

- Can you define what benchmarks need to be met to declare that Dodd-Frank has been implemented?

A.1.1. The most important metric for "full implementation" of Dodd-Frank is the completion of core reforms. Currently many significant reforms, including the stand-up of the Consumer Financial Protection Bureau, new mortgage protections, stress testing requirements, resolution authority, and many of the core derivatives rules, are effectively complete. However, there still remains significant work to be done with outstanding rules that have not been finalized, such as work to implement the Volcker Rule, rules governing securitization, and the completion of outstanding rulemakings on derivatives.

Q.1.2. What steps will you take to examine whether the provisions of Dodd-Frank have successfully resolved TBTF?

A.1.2. Economics clearly shows that policymakers should be concerned about the possibility that institutions are "Too Big to Fail"—a short-hand for the dynamic that we saw during the financial crisis in which certain institutions were so large, interconnected and risky that policymakers did not allow them to fail in order to protect the financial system and the broader economy. In the crisis, we saw how the failure of a large, complex financial institution like Lehman Brothers could have severe repercussions throughout financial markets and the economy as a whole, leading, for example, to fire sales of assets, impairing collateral and contracting credit. Subsequent support of other firms, moreover, contributed to an expectation that certain large, complex financial institutions may receive taxpayer assistance in a crisis, leading creditors to provide cheaper funding. For both of these reasons, these institutions might take more risk than is warranted, recognizing that they get the full potential upside benefit, but without internalizing the full costs of the downside—what economists call moral hazard. This is a classic source of market failure that regulation can and should address.

The most important assessment of the status of the "Too Big to Fail" dynamic is the law itself. Since the passage of Dodd-Frank, reforms have made it less likely that an institution would fail through curbs on risk-taking activities and requirements for greater capital, have put in place a resolution authority in the case that they do fail and bankruptcy would disrupt markets, and have banned tax-payer funded bailouts, requiring that any costs are borne by the company's investors and creditors and the financial industry—not taxpayers.

An important place to start an assessment is to understand the degree to which the market perceives that these steps have actually ended "Too Big To Fail." Although these measures are imperfect, for instance, it would be valuable to monitor and evaluate in-

dicators including the pricing of credit for large, complex institutions.

It is important, however, to understand that these are measures of the market perception of "Too Big to Fail." To the degree that funding differences reflect a market perception, the key task for policymakers is to implement the laws which make clear that the financial industry and not taxpayers will bear the losses from the failure of any company.

Q.2. Some argue that financial services rules should be included in the Transatlantic Trade and Investment Partnership (TTIP). U.S. financial regulators have been negotiating international financial regulations with their international counterparts, including a new regime for capital standards, agreements for coordinating cross-border resolutions with international financial institutions, and international rules for derivatives transactions.

- With so many delicate financial regulations being implemented domestically, and so many complex international regulations being negotiated among regulators, do you believe that it would be appropriate to inject financial services into the TTIP?

A.2. U.S. Trade Representative and Department of Treasury officials have stated that financial services are a critical component of the transatlantic relationship, and in TTIP, as in all our Trade Agreements, the Administration will seek robust market access commitments for financial services.

Since the financial crisis, it is my understanding that Treasury and our financial regulators have been actively engaged on a range of financial regulatory issues. There is an ongoing robust agenda with ambitious deadlines on regulatory and prudential cooperation in the financial sector—both bilaterally under the Financial Markets Regulatory Dialogue, and under the auspices of the G–20 rubric and international standards setting and other bodies such as the Financial Stability Board, the Basel Committee on Banking Supervision, and the International Organization of Securities Commissions. The ongoing work is expected to continue making progress alongside the TTIP.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BROWN FROM KARA M. STEIN

Q.1.1. While the Jumpstart Our Business Startups (JOBS) Act was passed with the worthwhile goal of spurring job creation, one of its central tenants is to reduce long-standing investor protections to make it easier for companies to raise capital. Chairman Schapiro opposed this piece of the legislation, and I am concerned that the SEC may continue to press for further deregulation.

How will the JOBS Act alter conditions for investors? Do you have any concerns about the impact of these changes for non-institutional investors?

A.1.1. Since many of the provisions of the Congressionally mandated JOBS Act have yet to be implemented, it is not yet clear how it may alter conditions for either investors or small- and medium-sized businesses. If confirmed, I would work to get the JOBS Act rules implemented as quickly as possible in a way that balances

the need of smaller businesses to have access to the capital and financial services they need to grow and create jobs while still protecting investors.

Q.1.2. As commissioner, what will you do to ensure the SEC will not, absent a specific directive from Congress, move forward with any further deregulatory proposals?

A.1.2. The SEC has a three-part mission to protect investors, maintain the integrity of the markets, and promote efficient capital formation. In an increasingly complicated, high-speed and interconnected marketplace, it is critical for both the SEC and Congress to think about how to update, modernize, and improve the securities market regulatory infrastructure. If confirmed, whatever proposals may come before the SEC, the determinative issue will not be whether the proposal provides for more or less regulation, but rather whether it is smart and efficient and effective at achieving the SEC's three-pronged mission.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR WARNER FROM KARA M. STEIN

Q.1. The Securities Exchange Commission (SEC) has been deliberating about how best to write implementing regulations for the 2012 Jumpstart Our Business Startups (JOBS) Act for more than a year. In the meantime, some States have already passed or are moving to pass and implement their own intra-State crowdfunding exemptions instead of waiting for the SEC to issue regulations.

- In your view, are these State laws and deliberations instructive to the SEC? Can anything be learned from this going forward?
- Do these activities by various States increase the need for the Commission to release its crowdfunding rules in a timely manner?

A.1. Crowdfunding is an innovative and new idea that should help infuse small businesses with needed capital to grow and create jobs. If confirmed, I would look forward to discussing with SEC staff and my fellow commissioners how State laws and deliberations may be instructive to the SEC. As a general matter, I believe it is important for the SEC to implement in as timely a manner as possible the rulemakings mandated by Congress under both the JOBS Act and the Dodd-Frank Act, including the rulemaking pertaining to crowdfunding.

Q.2. The JOBS Act established that "funding portals" would be viewed as distinct entities with fewer obligations and reporting requirements than traditional broker-dealers, so long as the portals meet the requirements and restrictions outlined in the law. Nonetheless, portals will be facilitating the sale of securities and playing a role in coordinating payment for those securities.

- In your view, how can the SEC rulemaking best effectuate those disclosures and requirements? Which obligations and requirements for broker-dealers are essential and should be applied to crowdfunding funding portals?

- Which restrictions on funding portals, beyond not giving investment advice or directly handling the investors' funds, should also be implemented?
- In addition to background checks, what steps should the SEC take to prevent fraud in crowdfunding, and to make sure that participants understand the meaning of fraud?

A.2. The creation of "funding portals" is a new concept in the securities context. A funding portal would be exempt from broker registration, but would remain subject to the SEC's examination, enforcement and rulemaking authority and would have to become a member of a national securities association. While I understand that SEC staff have already been in contact with interested members of the public about the manner in which this concept will be implemented, the notice and comment process standard in SEC rulemaking is going to be critical. The issues you identified are important, and if confirmed, I would work with the SEC staff and my fellow commissioners in an effort to get this new concept right and adopted in a way that allows small businesses access to the capital they need while still protecting investors.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HAGAN FROM KARA M. STEIN

Q.1. State and local governments and municipal organizations have expressed concern about money market mutual fund reforms. Municipalities obtain substantial, short-term funding from money market mutual funds and are concerned that if investors no longer find the product attractive, money market mutual fund assets will shrink and an important source of capital for public projects will become more costly. Given that money market mutual funds provide such a substantial share of short-term lending to local governments, do you have concerns that new regulations on money market mutual funds could make it more difficult for municipalities to obtain cost-effective financing for projects?

A.1. Following the financial crisis, the Securities and Exchange Commission (SEC) adopted new rules to strengthen money market mutual funds and ensure that they remain a stable, reliable investment product and a robust capital source for those who rely upon them for funding, including municipalities and many businesses. In November 2012, the Financial Stability Oversight Council proposed for public comment additional recommendations for structural reforms regarding money market mutual funds. In June 2013, the SEC issued a proposal that would further change this product. Included within the proposal were two principal reforms that could be adopted alone or in combination. One proposed reform would require a floating net asset value for prime institutional money market funds. The other would allow the use of liquidity fees and redemption gates in times of stress. The comment period should help the SEC learn about the potential impact of these proposals from those who rely on money market funds as a source of funding, such as State and local governments and municipal organizations, and those who invest in them.

If confirmed, I would look forward to reviewing the comments regarding these proposed changes and working with my fellow com-

missioners and the SEC staff to see what, if any changes, need to be made.

RESPONSE TO WRITTEN QUESTION OF SENATOR BROWN FROM MICHAEL S. PIWOWAR

Q.1.1. While the Jumpstart Our Business Startups (JOBS) Act was passed with the worthwhile goal of spurring job creation, one of its central tenants is to reduce long-standing investor protections to make it easier for companies to raise capital. Chairman Schapiro opposed this piece of the legislation, and I am concerned that the SEC may continue to press for further deregulation.

- How will the JOBS Act alter conditions for investors? Do you have any concerns about the impact of these changes for non-institutional investors?

A.1.1. Because many of the provisions of the JOBS Act have not yet been implemented, I believe it is too early to predict how the JOBS act will alter conditions for investors. If confirmed, I look forward to working with staff and my fellow Commissioners complete the JOBS Act rulemakings in a thoughtful manner that takes into account all three parts of the SEC's mission—protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation.

Given the SEC's threefold mission, investor protection should always be a concern for SEC Commissioners. With respect to non-institutional (retail) investors, they participate in the securities markets directly through individual purchases of securities as well as indirectly through the asset management industry. If confirmed, I look forward to working with the staff and my fellow Commissioners to understand how the JOBS Act will impact retail investors who, directly and indirectly, provide investment capital to entrepreneurs and businesses.

Q.1.2. As commissioner, what will you do to ensure the SEC will not, absent a specific directive from Congress, move forward with any further deregulatory proposals?

A.1.2 Any SEC regulatory proposal designed to promote capital formation should be considered with the SEC's two other mandates—investor protection and market integrity—in mind. If confirmed, I will commit to do so.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR WARNER FROM MICHAEL S. PIWOWAR

Q.1.1. The Securities Exchange Commission (SEC) has been deliberating about how best to write implementing regulations for the 2012 Jumpstart Our Business Startups Act (JOBS) Act for more than a year. In the meantime, some States have already passed or are moving to pass and implement their own intra-State crowdfunding exemptions instead of waiting for the SEC to issue regulations.

In your view, are these State laws and deliberations instructive to the SEC? Can anything be learned from this going forward?

A.1.1. While the SEC is the primary overseer of U.S. securities markets, the SEC works closely with many other institutions, including State securities regulators. If confirmed, I look forward to discussing with members of the National Association of State Securities Administrators (NASSA) their concerns about crowdfunding, as well as their perspectives on the deliberations for intra-State crowdfunding exemptions in their States.

Q.1.2. Do these activities by various States increase the need for the Commission to release its crowdfunding rules in a timely manner?

A.1.2. I have not yet had the opportunity to review the crowdfunding activities by various States. But, as a general matter, if confirmed, I am committed to working with my fellow Commissioners to complete all JOBS Act mandated rulemakings in a thoughtful and timely manner.

Q.2.1. The JOBS Act established that "funding portals" would be viewed as distinct entities with fewer obligations and reporting requirements than traditional broker-dealers, so long as the portals meet the requirements and restrictions outlined in the law. Nonetheless, portals will be facilitating the sale of securities and playing a role in coordinating payment for those securities.

- In your view, how can the SEC rulemaking best effectuate those disclosures and requirements? Which obligations and requirements for broker-dealers are essential and should be applied to crowdfunding funding portals?

A.2.1. I understand the important role that disclosures and other requirements play in helping investors make informed decisions about whether to purchase a company's securities. If confirmed, I look forward to working with the staff and my fellow Commissioners to determine which obligations and requirements for traditional broker-dealers should be applied to crowdfunding portals.

Q.2.2. Which restrictions on funding portals, beyond not giving investment advice or directly handling the investors' funds, should also be implemented?

A.2.2. In addition to prohibitions on giving investment advice and directly handling investor funds, the JOBS Act mandates two other prohibitions that should be implemented. One provision prohibits funding portals from soliciting purchases, sales or offers to buy the securities offered or displayed on its Web site or portal. The other provision prohibits compensating employees, agents or other persons for such solicitation or based on the sale of securities displayed or reference on its Web site or portal. The JOBS Act also allows the Commission to determine, by rule, other activities that may be prohibited. If confirmed, I look forward to working with the staff and my fellow Commissioners to determine what additional prohibitions should be implemented.

Q.2.3. In addition to background checks, what steps should the SEC take to prevent fraud in crowdfunding, and to make sure that participants understand the meaning of fraud?

A.2.3. The SEC's Office of Investor Education and Advocacy (OIEA) is the office within the Commission that is dedicated to helping in-

vestors invest wisely and avoid fraud. If confirmed, I look forward to working with the Director and staff of OIEA to determine what specific steps the Commission can take to help educate investors and prevent fraud in crowdfunding.

In addition, the local offices of State securities regulators are often the first to receive complaints from investors about potentially fraudulent activity. If confirmed, I look forward to discussing with members of the National Association of State Securities Administrators (NASSA) their front line experiences with crowdfunding.

RESPONSE TO WRITTEN QUESTION OF SENATOR HAGAN FROM MICHAEL S. PIWOWAR

Q.1. State and local governments and municipal organizations have expressed concern about money market mutual fund reforms. Municipalities obtain substantial, short-term funding from money market mutual funds and are concerned that if investors no longer find the product attractive, money market mutual fund assets will shrink and an important source of capital for public projects will become more costly. Given that money market mutual funds provide such a substantial share of short-term lending to local governments, do you have concerns that new regulations on money market mutual funds could make it more difficult for municipalities to obtain cost-effective financing for projects?

A.1. The SEC's recent money market reform rule proposal includes an alternative that would require a floating net asset value (NAV) for prime institutional funds. Government money market funds and retail money market funds would be exempt from the floating NAV requirement, but there is no exemption for municipal funds. However, the SEC solicits public comment on a number of questions in the rule proposal, including "Should money market funds that invest primarily in municipal securities be exempted from the floating NAV requirement? Why or why not? To what extent would such funds expect to qualify for the retail exemption?" and "Should the exemption for Government money market funds be extended to municipal money market funds? Why or why not?"

I understand that money market funds are substantial purchasers of short-term securities issued by States, local governments, and municipal authorities. If confirmed, I will work closely with staff and my fellow Commissioners to carefully consider the public comments on the important questions above.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BROWN FROM RICHARD T. METSGER

Q.1. In response to questions on what additional steps NCUA should take to implement lessons learned from the financial crisis, you stated that NCUA's regulations need to be modernized to identify and address threats in the modern marketplace. More specifically, how do you plan to "modernize" NCUA's regulatory approach?

A.1. NCUA needs to have in place balanced rules that reflect the risks of the modern marketplace. In essence, the agency must have

forward-looking rules to mitigate small risks before they turn into large ones. In terms of risks on the horizon, I see three areas for NCUA to act upon.

First, the agency needs to provide appropriate tools to permit well-managed, experienced credit unions to hedge interest rate risk. Second, the agency needs to enhance emergency liquidity access for all credit unions. If confirmed, I am committed to working to quickly complete the rulemakings already begun by the NCUA Board on both of these important matters.

Third, credit unions need to have in place safeguards to protect against cyber-security and technological threats. As these risks evolve, the industry must also change. For example, credit unions ought to continue to update their procedures to test the security of their electronic payment systems, Internet platforms, and other electronic network functions.

To address these matters, I understand that the Federal Financial Institutions Examination Council, of which NCUA is a member, has recently created a working group to enhance communication among the FFIEC member agencies and build on existing efforts to strengthen the activities of other interagency and private sector groups. Among other things, this group is reviewing existing examination policies and guidance addressing cyber-security and critical infrastructure resilience in order to make recommendations for reform.

Because cyber-security threats can lead to credit union losses and potentially affect the Share Insurance Fund, I am committed to working within the FFIEC framework to address these matters and, as necessary, adopt narrowly targeted regulations and issue industry guidance to protect against cyber-security threats.

Q.2. You also stated that interest rate risk is at the top of your list of market threats. How do you plan to address this threat? What proposals do you plan to champion to ensure credit unions are prepared for rising interest rates?

A.2. If confirmed, I am firmly committed to ensuring that credit unions have the policies and tools in place to protect against rising interest rates. Last year, the NCUA Board issued a final rule on managing interest rate risk. This rule requires covered credit unions to have a written interest rate policy and an effective interest rate management program. NCUA has issued guidance on this rule that provides credit unions with the flexibility to manage their business models with NCUA's interest rate risk management expectations.

Earlier this year, the NCUA Board also issued a proposed rule to provide certain well-managed federally insured credit unions with the authority to purchase limited amounts of simple derivatives. Access to tools like interest rate swaps and interest rate caps would help credit unions to offset interest rate risk.

If confirmed, I am committed to working with my colleagues on the NCUA Board to complete the derivatives rulemaking. Additionally, I would work to ensure that NCUA has specialists in the field to examine, and provides examiners with sufficient training on, interest rate risk. Finally, through speeches and other public communications, I would work to educate the industry on the importance

of protecting against interest rate risk, diversifying portfolios, and avoiding heavy reliance on long-term loan obligations.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR TOOMEY FROM RICHARD T. METSGER

Q.1. NCUA's budget has gone up for the last 5 years. Should containing costs be a priority for NCUA, and what do you think can be done to keep a lid on future budget expenditures?

A.1. As detailed in my written statement, if confirmed, my vision is for NCUA to be recognized as an agency that manages its own fiscal house well. I believe NCUA should strive to demonstrate efficiency in managing its budget, while focusing on NCUA's core mission of protecting safety and soundness.

NCUA needs sufficient resources to address the increasing size, complexity and risk profile of the credit union industry. While NCUA's overall budget has increased in recent years, the agency's budget expressed as a share of industry assets has remained essentially flat. If confirmed, I am committed to considering what further steps could be taken to lower the budget as a percent of the industry's assets, consistent with statutory requirements, contractual obligations and prudential priorities.

To contain future budget expenditures, I believe that NCUA should utilize zero-based budgeting, in which each expense is justified anew each year. This is an important tool to use to validate the continued need for each expenditure without sacrificing required oversight.

Q.2. Credit unions have raised concerns about an NCUA proposal under which the agency would assess fees for activities it considers risky. Would this proposal set the stage for fees to become a more common regulatory tool of the NCUA?

A.2. As part of an overall strategy for helping credit unions manage interest rate risk, I understand that the NCUA Board has issued a proposed rule to provide well-managed federally insured credit unions with more than $250 million in assets the authority to purchase limited amounts of simple derivatives. With appropriate safeguards in place, these interest rate swaps and interest rate caps would allow participating credit unions to hedge against that risk.

As I understand, the supervisory costs associated with this proposed rule are, however, significant. To determine how to pay for these costs, the proposed rule has requested comments on whether to institute fees on credit unions that apply for or obtain this expanded authority.

If confirmed, I would closely read the comment letters received as part of the derivatives proposed rulemaking to evaluate the appropriateness of imposing such fees. I would also carefully weigh the factors about whether NCUA should continue to cooperatively charge all credit unions for the costs of supervision or create new fees like the ones in the proposed rule to address the unique circumstances of this rulemaking.

Q.3. A number of credit unions have raised concerns about examinations and their ability to dispute findings. How can we make

sure that credit unions receive fair treatment from their examiner and have appropriate avenues of appeal?

A.3. To prevent appeals, I believe examinations should be consistent. Additionally, the process for resolving complaints must be clearly understood. Open and direct communication between NCUA examiners and credit unions is also a key to resolving problems at the first opportunity. As a result, NCUA examiners must have appropriate training on successful communications techniques. Such training will help to prevent appeals from occurring.

When the relationship between an examiner and a credit union fails to produce a mutually agreeable result, credit unions need to have access to a fair, equitable and reliable appeals process. As I understand, NCUA presently has in place a multi-layered appeals process that involves informal and formal channels. NCUA also communicates the process for filing appeals as part of the cover letter that accompanies every exam.

If confirmed, I would carefully examine the agency's record on appeals, once I have access to the records, and the need to further improve the effectiveness of appeals procedures. If necessary, I will press staff to see if, in my judgment, the process is flawed or the appeals are handled correctly. To enhance fairness, equity and reliability, I would not hesitate to recommend changes aimed at improving the appeals process, if I believe they are warranted.

Q.4. Some have raised concerns that prompt corrective action and capital requirements for credit unions are too prescriptive. Do you have similar concerns and is there a role for NCUA in addressing those concerns?

A.4. Risk-based capital and leverage capital rules are critical components to an effective, well-developed regulatory regime for credit unions. Together, they ensure that the right level of capital is applied to the right level of risk without overburdening low-risk institutions. They also ensure that capital regulation is dynamic based on the size and risk appetite of a credit union.

Capital also plays a central role in the cooperative credit union system. Losses to the Share Insurance Fund are ultimately borne by the surviving credit unions that must pay higher premiums to offset the losses. An effective capital regime therefore protects the entire industry, not just an individual credit union.

I believe that forward-looking indicators of capital adequacy can aid in identifying risks and the impact of potential adverse outcomes on a financial institution. A January 2012 report by the Government Accountability Office also recommends that NCUA should consider additional prompt corrective action triggers that would require early and forceful regulatory action and make recommendations to Congress on how to modify prompt corrective action.

NCUA has not revised the risk-based net worth requirement of the prompt corrective action standard since its introduction in 2000. If confirmed, I am committed to exploring what steps NCUA could take to modify its risk-based capital rule to reflect today's marketplace realities. I am also committed to following up expeditiously on the GAO report's recommendations on the need for statutory changes to credit union capital standards.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

CENTER FOR AMERICAN PROGRESS
1333 H STREET, NW, 10TH FLOOR
Washington, DC 20005
June 27, 2013

Hon. TIM JOHNSON
Chairman
Committee on Banking, Housing & Urban Affairs
534 Dirksen Senate Office Building
United States Senate
Washington, D.C. 20510

Hon. MIKE CRAPO
Ranking Member
Committee on Banking, Housing & Urban Affairs
534 Dirksen Senate Office Building
United States Senate
Washington, D.C. 20510

Dear Chairman Johnson and Ranking Member Crapo:

We are writing to express our support for the nomination of Congressman Melvin Watt to lead the Federal Housing Finance Agency. The U.S. Senate should move quickly to confirm him.

The Federal Housing Finance Agency, or FHFA, urgently needs a confirmed director as it moves forward in collaboration with Congress to reform and rebuild the U.S. housing finance system. The agency has been operating as conservator of Fannie Mae and Freddie Mac without a confirmed director for close to 5 years.

Initially, much of FHFA's work focused on restoring the financial health of Fannie Mae and Freddie Mac, which were on the brink of failure when Congress appointed the FHFA to act as their conservator in 2008 and are now generating revenues. Now, however, the agency is turning to very significant decisions concerning the access to and price of mortgage credit, the supply of affordable rental, and the nature of the securitization process that will shape the future of the U.S. housing finance system without the benefit of a presidentially appointed director.

While Congress considers options for reforming the Nation's housing finance system, a process that will likely take significant time, FHFA will continue to play a key role in determining whether affordable credit is broadly available to diverse populations and geographic locations, or whether credit will be more costly, more limited, and less sustainable, especially for first-time home buyers, low- and moderate-income households, rural communities, and communities of color.

We believe that Mr. Watt has the vision, expertise, and experience necessary to provide strong leadership for FHFA. His personal background and professional experience have provided him with a deep commitment to affordable housing and sustainable credit, which not only support a robust housing market, but also provide shelter and opportunity for America's families and spur economic growth for the Nation as a whole. Having spent more than two decades running a law practice focusing on business, real estate, municipal bonds, and community development, he knows the details of housing finance from the ground level. At the same time, as one of the first policymakers to sound the alarm about dangers of predatory lending—which ultimately led to the foreclosure crisis—he has demonstrated an equal ability to see how what's happening on the ground can threaten the larger housing market and economy as a whole.

We appreciate your attention to this important nomination and would be happy to respond to any questions or concerns that you may have.

Sincerely,

JULIA GORDON,
Director, Housing Finance and Policy,
Center for American Progress

Chairman
Rubén Hinojosa
Member of Congress
15th District, Texas

Congressional Hispanic Caucus
United States Congress
Washington, DC 20515

June 24, 2013

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

Dear Majority Leader Reid and Minority Leader McConnell:

On behalf of the Congressional Hispanic Caucus, we write today to urge you and your colleagues to quickly confirm Congressman Mel Watt as Director of the Federal Housing Finance Agency (FHFA). This nomination is especially urgent as the housing industry continues to face critical challenges and far too many families remain on the brink of foreclosure. We must ensure there is strong leadership at the FHFA, which regulates Fannie Mae and Freddie Mac, to promote their financial soundness, support affordable housing, and ensure a robust mortgage market.

We applaud the selection of Rep. Watt to head the FHFA. He has a long history of advocating for affordable housing, foreclosure prevention, and consumer protection. As a senior member of the House Financial Services Committee, he has extensive experience working on financial matters and will be an important supporter of Latino and minority housing initiatives.

Although the housing industry is beginning to show signs of recovery, foreclosure remains a serious threat faced by homeowners in neighborhoods across the country. In recent years, our community has faced a significantly higher rate of foreclosure than other communities. Far too many families are still struggling to recover from the devastation caused by the housing crisis and homeownership is becoming increasingly inaccessible to Latino families.

Rep. Watt's history in Congress demonstrates that he will be a strong advocate in addressing the minority homeownership gap and the disproportionate foreclosure rates on minority mortgage holders. He understands the important role Fannie Mae and Freddie Mac play in strengthening our nation's housing market and will captain effective oversight.

After years of operating under a temporary director, we ask you to expedite consideration of Rep. Watt's nomination for Director of the FHFA so that the agency may address the foreclosure crisis that persists in our communities and maximize assistance for homeowners. Leadership at the FHFA is essential if we are ever to turn the corner and ensure homeownership remains a

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June 26, 2013

Dear Senator:

On behalf of the 1 million members of the National Association of REALTORS® (NAR), their affiliates, homebuyers, and homeowners, I strongly urge the Senate Banking Committee move forward expeditiously with the confirmation of Representative Mel Watt as the next Director of the Federal Housing Finance Agency (FHFA).

The extended conservatorship of the government-sponsored enterprises, Fannie Mae and Freddie Mac, is one of the most pressing issues facing the housing sector. NAR appreciates the Administration's recognition that a permanent director is required for the regulatory organization overseeing the operations of these two vital housing finance conduits. Rep. Watt's extended service, and involvement with key housing issues, before the House Financial Services Committee during his Congressional tenure illustrates his keen understanding of the importance of housing finance to the economic fabric of our nation. Moreover, his measured approach to piecemeal changes and reforms of Fannie Mae and Freddie Mac demonstrates his understanding of their intricate and vital role in maintaining the nation's fledgling housing and economic recovery.

The National Association of REALTORS® has not seen eye-to-eye on all issues with Mr. Watt during his Congressional tenure. However, our members respect the manner in which he is willing to engage the industry, stakeholders, and consumers to craft policy that is fair, meets most of the needs of those involved, and allows all parties to move forward.

As the nation moves from recession to recovery, the need for thoughtful measured leadership is critical. Housing has always led the way toward economic recovery, and is beginning to do so now. The Director of the FHFA must weigh the costs of action and inaction with the benefits of protecting the taxpayer, and ensuring that the housing sector can stabilize and grow. Mr. Watt has the experience and skill necessary to ensure that both are handled in a manner that will benefit our nation.

I respectfully urge your support of Mr. Watt's confirmation as the Director of the Federal Housing Finance Agency. The National Association of REALTORS® stands ready to support Mr. Watt and Congress to facilitate a strong housing and economic recovery.

Sincerely,

Gary Thomas
2013 President, National Association of REALTORS®

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June 27, 2013

Honorable Chairman Tim Johnson
Honorable Ranking Member Mike Crapo
United States Senate Committee on Banking, Housing, & Urban Affairs
534 Dirksen Senate Building
Washington, DC 20510

Dear Chairman Johnson and Ranking Member Crapo:

On behalf of the 43 members of the Congressional Black Caucus, it is with great privilege and pleasure that I write this letter encouraging the expeditious confirmation of Congressman Melvin Watt as the next Director of the Federal Housing Finance Agency (FHFA).

Congressman Watt has been a model statesman with a focus on consistent, balanced and intelligent policymaking. Nowhere was this more evident than in the wake of the financial crisis. Congressman Watt was one of the primary architects of nearly every important piece of housing and banking legislation drafted to stem the tide of predatory lending, expand access to affordable housing and reform the oversight of our finance institutions. He was on the forefront of efforts to rein in unscrupulous mortgage lenders and protect consumers from the reckless risk-taking that led to the financial crisis.

In times such as this, bipartisanship is imperative. Congressman Watt's ability to reach across the aisle has been demonstrated throughout his entire career on Capitol Hill. For example, during the debate on the Patriot Act in 2001, he was one of the first to offer an amendment to create a Privacy Protection Review Board, working across committees and in a bipartisan manner with former Representative Jane Harman and then-Representative Saxby Chambliss and the House Intelligence Committee to ensure that the privacy rights of the American public were not sacrificed in the name of safety. In 2006, the Congressman worked closely with then Republican Judiciary Committee Chairman Jim Sensenbrenner, to reauthorize the Voting Rights Act. The process resulted in the most comprehensive record, 15,000 pages over 21 hearings, in support of legislation in recent memory and required delicate bipartisan, bicameral negotiations. And finally, his work with Rep. Blaine Luetkemeyer to amend the Electronic Fund Transfer Act to ensure adequate transparency for ATM fees while eliminating excessive regulatory burdens, demonstrates his nonpartisan effectiveness on financial services issues.

Congressman Watt's acute understanding of housing as a pillar of the financial services community makes him an ideal choice to lead the FHFA. He worked in the field for more than 20 years as a minority business and economic development attorney, fighting for the rights of consumers even before coming to Congress where he effectively continued that fight.

Together with the members of the Congressional Black Caucus, I urge you to move forward with a speedy confirmation in order to send a strong signal of our nation's commitment to turn the page on our mortgage crisis and subsequent recession. I ask for your support in confirming Congressman Melvin Watt and ushering in a new era of fiscal strength for our country.

Sincerely,

Marcia L. Fudge
Congressional Black Caucus, Chair

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