S. HRG. 107–476

NOMINATIONS OF: MARK W. OLSON SUSAN SCHMIDT BIES, JAMES E. GILLERAN ALLAN I. MENDELOWITZ, FRANZ S. LEICHTER JOHN T. KORSMO, EDUARDO AGUIRRE, JR. AND RANDALL S. KROSZNER

HEARINGS

BEFORE THE

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

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

ON

NOMINATIONS OF:

MARK W. OLSON, OF MINNESOTA, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUSAN SCHMIDT BIES, OF TENNESSEE, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

JAMES E. GILLERAN, OF CALIFORNIA, TO BE THE DIRECTOR OF THE OFFICE OF THRIFT SUPERVISION

ALLAN I. MENDELOWITZ, OF CONNECTICUT, FRANZ S. LEICHTER, OF NEW YORK, AND JOHN T. KORSMO, OF NORTH DAKOTA, TO BE DIRECTORS OF THE FEDERAL HOUSING FINANCE BOARD

EDUARDO AGUIRRE, JR., OF TEXAS, TO BE FIRST VICE PRESIDENT AND VICE CHAIRMAN OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

RANDALL S. KROSZNER, OF ILLINOIS, TO BE A MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS

OCTOBER 17, 23, AND NOVEMBER 15, 2001

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NOMINATIONS OF:

MARK W. OLSON, OF MINNESOTA TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM AND SUSAN SCHMIDT BIES, OF TENNESSEE TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WEDNESDAY, OCTOBER 17, 2001

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

The Committee met at 10:30 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. Let me call our hearing to order.

We are pleased to welcome before the Banking Committee this morning two nominees to be Members of the Board of Governors of the Federal Reserve System. First is Mark Olson, who has been nominated to complete the unexpired term of 14 years, from February 1, 1996, of Alice Rivlin. This means that, if confirmed, he would have about 8-plus years to serve on the Board. The second is Susan Bies, who has been nominated to the Fed to complete the 14 year term from which Susan Phillips resigned on February 1, 1998. This means if she is confirmed, she would have 10-plus years to serve on the Fed.

Just for elaboration, I should note that the Fed has seven Members. They receive 14 year terms and the terms are fixed. So if the vacancy exists, the person appointed fills the remaining part of the term. In other words, they do not get the 14 years. They get whatever is left of the term of their predecessor. Of course, if the predecessor served the full term, then they get the full term.

It is set up on a staggered basis. We get a vacancy every 2 years in the normal rotation, although if people step down, as is the case here, then we have openings and people fill the unexpired period.

I have had the opportunity to meet with both nominees. In fact, both have indicated to me their intention to serve the full period

remaining on the terms for which they have been nominated. And I simply want to say, in my view, that is very much in the interest of the Federal Reserve as an institution, to have Members of the Board of Governors serve most, if not all, of the rather exceptionally long terms provided to Members of the Board.

Other than Federal judges, who serve for life, I do not know of anyone that we give this lengthy term to.

It used to be common practice for nominees to serve their terms. In recent years, that has become less the case. And I have been disturbed by that growing trend. I commend Mr. Olson and Ms. Bies for their stated willingness to serve.

Mark Olson, of course, is well known and respected by the Members of this Committee, since he served with distinction as Staff Director of the Securities Subcommittee, then chaired by Senator Grams of Minnesota, from February 2000 to January 2001.

We always like to claim our alumni as best we can around here.

Mark Olson is from Minnesota, a graduate of St. Olaf College in 1965. From 1966 to 1970, he worked in retail banking and commercial lending for First National Bank of St. Paul, now U.S. Bancorp.

Mark then became involved with Bill Frenzel, serving as his Campaign Manager, a former very distinguished colleague of ours who served in the House of Representatives. He worked for Congressman Frenzel as a Legislative Assistant. He then worked for Andrews Allen Company, a commercial real estate developer. Then as President and CEO for 12 years of the Security State Bank in Fergus Falls, Minnesota.

Actually, during that period of time, he served a term as President of the American Bankers Association. From 1988 to 1999, he was a Partner and National Director of Regulatory Consulting for Ernst & Young.

Ms. Bies received her undergraduate degree in Education from State University College in Buffalo, her M.A. in 1968, and Ph.D. in 1972 in economics from Northwestern University.

As you know, Senator Gramm, our Ranking Member, is a Ph.D. in economics. I will just put that on the record as well, as I frequently do.

Ms. Bies worked at the Federal Reserve Bank in St. Louis from 1970 to 1972, as an economist responsible for reviewing bank holding company and bank merger applications. Prior to that, she worked for a year at the Federal Reserve Bank in Chicago on a fellowship. She was then Assistant Professor of Economics at Wayne State University in Detroit, Associate Professor of Economics at Rhodes College in Memphis. And since 1979, she has been with the First Tennessee National Corporation in Memphis as an Economist and Chief Financial Officer. Since 1995, as the Executive Vice President for Risk Management.

Both of these nominees obviously would bring substantial expertise and experience to the Federal Reserve Board of Governors. Mr. Olson served as a banker, the head of a leading banking association, performed important work in the accounting field, was the Director of Regulatory Consulting for Ernst & Young, and had experience here on Capitol Hill. Ms. Bies, of course, is an economist with the Fed, in academia, and now, most of her career in senior banking positions.

I am very pleased that we have been able to schedule this hearing in a timely fashion, and I welcome the witnesses here. We look forward to hearing from them. But, first, I yield to the Ranking Member, Senator Gramm.

STATEMENT OF SENATOR PHIL GRAMM

Senator GRAMM. Mr. Chairman, thank you very much. I was over at one of those interminable meetings that we seem to be having in the last few days. It started at 9 a.m. I apologize to everybody for being late.

Let me first say that I think we have been blessed in having excellent people nominated to positions that we oversee on this Committee. Obviously, in the previous Administration, there were policies that I did not agree with. But never, ever, did I feel that any of their nominees that fell under the jurisdiction of this Committee were unqualified. I thought that President Clinton, like President Bush, and President Reagan before him, nominated good people to serve in these very important positions. And I think President Bush is following exactly that same pattern.

I want to begin by thanking each of you for your willingness to serve. Many positions in Government offer only an opportunity to do hard work at relatively low pay, with relatively little recognition. And it is the willingness of people to do this important work that helps make our Government, while still a Government and embodying all the inherent problems Government has, the greatest Government in the history of the world. So, again, I want to thank both of you for your willingness to serve.

Mr. Chairman, we all know Mark Olson. He worked with us. As you pointed out, we like to point out our alumni. I like to remind colleges and universities that the ultimate test of a great university is not its library or its football team or even its faculty. It is its graduates.

We are proud of you, Mark. Mark has an extensive background. In fact, I doubt that there are many people who have ever served on the Fed Board that have as broad a background as Mark Olson. He ran a small bank, was the President of the American Bankers Association, worked for a Congressman and a Senator. Very broad background and I think it will be very helpful to him.

Sue Bies has an excellent academic background. In fact, she and my wife were graduate students together at Northwestern University, I am very proud to say. She has had a distinguished career in academics and in business. I think her appointment is an excellent appointment.

So, I want to congratulate both of you, and I look forward to your confirmation.

Let me say one more thing, Mr. Chairman. I know we have had trouble with background checks and trouble with getting people nominated. At times, it has created an imbalance between Democrat and Republican Members of various boards and commissions. I think you have every right to be concerned about that. In fact, it is part of your job. And I pledge to work with you to see that we keep this balance moving forward and when we have a Democrat and Republican opening, we try to bring the two together.

I just want to thank you for bringing these two nominations forward. We are in a period where we need more people on the Board. We have another Board Member, I understand, who is thinking or is preparing to leave.

I want to thank you for holding this hearing.

Chairman SARBANES. Well, as I indicated at the outset when we made, I guess, the transition, might be the way to describe it, that we would do our best to try to help the Administration put its people into place.

I also want to just acknowledge that the White House personnel have in recent days at least been more responsive on the problem that you outlined. So, I hope that we will be able to proceed without any difficulties.

We are going to turn to you now for your statements. Before I do that, though, I would ask you to stand because it is the practice of the Committee to place the nominees under oath.

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. OLSON. I do.

Ms. BIES. I do.

Chairman SARBANES. Do you agree to appear and testify before any duly-constituted committee of the U.S. Senate?

Ms. BIES. I do.

Mr. OLSON. I do.

Chairman SARBANES. Thank you very much.

Mark, why don't we start with your statement. And I invite both of you, if you have members of your family here that you wish to present to the Committee in the course of making your statement, we certainly invite you to do so.

STATEMENT OF MARK W. OLSON, OF MINNESOTA TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. OLSON. Thank you, Mr. Chairman. I would like to introduce my wife, Renee Korda, who is with me today.

Both of you referred to Congressman Bill Frenzel, who is my mentor and former boss, who may be here during the course of the day also.

First of all, I would like to repeat what Senator Gramm said. Mr. Chairman, thank you on behalf of both of us for holding this hearing at a time when both this Committee and the Congress have a lot of competing issues. We are certainly appreciative of your attention to that.

You have summarized my background, Mr. Chairman. I do have a statement that I would like to submit in its totality for the record and I will skip the first part of it, which you have summarized, if that is fine.

Chairman SARBANES. The full statement will be included in the record. And take whatever time you need to make your statement.

Mr. OLSON. Thank you.

Chairman Sarbanes, Senator Gramm, and Members of the Committee, I am pleased to appear before you today as one of President Bush's nominees to serve on the Board of Governors of the Federal

Reserve System. I am honored that President Bush has nominated me to serve on the Board. And if I am confirmed by the Senate, I look forward to fulfilling the important responsibilities of Board membership.

You have reviewed my background, which I won't repeat. But in summary, I have been part of the financial services industry as a practicing banker for 16 years, a regulatory consultant for 12 years, a Congressional staff member for 5 years, and was elected to the highest leadership position in the banking industry.

I particularly enjoyed, I must say, the year that I spent as part of this Committee. I served as an aide and had a chance to work with some very dedicated and talented Senators and I served unofficially as the grandfather to the staff people around here because I was by a considerable margin the oldest person while I was here. But I think that experience was of benefit.

The combination of experiences has allowed me the opportunity to understand the important issues challenging the financial services industry, its regulatory authorities, and the U.S. Congress. I look forward to bringing that experience to the Board of Governors.

Let me now turn to a couple of specific issues, areas of responsibility of the Fed.

Monetary policy is a critical Federal Reserve responsibility. The Federal Open Market Committee and the Board establish policy, which is implemented through the Federal Reserve Banks and, ultimately, through the banking system.

As a banker, I gained a hands-on familiarity with the tools used to implement monetary policy as the banks are, effectively, the counterparties to Federal Reserve decisions including: Federal funds rate targets, discount rates for Federal Reserve Bank borrowing, and establishment of reserve requirements. My background has provided me an understanding of how monetary policy is implemented, and the impact these policy decisions have on individuals and businesses. Importantly, as a banker, I witnessed firsthand the difficulties caused by both recession and high inflation in more volatile economic times. As a result of that experience, I fully support the mandate Congress has given the Federal Reserve System to pursue "maximum employment, stable prices, and moderate long-term interest rates."

Turning to regulatory issues, with the passage of the Gramm–Leach–Bliley Act of 1999, the Federal Reserve was accorded by Congress an expanded role in financial services supervision. That bill allowed financial institutions from banking, thrift, securities and insurance industries to affiliate in a newly-authorized financial holding company. Though each of the financial services entities will continue to be regulated by its principal functional regulator, the Fed has been accorded the important role as umbrella regulator with overall regulatory coordinating responsibility. As a result, the Fed has effectively been given the oversight responsibility for monitoring the blending of financial industries at a time when these industries are being dramatically impacted by technological innovation and industry consolidation. That Act is now 2 years old, and is not yet fully implemented. Given my background, I look forward to being an active participant in this continuing effort.

Regarding the payment system, the Board also has supervisory responsibility for the proper functioning of the payment system. As we were again reminded following the horror of September 11, the smooth and efficient functioning of our payment system is vital to this Nation's economic health. The dramatic improvements in technology continue to provide opportunities for greater efficiency, but also raise new regulatory issues as the system continues to progress from paper-based to an increasingly electronic system. I look forward to bringing my banking and consulting experiences to addressing these important issues.

Another important role of the Board is its responsibility to consumers. I have been particularly pleased to learn of the increasing role the Fed now plays in consumer education. Financial literacy is an important element in our citizens' ability to fully experience the benefit of a free-market economy. I look forward to being an active participant in this important area.

The Congress has also entrusted the Board with important consumer protection responsibilities. There are a number of regulatory issues currently awaiting Board action. Among these are the proposed changes in the Home Ownership and Equity Protection Act, HOEPA, and the Truth In Lending Act, TILA, intended to crack down on predatory lending. Also, changes have been proposed concerning mortgage loan data collection under the HMDA. The comment period for both has expired and the comments by interested parties are now under review. While I have a working familiarity with both proposals from my prior experience, I look forward to an opportunity to review the public comments and also the Federal Reserve staff analysis in order to fully acquaint myself with all the implications of these proposed rule changes.

Chairman Sarbanes and Senator Gramm, my goal as a prospective Member of the Board is to utilize my banking industry background and my public policy experience to continue the important work of the Federal Reserve. It is my intent to help the Fed continue to provide a regulatory framework which will allow the banking industry to meet the evolving financial needs of its customers, and continue as a critical source of strength for the economies of the United States and the world.

Thank you again for holding the hearing, and I look forward to your questions.

Chairman SARBANES. Thank you very much.

Dr. Bies.

STATEMENT OF SUSAN SCHMIDT BIES, OF TENNESSEE TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Ms. BIES. Thank you.

Mr. Chairman, Senator Gramm, and Members of the Committee, I am very pleased to have this opportunity to appear here today as you consider my nomination to serve as a Member of the Board of Governors of the Federal Reserve System. I look forward to serving in this position. If the Committee and the full Senate approve my nomination, I promise to work with the other Members of the Board, and with this Committee, to carry out the objectives that the Congress has established for the Federal Reserve.

I am honored that President Bush has nominated me to be a Member of the Board of Governors. This brings me back to where I began my professional career. When I was at graduate school at Northwestern University, I received a fellowship from the Federal Reserve Bank of Chicago that enabled me to conduct research at the Bank to complete my doctoral dissertation.

Chairman SARBANES. And that fellowship is going to be like an endowed chair now and in the future at the Federal Reserve Bank of Chicago.

[Laughter.]

Ms. BIES. And I hope that there are many more young folks that can get that.

The decisions of the Federal Reserve affect the economic well-being of every American consumer and business. The Federal Reserve has responsibilities for establishing monetary policy and for assuring the safety and soundness of the banking and payment systems. I believe my background in these areas qualifies me to serve on the Federal Reserve Board.

I hold an M.A. and Ph.D. in economics from Northwestern and have taught economics for 7 years. My first professional position after graduate school was with the Federal Reserve Bank of St. Louis. There, and at the Chicago Federal Reserve Bank, I gained valuable experience in issues regarding bank mergers and acquisitions, regional economics, and monetary policy.

I have spent 21 years with First Tennessee National Corporation, a large, nationwide diversified financial services institution that is headquartered in Memphis, Tennessee. My experience has primarily been in the areas of finance, risk management, and audit, which has given me a real appreciation of the day-to-day workings of the financial system and the issues relevant to implementing regulations.

I approach this nomination understanding the responsibilities that the Federal Reserve has to create the monetary policy environment that will support full employment and maximum sustainable economic growth. Based on my experience over the years, I believe that this can only be accomplished by restraining inflation. Inflation increases the cost of capital to businesses and thereby reduces the amount of long-term investment, which in turn lowers economic growth and job creation. High inflation expectations increase long-term interest rates, which reduces the ability of households to buy homes, finance their children's education, and provide the means to their families that improve their standard of living.

While the primary focus of monetary policy is to contain inflation, the Federal Reserve must also be constantly aware of the rate of economic growth and the level of unemployment. The American economy benefited from more rapid productivity growth in the 1990's, which permitted the economy to enjoy faster growth and lower rates of unemployment without triggering significant inflation. Economic growth has slowed since late last year and has been adversely affected by the recent tragic events. This led to short-term actions to lower interest rates to strengthen the economy.

When unusual events occur, such as those horrible events on September 11, the Federal Reserve has the additional responsibilities of providing liquidity and assuring the smooth functioning of

the payment system. By stepping in promptly to ensure that banking and payment systems continue to function, and to provide sufficient liquidity to keep transactions moving as smoothly as possible, the Federal Reserve helped to keep short-run disruptions in that awful week to a minimum. In the aftermath of the September 11 events, bankers throughout the country were able to support the transaction and credit demands of their customers due to the effective and prompt response of the Federal Reserve.

We are in a time of changing technology, competitive factors, and business practices that affect the financial system. Recent innovations in financial instruments, such as derivatives, and securitization of loans, have changed the way that risks and liquidity move among financial market participants. With laws like Gramm–Leach–Bliley, the distinctions among products and services offered by commercial banks, investment banks, insurance carriers, and nonfinancial firms are diminishing. The Fed must respond appropriately to these forces to keep markets competitive and efficient, while balancing the need to protect the safety and soundness of the banking system.

Financial institutions now have more tools to manage the credit, market and operating risks they face. This has important implications for the way the safety and soundness of our financial institutions should be measured and monitored. The Federal Reserve and other bank and financial institution regulators will have to modify their rules to encourage the beneficial aspects of these new innovations and encourage risk mitigation tools without significantly increasing systemic risks to financial markets. This requires that the staff of the Fed continue to develop their knowledge base to effectively monitor the financial institutions for which it has oversight.

Finally, the Federal Reserve must also provide regulations and oversight of the manner in which financial services are provided to ensure that the varying needs of consumers, businesses, and communities are met in a fair and efficient manner. The Federal Reserve should encourage the appropriate mix of regulation, customer disclosures, and improved financial literacy so that consumers and businesses can more fully benefit from innovations in technology and financial services.

In conclusion, I approach my nomination as a Member of the Board of Governors of the Federal Reserve with an understanding of the broad responsibilities the position requires. I would like to thank the Committee for considering my nomination, particularly the promptness with which this hearing has been held, in light of all the other events that are on your agendas. And if I am confirmed, I look forward to working on these policy issues with Members of this Committee and other Committees of Congress. I will be happy to answer any questions that you may have.

Chairman SARBANES. Thank you very much.

We appreciate both of your statements. I just have a few questions and then I will yield to Senator Gramm.

There are some who have advanced the theory that there is an unemployment rate that you can determine and that if the economy expands or grows in such a way that it drives the unemployment rate down below that figure, almost automatically like a balance, the inflation will go up.

There was a time when one advocate putting that forward said, well, the rate—just to put some meat on the bones of this framework—was 6.7 percent unemployment. This was when we were at 7½ percent unemployment rate. And if the unemployment rate went below 6.7 percent, we would have an inflation problem. Therefore, as the economy expanded and moved the unemployment rate down toward 6.7, the Fed should start raising the interest rates in order to dampen down economic activity in order to avoid an inflation problem.

Now that theory was not followed and, of course, today that rate has now risen because of all these events. But we were down to 4 percent unemployment rate and no inflation problem. Do you have a view about that theory? In particular, I guess, I am interested in whether you reject that theory?

Mr. Olson.

Mr. OLSON. The theory is more of a guideline at this point because, as you point out, what we discovered in the last half of the decade of the 1990's is that we could operate at an employment level that we had not seen previously in history, and at a level that was not inflation-inducing.

What we discovered is that if there is a natural rate of unemployment, it is at a different level than it was perceived to be as recently as 10 years ago.

I think to the credit of the Fed and others, they recognized that their analysis needed that flexibility, so that there would not be an automatic response to an employment level that would require a tightening of monetary policy.

That is the way that the Fed responded and it seems to me that that is a perfectly acceptable response. I think, prospectively, we need to recognize that these are very fluid situations and there will probably be increasing productivity left in the economy, and that increasing productivity may change the way we alter the relationship between unemployment rates and the potential for inflation.

Chairman SARBANES. I might comment that Chairman Greenspan, in testimony before this Committee, in effect, rejected what I think is a simplistic concept and said that the analysis had to be much more complex and, in a sense, much more pragmatic, in making the judgments. Obviously, if we had adhered to that, we would have given away a lot of growth and a lot of employment to the economy and to the country.

Mr. OLSON. I fully agree.

Chairman SARBANES. Dr. Bies.

Ms. BIES. I also agree that there is no rigid rule or fixed number.

I think one of the difficulties that you have by looking at something like the unemployment rate is that it ignores the other side of the potential that we have for the population to be employed.

One of the advances that we had was in productivity, which made given resources more able to handle the same number of transactions in business. But also in the last decade, we have continued to bring a lot of women into the marketplace, and that has enabled the supply of labor to greatly increase.

I think one of the things we need to realize, too, is that of the people who are looking for work, do they have the right skills and talents that companies need when they are looking to fill positions?

And it is important that we continue to make sure that our work force is able to respond to the changing employment needs.

I think it is more these dynamics that we should be focused on rather than the unemployment rate by itself.

Chairman SARBANES. Mr. Olson, we have received a letter, and I think you have a copy of it, from the National Association of Realtors. They have expressed concern because of your past experience as a former President of the American Bankers Association, as to how you would implement the financial activities provisions of Gramm–Leach–Bliley. And I think it encumbent upon me to ask you about this matter. They are concerned because there is a petition at the Fed and the Treasury Department to, in effect, allow financial holding companies and financial subsidiaries of national banks to sell and manage real estate. Now this raises some very important questions about the separation of banking and commerce and I want to explore that with both of you just a little bit. But how would you respond to their letter?

Mr. OLSON. Mr. Chairman, I saw the letter for the first time last evening. I do have it in front of me. A couple of thoughts. Let me speak specifically to the letter, and then the broader question.

First of all, with relation to my American Banking Association background and connection. I last served as an officer of the ABA 13 years ago. And for that matter, after we sold our bank in Minnesota in 1988, I was ineligible to be a voting member of the ABA. So, I have not been an eligible voting participant in the ABA for 13 years.

When this Committee asked me about conflict of interest issues in the questionnaire you put out, I responded by saying that I would abide by the Government Ethics Office guidelines with respect to conflicts and I would do the same here.

I would submit the facts of this issue to the Government Ethics Office and abide by their decision as to whether or not this is an issue on which I should recuse myself.

More broadly, the question really speaks to the issue of when background in an industry is relevant to a regulatory position or whether there is potential conflict. I am quite familiar with the issue. I studied the issue carefully as a banker. I had an opportunity to review the issue as a consultant.

But I think the role as a regulator is entirely different, and you just said it. The issue is not whether or not it would be my personal preference. The issue as a regulator is very specific—does real estate brokerage activity fit under the definition of financial activities as defined by Gramm–Leach–Bliley?

There is no way that I could answer that question until I had had an opportunity to look at the guidance provided by the Federal Reserve staff and the public comments.

I think the background I have is relevant to understanding the issue. But the role as a regulator, is it consistent with the law as intended by Congress?

Chairman SARBANES. Well, let me put this question to both of you and let me use an example.

We had before this Committee a nominee, Mr. Harvey Pitt, to be the Chairman of the Securities and Exchange Commission. Now Harvey Pitt, the first 10 years he was out of law school, worked

for the SEC. In fact, he became the youngest General Counsel in its history. He then went into private practice and became one of the most recognized and successful securities lawyers in the country and represented a number of clients before the SEC, very effectively over 25 years. Then he was nominated to be the Chairman of the SEC.

So the question becomes, how will you be able to shift over and handle this responsibility? To whom do you owe your judgment if you are confirmed and become a Member of the Board of Governors of the Federal Reserve System?

Dr. Bies.

Ms. BIES. I think as a Member of the Board of Governors, our responsibility is to the safety and soundness of the entire banking system, first of all. And for that reason, I think the knowledge we bring, including our personal experience, is an asset that helps us understand what the root cause issues are in any potential matter we might be looking at.

It is much more dangerous to be on the other side where you have no background in an area. By working in a business operation day-to-day, particularly in many of the areas I have dealt with in risk management or setting accounting rules on the Emerging Issue Task Force of FASB, I have the experience of knowing what the transactions really involve. I think it has made me, and would make me, a more effective regulator because I will make sure that I understand all the issues that should be addressed so that the regulation meets the objective, without unduly burdening the day-to-day operations.

I think it is an asset in that respect. But the overall directive that we have is to keep the financial system and the payment system running smoothly.

Chairman SARBANES. Mr. Olson.

Mr. OLSON. When I joined Congressman Bill Frenzel's staff in 1971, my background at that point had been banking. And as a 28-year-old, I discovered when I joined the Congressional staff, that when I took off my banker hat and put on my public policy hat, I look at the same issue from a different perspective.

I took that responsibility very seriously. I took that new role very seriously then. I had a chance then to go back into the banking industry and work on public policy issues as an advocate for the industry. I also looked at them as a consultant. Then I had a chance a year ago to come back here and look at the issues from their public policy point of view. And that is the point of view that I would bring prospectively as a Fed Governor.

There are two guidelines for acting on public policy issues. First, and very important, is the law as set out by this Congress in terms of guidelines as to what the Fed's role is. Second is the broader issue with what is appropriate public policy under the broad guidelines provided and the implementation of the regulations.

Chairman SARBANES. I think it is very important because people need to understand, because the fact that people come out of a particular background when they move into these public policy positions, their guiding star actually becomes the public interest. They have to leave behind them whatever biases might exist out of their previous experience.

We like to get the knowledge and the expertise from the previous experience, but it is very important, as you have just indicated, I think, that people moving into these positions understand that their frame of reference will alter.

I think it is important to get people on the record in that regard, because you will often be called upon in a sense to adjudicate issues between competing economic interests. One economic interest may be the one out of whose background you came. Another will be a different economic interest, out of whose background you did not come.

And so, it is the same thing when people become judges. They need some sense that they then will rise above the attitudes of that background and make their judgments on the public interest.

I appreciate your response.

Senator Gramm.

Senator GRAMM. Mr. Chairman, thank you.

I guess in looking at the National Association of Realtors' letter, it sort of calls me back to an approach that is often made by people in looking at nominees, that the best background would be to have just come in off a turnip truck.

[Laughter.]

But I think you are living proof, Mr. Olson, that your background does not always determine what you believe. Didn't you go to St. Olaf's College?

Mr. OLSON. I sure did.

Senator GRAMM. And as far as I know, having worked with you, you are very conservative. So it goes to show that we are not simply chalkboards that experience writes upon. There are inner circuits that are implanted at birth or somewhere else.

Let me say, Dr. Bies, I think your point is a very good one, that unemployment is a very poor indicator of the supply of labor. And I think that, as we look to the future in terms of our potential to grow, there have been various things written about the growth of the labor force. Before we had the current slowdown, and the demand for labor.

But the plain truth is, as you pointed out, that there are many ways that we can expand the labor force. There are a substantial number of people who are not in the labor force.

In fact, in the current boom period that we have experienced, really since 1982, my own opinion is that not only has the unemployment rate come down to quite low levels as compared to the post-war experience of America, but also that we have brought people into the labor force who before were viewed as unemployable. And I think that is a very important point.

I do not know if you have family here, but did I miss you introducing them.

Ms. BIES. No. I apologize to my family. Thank you, Senator.

Senator GRAMM. Why don't you introduce them?

Ms. BIES. I have my husband here, John Bies, and my older son, John Matthew Bies.

Senator GRAMM. Well, in my experience with my wife's own profession, I would like to say that I have gained some insight into how some spouses feel. I will go to dinner with my wife and people

and they want to talk to her. They talk about stuff I do not know anything about, or care anything about. So, I feel for your husband.

Ms. BIES. Thank you.

[Laughter.]

Senator GRAMM. You should be nice to him.

[Laughter.]

Let me just pose one question because Senator Sarbanes and I have to go to a meeting over in the Capitol.

If you are looking at your role, if you are confirmed as being a Member of the Board of Governors, in setting monetary policy in the United States, obviously, there are many things that you want to achieve with monetary policy. There are various trade-offs.

But I would like to give each one of you an opportunity to tell us, when you get down to the bottom line, which things do you think are most important in terms of monetary policy?

What are sort of the crown jewels that you are dealing with, the things that are not important to the exclusion of everything else, but that are important in a higher order than other things in terms of objectives?

Mr. OLSON. Even though Susan has the Ph.D. in economics, I will start with an answer to that.

It seems to me, Senator, that monetary policy has the most direct influence on price stability. It is typical of monetary policy to respond to the dynamics in the economy at a certain time to provide a leveling.

Having said that, though, it is important for the monetary policy to accommodate the growth opportunities that are in the marketplace as well.

I think I would take it in that priority, that the price stability is very important, but absolutely not to the exclusion of allowing for a dynamic economy to function much as the way we have seen it in the latter part of the 1990's.

Ms. BIES. I would agree with Mr. Olson that the critical objective for the Federal Reserve is to make sure we have very moderate, low rates of inflation. I think it is important because it will help sustain long-term maximum employment growth for the economy.

Senator GRAMM. So, you do not see a conflict between price stability and growth. In fact, in the long-term, you see price stability as a necessary condition for economic growth.

Ms. BIES. I surely do. I think one of the things that we have to be aware of at the Federal Reserve is that we continue to make the markets trust us to use monetary policy to make sure that inflation is under control so that there is not the uncertainty or the risk of inflation that may be perceived by markets because that uncertainty, in and of itself, can raise interest rates and slow growth down. So, our credibility is very important to help preserve that growth. We only can do it by consistently focusing on inflation.

Senator GRAMM. Well, I think that is Alan Greenspan's view. In fact, in looking at his career, until very recently, I think any time things are not going well, or well as compared to the most recent trend, people are more critical. But I think the criticism that Greenspan has had historically, which has primarily come from, "pro growth advocates" has been preoccupation with inflation.

I have always defended the Chairman, believing that, in the long-term, price stability is a necessary condition for long-term economic growth. It may not be sufficient, but it is necessary. In the long-term, if you do not have price stability, you undercut the ability of an economy to perform efficiently over long periods of time. And I think that Chairman Greenspan's priorities, Dr. Bies, are very similar to yours.

I am finished, Mr. Chairman.

Chairman SARBANES. I think that when you are, in a sense, confronted with this kind of question, there is always refuge in the statute. I just want to read it to you. This is the statute that governs the Board of Governors of the Federal Reserve System.

So this is your mandate. It was given to you by Congress. Congress could change the mandate and, in fact, we have had some Members on this Committee who wanted to change it and have it more single-focused, as it were, rather than the more complex discussion that I think we have just had and your response, and from Senator Gramm.

I think it is important to just read the statute again.

"The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long-run growth of the monetary and credit aggregates commensurate with the economy's long-run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate, long-term interest rates."

Now, I am prepared to concede that is a very complex task and it is one you will have to wrestle with. But I want to underscore that it sets out, in a sense, a package of goals that you have to try to address.

I just want to put that on the record and underscore it to you.

And this is going to lead into another question I have on a different subject.

Senator GRAMM. Mr. Chairman, if you will let me butt in here.

Chairman SARBANES. Sure.

Senator GRAMM. I think there is no conflict among those goals. I think in the long-term, the policies that promote each one of those goals are consistent. In the short-term, there can be conflicts. But in the long-term, I think the mandate of the Federal Reserve System is achievable.

Chairman SARBANES. Their challenge is really how to harmonize them, I think.

Senator GRAMM. Yes.

Chairman SARBANES. I agree with that. Now this leads me to another question that I want to ask. And I am prompted to do this, Dr. Bies, by something that you said in your statement. "With laws like Gramm–Leach–Bliley, the distinctions among products and services offered by commercial banks, investment banks, insurance carriers, and nonfinancial firms, are diminishing."

I have a large question mark over non. If it had said financial firms, I really would not put the question mark. But one of the issues that was fought out in Gramm–Leach–Bliley was the separation of banking and commerce. Now some people thought there should not be a separation. But the decision that was made by the

Congress—and this issue relates a little bit to this real estate letter that we have received—was to keep them separate.

So the Fed's charge, in effect, its mandate, is to maintain separation which has been established by the Congress by law. If that is to be changed, you will have to come back to the Congress and get it changed.

Now, we had testimony from Chairman Greenspan. We had testimony from Secretary Rubin. We had testimony from Henry Kaufman, from Paul Volcker, from a number of leading thinkers in this area who thought that maintaining the separation was an important thing to do. They cited the Japanese experience, the German experience, where they do not have the separation and the difficulties that they got into, in part, as a consequence.

It is true that the distinction among banks, investment banks, insurance carriers, was all going to be allowed to meld and come together, although they have done less of that than people anticipated in terms of the mergers and the joining together. But it wasn't to extend outside of the banking side over into commerce. And so the use of the word, nonfinancial, here gives me some concern. Could you respond to that?

Ms. BIES. Yes, sir. First, let me say that I believe very strongly that we need to continue to have a separation between banking and commerce because of the issues that you have just raised that we have seen in other countries where you have transactions between banks and nonfinancial affiliates in manufacturing and retailing. The transactions are not done at arm's length. It affects the safety and soundness of the banks themselves. And long-term, that has adverse effects in times of stress to the economy as a whole. I think we need to maintain that.

Chairman SARBANES. It may also affect, I might note, the competitive structure or nature of your economy, too. There is some concern about that, obviously.

If you have one bank in town and it owns the major retail outlet or some commercial outlet, then there is a concern about the competitive position of the enterprises that compete with that retail or commercial outlet.

So there are some even broader implications beyond that. But the safety and soundness is obviously important and the Japanese ran into a lot of trouble on that score.

Ms. BIES. They clearly did. I think what I was trying to get to is that with particularly some of the new technologies, we have companies now who provide services that help payments happen, that help transactions occur in electronic mode that may, by tradition, not be part of a bank or an insurance company.

It is the services that people are providing outside of the bank and outside of insurance carrier charters that I think we have to address because it is a new technologies area.

Chairman SARBANES. All right. Well, there are some difficult questions at the edge, so to speak, connected with technology, as you have just noted. But I think the use of the term, nonfinancial firms, potentially is much too broad to just simply set out in a statement and I am happy to accept that I think very important limitation on it.

Mr. Olson, do you want to address this at all?

Mr. OLSON. I think the Gramm–Leach–Bliley Act provided two important things.

Number one, there was an imbalance in 1999 with what the statute allowed and what was happening in the marketplace. I think the Gramm–Leach–Bliley Act addressed that. Number two, and very importantly, it provided the framework for decisionmaking in the future. What it says, and it is quite clear, and that distinction between banking and commerce has been preserved.

The activities that, prospectively, the Fed, in consultation with the Treasury, can look at, are financial activities or activities complementary to financial activities.

I am very comfortable with that definition and that guidance.

Chairman SARBANES. When in doubt, look to the statute, is what I would say.

Senator Carper.

COMMENTS OF SENATOR THOMAS R. CARPER

Senator CARPER. Thank you, Mr. Chairman. And to both of our nominees, welcome. It is nice to see you both again. Thank you for visiting with my staff and me last week.

A couple of questions, if I could.

Let me just start off by asking each of you, how will the Board of Governors be different if you are a Member of it?

Ms. BIES. In my case, it will hopefully benefit by the fact that I think I bring some unique skills relative to the current Members of the Board. I have a lot of experience in derivatives, in accounting, in credit-scoring models, risk management tools, a lot of the new evolving methods that banks are using to manage risks and monitor risks. And I think some of these types of skills I can bring to the table will help me deal with a lot of the safety and soundness issues that the Board has to deal with.

Having worked in a bank that has the distinction of twice in our history acquiring the second largest bank failures that have ever occurred, I also understand the disruptions that affect the average person when they have their life savings in an uninsured institution, which we had in one neighboring case. And I think that brings me a perspective to realize how important it is to look to the consumers and understand we have to protect the safety and soundness of the banks for them.

So, I think that kind of relationship with customers is something else I bring rather uniquely.

Senator CARPER. Good. Thank you.

Mr. Olson.

Mr. OLSON. Susan's background and my background overlap in one narrow respect in that I also spent some years with a regional banking organization.

What is more unique with respect to the current make-up of the Board, I also have 12 years in a community bank background, 12 years as a financial institution regulatory consultant, and 5 years working in public policy on Capitol Hill staffs, none of which now exist on the Board, but are all relevant to what the Board does.

I think that with all of those experiences I will work to try to represent and bring that vantage point and that viewpoint to the Federal Reserve.

Senator CARPER. Good. We have been discussing, but not debating on the floor very much, the elements of a potential stimulus package that the Congress might work out with the President.

The four leaders of the Budget Committee, House and Senate Budget Committees, Democrat and Republican in each body, have agreed on a number of principles as to what that package might look like.

I am going to ask if you would just share any thought that you have on these principles. I am not going to ask you to necessarily spell out what you think we ought to do with respect to a stimulus. But I would be interested in your comments on the principles that they seem to be in unanimous agreement on.

Number one, they have suggested, at least on the tax side, that what we do should be of a temporary nature and that we should sunset it within 1 to 2 years. They have indicated that the size is such that it should be consistent with moving back toward a balanced budget within a relatively short period of time. They believe that the impact should be near-term, almost immediate from its adoption and not something that kicks in several years down the road. Do you have any thoughts on those principles?

Ms. BIES. I think what is unusual about how events are affecting the economy this time is we have never really been through this kind of terrorism. And to keep the economy growing, and to get us to move ahead, it is important that we provide confidence to consumers and to businesses.

To make that happen, I think the ability short-term to give more after-tax dollars to consumers to spend is important and for businesses to invest is important, to sort of jump-start the economy and get us back on that road of confidence that leads to more long-term investments.

We have spent a lot of time in this country to get us to the point where we have a balanced budget that is keeping long-term interest rates relatively low, which makes it easier to control inflation.

So in the long-term, when we get back to a faster rate of growth and back up to full employment, I think we do need to get back to that discipline of a balanced budget.

However, the unusual events that are occurring right now I think require an unusual short-term response.

Senator CARPER. Thank you.

Mr. Olson.

Mr. OLSON. The guidance that has made the most sense to me, independent of what you have laid out, is the guidance that it does seem appropriate that there ought to be a fiscal response to an extraordinary circumstance.

The general guidance that I am hearing is that it ought to be big enough to make a difference, but not so big as it would affect the long-term markets.

It seems to me all three of the principles that you have outlined here fit that. Sunsetting the tax effort is consistent with that guidance. The size outline that you are suggesting is consistent. And that it be near-term and immediate are all three consistent with what strikes me as being a sound approach.

Senator CARPER. How important—to both of you—this is my last question, but how important is it that we return to paying down the publicly-held debt of our country?

Mr. OLSON. Well, I think this is a time of unusual uncertainty. I would think that we need to respond to a time by demonstrating recognition of the current uncertainty and evaluating some of the long-term impacts as we go along. It is not a time, I think, for conventional thinking.

I would say, however, that we are already seeing in the economy more underlying strength than we might have thought existed there, even as recently as 2 weeks ago.

If consumers have confidence in our economy and the underlying strength of that economy, it seems to me that further debt reduction is warranted. And I think some of the longer-term questions like fiscal responsibility will be dealt with in that context.

Ms. BIES. I think, in the long run, it is important to get back to the discipline. But I think we would all be remiss if we did not respond to the crisis we have here.

We have to spend money to address the threats that are facing the economy today—the safety, the security of the United States, the ability of local and State governments to respond, companies to respond, industries to respond appropriately to security questions. That needs to be done today and we need to support that response in the public and private sectors.

We have to look at the ability of the Federal Government to be unique in the sense that it has the financial wherewithal to support and fund those short-term requirements, which the private sector alone cannot respond to.

So, I think it is critical that we do have the short-term response. But hopefully, this will pass and we can get back to the long-term growth of the economy. But we must respond today.

Senator CARPER. Mr. Chairman, can I ask one more?

Chairman SARBANES. Certainly.

Senator CARPER. Thank you.

Chairman Greenspan was before us about 4 weeks ago, along with Secretary O'Neill and the head of the SEC. Chairman Greenspan said during his testimony—it is better to be right than fast—talking about what we do in terms of responding, on the tax side, on the spending side. He said, "It is better to be right than fast."

Mr. Olson, you alluded just a moment ago to the underlying strength of our economy. Delaware is a car State. We build all the Durangos in the country, all the Saturn LS's. So, we have a real interest in the auto industry.

And I am struck by, even with the trouble that we are going through, that autos, cars, trucks, vans, we are going to sell about 60½ million units this year. Sales seem to be holding up pretty well, although they are being fueled right now by low-interest rates, deep discounts, and incentives.

But when you refer to the underlying strength of the economy, I look at housing. Housing is down a little bit, but it is holding up actually remarkably well and presumably, long-term rates are helping to fuel that.

Just give us, anecdotally, both of you, if you will, the underlying strengths of the economy, can you give us some particulars that

lead you to talk about and to refer to the underlying strengths of the economy?

Those are two points that I mention and I think suggest that there are underlying strengths of the economy. But any others that you would add to that or take away?

Mr. OLSON. Well, we have recently seen indication in new construction starts that are also up from the previous year. And I think that the entire housing industry is strong, in part as a result of the fact that rates have come down significantly over the course of the past year.

We have been talking about a soft economy in a period where unemployment is still under 6 percent, where we have a 9,400, roughly, Dow. And I think that if you look in general at what we consider now a soft economy compared to what was considered a soft economy at other times, you would have to say that there is clearly some underlying strength broadly.

Now, I think what we are seeing is, so far in the recovery, that there are a number of industries that are more directly impacted by the horror of September 11, the transportation industry and the tourist industry, among others. But what is interesting is the numbers of industries across the Board that have not been impacted in a significant way.

Senator CARPER. Thank you.

Dr. Bies.

Ms. BIES. I think what has contributed to this economic weakness is a little different than traditional economic cycles, in that this was really led by a slowdown in business investment.

Typically, we see slowdowns due to consumers reducing their spending. Through the slowdown we have had in the last 12 months, aside from the recent events, the consumer has been the mainstay of the economy. And since the consumer is two-thirds of the economy, and because they were fully employed, they had the wherewithal to continue to support their standard of living. The housing, the car sales numbers, show that consumer confidence kept us moving ahead, despite the fact that business investment had really dropped during the last year.

I think the recent events are why I am concerned about the consumer confidence being important. And we are living through an episode that we have never lived through before. I think all of us are trying to determine what those indicators are going to be and how the consumers are going to respond, because none of us have lived through these kinds of horrible events before.

And that is why I think we need to watch things very carefully as the indicators come out and to look at the signals of confidence. But the consumer has been the mainstay in the last 12 months.

Senator CARPER. Mr. Chairman, thank you. You have been very generous with the time.

One of the points that a number of advisors to us and to the President seem to agree on, is that we need to incent capital investment. And one of the ways to do that is to expedite the write-off or to permit companies to expense those kinds of investments in a year.

One of the folks that runs one of the major Big 5 Accounting firms in the country that I talked to last week suggested we have

to be careful with respect to accelerating depreciation and expensing and not touching at all the alternative minimum tax for companies. He suggested to me that if we are not careful, we can go ahead and think that we are encouraging capital investment, but if we do not do anything on the AMT for businesses, we may not be successful.

Could I just ask the panelists to maybe take 30 seconds and comment on that? Do you mind?

Ms. BIES. I tried to deal with the Alternative Minimum Tax issue when I was Chief Financial Officer and I always had to defer to my tax manager. I think it is a very complicated issue. But it does hit any time that businesses have low-taxable income. And with the slowdown that is happening, companies could be thrown in a low-taxable income position. In general, it would be something that would need to be looked at, but I do not pretend to be an expert on the tax code.

Mr. OLSON. I would be less than candid if I suggested to you I could define the correlation between alternative minimum tax and depreciation schedules. Therefore, I will defer to my more learned colleague.

[Laughter.]

Senator CARPER. Mr. Chairman, every now and then it is nice to hear an honest answer like that.

[Laughter.]

Thank you, Mr. Chairman. Thank you for letting me ask these questions of the witnesses.

Thanks. Good luck.

Chairman SARBANES. As we draw the hearing to a close, I want to come back and underscore the fact that while Members of the Board of Governors have a lot of discretion within which to make judgments, they operate within a statutory framework that has been provided to them by the Congress. The Federal Reserve, after all, is a creation of the Congress. And the provisions of those statutes, in effect, define the framework within which you operate and make your judgments.

In making that point, I would like to quote first from Public Law 106–102, November 12, 1999, the Gramm–Leach–Bliley Act, which of course we wrestled with for quite an extended period of time. Right at the outset it says: "An Act to enhance competition in the financial services industry by providing a prudential framework for the affiliation of banks, securities firms, insurance companies, and other financial service providers, and for other purposes."

Then it goes on in Title I to say: "Facilitating affiliation among banks, securities firms, and insurance companies." And Section 103 discusses financial activities and says that a financial holding company may engage in activities financial in nature or incidental to such financial activity.

Later in that Section it says: "Activities that are financial in nature, lending, exchanging money or securities, ensuring, guaranteeing or indemnifying against loss, harm, financial investment or economic advisory services, underwriting, dealing in, or making a market in securities," et cetera.

So it is all spelled out right here. And of course, I am sure you have the benefit of the debate and the discussion that took place over this banking and commerce separation.

The judgment was made here that it is an important separation and the mandate that the Fed has to operate under is, of course, sustaining that separation.

We took a big step to allow, as we said here, a framework for the affiliation of banks, security firms, and insurance companies, and other financial service providers, which had not been permitted before.

The previous arrangement had been there had to be a separation, Glass–Steagall and so forth. Of course that had been eroded in many ways and we are trying to, to some extent, adjust to what had taken place in the marketplace. But we did, after a great deal of focus, debate controversy, sustained—in fact, we even pulled some firms back who were using the Unitary Thrift loophole, which was closed up, as you will recall.

So the extent of the Congressional judgment on that was not the status quo, but we sought to close up a loophole that was being used, in effect, to cross the line.

The other quote that I will end with, and we will conclude, is I just want again to say that in the Federal Reserve Act, Section 2(a), Monetary and Credit Aggregates, general policy. This is the mantra, and that is why I am going to read it again. "The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long-run growth of the monetary and credit aggregates commensurate with the economy's long-run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."

Good luck in that endeavor.

Thank you very much for coming today.

The hearing is adjourned.

Mr. OLSON. Thank you, Mr. Chairman.

Ms. BIES. Thank you, sir.

[Whereupon, at 10:58 a.m., the hearing was adjourned.]

[Prepared statements and biographical sketches of the nominees supplied for the record follow:]

PREPARED STATEMENT OF MARK W. OLSON

MEMBER-DESIGNATE OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

OCTOBER 17, 2001

Chairman Sarbanes, Senator Gramm, and Members of the Committee, I am pleased to appear before you as one of President Bush's nominees to serve on the Board of Governors of the Federal Reserve System. I am honored that President Bush has nominated me to serve on the Board. If I am confirmed by the Senate, I look forward to fulfilling the important responsibilities of Board membership.

Background

My background has prepared me well for my prospective service on the Board. The Board has responsibility for both the conduct of monetary policy in the United States and also for the supervision of bank holding companies, financial holding companies, State-chartered banks that are members of the Federal Reserve System, and U.S. offices of foreign banks. I have spent the past 35 years in the financial services industry in a variety of roles. After graduating from St. Olaf College in 1965 with a bachelor's degree in Economics, I began my career in banking with First Bank System in Minnesota, which is now part of US Bancorp, a major regional bank holding company. In my 4 years with First Bank System, I spent 2 years in retail banking and 2 years in commercial lending. In 1971, I moved to Washington, DC, and served with former Congressman Bill Frenzel as his Legislative Assistant for banking while he was a Member of the House Banking Committee. In 1976, I returned to the banking industry as President of the Security State Bank in Fergus Falls, Minnesota. Security State Bank was, and is, a community bank, which my father was instrumental in chartering in 1957. I served as President and CEO of that bank for 12 years.

With a combination of banking and Capitol Hill experiences, I became active in the American Bankers Association, and was elected President of the ABA in 1986. My ABA responsibilities involved the development and presentation of the industry perspective on public policy issues and, among other activities, brought me to testify before this Committee on two previous occasions.

In 1988, our family sold its interest in Security State Bank and I returned to Washington, DC, as a Partner with what is now Ernst & Young LLP. At Ernst & Young, I headed the Financial Services Industry Regulatory Consulting Group. In that capacity, I worked with a wide variety of financial services businesses including every type of charter supervised by the Federal Reserve System with the single exception of Edge Act Corporations. Our role was to assist financial institutions in anticipating, understanding, and complying with laws and regulations. In addition, I consulted on a variety of strategic and managerial issues. Our clients included some of the largest financial institutions in the country.

After taking an early retirement from Ernst & Young, I was invited by then Senator Rod Grams to serve as the Staff Director of the Securities Subcommittee of the Senate Banking Committee. In that capacity, I worked with Subcommittee Chairman Grams, and the other Members of this Committee on a variety of securities and accounting industry oversight issues.

In summary, I have been part of the financial services industry as a practicing banker for 16 years, a regulatory consultant for 12 years, and a Congressional staff member for 5 years, and was elected to the highest leadership position in the banking industry. This combination of experiences has allowed me the opportunity to understand the important issues challenging the financial services industry, its regulatory authorities, and the U.S. Congress. I look forward to bringing that experience to the Board of Governors.

Monetary Policy

Monetary policy is a critical Federal Reserve responsibility. The Federal Open Market Committee and the Board establish policy, which is implemented through the Federal Reserve Banks and ultimately through the banking system.

As a banker, I gained a hands-on familiarity with the tools used to implement monetary policy as the banks are, effectively, the counterparties to Federal Reserve decisions including: Federal funds rate targets, discount rates for Federal Reserve Bank borrowing, and establishment of reserve requirements. My background has provided me an understanding of how monetary policy is implemented, and the impact these policy decisions have on individuals and businesses. Importantly, as a banker, I witnessed firsthand the difficulties caused by both recession and high inflation in more volatile economic times. As a result of that experience, I fully sup-

port the mandate Congress has given the Federal Reserve System to pursue "maximum employment, stable prices, and moderate long-term interest rates."

Regulatory Issues

With the passage of the Gramm–Leach–Bliley Act of 1999, the Federal Reserve was accorded by Congress an expanded role in financial services supervision. That bill allowed financial institutions from banking, thrift, securities, and insurance industries to affiliate in a newly authorized financial holding company. Though each of the financial services entities will continue to be regulated by its principal functional regulator, the Fed has been accorded the important role as umbrella regulator with overall regulatory coordinating responsibility. As a result, the Fed has effectively been given the oversight responsibility for monitoring the blending of financial industries at a time when these industries are being dramatically impacted by technological innovation and industry consolidation. That Act is now 2 years old, and is not yet fully implemented. Given my background, I look forward to being an active participant in this continuing effort.

Payment System

The Board also has supervisory responsibility for the proper functioning of the payment system. As we were again reminded following the horror of September 11, the smooth and efficient functioning of our payment system is vital to this Nation's economic health. Dramatic improvements in technology continue to provide opportunities for greater efficiency but also raise new regulatory issues as the system continues to progress from paper based to an increasingly electronic system. I look forward to bringing my banking and consulting experiences to addressing these important issues.

Consumer Responsibilities

Another important role of the Board is its responsibility to consumers. I have been particularly pleased to learn of the increasing role the Fed now plays in consumer education. Financial literacy is an important element in our citizens' ability to fully experience the benefit of a free market economy. I look forward to being an active participant in this important area.

The Congress also has entrusted the Board with important consumer protection responsibilities. There are a number of regulatory issues currently awaiting Board action. Among these are proposed changes in the Home Ownership and Equity Protection Act (HOEPA) and the Truth In Lending Act (TILA) intended to crack down on predatory lending. Also, changes have been proposed concerning mortgage loan data collection under the Home Mortgage Disclosure Act (HMDA). The comment period for both has expired and the comments by interested parties are now under review. While I have a working familiarity with both proposals from my prior experience, I look forward to an opportunity to review the public comments and also the Federal Reserve staff analysis in order to fully acquaint myself with all the implications of these proposed rule changes.

Conclusion

Mr. Chairman and Members of this Committee, my goal as a prospective Member of the Board is to utilize my banking industry background and my public policy experience to contribute to the important work of the Federal Reserve. It is my intent to help the Fed continue to provide a regulatory framework which will allow the banking industry to meet the evolving financial needs of its customers and continue as a critical source of strength for the economies of the United States and the world.

Thank you again for holding this hearing, and I look forward to your questions.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: **Olson** (Last) **Mark** (First) **Walter** (Middle)

Position to which nominated: **Board of Governors, Federal Reserve System** Date of nomination: **August 3, 2001**

Date of birth: **17** (Day) **March** (Month) **1943** (Year) Place of birth: **Fergus Falls, Minnesota**

Martial Status: **Married** Full name of spouse: **Renee I. Korda**

Name and ages of children:

Benjamin Olson -- 28
Stephanie Olson -- 18

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	St. Olaf College	**9-61 to 6-65**	**B.A.**	**6-65**

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

President, American Bankers Association, 1986-87

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

Organization	Office held (if any)	Dates
see Attachment A		

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

see Attachment B

Government experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

1-71 to 6-72 and 5-74 to 8/76:
U.S. House of Representatives
Congressman Bill Frenzel
Legislative Assistant and District Coordinator

2-00 to 1-01:
U.S. Senate
Staff Director
Securities Subcommittee

January 2001:
Bush/Cheney Transition Team
Volunteer
Coordinator of Housing and Urban Affairs Advisory Committee

Published Writings:

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

see Attachment C

Political Affiliations and activities:

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

Republican National Committee
Maryland Republican Party
Montgomery County (Maryland) Republican Party

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

Bob Dole For President (1996)
Ernst & Young Political Action Committee
George Bush For President (2000)

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

Future employment relationships:

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

All past employment and consulting relations have been severed. Olson Consulting Group, which has been inactive since February 2000, will be dissolved if I am confirmed for this position.

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

I have no plans for any resumption of any employment relationship whatsoever after completing my prospective service on the Federal Reserve Board.

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

I have no commitment whatsoever for any job after leaving government.

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

I expect to serve the full term for which I have been appointed.

Potential conflicts of interest:

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

As a retired partner of Ernst & Young LLP, I receive a monthly retirement income from a pension and HR 10 plan. I have no deferred or continuing compensation arrangement other than the retirement income. However, it is unlikely that Ernst & Young will be directly or specifically affected by Federal Reserve policies.

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

None

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

During my Ernst & Young involvement, I consulted with financial institutions on a variety of chartering, compliance, fair lending, and other regulatory issues. Numerous of these projects would put me in contact with federal bank and thrift regulatory agencies.

There are no issues or applications with former clients currently pending before either the Federal Reserve Board or any of the Federal Reserve District Banks.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

During the deliberations on the Financial Modernization Act in 1999, I was involved on behalf of Ernst & Young in explaining how the privacy provisions would affect accounting and other third party providers of services to financial institutions.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

I will fully comply with the Office of Government Ethics regulations in deciding whether to participate in any Federal Reserve matter involving past clients or employers.

Civil, criminal and investigatory actions:

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

As an Ernst & Young partner, I was a named defendant to several lawsuits where the partnership was the defendant and each member of the partnership was named. In none of these suits was I listed as a party of the issue being litigated and I was never deposed or asked to be a witness.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

I have never been the subject of any proceeding, inquiry or investigation by any professional association.

Attachment A

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

Organization	Office held (if any)	Dates
Emmanuel Lutheran Church Bethesda, MD	**Former Council President, Chmn. Long Range Planning Committee**	**11-88 to Present**
Lakewood Country Club Rockville, MD	**None**	**12-88 to Present**
University Club Washington, DC	**None**	**1994 to Present**
PRIOR MEMBERSHIPS:		
Pioneer Home Fergus Falls, MN	**Finance Committee Chmn. & Board Member**	**1979-1987**
Lake Region Hospital Fergus Falls, MN	**Board Member**	**1978-1988**
Fergus Falls Economic Development Commission, MN		**1982-1983**
	Chmn.	**1983**
Rotary Club of Fergus Falls, MN		**1977-1988**
	President	**1981**
Fergus Falls Area Community College Advisory Board	**None**	**1980-1984**
Fergus Falls Concert Association		**1983-1987**
	Board Member Fund Raiser	
Fergus Falls Area United Way		**1978-1981**
	Fund Drive Chmn.	**1978**

Attachment B

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

8-65 to 12-65:	**Active Duty, United States Army Reserve, Fort Jackson, South Carolina**
1-66 to 3-70:	**First National Bank of St. Paul, MN (now US Bancorp) Began in management training program; served two years each in retail banking and commercial lending. Elected officer, December 1969.**
3-70 to 9-70	**Doug Head for Governor (Minnesota) Minneapolis, MN Advance man and field Representative**
9-70 to 11-70	**Bill Frenzel for Congress (Minnesota) St. Louis Park, MN Campaign Manager**
1-71 to 7-72	**Congressman Bill Frenzel Washington DC Legislative Assistant for Banking and Housing**
8-72 to 11-72	**Reelect Bill Frenzel St. Louis Park, MN Campaign Manager**
11-72 to 5-74	**Andrews Allen Company St. Paul, MN Commercial Real Estate Development, Project coordinator**
5-74 to 11-74	**Reelect Bill Frenzel St. Louis Park, MN Campaign Manager**
11-74 to 8-76	**Congressman Bill Frenzel Minneapolis, MN District Office Coordinator**
8-76 to 4-88	**Security State Bank Fergus Falls, MN President & CEO**
5-88 to 9-99	**Ernst & Young LLP Washington DC Partner and National Director of Regulatory Consulting**
10-99 to 1-00	**Olson Consulting Group LLC Potomac, MD Financial Services Consulting**
2-00 to 1-01	**U.S. Senate Washington DC Staff Director, Securities Subcommittee of Committee on Banking, Housing & Urban Affairs**

Attachment B
continued

1-01 to Present	**Olson Consulting Group (Inactive)**

Attachment C

Published Writings:

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

July 4, 1997, The Golembe Reports: "The Public Purpose of Banking." Mark Olson.

March 8, 1996, American Banker, "How Lenders Really Judge Home Loan Applications." Karole Lloyd, Mark Olson & Balvinder Sangha.

September 1995, Current Issues – Bank Insurance Powers, "A Date With Destiny," Bob Stein and Mark Olson.

June 1995, Current Issues – Interstate Banking, "What Will the Impact Be? Lingering Regulatory Issues." Mark Olson.

January/February 1995, The Magazine of Bank Management, "1994 Election Impact On Banking." Mark Olson.

May/June 1994, The Magazine of Bank Management, "Fair Lending: More Enforcers and More Rules." Mark Olson.

January 18, 1994, American Banker, "Test Your Loan Procedures to Cut Risk of Bias." Mark Olson and Karole Lloyd.

July 2, 1993, American Banker, "A Study Guide for FDIC's Test of How You Handle The Reins." Mark Olson and Barry Kroeger.

October 10, 1991, American Banker, "Reform Laws or No, Bankers Need Reform." Mark Olson.

July 6, 1990, American Banker, "Glass-Steagall Act Repeal: An Issue for EveryBank." Mark Olson.

January 11, 1990, American Banker, "Directors May Be Tough To Find Because Of Peril Under Thrift Law." Mark Olson.

July 19, 1989, American Banker. "Globalization Raises a World Of Questions." Mark Olson.

December 1987, The ABA Banking Journal "Why We Need Mutual Fund Powers." Mark Olson.

Attachment D

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

The Federal Reserve Board has responsibility for both the conduct of monetary policy in the United States and also for the supervision of bank holding companies, financial holding companies, state chartered banks that are members of the Federal Reserve System, and U.S. offices of foreign banks. The Fed's role has expanded since passage of the Financial Modernization Act (Gramm-Leach-Bliley) in 1999. That statute gave the Federal Reserve the "umbrella supervisor" role to monitor cross industry affiliation opportunities provided in that act. My background has prepared me well for service on the Federal Reserve Board.

For the past thirty-five years, I have been involved with the financial services industries in a variety of roles. I have been employed in the banking industry with both a major regional bank and a community bank. For twelve years, I was President and CEO of the Security State Bank in Minnesota. In that role, I was also the senior bank lending officer and responsible for the bank's compliance with banking laws and regulations. While serving at Security State Bank, I was elected President of the American Bankers Association and represented the banking industry in that role during the year 1986-87.

It was my privilege to work in both the House of Representatives and the U.S. Senate as a banking legislative assistant and a Subcommittee Staff Director. In these roles, I gained an appreciation for the impact of public policy decisions on financial institutions and the important interaction between bankers, regulators and the Congress.

Also, I spent eleven years as a partner of an international accounting and consulting firm. In that role, I provided regulatory consulting to financial institutions of all sizes, including some of the largest banks in the world as well as small- to medium-sized community banks. In this role, I worked with all types of financial institutions, including foreign and domestic banks, state and national banks, thrifts, industrial credit institutions, and credit unions.

As a banker, I gained a hands-on working familiarity with the tools used to implement monetary policy as banks are, effectively, the counter-parties to Federal Reserve decisions concerning the implementation of monetary policy including: federal funds, reserve requirements, and discount rate changes. Importantly, as a banker, I witnessed first hand the difficulties caused by both recession and high inflation in more volatile economic times. I fully support the mandate Congress has given the Federal Reserve System to pursue "maximum employment, stable prices, and moderate long-term interest rates."

If confirmed, I will bring my firsthand knowledge of banking and the formation of public policy to the deliberations of the Federal Reserve.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Bies (Last) Susan (First) Schmidt (Other)

Position to which nominated: Governor, Federal Reserve Board Date of nomination: September 4, 2001

Date of birth: May (Day) 5, (Month) 1947 (Year) Place of birth: Buffalo, New York

Martial Status: married Full name of spouse: John David Bies

Name and ages of children: John Matthew Bies - 26
Scott Louis Bies - 24

Education:

Institution	Dates attended	Degrees received	Dates of degrees
State University College at Buffalo	1964-1967	B.S. Education	1967
Northwestern University	1967-1970	M.A. Economics	1968
		Ph.D.Economics	1972

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

New York State Regents Scholarship

Northwestern University Center of Urban Affairs Fellowship

Federal Reserve Bank of Chicago Fellowship

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

Organization	Office held (if any)	Dates
American Economic Association		
Economic Club of Memphis		
Financial Executives International		
Institute of Management Accountants		
International Women's Forum		
(see attachment A for more information)		

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

First Tennessee National Corporation, Memphis, TN

1995-present	Executive Vice President, Risk Management
1985-1995	Executive Vice President, Chief Financial Officer
1984-1985	Senior Vice President, Chief Financial Officer
1983-1984	Senior Vice President, Treasurer
1982-1983	Vice President, Corporate Development
1981-1982	Tactical Planning Manager
1979-1981	Economist
1977-1979	Rhodes College, Memphis, TN, Associate Professor of Economics
1972-1977	Wayne State University, Detroit, MI, Assistant Professor of Economics
1970-1972	Federal Reserve Bank of St. Louis, Chief Regional and Banking Structure Economist

Government experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

City of Germantown TN, member of citizen advisory committees: Chair, Finance and Budget Committee; Long Range Planning Committee, Audit Committee

Tennessee Consolidated Retirement System, Advisory Board

New Detroit, Inc. consulting

Published Writings:

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

"Demand for Commercial Bank Services within Metropolitan Areas," Proceedings of a Conference on Bank Structure and Competition, Federal Reserve Bank of Chicago, 1970

"Determinants of Commercial Bank Growth," Federal Reserve Bank of St. Louis Review, December 1971, Vol. 53, No. 12

"Commercial Banking in Metropolitan Areas," Working Paper No. 16, Federal Reserve Bank of St. Louis, August 1972

"The Future of CBDs as Financial Centers of Metropolitan Areas: A Demand Analysis," Journal of Regional Science, Vol. 17, No. 3, 1977

Political Affiliations and activities:

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

None

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

None

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

See attachment B

Future employment relationships:

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

   I will retire from First Tennessee National Corporation if confirmed.

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

   I will not return to First Tennessee at the end of my government service.

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

   No

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

   Yes

Potential conflicts of interest:

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

Upon my retirement from First Tennessee, I will receive monthly pension payments under First Tennessee's defined benefit pension plan. Otherwise, there will be no financial agreements with any financial institution, other than normal loan, deposit, and asset management services similar to those given to other customers.

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

I will sell all my shares of First Tennessee National Corporation stock and settle all employee stock options, restricted stock plans, deferred compensation plans, and other employee benefits(except qualified pension plan) before being sworn in as Governor of the Federal Reserve Board

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

As an executive officer of First Tennessee, I have had ongoing conversations with various bank regulators, including those with the Federal Reserve System, on a variety of supervisory and regulatory matters. However, these past discussions should not constitute or result in a conflict of interest with my position as a Federal Reserve governor, particularly in light of my agreement to recuse myself for two years from any Federal Reserve matter in which First Tennessee is or represents a party.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

Working with the Designated Agency Ethics Officer at the Federal Reserve Board I will maintain compliance with applicable laws and regulations.

Civil, criminal and investigatory actions:

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

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

Attachment A
Susan Schmidt Bies

Supplemental Membership Information:

Recent Leadership Positions:

- Member of the Emerging Issues Task Force of the Financial Accounting Standards Board, January 1996 - June 2001

- Committee on Corporate Reporting of Financial Executives International, March 1995- June 2001; Chairman, Financial Instruments and Hedging Subcommittee; member of Executive Committee; Chairman of Membership; Past Chairman, Current Financial Reporting Issues Conference

Previous Professional Organization Positions:

- Mortgage Bankers Association, Financial Management Committee

- End Users of Derivatives Association: Member Board of Directors; Chairman, Accounting Committee
- American Bankers Association: Chief Financial Officer Committee; Board of Directors and Instructor, School of Financial and Funds Management
- Bank Administration Institute, Accounting and Finance Committee
- School of Accountancy, University of Memphis, Chair of Executive Advisory Committee
- Economic Club of Memphis: President; Board of Directors; Chair of Membership Committee
- Financial Executives International Memphis Chapter, Chair Academic Relations Committee
- Planning Forum, Memphis Chapter Planner of the Year

Previous Civic Organization Positions:

- Memphis Area Chamber of Commerce: Board of Directors; Chair, Tax Policy Committee
- Chair, Memphis Youth Initiative
- Memphis Partners, Board of Directors
- Rhodes College, Long Range Planning Committee
- Tennessee Consolidated Retirement System, Advisory Board
- City of Memphis Jobs Conference
- City of Germantown, TN: Chair, Finance and Budget Committee; Member of Long Range Planning Committee and Audit Committee

Previous Church Organization Positions:

- St. George's Episcopal Church, Finance Committee
- Episcopal Diocese of West Tennessee, Finance Committee

Attachment B
Susan Schmidt Bies

Qualifications:

I believe I am qualified to serve as a member of the Board of Governors of the Federal Reserve System because of my education and years of experience in the areas of economics, banking, accounting, and regulatory compliance.

I hold an M.A. and Ph.D. in economics from Northwestern University. I spent a year at the Federal Reserve Bank of Chicago on a fellowship, where I became familiar with bank structure and regional economic issues. I also served as an economist at the Federal Reserve Bank of St. Louis where I became familiar with various aspects of monetary policy, including the Federal Open Market Committee. I was responsible for reviewing bank holding company and bank merger applications for competitive and convenience and needs issues.

The twenty-one years I have spent at First Tennessee National Corporation have given me a comprehensive understanding of bank operations, controls and regulatory compliance due to my experience as Chief Financial Officer, Auditor and Risk Manager. Working with other managers on marketing and business development has given me insight into the issues that are important to both business and household customers for financial services. I have a broad understanding of the changing technology and competitive environment in financial services.

I have significant experience in financial management and have served as chairman of the Asset/Liability committee of First Tennessee for eighteen years. This includes experience in using derivatives to mitigate interest rate risk. I have an extensive background in accounting, as Chief Financial Officer at First Tennessee and service on several national banking and professional organization accounting committees. I have served for more than five years on the Emerging Issues Task Force of the Financial Accounting Standards Board, which is the body that sets accounting standards for specific issues where inconsistency in practice is observed.

NOMINATION OF: JAMES E. GILLERAN, OF CALIFORNIA TO BE THE DIRECTOR OF THE OFFICE OF THRIFT SUPERVISION

TUESDAY, OCTOBER 23, 2001

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

The Committee met at 2:30 p.m., in room S–116 of the United States Capitol, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. Let me call our hearing to order.

I should explain right at the outset that we have a series of votes on. This is the first in a series, and so we may have to, as it were, recess, or some of us may slip away and come back as we proceed through the hearing. But we had to put this hearing over once and I did not want to do it again.

Mr. GILLERAN. I appreciate that.

Chairman SARBANES. While we have not opened up the office buildings yet, we have gotten, through the kindness of the Senate Foreign Relations Committee, the use of their hearing room here in the Capitol. And so, we will proceed.

I want to welcome James Gilleran before the Banking Committee this afternoon. The President has nominated Mr. Gilleran to become the Director of the Office of Thrift Supervision, the OTS, to complete the remainder of a term expiring in October 2002.

Mr. Gilleran earned a B.A. degree from Pace University. He received his law degree from Northwestern California University. He spent his professional career in the financial services industry.

For approximately 30 years, he worked with Peat Marwick and eventually was a Managing Partner of their northern California operation. He left the accounting firm to become President of The Commonwealth Group, an investment banking company. Subsequently, he was appointed and served from 1989 to 1994, as Superintendent of Banks for the State of California. From 1994 to 2000, he was at the Bank of San Francisco, a State-chartered bank with over $200 million in assets. He was the Chairman and Chief Executive Officer until the bank was sold in December 2000, about a year ago.

Mr. Gilleran has been active in banking and professional organizations. He served as Chairman of the Conference of State Bank

Supervisors and served on the Federal Financial Institutions Examination Council, as Chairman of its State Liaison Committee, and on the Board of Directors of the California Society of Certified Public Accountants, the National Association of Corporate Directors, and other groups.

He has contributed to his community by serving as Chairman of the Board of the American Red Cross for the Bay Area, Chairman of the National Conference of Christians and Jews, trustee of the Golden Gate University, and various leadership positions of other organizations, and has been honored by the YMCA, UNICEF, and many other organizations.

The Director of the OTS plays a critical role in maintaining the strength of the U.S. Federal thrift system. He makes important decisions to provide for the examination, safe and sound operation, and regulation of the Nation's savings associations in a manner faithful to the letter and spirit of the Federal statutes.

The Director also sits on the Board of the Federal Deposit Insurance Corporation, the FDIC, making decisions affecting the Federal deposit insurance system, as well as the safety and soundness of insured depository institution operations.

I will turn to Senator Gramm for any opening statement he has before I give Mr. Gilleran the oath and we proceed to his statement and testimony.

STATEMENT OF SENATOR PHIL GRAMM

Senator GRAMM. Mr. Chairman, first of all, I want to join you in welcoming James E. Gilleran before the Committee. For all the reasons you have cited, Mr. Chairman, Mr. Gilleran is eminently qualified to be head of OTS.

I have made a similar remark at our hearings before, but I continue to be encouraged by the quality of people who are nominated to serve in the financial part of our Government. And I want to congratulate the President for his choice.

Let me also say, Mr. Chairman, that we have never had a Chairman of this Committee who has been more diligent or fairer in holding hearings and moving nominees than you. I want to personally thank you for it.

Welcome, Mr. Gilleran. This is an agency that you are going to that is very important. I know you are eminently qualified both in your education and your experience to do this job, and we are grateful you are willing to do it.

The only way you are going to get your picture on the front page of the paper is to do something terribly stupid.

[Laughter.]

And the amazing thing about public service is that, for most people who are willing to come and serve their country, that if they do a good job, they are never heard of. If they do something wrong, they can become infamous.

It is encouraging to me on behalf of the country that we have people who are willing to serve, that are willing to give up happy lives, and higher incomes, because they love this country and they think that they have something to contribute. I want to thank you for being willing to serve the greatest country in the history of the world.

Mr. GILLERAN. Thank you, Senator.

Chairman SARBANES. If you would stand, sir, and take the oath, I would appreciate that very much.

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

Mr. GILLERAN. I do.

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

Mr. GILLERAN. I do.

Chairman SARBANES. Thank you very much. We would be happy to hear your statement. And if there are members of your family here that you would like to introduce, we would be happy to receive them as well.

STATEMENT OF JAMES E. GILLERAN, OF CALIFORNIA TO BE DIRECTOR OF THE OFFICE OF THRIFT SUPERVISION

Mr. GILLERAN. Thank you, Senators.

First of all, I would like to introduce my wife, who has been not only my life-long companion, but also my greatest supporter and encourager and without whom I would not be sitting here today.

Thank you so much, honey.

Sitting next to my wife is my daughter Amy. Amy lives in the region north of San Francisco called the Wine Country.

Sitting next to Amy is my daughter Laura from San Francisco. Laura was here for the confirmation hearing on Thursday. She had to fly back to San Francisco for the weekend. She had a responsibility at church. And then she flew back last night to be with her daddy here today.

Thank you, honey.

Sitting next to Laura is my nephew, Ryan McReynolds. Ryan was also here for the meeting on Thursday with his mother and his father. His parents are from Kalamazoo, Michigan. Ryan lives here in Washington, DC, and he is a Clean Water Specialist for the Environmental Protection Agency here in Washington.

Sitting next to Ryan is Jean Andrews, who is my sister-in-law. Jean and her husband own a commercial air conditioning business in southern California.

Sitting next to Jean is my sister-in-law, Joy Jones. Joy is a missionary and has recently come back from India, where she has been working with earthquake victims. Her next tour is either in Kosovo or in Thailand.

We are waiting to see which one you choose.

Senator GRAMM. Take your time.

[Laughter.]

Chairman SARBANES. We are pleased to have everyone here with us. We would be happy to hear from you.

Mr. GILLERAN. Mr. Chairman, I do have a prepared statement which I will submit for the record, if that is all right with you. But under the circumstances, I will just summarize it by saying that, first, I am delighted to have received the President's nomination. And I am also delighted that you have tried so hard to schedule this hearing. I know it has been a very difficult period and I am very grateful.

In summary of my opening statement, I would like to say that I think my background has uniquely qualified me for this position, in that I not only have experience in bank regulation, but in bank operation, as well as bank auditing and consulting.

So, I offer myself to the Committee for your consideration and believe that if you do confirm me, I will do my level best to protect the safety and soundness of the thrift industry. And I look forward to answering whatever questions you have, and also to working with the outstanding staff of the Office of Thrift Supervision.

I would appreciate the inclusion of my formal opening statement, as well as Senator Johnson's statement in the record.

Chairman SARBANES. Thank you very much, sir. The full statement will be included in the record.

I must say that you have had a lot of experience that I think is very relevant to being the Director of the OTS.

Mr. GILLERAN. Thank you.

Chairman SARBANES. Both in the private sector in the accounting firm and, of course, with the Bank of San Francisco, which as you say in your statement, leading the Bank of San Francisco through this challenge granted me the invaluable opportunity to experience firsthand those factors that contribute to a financial institution's deterioration, as well as those which lead to its reclamation.

And then, of course, your work for the State of California as the Banking Superintendent. Of course, that is the seventh largest economy in the world, so it is no small task.

I have a few questions that I want to put to you and then I will turn to Senator Gramm.

We held a hearing last week on the failure of the Superior Bank in Chicago. Several witnesses testified about red flags that were apparent 2 or 3 years ago and which indicated potential problems.

Professor Kaufman testified, and I quote him:

> A number of red flags were flying high that should have triggered either rapid regulatory response or continuing careful regulatory scrutiny. These include very rapid asset growth, large amounts of risky residual assets, and other problems.

Do you have any ideas on how we can prevent future costly thrift failures like the Superior one?

Mr. GILLERAN. Well, I think the attention of the Committee upon the prevention of future thrift failures is very good. I would hope to have the opportunity at some time in the future, if confirmed, to come back and answer whatever questions you may have in detail after having an opportunity to review the factual circumstances myself.

I think that the focus of the testimony on red flags is very appropriate because one of the most crucial things that a regulator or an outside auditor can do in connection with an examination, is to look for the risk areas. And the risk areas are usually signalled by a red flag of some kind.

It is important that the regulator or auditor make an assessment early on as to what the potential red flags are so that the examination and regulatory procedures may be focused upon those warning signals.

The red flags you have referred to are very important ones.

My understanding of the Superior Bank matter, based upon the newspaper accounts and other reading of testimony, is that a pri-

mary problem revolved around the residuals and the change in the accounting for the residuals toward the end of Superior's life cycle. That led to a very precipitous write-down in capital.

The most important thing that a regulator can do is to focus on the issue of what is the real capital of the institution? And to the extent that the real capital is tied up in an asset like residual values, it must receive great attention from the regulators and the auditors early on.

In this area, it is extremely important that you have people in the regulatory field and the auditing field that are capable of evaluating it. And it is a very complicated area.

I can say to you that I will give this a tremendous amount of my time and my effort and I look forward to having an opportunity to come back, if confirmed, to testify about it further.

Chairman SARBANES. We look forward to that opportunity. Let me follow that up with this question. In the Superior Bank situation, the Federal regulators and Superior's external auditor, Ernst & Young, strongly disagreed as to the valuation of the highly risky residual assets. But the OTS waited until Ernst & Young agreed to reverse its position before they formally determined that Superior had overstated the value of these assets and had a serious capital problem.

Last week, we had a witness, Mr. Bert Ely, who testified, and let me just quote what he said:

> I think there has to be more frequent and conservative valuation of risky assets by the regulators. To this extent, the bank regulatory agencies need to develop their own capabilities to detect fraud and to value all types of bank assets.
>
> I think that it is inexcusable for the regulators to constantly try to lean on and, frankly, pass the blame to the outside accountants. The outside accountants do not work for the Government. They do not work for these agencies. The agencies need to be able to act independently on their own.

What is your reaction to that, about at what point do regulators, in a sense, overrule the accountants?

Mr. GILLERAN. Again, I would have to review it to find out exactly at what point that took place and the reasons for it. But my reaction to it is that the outside audit of any institution constitutes a piece, but only a piece, of the information that the regulators must use in terms of their total regulation.

Additional pieces are the internal control procedures of the institution itself, the quality of management, the extent of capital, and the liquidity, as well as the quality of the lending portfolio, and the quality of the residuals.

So the outside audit is an important piece, but certainly, it is only part of the picture.

Chairman SARBANES. I have some other questions, but I will come back to them.

Senator Gramm.

Senator GRAMM. I am tempted to go back to Paul's question.

It seems to me that, obviously, a regulator should be prepared, if they disagree with the outside auditor, to make a judgment based on their own evaluation. The outside auditor's reputation is at stake in terms of service they are providing to their client. But at OTS, you are basically a steward of the insurance fund, which, as we know from painful experience, is backed up by the Federal taxpayer, full faith and credit.

We have had the unfortunate opportunity during our period of public service, both the Chairman and myself, of seeing the Federal taxpayer pay out tens of billions of dollars.

So, I would hope that you would have no reservation whatsoever, if you were convinced that the audit was wrong, in overriding it.

Mr. GILLERAN. I have no reservation whatsoever. In fact, I agree with you completely that the regulator must have his own capability to make these evaluations and that, again, what the outside auditor thinks is confirmatory or perhaps is another piece of information as far as the total regulation.

The regulator has to be prepared to take his own independent action when it is called for, when it is required for the safety and soundness of the institution, and for the system.

Senator GRAMM. I want to just ask you a question. And there is not any right answer to the question, but I am just trying to get an insight into your views. You, obviously, are familiar with the S&L crisis and generally familiar with the history. One of the things that I saw a lot of in my State was what we call brokered deposits, where in $100,000 increments, hundreds of millions of dollars of funds were moved into thrifts that were clearly insolvent, that were paying very, very high interest on 90-day CD's. These funds basically moved without any concern for safety and soundness because of the $100,000 insurance. There have been proposals from various quarters to raise the level of insured deposits from $100,000 to $200,000. I would be interested to know what your view is of the proposal and any thoughts you have as to the impact of the implementation of the proposal on the whole safety and soundness question.

Mr. GILLERAN. I think it is a very important question and it is one that deserves a tremendous degree of consideration before action is taken.

From an independent banker's point of view, a rise in insurance level might enable the bank to raise more deposits and therefore, grow faster.

The ideas now being put forth include raising the coverage level for retirement funds. This idea deserves serious thought because I think it relates to the soundness of retirement funds and that is a good thing to think about.

I have not concluded as to whether or not it should be done.

As far as raising the amount for all deposits, I must say that, if confirmed, I would have to see much more study done on it because I really have not seen a comprehensive study which shows: Number one, that it would enable independent banks to gather more deposits, because once you raise it for one bank, you raise it for everybody; number two, a comprehensive study would need to show what the impact is on the assessment from the FDIC because once we find out by what amount the assessment would be increased, maybe people wouldn't want it.

So the issue of insured deposit levels is one that I look forward to exploring fully and I hope to be helpful to you in your thinking about it. I think the issue needs yet more study.

Chairman SARBANES. Well, as you know, the FDIC has come in with a study and a series of recommendations. And at some point, those will have to be looked at, I think. But you are just coming

on board and, of course, there is a new Chairman at the FDIC, too. He has preceded you by a few months. So all of that will have to be carefully examined. But it does have far-reaching implications and we need to look at it with some care.

We had better excuse ourselves for this vote. I will return at least because I have a few more questions.

Mr. GILLERAN. Very good.

Chairman SARBANES. So if you all will bear with us, we will take a short recess.

[Recess.]

Chairman SARBANES. The Committee will resume.

We have a few minutes now. I hope we can finish up here in short order.

I do not know how closely you followed the Superior issue. But, obviously, once you get over there, you will have to follow it very closely.

Apparently, the FDIC asked to participate in an OTS examination of Superior Bank and that request was turned down. Now, subsequently, the Director of OTS about a year later, stated that we have one policy. The door is always open. We have told our regional directors that whenever the FDIC asks to go into a thrift, that request must be honored. What is your view about the FDIC coming in on an examination?

Mr. GILLERAN. Having been a State regulator for 5-plus years, I can tell you that we, of course, cooperated on a daily basis with the FDIC because we were doing joint examinations with them.

So, I myself personally have always been extremely open to the FDIC and have found them to be an outstanding regulatory entity.

I believe that the FDIC should be involved in every problem institution in order to protect the public and the taxpayer. The FDIC should be involved so that they can participate in the decision as to whether and when to go out for a bid package.

A bid package is usually put together when it is determined that an institution is highly likely to have to be closed and the FDIC will invite other banks to make a bid on the institution.

It is very important that the bid package be put together in a timely fashion because if you can get a bid on an institution at the right time, it is possible that the buyer will take over the institution and take not only the insured deposits, but also the uninsured deposits. This is a great protection to the consumer.

So, in my view, cooperation and communication with the FDIC is extremely important to safety and soundness.

Chairman SARBANES. Well, I think it is important to turn your attention to that as you move into the directorship because there was a problem in this particular case, and we do not want that to occur again.

In September 2000, the Federal banking regulators promulgated a proposed rule to impose stricter capital rules and to limit the concentration of residuals. The comment period for the proposed rule closed on December 26 of last year.

Yet, 10 months later, there is still no final rule. Now, they have a lot of comments, which they have to digest. In fact, they have one from the operating officer of Superior, saying that they did not

need this rule and that everything was fine in his experience at his institution, and so forth and so on, which tells you something.

Apparently, there is a lot of difficulty in moving this through the multiagency rulemaking. And I just wondered what might be done to expedite getting this rule into place.

Mr. GILLERAN. Again, I do not know all of the factors behind the scenes as to the nature of the hang-up between the agencies in getting that done. I must say, however, that the status of this interagency ruling should never be a reason for an individual regulator to avoid a safety and soundness decision as it relates to any particular institution.

I think that the question of diversification is an extremely important one. When you have an asset like residual values constituting a large percentage of the capital of any institution, the question of how to value the residual must not languish for a long period of time. The regulators have to take a stand on what the value is as quickly as possible.

In my experience, in banking and in bank regulation, any action delayed usually just exacerbates a bad problem. So dragging things out is not helpful.

Chairman SARBANES. In the testimony last week, in this hearing we had on Superior Bank, Mr. Bert Ely, who was an expert witness, pointed out, and I am quoting him now:

> I think that it is important that there be public notification that amended thrift financial reports and bank call reports have been filed with the regulators to alert depositors and outside analysts to a possible decline in a bank's financial condition because of the amended return.

In the securities market, a registrant that amends a public filing, such as a form 10(k) or form 8(k), designates the amendment as a form 10(k)(a) or 8(k)(a), to alert investors. Do you feel that an amended thrift financial report should be publicly identified as having been amended to alert analysts, depositors and other interested parties? But, apparently, under the current procedure, they can be amended without there being any assured public notification of it.

Mr. GILLERAN. I am certainly completely sympathetic to the idea that it is a protection to depositors to get that information out.

I do not know why in this case the information might not have been disclosed, but I certainly think that disclosure of that sort of information should be made.

Chairman SARBANES. Senator Gramm pointed out, you have one of those jobs where—it is not like a major league batting average. It is not that you hit .333 or something.

It is just how often and how large a particular failure is because that comes right back to your doorstep.

In the Financial Services Modernization bill last year, this Committee and the Congress addressed the issue of banking and commerce and, really, in a sense, decided it in the statutes. But I am curious to know your views on permitting the combination of thrift and commercial activities.

Mr. GILLERAN. I think it is an idea whose time has not come. It was thought about extensively before the most recent legislation was enacted, and it was not allowed then. It does not seem to be

something that is required at this time. So it is not an idea that I would be interested in advocating at this time.

Chairman SARBANES. We had very strong testimony from both Chairman Greenspan and Secretary Rubin on this issue. It was controversial because there are Members of the Congress who feel that we should allow a mixing of commerce and banking. But the decision that was made, and that is embraced within the statute, was not to permit that. In fact, the Congressional decision required that some—because some had bridged that line—pull back from that. And it seems clear to me that the regulators now are in the posture of carrying out, in effect, a Congressional judgment as reflected in the statute.

If it is to be changed, it seems to me people need to come back to the Congress——

Mr. GILLERAN. Absolutely.

Chairman SARBANES. —and have the statute changed. It should not be changed downtown through a series of regulatory decisions.

I presume you would agree with that.

Mr. GILLERAN. I completely agree with you.

Chairman SARBANES. I hope when you get down there, you will take a look at the morale of the agency and what might be done to sustain it or to improve it. Perhaps we need to look at how it is funded. Some have said that the funding of the OTS and the OCC through fees from their institutions puts the agency in a difficult position because the people you are regulating are also the people who pay for your bread and butter, and that is not an altogether comfortable situation to be in. And maybe some thought needs to be given to obtaining operating revenues in a different way that would avoid that potential conflict.

Have you had any exposure to that question?

Mr. GILLERAN. I have, sir. Having spent a long time in the public accounting industry, I know that it is an industry which is built upon independence, but at the same time, you must collect a fee from the client.

I think that the model can actually be effective because it provides a discipline in how you are spending your time and whether or not it is effective and efficient. And therefore, I would like to have an opportunity to pursue how the agency is funded and how it is spending its money before I would conclude that we ought to change that model.

I think changing the model brings into consideration all kinds of potential other problems. But I would like to have an opportunity, if confirmed, to really work on that aspect of it.

Chairman SARBANES. Well, I think it needs to be looked into because the current system does have the danger with it of reducing everybody to the lowest common regulatory denominator on the concern that if you are too tough, your clientele will change their charter and their primary regulator and leave your system. And of course, if enough of them do that, then the ability to support your system is undercut.

On the other hand, obviously, you need to do what you have to do as regulators to assure that things are under control.

Mr. GILLERAN. Absolutely.

Chairman SARBANES. These are difficult times and we are facing a lot of challenges. But one of the challenges we face, I think, as the President has said, is to go on about doing our business.

I share Senator Gramm's thanks for your willingness to take on this important responsibility. After all, in a sense, part of this attack is on our financial system. Witness the assault on the World Trade Center.

Mr. GILLERAN. Absolutely.

Chairman SARBANES. And we have to make sure that the system works and works effectively. Those of you who are front-line regulators carry a very great responsibility.

I do not have any further questions. Anything you want to add?

Mr. GILLERAN. Senator, just to thank you once again for the hearing, and to say that I wanted very much to be of service, even before September 11. But I want to be of service even more now, and would look forward, if confirmed, to doing it.

Chairman SARBANES. Very good.

Thank you very much, sir.

Mr. GILLERAN. Thank you, Mr. Chairman.

Chairman SARBANES. The hearing is adjourned.

[Whereupon, at 3:20 p.m., the hearing was adjourned.]

[Prepared statements and biographical sketch of nominee supplied for the record follow:]

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Mr. Chairman, thank you for holding today's hearing. We had hoped to complete action on Mr. Gilleran's nomination to head up the Office of Thrift Supervision last Thursday, and while events conspired against us, I do appreciate the rapid rescheduling for today.

I am very pleased to welcome you, Mr. Gilleran, to Washington, and I look forward to working with you on a variety of issues. You bring a wealth of experience with you to this position, and I am particularly intrigued by your initiative in going to law school after an extremely distinguished business career.

I would be remiss if I did not thank you for your willingness to leave your private sector career behind and join us here in Washington, DC, especially during these troubled times. I understand that you and your wife arrived in the District on September 10, and closed on your house on September 12. I am sure that did not feel like the most auspicious timing, and I just hope that you will begin to feel at home as we continue to conduct the Nation's business.

Mr. Gilleran, I do not want to spend too much time talking about issues that you will no doubt become familiar with in the near future, but I did want to touch on one matter briefly.

As many of my colleagues remember, during the financial modernization discussions, I introduced an amendment that ultimately closed the so-called unitary thrift loophole—a loophole that permitted, in my view, an unacceptable mixing of banking and commerce.

Mr. Gilleran, as you know, the U.S. affiliate of Toronto-Dominion Bank has a proposal at the OTS to set up a joint venture offering its banking services in Wal-Mart stores. The representatives of these companies have made statements, including remarks to my staff, about the possible use of Wal-Mart employees and checkout terminals to perform bank functions.

While this "business modification plan" is not publicly available, I believe the plan must be scrutinized carefully to ensure that it does not circumvent Section 401 of the Gramm–Leach–Bliley Act or the banking and commerce separation. I would be very pleased to work with you to ensure that both the letter and spirit of Gramm–Leach–Bliley is implemented properly.

Once again, thank you for your willingness to serve, Mr. Gilleran, and thank you, Mr. Chairman, for working hard to ensure that we act as quickly as possible on banking nominations.

PREPARED STATEMENT OF JAMES E. GILLERAN

DIRECTOR-DESIGNATE, OFFICE OF THRIFT SUPERVISION

OCTOBER 23, 2001

Chairman Sarbanes, Senator Gramm, and Members of the Committee, I am very honored that President Bush has nominated me to serve as Director of the Office of Thrift Supervision and I am grateful to have the privilege of your consideration. I would like to introduce those members of my family who are present today.

The thrift industry is composed of approximately 1,000 organizations, which operate in all States with approximately $1 trillion in assets. Many of the organizations are small, some are owned by mutual thrift depositors, and several are very large with leadership roles in the financial services industry.

If confirmed, I would bring to the role of Director a unique range of experiences. I was the banking regulator for our most populous and diverse State during one of the most challenging periods in our economy's history. For 25 years, I served the banking industry as auditor and consultant. Most recently, I led the successful turnaround of a historic San Francisco bank. The diversity of my professional background has enabled me to understand and value the perspectives of both great and small financial institutions, the challenges implied in providing for their safe and sound operation, and the importance of protecting the consumer and taxpayer.

As California's banking superintendent during an economically volatile period, I led the California liquidation of the Bank of Credit and Commerce International and was able, after liquidating all debts, to contribute in excess of $100 million to aid others in the worldwide liquidation.

In connection with the closure of another institution where investors in trust certificates were facing a total loss of investment, we were pleased to be able to resolve all matters and return in excess of 100 percent of investment to all parties, many of whom were retired and would have lost their entire life savings.

As a regional managing partner with the worldwide accounting firm of KPMG, I directed all bank practice in the Western Region, including recruitment and training of financial institutions specialists.

In 1994, I became Chairman and CEO of the Bank of San Francisco, an institution facing closure by the FDIC. When we sold it in December 2000, it was one of the most profitable in its size in the country. Leading the Bank of San Francisco through this challenge granted me the invaluable opportunity to experience firsthand those factors that contribute to a financial institution's deterioration, as well as those which lead to its reclamation.

I am enthusiastic about the opportunity to serve our county during this demanding time. If confirmed, I will dedicate myself to the preservation of stability in our Nation's diverse thrift organizations. I thank each of you for your time and your consideration.

Responses of James Edward Gilleran to
Questionnaire for Presidential Nominees
Committee on Banking, Housing, and Urban Affairs
United States Senate

Name: James Edward Gilleran

Position to Which Nominated: Director of the Office of Thrift Supervision

Date of Birth: May 1, 1933 Place of Birth: Ellenville, New York

Names and Ages of Children: Ami Jean - 29; Laura Patricia - 26.

Education:

Institution	Dates Attended	Degrees Received	Dates of Degrees
Ellenville High School	1947-1951	H.S.Diploma	June 1951
Pace University	1951-1955	B.B.A.	June 1955
Northwestern Calif. University	1992-1996	J.D.	Sept.1996

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

1999	Distinguished Service Award - YMCA
1998	Golden Bridge Award - U.S. China Foundation for International Exchange
1994	Doctor of Commercial Science, honoris causa - Pace University, New York
1993	Republican Hall of Fame - San Francisco Republican Party
1992	Nominated as Comptroller of Currency - President George H. W. Bush
1990	Eagle Award - United Way - Public Sector Group
1989	Alumnus of the Year - Pace University, New York City
1988	Senior Man of the Year Award - San Francisco Young Republicans
1988	Humanitarian of the Year Award - Metropolitan YMCA, San Francisco
1988	Citizen of the Year Award - UNICEF
1988	Volunteer of the Year Award - National Conference of Christians and Jews
1988	Certificate of Honor for Contributions to the Community - San Francisco Board of Supervisors
1985	Volunteer of the Year Award - Metropolitan YMCA, San Francisco
1968	Resolution for Serving the Community - Los Angeles City Council

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

Organization	Office Held	Dates
Banking and Professional		
Federal Financial Institutions Examination Council-Washington D.C.	Chairman-State Liason Council-1991-92	1991 - 1994
Conference of State Bank Supervisors	Chairman 1993-94 Bankers Advisory Council-1996-2001	1990 - 1994

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

Memberships: (continued)

Organization	Office Held	Dates
Business		
American Institute of CPAs	Member	1960 - Present
California Society of CPAs	Former Board Member	1960 - Present
National Assoc. of Accountants	Member	1960 - Present
State Bar of California	Active Member	1998 - Present
American Bar Association	Member	1998 - Present
San Francisco Bar Association	Member	1998 - Present
Secor International Inc.	Board Member	1992 - Present
Zindart Limited, Hong Kong	Board Member	1997 - Present
Natl. Association of Corporate Directors, Northern California	Board Member President 1988-89 1994-2001	1998-2001
Fritz Companies, Inc. San Francisco	Board Member	1992 - 2001
Cooper Development Company Carpenteria, Ca.	Board Member	1998 - 2000
The Cooper Company	Board Member	1988
American Institute of CPAs Task Force on Lease Accounting	Chairman	1975
Educational		
University of San Francisco, San Francisco	Advisory Board, School of Business Administratn.	1998 - Present
Golden Gate University, San Francisco	Trustee	1987 - 1996
Charitable		
American Red Cross, Bay Area	Chairman 1999-Present Board Member	1996 - Present
Natl. Conference of Christians and Jews, San Francisco (now) (Conference of Community & Justice)	Chairman 1985-86 Advisory Board	1985 - Present

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

Memberships: (continued)

Organization	Office Held	Dates
Charitable (continued)		
United Way Alexis de Tocqueville Society	Member	1998 - Present
United Way, Public Sector Group, San Francisco	Chairman 1990-91	1990 - 1992
United Way, General Campaign San Francisco	Chairman of Audit Committee	1980
Metropolitan YMCA, San Francisco	Chairman 1986-87 Board Member	1975 - 1987
UNICEF Northern California, San Francisco	Co-Chairman 1986-87	1986-87
Civic		
Mayor Blue Ribbon Task Force for San Francisco Efficiency & Cost	Member	1994 - 1995
San Francisco Chamber of Commerce	Executive Committee 1983-84	1980 - 1984
Los Angeles Junior Chamber of Commerce	President 1968	1964 - 1969
Fraternal		
The Olympic Club, San Francisco	Member	1990 - Present
Villa Taverna, San Francisco	Member	1975 - Present
The Bohemian Club, San Francisco	Member	1985 - Present
The Pacific Union Club, San Francisco	Member	1981 - Present
The St. Francis Yacht Club, San Francisco	Member	1987 - 1995

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

Memberships: (continued)

Organization	Office Held	Dates
Fraternal (continued)		
The Family, San Francisco	Member	1976 - 1995
The Capitol Hill Club, Washington, D.C.	Member	1989 - 1994
Other		
Lincoln Club, Northern California S.F. Division, Palo Alto, Ca.	Vice Chairman 1987-1988	1987 - Present
Citizens for a Better San Francisco	Chairman 1988 Member	1987 - Present
The Commonwealth Club, San Francisco	Member	1970 - Present
Cal Bank PAC, San Francisco	Chairman 1996-99 Member	1996 - 2000
California State Treasurer's Financial Advisory Committee	Member	1995 - 1998
San Francisco Republican County Central Committee	Chairman 1988-89 Member	1988 - 1994
Criminal Justice Legal Foundation, Sacramento, Ca.	Board Member	1988 - 1989
VICTORY '88 Bush/Quayle Campaign San Francisco	Chairman	1988
Economic Literacy Council of California (Northern Division)	Chairman	1987 - 1988

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

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

Employment Record (continued)

Title	Employer	Location	Dates
Chairman and CEO	Bank of San Francisco	San Francisco, California	1994 - 2000
Superintendent of Banks	State of California	San Francisco, California	1989 - 1994
President	The Commonwealth Group	San Francisco, California	1987 - 1989
Managing Partner Northern California	KPMG (Peat,Marwick CPAs)	San Francisco, California	1958 - 1987
Staff Accountant	Patterson & Ridgeway CPAs	New York, New York	1957 - 1958
Private	U.S. Army	Fort Riley, Kansas	1955 - 1957

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

Superintendent of Banks - State of California, 1989 - 1994

Federal Financial Institutions Examination Council - Chairman, State Liason Committee, 1991-1992 (Member, 1991 - 1994)

California State Treasurer's Financial Advisory Committee, 1995 - 1998

Mayor Jordan Blue Ribbon Task Force of San Francisco Efficiency and Cost, 1994-95

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

A copy of my letter to the Federal Financial Institutions Council on March 3, 1992, requesting that they consider amending the instructions for the quarterly reports of condition,was attached to the March 6, 1992 Weekly Bulletin.

A copy of my letter to the Chief Executive Officers of all state chartered banks regarding Quality Bank Regulation was attached to the February 7, 1992 Weekly Bulletin.

The Future of Financial Services: The California Conference, October 9, 1990, was compiled by the State of California Banking Dept. during my tenure as Superintendent for the benefit of state chartered banks.

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

Published Writings: (continued)

Article "Real Estate Loans: A Regulatory Perspective" in THE EXAMINER, Fall, 1991.

A copy of my prepared remarks before a meeting of state chartered banks with authority to engage in real estate investment activities on November 14, 1990, was attached to the November 21, 1990 Weekly Bulletin.

My testimony to the House Committee on Banking, Finance and Urban Affairs on October 16, 1990, was printed in the October 26, 1990 Weekly Bulletin.

My statement before the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs, United States Senate in September, 1990 was printed in "Abuses in Federal Student Aid Programs" published by the U.S. Government Printing Office, Washington, D. C., 1990.

A copy of my letter to the Federal Deposit Insurance Corporation regarding California's experience with insurance sales and direct real estate investment by state chartered banks was attached to the June 22, 1990 Weekly Bulletin.

A copy of my letter to the Federal Financial Institutions Examination Council (written on behalf of the State Banking Dept.) recommending that direct real estate investments be reported on the call report separately from other real estate owned, was attached to the June 15, 1990 Weekly Bulletin.

A copy of my statement before the House Subcommittee on Financial Institutions, Supervision, Regulation and Insurance on April 4, 1990, was attached to the April 6, 1990 Weekly Bulletin.

Article "Reviewing Examination Techniques" in THE EXAMINER (official publication of the Society of Financial Examiners), Spring 1990.

A copy of my remarks before the National Association of Chinese American Bankers at their 3rd annual installation dinner in Los Angeles on March 2, 1990, was attached to the March 9, 1990 Weekly Bulletin.

A copy of "Bank Powers - Insurance", my presentation to The National Center of Financial Services, University of California, Berkeley on February 22, 1990, was attached to the Weekly Bulletin of March 2, 1990.

A copy of my statement before the United States Senate Committee on Banking, Housing and Urban Affairs on October 17, 1989, and a copy of my presentation on the dual banking system to the 1989 American Bankers Association Convention were attached to the October 27, 1989 State Banking Department Weekly Bulletin ("Weekly Bulletin"). The Weekly Bulletin has a distribution of over 2,500.

Circa 1965, article re registration of securities with SEC.

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

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

Chairman, VICTORY '88 Bush/Quayle Campaign, San Francisco County.

Member and Former Chairman, San Francisco Republican Central Committee.

Member and Former Chairman, Citizens for a Better San Francisco.

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates and names of recipients.

Recipient	Amount	Date
Lincoln Club	$ 1,200	2/01/93
California Republican League	25	3/01/93
San Francisco Republican Party	100	4/01/93
Golden Circle	1,500	5/01/93
San Francisco Republican Central Committee re Bob Dole	350	5/11/93
Governor Wilson Committee	500	5/11/93
Friends of Annmarie Conroy (Supervisor, San Francisco County)	500	6/01/93
Lincoln Club	35	6/23/93
Senator Quentin Kopp	100	7/07/93
Dan Lungren '94	250	7/30/93
Tom Campbell	250	9/01/93
Pete Wilson Committee	500	9/01/93
Bev Hansen, State Senate	250	9/01/93
California Republican League	25	10/01/93
Friends of Conroy (S.F.Supervisor)	100	11/01/93
Friends of Jordan (S.F. Mayor)	100	11/01/93
Republican Hall of Fame	300	11/21/93
Republican National Committee	100	12/01/93
Republican Central Committee	200	12/06/93
Lungren for Attorney General	100	1/01/94
Lincoln Club	1,200	2/01/94
Governor Pete Wilson Committee	250	2/04/93
Kopp for Senate	25	3/01/94
San Francisco Republican Central Committee	75	3/01/94
Republican National Committee	100	4/01/94
Governor Pete Wilson Committee	500	4/03/94
Frank Riggs for Congress	100	4/01/94
Citizens for a Better San Francisco	750	5/01/94
Governor Pete Wilson	1,000	2/20/94

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

Political Contributions: (continued)

Recipient	Amount	Date
James Fang - Bay Area Rapid Transit Board	$ 100	5/01/94
Supervisor Annemarie Conroy	100	6/13/94
Committee for Lee Dolson (San Francisco Supervisor Race)	100	7/01/94
Republican Candidate Trust	150	7/01/94
Richmond Republican Club	10	8/22/94
Governor Wilson Committee	250	9/01/94
San Francisco Republican Party Hall of Fame	1,000	10/01/94
Governor Pete Wilson Committee	250	10/01/94
Governor Pete Wilson Committee	200	10/01/94
Conroy for Supervisor	150	10/01/94
Lincoln Club	75	11/01/94
Annmarie Conroy	150	11/02/94
Republican National Committee	150	12/31/94
California Senate Victory Committee	250	7/01/94
Lincoln Club	1,200	2/01/95
San Francisco Republican Party	30	5/01/95
Art Conger for Sheriff	500	2/01/95
Kopp Good Government Committee	25	2/12/95
Campbell for Senate	500	3/01/95
Lincoln Club	1,139	3/01/95
San Francisco Republican Party	90	3/01/95
Governor Pete Wilson Committee	500	3/01/95
Congressman Bill Baker	500	5/01/95
Matt Fong-Treasurer	100	7/01/95
Quentin Kopp	150	8/01/95
Lincoln Club	75	9/25/95
San Francisco Republican Hall of Fame	1,000	10/01/95
Reelect Frank Jordan (Mayor)	500	10/04/95
Lungren Campaign - Atty Genl. State	500	11/01/95
Jordan for Mayor	250	11/17/95
Citizens for a Better San Francisco	750	12/27/95
Patrick Shannon for State Senate	500	2/01/96
Lincoln Club	1,200	3/01/96
Kopp Good Government	25	3/01/96
Richmond Republican Club	25	4/01/96
Rosales for Supervisor	250	6/01/96
California Republican Party	100	6/01/96
Victory '96	1,000	6/10/96
Donna Casey for Supervisor	250	7/01/96

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

Political Contributions: (continued)

Recipient	Amount	Date
Kopp - 68th	$ 100	8/01/96
Lincoln Club	100	8/09/96
Patrick Shannon for Senate	500	9/18/96
Don Smith for Alaska House	100	9/01/96
Lungren Campaign	500	9/16/96
Hoogasian for Supervisor	250	10/07/96
Matt Fong for State Treasurer	150	11/01/96
Frank Riggs for Congress	250	11/01/96
Bill Baker for Congress	250	11/01/96
Riggs for Congress	500	7/02/96
Baker for Congress	500	7/02/96
S. F. Republican Party Hall of Fame	1,000	7/08/96
Lungren for Attorney General	100	7/01/96
Cal Bank Pac	250	1/01/97
Lincoln Club	35	1/01/97
Matt Fong for Senate	250	2/14/97
Frank Jordan - Mayor	25	2/22/97
Lincoln Club	700	4/08/97
Lincoln Club	500	4/08/97
Lungren for Governor	1,000	5/12/97
Sterling for Attorney General	200	7/28/97
Sterling for Attorney General	800	9/15/97
Bruce James for Senate	500	9/30/97
Matt Fong for Senate	150	11/01/97
Barales for Treasurer	250	11/27/97
San Francisco Republican Party	45	12/02/97
Curt Pringle for Controller	250	12/15/97
San Francisco Republican Central Committee	1,000	6/10/97
Lungren for Governor	1,000	1/14/98
End Gang Violence	500	1/31/98
Lincoln Club	700	2/02/98
Lincoln Club	500	2/02/98
San Francisco Republican Lincoln Day Dinner	50	2/08/98
Quackenbush for Insurance Commissioner	250	2/27/98
Matt Fong for Senate	600	4/15/98
Citizens for a Better San Francisco	1,000	4/16/98
Donna Casey for Supervisor	250	6/17/98
Committee for Ron George	250	6/22/98
Matt Fong for Senate	1,000	7/14/98
Ruben Barrales for Treasurer	250	7/15/98
Lungren for Governor	1,000	9/21/98
Charles Ball for Congress	250	8/25/98

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

Political Contributions: (continued)

Recipient	Amount	Date
Lincoln Club Dues	1,200	1/25/99
Jody Stephens for Central Committee	100	2/11/99
G. W. Bush for President	1,000	4/15/99
Frank Jordan for Mayor	500	8/17/99
Bill Fazio for District Attorney	500	9/15/99
Bill Fazio for District Attorney	250	11/17/99
Claude Hutchison for Congress	500	1/18/00
Tom Campbell for Senate	1,000	2/22/00
Bill McCollum for Senate	1,000	2/23/00
Lincoln Club	230	3/28/00
Hutchison for Congress	1,000	5/05/00
Jim Cunnean for Congress	1,000	7/18/00
McCollum for Senate	1,000	8/24/00
Rick Lazio for Senate	1,000	8/21/00
Mike DeNunzio for Board of Supervisors	500	10/11/00
Harold Hoogasian for Board of Supervisors	500	10/16/00
Lincoln Club	1,000	6/29/00
Lincoln Club	126	6/29/00
Claude Hutchison for Congress	500	10/30/00
Bush/Cheney Transition	1,000	1/18/01
Lincoln Club	1,510	2/02/01
Brooks Firestone for State Party Chair	1,000	2/20/01
Republican National Committee	250	3/03/01
Lincoln Club	1,627	3/28/01
San Francisco Republican Central Committee	350	4/10/01
Century 21 PAC	1,000	4/12/01
The President's Club	2,600	4/23/01
Let the Voters Decide (California reapportionment)	1,000	5/22/01

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

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

QUALIFICATIONS

In the course of my professional career, I have been afforded a wealth of opportunity to prepare for the responsibilities inherent in the position for which I have been nominated. Through my experiences as California State Banking Superintendent during the State's worst economic recession in seventy years; in national leadership roles as Chairman of the Conference of State Bank Supervisors and Chairman of the State Liaison members of the Federal Financial Institutions Examination Council; as Chairman of the Board and CEO of a highly profitable independent bank which I assumed leadership of when it faced potential closure; as Managing Partner of the Northern California practice of one of the world's leading public accounting firms; as a bank accounting and auditing specialist and SEC technical expert; and through leadership roles in numerous community service organizations, I have acquired deep insight into the challenges which face the banking industry and have developed mature management ability, sharp perception into human relations, and the highest degree of technical proficience.

State Banking Regulation Experience

I served as Superintendent of Banks for the State of California from 1989 to 1994. The California State Banking Superintendent licenses and supervises a wide range of banking institutions, diverse in size, complexity, and population served. The California system includes large banking institutions which operate internationally and in many of the states. Large regional banks and local banks are represented as well as small local banks. In addition, the system contains foreign agencies and branches.

At the time of my Superintendency, there were 270 banks in the California State system with $110 billion in assets. Twenty-four of the twenty-five largest banks in the world were represented in the system. There were also 37 trust departments and 23 non-deposit trust companies with $158 billion in fiduciary assets, as well as 25 currency transmitters and 17 check and money-order sellers.

During my five years as Superintendent, a major challenge faced by the State Banking Department was the liquidation of the California agencies of Bank of Credit Intl., S.A. (BCCI). This case, part of the largest financial institutions fraud in world history, presented countless difficult issues. The resolution of these issues led to our California liquidation being the first in the world to be completed. Steps I had taken as regulator even before BCCI was closed enabled the California liquidation to pay all creditors in full, including interest, and to provide $100 million surplus to the U.S. Government for distribution to BCCI's other victims. Some counterpart liquidations outside California have still not been completed.

JAMES EDWARD GILLERAN
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

Qualifications: (continued)

State Banking Regulation Experience (continued)

During my tenure as Superintendent, I was very active in the Conference of State Bank Supervisors on a national basis and served as Chairman during 1993-1994, facilitating cooperative efforts between all state supervisors in the supervision of multi-state banking organizations. In addition, I was appointed to the Federal Financial Institutions Examination Council (FFIEC) and was elected Chairman of the FFIEC State Liaison Group.

As Superintendent of California banks, I testified four times before the U.S. Congress on financial institutions issues before it: once before the Senate Banking Committee, once before the Senate Investigations Committee,and twice before the House Banking Committee. I also testified before the Banking Committee of the California Assembly and California Senate as well as the California Senate Finance Committee.

Bank Operating Experience

On October 1, 1994, I became Chairman and CEO of the Bank of San Francisco, a wholly owned subsidiary of the San Francisco Company, a publicly held holding company with its shares listed on the American Stock Exchange. The bank was facing closure and loss to the FDIC with over 30% of its assets non-performing. In order to prevent the bank's closure, I designed a rigorous turnaround program which included the reduction of staff to efficient size, reduction of space utilized by staff, rental of existing space to other organizations, collection of non-performing loans and the selling of non-performing real estate received upon foreclosure. When the bank was sold on December 31, 2000, it had fully recovered, was one of the most profitable of its size in the U.S., and held no non-performing assets. The experience gained through this opportunity was invaluable and has enabled me to fully comprehend the problems facing financial institutions and the regulatory measures necessary to help them achieve profitability in a financially sound manner.

Public Accounting Experience

Prior to my tenure as State Banking Superintendent, I was Managing Partner of the Northern California practice of KPMG, Peat, Marwick in San Francisco. KPMG is one of the world's leading public accounting firms. During my time as Managing Partner, the staff increased from 100 to 450 members. To support this growth, I recruited and trained many professionals and dealt with a wide range of complex personnel and professional problems. Prior to accepting Managing Partner responsibilities, I was in charge of KPMG Peat Marwick's banking practice in the Western Region of the U.S. Of negligible size when I accepted that task in 1964, the banking practice developed into one of the largest industry practices in the firm. This experience gave me a solid understanding of bank operations, lending, tax and bank financial reporting.

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

Qualifications: (continued)

Public Accounting Experience (continued)

During this period, I was appointed as one of the firm's select SEC reviewing partners, charged with reviewing clients' filings with the SEC prior to formal filing. This work provided a thorough education in the complexities of securities laws and disclosure requirements, as well as providing broad exposure to many industries. I also was chosen as a member of the national KPMG Long Range Planning Committee, on which I ultimately served for ten years, and was Chairman of the firm's Bank Long Range Planning Committee. These experiences enhanced my understanding of long range planning discipline and increased my ability to respond constructively to the necessities inherent in changing strategies and policies.

Community Service Experience

My experience as an active participant and leader in many community service organizations (see membership section of this Questionnaire) has intensified my understanding of the basis of cooperative effort, sharpened my appreciation of the needs and value of our diverse population, and nurtured my ongoing desire to contribute toward solving society's needs.

I am fortunate to have been afforded the opportunities which fostered the development of the skills I possess. It would be a great honor and a pleasure to utilize them in service to our federal government.

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

Future Employment Relationships:

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

   I will.

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

   I have no plans.

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

   No.

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

   Yes.

Potential Conflicts of Interest:

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

   Pension benefits received from former employer KPMG. (Retired in 1987.)

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

   None known.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

   None known.

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

4. List any lobbying activity during the past ten years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

Only in connection with my position as Superintendent of Banks for the State of California and as a member of the Conference of State Bank Supervisors.

5. Explain how you will resolve any conflicts of interest that may be disclosed by your responses to the items above.

I will not participate personally and substantially in any particular matter that would have a direct and predictable effect on KPMG's abilities or willingness to pay their pension obligations to me, unless I qualify for a regulatory exemption pursuant to 18 U.S.C.208(b)(2) or I receive an individual waiver in accordance with 18 U.S.C.208(b)(1). Should any additional actual or potential conflicts arise, I will consult with Treasury ethics officials.

Civil, Criminal and Investigatory Actions:

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

Republican Central Committee, San Francisco County - During the period of my Chairmanship, two suits were brought for alleged complaints; both were dismissed. For details, contact William E. Grayson, Counsel to the Central Committee at the time, 415-782-9600.

State of California, State Banking Dept. - During my tenure as Superintendent of Banks several suits were brought in connection with my official duties. A number of these suits derived from activities prior to my appointment as Superintendent. No judgment was rendered against me or against the Department in any case. For details, contact William G. Thompson, Staff Attorney, 415-263-8516.

Bank of San Francisco - a suit was brought by an employee affected by the downsizing of the Bank. The suit was withdrawn when a termination settlement was finalized. For details, contact Nicholas Unkovic, General Counsel for the Bank, 415-954-0275.

Other suits brought against companies during periods of my association with them as a Member of the Board or, in the case of KPMG, as a Partner, were of the type typically brought in the course of business. I was not named personally in any of them, nor did they result in any judgments leveled against me.

JAMES EDWARD GILLERAN RESPONSES
PRESIDENTIAL NOMINEE QUESTIONNAIRE
SENATE BANKING COMMITTEE

Civil, Criminal and Investigatory Actions: (continued)

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

I have never been cited or disciplined in connection with any investigation. During my partnership in KPMG Peat, Marwick, the California State Board of Accountancy made inquiries into client affairs.

Confidential Financial Statement:

NET WORTH

Provide a complete, current financial net worth statement which itemizes in detail all assets (including bank accounts, real estate, securities, trusts, investments, and other financial holdings) all liabilities (including debts, mortgages, loans, and other financial obligations) of yourself, your spouse, and other immediate members of your household.

Please see attached Financial Statement.

SOURCES OF INCOME LAST 3 YEARS

1. List sources and amounts of all income received during the last three years, including all salaries, fees, dividends, interest, gifts, rents, royalties, patents, honoraria and other items exceeding $500 or more. (If you prefer to do so, copies of US income tax returns for these years may be substituted here, but their submission is not required.)

Please see attached schedule Sources of Income-Last 3 Years.

2. List sources, amounts and dates of all anticipated receipts from deferred income arrangements, stock options, uncompleted contracts and other future benefits which you expect to derive from previous business relationships, professional services, and firm memberships or from former employers, clients and customers.

I have pensions from KPMG and from the State of California but these are defined benefit plans and not deferred income. I have stock options which are vested from Zindart Limited (10,000 shares) and 2% of the warrants attached to the RFE note participation.

There are no other stock options, uncompleted contracts or other future benefits from past relationships.

Signed: James E. Gilleran Date: 7-13-01

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

NOMINATIONS OF:

ALLAN I. MENDELOWITZ, OF CONNECTICUT FRANZ S. LEICHTER, OF NEW YORK JOHN T. KORSMO, OF NORTH DAKOTA TO BE DIRECTORS OF THE FEDERAL HOUSING FINANCE BOARD

EDUARDO AGUIRRE, JR., OF TEXAS TO BE FIRST VICE PRESIDENT AND VICE CHAIRMAN OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

AND

RANDALL S. KROSZNER, OF ILLINOIS TO BE A MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS

THURSDAY, NOVEMBER 15, 2001

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

The Committee met at 10:12 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. The hearing will come to order.

This morning, the Committee on Banking, Housing, and Urban Affairs will consider the nominations of Allan Mendelowitz, Franz Leichter, and John Korsmo, to be Directors of the Federal Housing Finance Board.

We will also consider the nominations of Eduardo Aguirre, to be First Vice President and Vice Chairman of the Export-Import Bank, and Randall Scott Kroszner, to be a Member of the President's Council of Economic Advisers.

We will do a lead-off panel with the three nominees to be the Directors of the Federal Housing Finance Board. If they can come forward and take their places at the table, we would appreciate that. And then we will follow with Mr. Aguirre and Mr. Kroszner.

We want to welcome the nominees to the Committee today. We are glad they are able to be with us. In addition, when we obtain a quorum, or if not, we may do it after a vote, I would like to be able to vote to report out the nominations of Mark Olson and Susan Schmidt Bies, to be Members of the Board of Governors of the Federal Reserve System, and the nomination of James Gilleran, to be Director of the Office of Thrift Supervision.

Our first panel consists of the nominees to the Federal Housing Finance Board, which regulates the Federal Home Loan Bank System, a System of 12 regional banks created by Congress in 1932, to assure the availability of funds for home mortgage lenders. These banks are cooperatively owned by their members, which currently include almost 7,800 commercial banks, thrifts and credit unions, and also insurance companies.

As of June 30 of this year, the Federal Home Loan Bank System's assets totaled almost $667 billion. In other words, two-thirds of a trillion, making it one of the largest Government sponsored enterprises.

The System provides low-cost loans, called advances, to its members to support housing finance. At the end of June, outstanding advanced totaled $450 billion—that is an increase of 170 percent since the end of 1996.

The System also supports an affordable housing program mandated by statute through which the banks make grants available to support construction purchased in rehabilitation of housing for very-low-, low-, and moderate-income families.

Since that program was created in 1989, the banks have granted nearly a billion dollars to help create over 200,000 housing units.

The Finance Board is charged with overseeing this extensive system to ensure that it continues to fulfill its mission of supporting affordable housing. I believe that the responsibility of the Finance Board is of particular importance.

I am pleased to welcome to the Committee the three nominees who are before us.

Allan Mendelowitz is currently serving as a Director of the Finance Board and served as its Chairman from his appointment last December until June of this year. Mr. Mendelowitz has had a very distinguished career in Government service. Amongst other things, he has been the Executive Director of the U.S. Trade Deficit Review Commission, Executive Vice President of the Export-Import Bank of the United States, and was the Managing Director for International Trade, Finance and Competitiveness in the General Accounting Office, where he directed a number of studies of the Nation's finance and economic development policies. Prior to that, he was a Professor in Urban and Regional Economics, including also housing economics, local public finance, and urban economic development.

Franz Leichter is also currently serving as a Director of the Finance Board. He brought to the Board extensive experience in housing and financial services, a distinguished Member of the New York State Senate from 1975 to 1998, where he was a Member of the New York State Senate Banking Committee.

Mr. Leichter has published a guide to banking services in New York, engaged in providing funding for a number of community or-

ganizations aimed at conserving affordable housing, and sponsoring community improvement, and was really one of the leading public policymakers in the State of New York in his tenure in the State Senate with respect to housing and financial services issues.

John Korsmo has had extensive experience in real estate business. His commitment to public service is reflected in his membership of the Small Business Administration Advisory Council, the North Dakota State Banking Board, and the North Dakota Board of Higher Education. And he also served as Policy Director in the Office of Governor Ed Schafer of the State of North Dakota.

We regard oversight of the Federal Home Loan Bank System as of high importance and we are looking forward to hearing your statements.

Now before I swear the witnesses in, I will turn to my colleagues and see if they have any statements.

Senator Bunning.

COMMENT OF SENATOR JIM BUNNING

Senator BUNNING. No statement, Mr. Chairman.

Chairman SARBANES. Senator Reed.

COMMENT OF SENATOR JACK REED

Senator REED. No statement, Mr. Chairman.

Chairman SARBANES. Would you all please stand?

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. MENDELOWITZ. I do.

Mr. LEICHTER. I do.

Mr. KORSMO. I do.

Chairman SARBANES. Do you agree to appear and testify before any duly-constituted committee of the U.S. Senate?

Mr. MENDELOWITZ. I do.

Mr. LEICHTER. I do.

Mr. KORSMO. I do.

Chairman SARBANES. Thank you very much. We are prepared to hear your statements. If you have members of your family you want to introduce, we would be quite happy to recognize them.

Mr. Mendelowitz, we will begin with you and go to Mr. Leichter and then over here to Mr. Korsmo.

STATEMENT OF ALLAN I. MENDELOWITZ OF CONNECTICUT, TO BE A DIRECTOR OF THE FEDERAL HOUSING FINANCE BOARD

Mr. MENDELOWITZ. Chairman Sarbanes, Senator Reed, Senator Bunning, it is really a great honor to appear before you today to testify on my nomination to be a Member of the Board of Directors of the Federal Housing Finance Board. I would like to thank President Bush for nominating me and I would like to thank you, Senator Sarbanes, and Senator Daschle for your encouragement and support.

I would also like to introduce my wife, Shereen, who is right here. I also want to thank her. We have been married almost 35 years now and without her support and encouragement, I do not

think I could have gotten to this point. She has been a bottomless reservoir of patience for all the evenings I came home late from the office, the weekends I was in the office, and the long absences when I was on travel.

I really appreciate it, and obviously, I love her because she has put up with me for 35 years.

Last, on a personal note, I have had the opportunity to work with this Committee over the past two decades in several different capacities and on a number of diverse issues. It has been a privilege to work with the staff of this Committee because they stand out for their integrity, their commitment, and their talents.

I would like to take this opportunity to recognize the staff who I have worked with over these many years—Steve Harris, Marty Gruenberg, and Pat Malloy—who used to be on the staff of the Majority—and Wayne Abernathy of the Minority staff.

This is a time of great challenge and change for the Federal Home Loan Bank System. Some of the changes are mandated by statute and some of the changes are a direct result of the changes that are taking place in financial markets and in the membership of the Home Loan Bank System.

The Gramm–Leach–Bliley legislation mandated a new, modern, risk-based capital rule for the Home Loan Bank System. I have to say that before I arrived at the Finance Board, they took on this challenge and within the very tight timeframe mandated in the statute, they completed the rule, published on time, and subsequently, as provided in the statute, all of the Home Loan Banks have submitted their plans for review and approval by the Finance Board.

I have to say, with respect to the new legislative mandates that the Finance Board has received, that the Home Loan Bank System and the Finance Board itself I think are performing quite well to this point.

The second big challenge, of course, is how to grapple with the changes that are taking place in the underlying membership of the Federal Home Loan Banks and their implications for the System.

We are, in a sense, forced to address these issues because the Finance Board has received three petitions for an unprecedented action, which would be to permit a member institution to belong to more than one Federal Home Loan Bank.

It is clear that these petitions are symptomatic of the broad changes and challenges to the System that are being caused by changes in financial markets and the membership base. In order to respond to these petitions, rather than trying to review them on a case-by-case basis, we issued a broad-ranging request for comments in September in an effort to more fully understand the full depth and dimensions of the changes and of their implications for the System.

I am looking forward to receiving good, creative, thoughtful comments and information and I look forward to working with this Committee and others in the Congress on this important issue.

The resolution of these complex issues will require good information and analysis and very careful and thoughtful deliberation.

In closing, I have to say again how honored I am to be here. If confirmed, I pledge to work closely with this Committee and to con-

tinue the long-standing spirit of cooperation that has existed between the Federal Housing Finance Board and the Congress.

I will pledge to work hard to ensure the safety and soundness of the System and ensure that the Federal Home Loan Banks fulfill their public mission.

I have submitted my full statement for the record and with this, I conclude my oral comments. Obviously, if any of the Senators on the Committee have questions, I will be more than happy to try to answer them.

Thank you.

Chairman SARBANES. Thank you very much.

Mr. Leichter.

STATEMENT OF FRANZ S. LEICHTER OF NEW YORK, TO BE A DIRECTOR OF THE FEDERAL HOUSING FINANCE BOARD

Mr. LEICHTER. Good morning, Mr. Chairman, Senator Reed.

Chairman SARBANES. I think you need to pull that microphone a little closer to you.

Mr. LEICHTER. Okay. I'm sorry. Good morning, Mr. Chairman, Senator Reed, and Senator Bunning. Thank you very much for the opportunity to appear before the Committee. I am honored and privileged to be before you as President Bush's nominee to one of the positions on the Board of Directors of the Federal Housing Finance Board.

I want to first express my appreciation to you, Mr. Chairman, and to Senator Daschle, and to the Senator from my home State, Senator Charles Schumer. Also, I am pleased that my wife, Melody Anderson, is here with me today and it gives me a chance to thank her publicly for her support and encouragement.

Chairman SARBANES. I am glad we hold these hearings. The wives get recognition that they do not otherwise perhaps get.

[Laughter.]

Mr. LEICHTER. We appreciate the fact that the Committee gives us this opportunity.

[Laughter.]

I have had the distinct pleasure of serving on the Federal Housing Finance Board since August 2000. It has been a very productive and rewarding experience. My primary concern at the Finance Board has been to ensure the safety and soundness of the Federal Home Loan Bank System. And if confirmed, this will continue to be my top priority.

I have taken a special interest in the System's mission of supporting housing in this country. I think we can all take pride in the affordable housing program which Congress had the foresight to enact as part of FIRREA in 1989.

As you pointed out, Mr. Chairman, this year, the affordable housing program topped the $1 billion mark, more than 200,000 units of affordable housing that have been produced under this program. Other Federal Home Loan Bank System community cash advance programs have invested $2 billion in our communities.

The Federal Home Loan Bank System is uniquely positioned as a key source of liquidity for small community financial institutions in meeting the credit needs of the Nation's communities, big and

small, urban and rural. Although the Federal Home Loan Bank System is economically sound, it must continue to evolve to meet the needs of the financial services sector.

In the upcoming year, the System will face two primary challenges. First is dealing with the ramifications of the ever-consolidating financial services industry, in particular, its effects on Federal Home Loan Bank System membership. Second is overseeing the implementation of a new risk-based capital system.

The System also faces the crucial question of how it will adapt to the dramatic changes that have occurred as a result of a rapidly consolidating financial sector in which national financial institutions are organized in a variety of ways under a single or multiple charter.

Several institutions have now petitioned the Finance Board to address directly the issue of membership changes as a result of mergers and acquisitions across the boundaries of different Federal Home Loan Bank districts. The Board has chosen to deal with this issue on a system-wide basis by issuing a solicitation for comments in September 2001, that focused on the range of issues raised by these petitions.

Any solution must take into account that the financial markets have changed significantly since the System was created in 1932 to serve small savings institutions.

The Finance Board looks forward to working with all of our core constituencies, including this Committee and the Congress, to guide us in taking the appropriate action within the present statutory framework.

Although I believe that the resolution of these complex issues will require a great deal of careful reflection and analysis, I am confident that they can be resolved in a way that continues the continued viability of the Federal Home Loan Bank System and maintains its cooperative character.

The Finance Board is presently in the process of implementing a new risk-based capital structure to implement the provisions of the Gramm–Leach–Bliley Financial Modernization Act. And I am pleased to say that the Finance Board met the timeframe set forth by the Congress and approved the final capital rule in December 2000, after a process in which we received input from those interested in the Federal Home Loan Bank System, including, of course, the Congress.

As required by statute, each Federal Home Loan Bank has now submitted a proposed capital plan by the end of the October 2001. These are now being reviewed by the Finance Board and I think they will be approved and in place shortly.

The staff of the Finance Board deserves a great deal of credit for the professional and expeditious manner in which it has handled this capital process.

In closing, I would like to reiterate again what an honor it is to appear before this Committee. I look forward to continuing the spirit of cooperation between the Federal Housing Finance Board and the Congress.

I have submitted a formal statement for the record.

This concludes my oral presentation. I would be very pleased to answer any questions you or the Committee may have.

Thank you.

Chairman SARBANES. Thank you very much. The full statement will be included in the record as submitted.

Mr. Korsmo.

STATEMENT OF JOHN T. KORSMO OF NORTH DAKOTA, TO BE A DIRECTOR OF THE FEDERAL HOUSING FINANCE BOARD

Mr. KORSMO. Thank you, Mr. Chairman, and distinguished Members of the Committee. Thank you very much for the opportunity to appear before you today as a nominee for Director of the Federal Housing Finance Board. I am deeply honored to have been chosen by President Bush to serve the people of the United States in this capacity, and I would sincerely appreciate your support in confirming his decision.

If I may, Mr. Chairman, let me introduce a couple members of my family. The love of my life, Michelle Larson, and one of my three sons, Charlie. There are four people who are my life and I am certainly happy that two of them could be here to support me today.

Chairman SARBANES. Very good.

Mr. KORSMO. I literally grew up in the housing industry. In junior high and high school, I did filing and deliveries and learned the basics of real estate title abstracting working in a title plant in my hometown of Fargo, North Dakota. Thirty years later, I owned the company.

Along the way, I became a lawyer and a licensed real estate title abstracter and title insurance agent in both North Dakota and Minnesota. I founded the first independent closing and escrow company in North Dakota and northwestern Minnesota; and I came to appreciate the important role that mortgage loan officers, homebuilders, and realtors play in helping people achieve the American Dream of homeownership.

Those mortgage loan officers, homebuilders, and realtors, and the homebuyers they served, were my customers for over 20 years. My guess is that, if I have the privilege of being confirmed, I will be the first Federal Housing Finance Board Director who has actually closed a home mortgage package.

[Laughter.]

And I have closed hundreds of them. As a result, I think I understand the real-world implications of fluctuations in the availability of adequate mortgage loan funds and mortgage interest rates, and the importance of simplifying accessibility to affordable housing and community investment programs.

I know we were all pleased recently to read that homeownership in this country has hit a modern-day high. As of last quarter, 68.1 percent of American homes were owner-occupied. This is an enviable record. But, unfortunately, among some families—minority families, families of low- and moderate-income, women-headed families, and new American families—and in some communities, including my home community, homeownership rates remain below 50 percent. Don't get me wrong, I believe the Federal Home Loan Banks are doing an excellent job in this regard now. But I assume we can always do better. And if I become a Finance Board Member,

a continuing emphasis on affordable housing will be one of my highest priorities.

I also want to mention that I do have previous experience as a bank regulator, having served 4 years as the public interest member of the North Dakota State Banking Board. The Banking Board is responsible for supervising and ensuring the safety and soundness of State-chartered financial institutions in North Dakota, a role directly comparable to that of the Federal Housing Finance Board. While I certainly recognize that the scale of responsibility is different, the fundamental safety and soundness principles are the same.

Chairman Sarbanes, let me say again how honored I am to appear before you today. If confirmed, I, like Dr. Mendelowitz and Mr. Leichter, pledge to work closely with the Members of this Committee and the Congress to ensure the safety and soundness of the Federal Home Loan Bank System and the fulfillment of the System's critical public policy mission.

Thank you, again, Mr. Chairman. I look forward to addressing any questions you or the Members of the Committee may have.

Chairman SARBANES. Thank you. We appreciate the statements from all three of the nominees who constitute this panel.

I think we will do 5 minute rounds and we can do another round if Members wish to do so.

As I understand the mission regulations issued in July 2000, the Finance Board discouraged banks from funding or requiring loans with predatory characteristics, but did not actually issue a regulation on the subject.

Individual banks have apparently developed their own policies for avoiding involvement with predatory loans. For example, the Atlanta bank requires that members certify that none of the collateral they are using to get advances has predatory characteristics.

Why wouldn't the Board take steps certainly to encourage, and perhaps even require, other banks to follow the example set by the Atlanta bank?

I would like to hear from each of you on that question.

Mr. MENDELOWITZ. Senator, I think you have identified one of the serious problems in financial markets and in the lending sector. We take concerns over this issue quite seriously.

At the current time, there is an interagency task force that is deliberating on the issue of predatory lending. The Finance Board has representation on that interagency task force. I would characterize our current position as collecting information and trying to understand what is being done Government-wide, so that when the Finance Board moves forward on this issue, we do it in the best way possible.

Mr. LEICHTER. Mr. Chairman, I think this is an important issue and one that the Finance Board has to take a look at and the System has to respond to.

And as Mr. Mendelowitz says, we are working together with other regulators as part of the predatory lending task force and would want to work together with these other regulators to try to come up with a uniform policy. So, I think it is something that the Board very definitely will look at and would be willing to address.

Chairman SARBANES. Mr. Korsmo.

Mr. KORSMO. Mr. Chairman, it may be presumptuous on my part to talk about what has gone on in the past. I guess I can say that I certainly share the concern you express about this issue, particularly at a time when we may be looking at increasing rates of delinquency and particularly for first-time homebuyers. They tend to be the kind of people who would be involved in this kind of a loan.

Again, I certainly share your concern. I am looking forward to working with the other Members of the Board on addressing those kinds of issues.

Chairman SARBANES. Well, some of the other regulators are moving. The Federal Reserve has a proposal out that they are about to act on for comment. Of course, some of the Members of your System have moved on it. This is an issue that we will continue to follow closely.

The Finance Board has authority under the statute to set the compensation of its staff, provided, "In directing and fixing such compensation, the Board shall consult with and maintain comparability with the compensation at the Federal Bank Regulatory Agencies."

I am a strong supporter of public service, but there is a problem because the Finance Board has set salaries significantly higher than the other Federal Bank Regulatory Agencies. How do we justify this disparity?

Mr. MENDELOWITZ. I would say that you have identified an issue which the Finance Board going forward will need to look at very carefully.

If you look at the span of responsibilities that the Finance Board has, compared to the span of responsibilities at the FDIC or the span of responsibilities at the OCC, I think that their span of responsibilities are broader and quite significant.

I think that we as an agency would have a very hard time justifying compensation going forward that significantly exceeded those of other FIRREA agencies.

Mr. LEICHTER. Mr. Chairman, just recently we did look at this issue and we asked that we be provided with figures to show whether the compensation of the staff of the Federal Housing Finance Board was comparable to that of other regulators. We will look at that. But as you properly pointed out, the statute does say that these salaries should be comparable and I think that we are required to implement that provision of the law.

Mr. KORSMO. Mr. Chairman, I had the privilege of talking with you earlier about this issue. I was surprised when I got there to find out I am about the lowest-paid guy in the System over there.

[Laughter.]

Which is fine. I have a history of serving on boards where I received no compensation. I believe public service means exactly that. But I am sensitive to your comments on this issue and, believe me, I am looking forward to looking into exactly that issue.

Chairman SARBANES. Well, my time is expired. Let me just add one further dimension to this.

The Financial Services Modernization bill repealed the requirement that the Finance Board approve compensation for the Federal Home Loan Bank Presidents. In 2000, the Bank Presidents' salaries across the country increased by an average of 43 percent over

the previous year's level. These Bank Presidents' salaries now are significantly higher. In fact, the disparity compared, for instance, with the Regional Presidents of the Federal Reserve Banks, is far greater than the staff disparity we just talked about, it exists, this disparity is just enormous.

Senator BENNETT. What is the disparity with the Members of the U.S. Senate?

Chairman SARBANES. Even greater.

[Laughter.]

Even greater. And I think this is an issue that we will have to revisit at some point. I just put it out there.

Now, Senator Bunning was here at the very outset. In fact, even before I arrived here.

Senator BUNNING. Thank you, Mr. Chairman.

I would like to follow up on the Chairman's inquiry about staff compensation, not only your present compensation, but also future consideration. I want to ask all of you—the Federal Home Loan Bank Chairmen's salaries, and what they were and what they are now, since the cap came off. What is the current compensation for a Member of your Board?

Mr. MENDELOWITZ. The compensation for a Board Member currently is $125,700, which is the compensation of Executive Level 4. The Chairman's compensation is $133,000, which is Executive Level 3.

Senator BUNNING. Compared to the Federal Reserve Board, what would that be?

Mr. MENDELOWITZ. I do not remember exactly, but I think that the Chairman of the Board of Governors of the Fed is an Executive Level 2. So, I would say the Chairman of the Board of Governors is maybe paid slightly more. The Board of Governors I would assume would be paid slightly more.

Senator BUNNING. Okay. Then I would like the comparison, since you have both been on the Board, of the Bank Presidents in your System, approximately where they were and where they are now, since the cap came off.

Mr. LEICHTER. The Bank Presidents, sir, I would say, on average, their salary is between $500,000 and $600,000 a year. Some are somewhat higher and some are somewhat lower.

Senator BUNNING. That is now, not what it was.

Mr. LEICHTER. I would say that is their current salary, 2001.

Senator BUNNING. Currently.

Mr. LEICHTER. As the Chairman pointed out, there has been a significant increase in their salaries. But the Board no longer has any authority to set the compensation of the Bank Presidents.

Senator BUNNING. Just the Board of the Bank itself.

Mr. LEICHTER. Yes, that is right.

Senator BUNNING. Would you please give me your definition of predatory lending? Any and all.

Mr. MENDELOWITZ. I cannot say I am an expert on it, but from the perspective of an economist, any time that lending activity takes place and the market works efficiently, one would expect to find a rate of interest on a loan equal to some sort of pure rate of interest plus a spread to represent the risk, which should be the

expected loss on the transaction. In other words, the spread represents the creditworthiness of the borrower.

A borrower who has absolutely zero-risk, such as the U.S. Government, gets in effect a pure rate of interest. Any other borrower who represents higher risk pays more.

And the extent to which, because of a lack of information or a lack of efficiency within the market, a lender winds up lending to a borrower at a spread over the pure rate of interest that is substantially higher than the risk associated with that borrower, and is able to do that because of lack of asymmetries in information, or lack of understanding on the part of the borrower, I guess you could call that predatory.

Senator BUNNING. So, then, the knowledge of the borrower would be part of the consideration. In other words, whether he knows or she knows that they are getting a fair and equitable deal and does it also depend on the ability of the borrower to borrow money? In other words, the credit risk?

Mr. MENDELOWITZ. Yes, that was the point I was trying to make.

Senator BUNNING. I understand that. But there are people who have really bad credit ratings and sometimes they wind up with the borrower of last resort, so to speak. And you could see where there would be a higher rate of interest.

I am trying to get at the handle of what is predatory lending and what is not. The law of supply and demand takes over here. If you are hurting and you have had a bad credit rating, you usually pay 1, 2, 3 percentage points higher for the money. Obviously, I would be more at risk if I were the lender in making a loan to you if you had a bad credit risk. Is that considered predatory lending?

Mr. MENDELOWITZ. I think that what you have described is the sort of fine distinction I was trying to make between interest rates that represent compensation to the lender for the risk of the borrower versus interest rates that go well over and above compensation for that risk.

Senator BUNNING. Over and above. Okay. You said something about a task force on predatory lending. Are you a member of that task force?

Mr. MENDELOWITZ. No, it is a staff member.

Senator BUNNING. Staff member. Have they come out with their report and do they have a definition of what predatory lending is? Would that be included in the task force?

Mr. MENDELOWITZ. I actually do not know the answer to your question. But if I were organizing the task force, coming up with a definition would be one of the first things that I would try to do because you have to know what it is that you are dealing with when you are trying to prepare a response.

Senator BUNNING. Thank you very much. My time has expired.

Chairman SARBANES. Thank you, Senator Bunning.

Senator Corzine.

COMMENTS OF SENATOR JON S. CORZINE

Senator CORZINE. Yes. Thank you, Mr. Chairman. And I welcome the nominees.

I have a particularly parochial issue that I would like to hear your comments on. I think it actually is more than parochial given

the events of September 11. And this is the multidistricting issue, dual membership that gets at the application of——

Senator GRAMM. Jon, pull your mike a little closer.

Senator CORZINE. —what some people might argue is the crown jewel of the System. And that is the affordable housing program and the matching programs that exist and the likelihood that if, through the mergers, a number of the institutions are not able to be recognized at least for this purpose. In the multiple districts, you are going to see a diminution of application of matching funds from the Federal Home Loan Bank profits scenario.

I consider this one of the more important roles of fulfilling the mission of the Federal Home Loan Bank and I would love to hear your views on the multidistricting issue. Or are there other solutions outside of dealing with allowing for the multiple application that you are considering or you think should be considered, so that we do not lose the economic participation of the Home Loan Banks because of the consolidation of the industry?

Any of you would be fine.

Mr. LEICHTER. Senator, you certainly identified what is probably the most difficult issue that the Board is going to face in the coming year, and that is the issue that we call the multidistrict membership, whether a member may belong to more than one bank.

The Federal Home Loan Bank System was set up 1932, at a time when there were small thrifts. Most of them were located in one community and at the most, they may have had one or two branches throughout the county.

Now, we have national banks and what has occurred particularly recently in the consolidation is that you have national banks under one unitary charter carry on business throughout the whole country and through more than one Home Loan Bank district. In fact, we currently have over a hundred financial institutions that through holding companies have banks that belong to or that are members of various Home Loan banks.

We now have the situation in New York that you pointed out, you and Senator Schumer——

Senator CORZINE. And New Jersey.

Mr. LEICHTER. And New Jersey. The New York Bank, which covers New Jersey and New York, where there has been an application to allow Washington Mutual to become a member of that Bank and to waive the regulations in regard to single membership.

I want to assure you that we are paying very careful attention to that application and trying to deal with it in a prompt manner. But there are some extremely complex issues—legal, policy issues. We hope to be able to come up with some resolution.

Senator CORZINE. There may be other solutions than just multiple memberships and it may be going back and rewriting either statutory or regulatory structures that recognize a changed world from the world that you described in 1932.

Clearly, the depository base of the institutions is still reflective of the communities and where they are doing their business. And Dime may not have the same logo in front of the branches, but it is still working in the community. And so, some of the benefits associated with the fees to the Home Loan Bank and therefore, their profits certainly I think need to reside in either dealing with it by

different multidistrict memberships or some other solution, which I would be more than happy to work with folks on to try to accomplish—I think address a need that is real.

Mr. LEICHTER. Well, we would very much like to work with you and other Members of this Committee in dealing, first of all, with a system-wide solution and second, addressing the particular problem now of the New York Bank.

I would just add that the New York Bank lost its headquarters. They were in the World Financial Center in Building 7, which collapsed. So there is every intention on behalf of the Board, to the extent we can, to be helpful to that Bank.

Senator CORZINE. Right. My time has expired.

Chairman SARBANES. I want to comment at this point. I think the issue of multidistrict membership raises some very important questions for the Board. As I understand it, the Board has issued a solicitation for comment and is proceeding in the regular order to address this issue and reach some decisions.

Now, I am concerned about the affordable housing program and the questions which have been raised. But as I understand it, the advances by the Home Loan Bank in New York were $52 billion at the end of 2000—$52 billion. Is that correct, or do you have reason to differ with that?

Mr. MENDELOWITZ. That sounds like about the right ballpark.

Chairman SARBANES. The affordable housing program of the Federal Home Loan Bank of New York in 2000 was $22 million—$52 billion advances, $22 million on the affordable housing program. Is that correct?

Mr. LEICHTER. That sounds correct.

Chairman SARBANES. Now, we are told that the Dime merger might reduce funding by 20 percent. Of course, I think the affordable housing aspect of that could be dealt with in some other way. It is not quite clear to me why it should be used to make a fundamental change in the System. But even if it were not, 20 percent of $22 million is $4½ million. Correct?

Mr. LEICHTER. Right.

Mr. MENDELOWITZ. I think, Senator, what you have identified is that this Board must be very careful to make decisions based on good data. Asserting a problem to get an issue on the table is okay. But as a Board Member, in order to make a decision, I would have to see the data that establishes there is a problem that requires some extraordinary action, and the case has not been made yet.

Chairman SARBANES. You have 7,800 members. I understand 2 percent of the members account for 40 percent of the advances. Is that correct?

Mr. MENDELOWITZ. Yes.

Chairman SARBANES. Senator Gramm.

Senator GRAMM. Mr. Chairman, let me say, I rejoice. I think that there are five members on this Board. We have, if we confirm them, three of them here.

[Laughter.]

So, we have the right people here to talk to.

Let me say, without overstating the case, that with the great success and I think the very positive service of Freddie and Fannie

and their growth in the last 25 years, I am not sure what the Federal Housing Finance Board does.

I think this is a renegade agency under Chairman Morrison. They took actions in my opinion that are absolutely indefensible.

First of all, I believe each of you are qualified for the position and I intend to support each of your nominations. But I think we have to take a long, sober look at exactly what this Government agency is doing, what its mission is, whose interest it is serving.

And look, I am a strong believer in paying people who work for the Federal Government. I do not love Government, but I believe you should have the best people in Government that you can get, and I think paying competitive salaries is critically important.

I have grieved over how little we pay the people on the Federal Reserve Bank Board. I have had trouble getting people who are Regional Presidents to let themselves be considered to be members of the Board because of the big pay cuts involved.

I am not someone who is concerned that somebody was making a lot more money than I was making. I would think you would have a hard time hiring a good person for the salary of a U.S. Senator to run one of the regional banks.

But I do not think the kind of salaries we are talking about now, unless you all are doing something of such great importance that it has missed my attention, I do not think those salaries can be justified. And I think it creates a very real problem when you have people working who are Regional Presidents of the Federal Reserve banks and they are making a third what your people are making in what would be a parallel job.

So, Mr. Chairman, I want to thank each of you for your willingness to serve. I look forward to working with you. I do believe it is time for this Committee to take a long, hard look at exactly what the Federal Housing Finance Board is doing.

We need to look at its lending function with commercial banks. I would have to say that I was never in love with that policy, even though it was one of the compromises that helped put together a major piece of legislation that we dealt with several years ago.

I think we are in for a comprehensive review. I would just like to ask each of you, when you are confirmed, and I believe, based on your qualifications, you will be, to really sit down and go back and look at the mission of this agency, look at what has happened over its lifetime in terms of other ways of doing the same thing, and that is Freddie and Fannie, for example.

We really need to decide what it is that we set the agency up to do and then compare it with what it is doing. I think if there is a difference, that we should take a long, hard look at what was Congress' intent? Is that intent still valid?

Now part of this is our job. But I think part of it, as Members of the Board, is your job. I just commend each of you to that task. And again, I want to thank each of you for being willing to serve.

The only way you are ever going to get your name in the paper as a Member of the Federal Housing Finance Board is to screw something up.

[Laughter.]

Nobody is ever going to write an article saying that, after a distinguished career at GAO, that you did something brilliant on this

Board, or after a career as a member of the banking committee in New York. Nobody is going to write an article in *The New York Times* talking about what a great job you are doing on this Board. But if you screw something up, you can get your picture on the front page of *The New York Times.*

[Laughter.]

And so, I understand the sacrifice that is involved in public service. I just want to thank each of you for being willing to serve. I think part of the greatness of our system is that we do have people that are willing to serve in positions that do not carry any great glory, but often carry great responsibility and provide tremendous public service.

I look forward to working with each of you, and thank you very much.

Mr. LEICHTER. Thank you, Senator.

Chairman SARBANES. Senator Bunning, do you have any further questions?

Senator BUNNING. No, thank you, Mr. Chairman.

Chairman SARBANES. I just have a couple and then we will move on to the next panel.

One of the responsibilities of the Finance Board is to appoint the public interest directors to the individual Home Loan Bank Boards. I think there are some 75 or 80 of them around the country in the various individual Home Loan Banks. Of course, Mr. Korsmo was a public interest member of the Bank Board in North Dakota, as I understand it.

Mr. KORSMO. Yes, sir.

Chairman SARBANES. He presumably has some sensitivity to the role of the public interest directors.

One of the things we have been concerned about is the feeling on the part of minorities, and women, although they are a different minority because they are really a majority. But in any event, that they have been left out of the financial system, that they really are not in it, they do not play any role in it, and so forth.

Now one relatively minor step, that can be done to sort of address that, and some efforts have been made, is in the appointment and selection of public interest directors to pay some attention to this issue.

Obviously, there are some very qualified people in those segments of the population who are not part of the "good old boys network." For that reason, they do not get looked at, they do not get drawn.

I would be interested in your view of this issue.

Mr. LEICHTER. If I may just say, Mr. Chairman, I think you are absolutely correct, that we can get greater and better diversity on our Board of Directors of the 12 Home Loan Banks, and the best way of doing that is through the public interest directors.

I hope that we will be able to choose competent people. I just want to say that I have served, in the 1 year I have been there, under two Democratic and one Republican chairmen, and I found that the Board acted in a very nonpartisan, nonpolitical fashion, and I hope that will continue.

I have every expectation it will be if we are confirmed and that we will keep in mind your admonition that we do need to have greater diversity on our boards.

Chairman SARBANES. Mr. Korsmo.

Mr. KORSMO. As I said, Mr. Chairman, I think you are absolutely right. I think the two keys to being public interest members of any board, and certainly this one is no different, first is that the people have a strong history of community involvement; and, second, a real, genuine interest in the mission of this board.

I can say that at least in the market with which I am most familiar, the most successful, the most effective, the most talented mortgage loan originators now are all women. The same is true of the realtors in the community I am most familiar with. And so, it seems to me that there certainly is the opportunity to improve the diversity of the boards as they exist.

With that caveat, the people that we appoint must all have a strong history of community involvement and a real interest in the mission of this organization.

Chairman SARBANES. Mr. Mendelowitz.

Mr. MENDELOWITZ. Over the course of the past year, I have had the chance to meet with every Board of Directors in the System. And it was clear to me that past efforts to promote greater participation in the Board of Directors by women and by minorities has, in fact, made progress. And I think going forward, the goal is to make sure that we do not backslide.

Chairman SARBANES. Thank you all very much. We appreciate your appearance before the Committee and we hope that we will be able to act on your nominations in the very near future.

Mr. MENDELOWITZ. Thank you.

Mr. KORSMO. Thank you.

Mr. LEICHTER. Thank you, Mr. Chairman.

We will now move on to the next panel. Mr. Aguirre, if you would come forward.

[Pause.]

Chairman SARBANES. Eduardo Aguirre has been nominated by the President to be First Vice President and Vice Chairman of the Export-Import Bank. Mr. Aguirre was born in Havana, came to this country as a youth. His personal story is notable in terms of starting out in very difficult circumstances and then moving up, utilizing the opportunities that the American system offers. He has had a very distinguished banking career and rendered a very significant public service to his community.

It is not an uncommon story in America, but it is always worth noting, and I want to recognize it here today and I think it is one of the great strengths of America.

Mr. Aguirre is a graduate of the Holy Cross High School in New Orleans, received a B.S. from Louisiana State University. Started his financial career as a banking officer in Mexico City for Texas Commerce Bank. Worked for First Union National Bank as Vice President and Manager of the Latin America area. And since 1977, he has worked for the Bank of America, eventually becoming President of its International Private Bank. He also headed its export finance business.

He has held a number of important community positions—Board of Regents of the University of Houston System, by appointment of then-Governor Bush, and served as the Chairman of that Board in 1996 to 1998.

Appointed by the President as a Member of the National Commission on Employment Policy in the early 1990's. He served as Trustee and Chair-Elect of the Texas Bar Foundation. Director of Texas Children's Hospital. President of the Hispanic Political Action Committee. All of which I think is a highly commendable record of community involvement and public service.

As First Vice President of the Export-Import Bank, Mr. Aguirre would be responsible for much of the day-to-day management of the Bank, as well as, of course, to play a very important role in its policy decisions.

He brings very significant qualifications for this position. We look forward to hearing from him this morning.

Senator Gramm.

COMMENTS OF SENATOR PHIL GRAMM

Senator GRAMM. Well, Mr. Chairman, thank you. I think that you have a statement from Senator Hutchison which we want to put in the record.

Chairman SARBANES. I do.

Senator GRAMM. I know Eduardo Aguirre. He is an outstanding person. He has had much success as a citizen, as a business person. It obviously represents some sacrifice on the part of his family, with two college-age children, to be coming to Washington, DC, to take a job which probably pays maybe a quarter of what he was making, or less.

Eduardo, I want to thank you for your willingness to serve.

The Export-Import Bank is a very important agency that performs a vital function in world commerce. Your position is one that has to do with day-to-day management of the bank and its functions. I think you are eminently qualified to do the job. And I would just like to thank you for your willingness to stay.

Mr. AGUIRRE. Thank you, Senator.

Chairman SARBANES. Senator Bennett.

COMMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. No opening statement, Mr. Chairman.

Chairman SARBANES. Before I swear you in, I will include Senator Kay Bailey Hutchison's statement in the record. She had hoped to be able to actually be here with us and to present you to the Committee, but we are in the closing days of the session and the demands are pretty great and she was not able to join us.

I want to quote two short paragraphs from her statement. She was assuming she would be here. She says: "It is such an honor to be here today to introduce Eduardo Aguirre, Jr. to be the First Vice President and Vice Chairman of the Export-Import Bank. Of course, it is always an honor to introduce yet another Texan for an important role."

We noticed that in these days.

[Laughter.]

Senator GRAMM. I do not draw attention to it any more.

[Laughter.]

Chairman SARBANES. "And, the Ranking Member will be very pleased to hear, this Texan has a daughter at Texas A&M!"

Mr. AGUIRRE. Yes, sir.

Senator GRAMM. Don't get behind on your tuition, now.

[Laughter.]

They are getting ready to go up, as I understand.

Chairman SARBANES. Then next to the closing paragraph she says, and she is putting a heavy burden on you here: "Known as a brilliant thinker and an effective and hard worker, as well as an important spokesman and advocate, he is known to have the right touch to create solutions through research and principle."

The whole statement will be included in the record.

I would ask you to stand, sir, so that I could administer the oath.

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. AGUIRRE. I do.

Chairman SARBANES. Do you agree to appear and testify before any duly-constituted committee of the U.S. Senate?

Mr. AGUIRRE. I do.

Chairman SARBANES. Thank you very much. We would be very happy to hear your statement, and if any of your family members are here that you would like to present, we would be happy for you to do that as well.

STATEMENT OF EDUARDO AGUIRRE, JR. OF TEXAS, TO BE FIRST VICE PRESIDENT AND VICE CHAIRMAN OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. AGUIRRE. Thank you, Senator.

Chairman Sarbanes, Ranking Member Gramm, Senator Bennett, I am very pleased to come before you today as you consider my nomination to be the First Vice President and Vice Chairman of the Export-Import Bank of the United States.

Thank you for allowing me the opportunity to introduce my family, my wife, Maria Teresa Avila, and my son Eddy. Of course, my daughter Tessie is at A&M studying—hopefully hard.

[Laughter.]

Should the Senate act favorably on my nomination, this will mark my first full-time service to my adopted country. Almost 40 years ago, I came to this land of freedom and opportunity as a 15-year-old Cuban refugee with no family, no money, and no working knowledge of the English language. Along the way, I was sheltered and taught by Catholic Charities, cared for by the United Way, and helped by many, many others. Later, a very affordable U.S. Government student loan program allowed me to attend college and eventually earn a degree from Louisiana State University. I have overcome real and imagined obstacles on my quest to realize my version of the American Dream, and I am grateful beyond words.

I am extremely proud and humble to have been nominated by President George W. Bush to serve the United States.

The Export-Import Bank is the official export-financing agency of the U.S. Government. It supports U.S. exports and sustains Amer-

ican jobs. If confirmed, I look forward to the opportunity to work with Chairman Robson, the rest of Ex-Im's leadership and staff, plus others in the Administration to advance our country's export financing agenda. Also, I will welcome the opportunity to work with the Senate and the House of Representatives.

Thirty-four years in banking have prepared me to accept this challenge. I hope to bring to the job my broad risk analysis experience, my management and leadership skills, a healthy respect for the trust placed on me, an open mind, and some measure of common sense.

In closing, I want to acknowledge my family as the bedrock of my value system. We are hard-working, God-fearing people who strive to give back some of the many blessings that have come our way.

Mr. Chairman, Senator Gramm, Senator Bennett, I respectfully ask for your favorable consideration of my nomination and stand ready to respond to any questions that you may have.

Thank you for your attention.

Chairman SARBANES. Thank you very much, sir.

I have a very simple question to start off with. You have been nominated for a term that expires on January 20, 2005.

Mr. AGUIRRE. Yes, sir.

Chairman SARBANES. Is it your intention to serve the full term if you are confirmed?

Mr. AGUIRRE. Yes, Senator. My family and I are committed to fulfill this obligation.

Chairman SARBANES. All right. I am pleased to hear that. I am increasingly concerned by people who take these appointments for a term and then they serve a couple of years and the next thing you know, they are gone, often off to some sort of lucrative opportunity, in part based on that service. So, I am very pleased by that statement.

You headed up the export finance business for Bank of America at one point in your career?

Mr. AGUIRRE. At one point in my career, yes, Senator.

Chairman SARBANES. What in your view are the key obstacles to U.S. exporters seeking export finance from U.S. banks?

Mr. AGUIRRE. There are many issues in trying to level the playing field, I think, not the least of which is the fact that there are other competing export financing agencies throughout the world, and certainly in Europe and in Asia and in our own continent which are prepared to support their exporters.

Therefore, one of the obstacles that I think the U.S. exporters find is trying to level the playing field as organizations that are similar to the Export-Import Bank enter the fray. We have to stay in that competitive arena.

About a quarter of our economy really is dealing with exports and it is a very important element in this economy. In a perfect world, I think we would find buyers and sellers and prices would be set. This is not a perfect world. There are economic implications. There are political implications. There are exchange implications and so many other things.

So, I think the Export-Import Bank would come in to try and add value where value is needed and not where we are not.

Chairman SARBANES. I think that is a very realistic answer. This Committee, actually, with Senator Heinz's leadership, our former colleague, enacted the Tied Aid War Chest for the Export-Import Bank. The theory was not that we would move ahead because, obviously, our preference is that they compete on price and quality and that is that. But where other countries were providing really such a break for their exporters, that it, in effect, pretty well dictated where the business went.

We thought that the Export-Import Bank ought to be able to counter that. In fact, if it is known that we are going counter it, it is less likely that others will do it because they appreciate the competition. Do you have any view on the use of the Tied Aid War Chest?

Mr. AGUIRRE. I think it is a tool that is there, hopefully more as a deterrent than one to be used. In looking at the history of that particular issue, I think it has been invoked maybe five or seven times in its history.

It is not one that Ex-Im Bank has chosen to use without a lot of thought. I believe it is something that is good to have and perhaps other countries, particularly the Japanese, and sometimes the Spaniards, may think twice before they put their efforts in that.

But I think it is a tool that I am glad we have and should the time come, I can assure you, we will be very judicious in weighing all the implications before we make a decision.

Chairman SARBANES. We were able to negotiate these rules at OECD limiting export credit terms and get other countries to join in doing that. So, we placed some restraints upon its indiscriminate use and the favorable terms of it. But now, some countries—Germany and Canada, for example—have set up private government sponsored enterprises to supplement the official export credits, so-called market windows. Now the nongovernmental credits thus far are exempt from the OECD rules. So what happens is the combined private official credits result in financing terms that are significantly more attractive than what the OECD rules allow.

This is a matter of grave concern to our exporters. I see my time is expired. I will just leave this thought with you. It seems to me that the Ex-Im Bank has to pursue a policy that counters these market windows that are being used by some of our major competitors, in effect, to so sweeten the terms, that they completely unbalance the playing field.

I am in favor of a level playing field. If I could achieve the situation, I wouldn't have any favorable credits on anyone's part, and then I think that our people can do perfectly fine on a price and quality competition.

Unfortunately, that is not the situation we face, and I think we have to counter it. Obviously, they have found another way to go about it. And unless we make it clear that we are going to counter it, they are just going to continue, I think, to go down this path, much to the disadvantage of our exporters.

So, I really leave that with you. It is an issue that the Board is wrestling with right now.

Mr. AGUIRRE. Thank you, Senator.

Chairman SARBANES. Senator Gramm.

Senator GRAMM. Well, Mr. Chairman, first of all, Eduardo, again, I want to thank you and your family for your willingness to serve.

I am struck when I look at all the great Cuban Americans at how Castro turned out to be such a great public benefactor for America.

[Laughter.]

It is an amazing thing that a person who wished us no good, who imposed a reign of terror in his own country, and who clearly hates America and everything it stands for, helped send so many people to our shores that have turned out to be such great citizens. It just shows you the law of unintended consequences.

Again, I am so grateful that you are willing to take this job. I do not know, Mr. Chairman, whether people come here and they get a credential and they go out to do something that pays better, or whether they get caught up in the idea that they have been appointed to a position by the President and they cannot say no, and then they get to Washington and decide, this is not such a great deal. I do not know what it is.

But here is the point I want to make, and I would like to get your response to it.

I agree with everything that Chairman Sarbanes said about export financing. It is an irrational economic policy for nations to subsidize exports. It is roughly equivalent to me just simply saying, every time I go to the grocery store, well, let me just add 10 percent to what you are charging. It makes no sense whatsoever.

The problem is that our individual producers are disadvantaged relative to people doing the same business if we do not have a similar policy.

Now, I never know whether we are leading this thing or we are following it, and it is very hard to tell from where I am sitting. But I am convinced that if we could have the Bank of America financing exports and other nations, other exporters in other countries were getting their financing from private institutions, that we would be much better off.

I would just like to ask your response to that thesis, and simply ask you, in your capacity, that if there is ever an opportunity for the Ex-Im Bank to become involved in these negotiations and sort of have a multilateral disarmament, if you would be willing to help lead that effort?

Mr. AGUIRRE. Senator, I am sure that we will all enjoy getting to utopia one day. But I do not know that that day is going to come in my lifetime.

The way I look at this, and I do not know if my memory is going to serve me right, but I think there is about a trillion dollars of U.S. exports going on year-in, year-out. The Export-Import Bank probably gets involved in about 3 percent of that. It is a very small amount, maybe less. I think where we come into play is really where exports are difficult to be transacted, perhaps in countries where we as a government know more than the average bear in the private sector in terms of dealings with their own treasuries, and so forth and so on, where we understand issues of foreign exchange availability better than the private sector would. I think that is where the Ex-Im Bank really adds value and an additional element in that transaction.

Most of the exports that are leaving this country are really on open account—letters of credit financed by the private sector or some of them are actually inter-company transactions between perhaps Ford or General Motors or IBM and so on, and they are all subsidiaries abroad. So, we do not get involved in that. I think we come in where it is a little more difficult. And I think there is a role for an Export-Import Bank or a similar organization in another country to actually bridge that gap that would otherwise not be bridged.

Senator GRAMM. Thank you.

Thank you, Mr. Chairman.

Chairman SARBANES. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

I am sitting here thinking I cannot remember a witness who has been appointed to a position who has as comprehensive a knowledge of what he is going into as you have displayed here this morning. Usually, the questions are, well, I will understand that, or I will get back to you, or so on. I am very impressed.

Now let me follow up a little on what I thought I heard in your answer to Senator Gramm, that your services are not just financial, there is information, there is hand-holding through the bureaucratic maze. There are other services besides just the loan that comes to an exporter who says, I really want to deal with this opportunity overseas and I am not quite sure how to do it. And you say, well, this is how you do it. Am I right in that response to what I heard you say to Senator Gramm?

Mr. AGUIRRE. Yes, Senator. I think the typical perception of the Export-Import Bank, also any bank, is the financing, follow the dollars. But we must recognize that over 90 percent of U.S. exports are actually coming out of small- and medium-sized businesses. And the Export-Import Bank has been instructed by the Congress to pay particular attention to small, medium, and new types of businesses. Those particular businesses really need an outreach on our part. They need us to hand-hold at times, to facilitate at others, to work through the maze of red tape, et cetera.

I think that is a fulfillment that we have in our mission.

To that effect, there are a number of offices that Export-Import Bank has throughout the country that reaches those small- and medium-sized exporters to make them comfortable with that transaction and to assist them.

I do not know if that answers your question.

Senator BENNETT. Yes. I just wanted to be sure that I had understood that correctly.

Thank you, Mr. Chairman. I have no further questions.

Chairman SARBANES. Thank you.

Mr. Aguirre, thank you very much. We appreciate your appearance here this morning.

Mr. AGUIRRE. Thank you, Mr. Chairman, and Senators.

Chairman SARBANES. Mr. Kroszner, if you could come forward. There is a vote on, but I think we may be able to get your appearance in quickly here.

As you are coming forward, let me say that Randall Kroszner has been nominated by the President to be a Member of the Council of Economic Advisers, a three-member council.

He is a graduate of Brown, an M.A. and Ph.D. from Harvard. He served as a Junior Staff Economist for a year with the Council of Economic Advisers and he has been on the faculty of the Graduate School of Business at the University of Chicago since 1990, now a full professor. And he was the Associate Director of the George Stigler Center for the study of the economy in the State at the University of Chicago.

He has had an extensive publication performance, much of it on financial regulation and similar things. We are pleased to welcome him before the Committee.

Senator Gramm, do you have a statement?

Senator GRAMM. He looks too young to me.

[Laughter.]

Chairman SARBANES. If you would stand, sir, and take the oath.

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. KROSZNER. I do.

Chairman SARBANES. Do you agree to appear and testify before any duly-constituted committee of the U.S. Senate?

Mr. KROSZNER. I do.

Chairman SARBANES. We would be happy to hear any statement you have. If it is lengthy, we will include it in the record and you can summarize. And if you have anyone you want to introduce, we would be happy for you to do that.

STATEMENT OF RANDALL S. KROSZNER OF ILLINOIS, TO BE A MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS

Mr. KROSZNER. Thank you very much.

I have a short written statement for the record. I will provide a very short summary of that now.

Mr. Chairman, other distinguished Members of the Committee, I am very pleased and honored to appear before you today as President Bush's nominee to be a Member of the Council of Economic Advisers.

One person who I do want to recognize from my family is my mother, who is sitting here right behind me, who has been providing me with support for 39 years.

I am a little bit older than I might look.

Chairman SARBANES. He is older than he looks, right?

Mr. KROSZNER. Exactly as the Chairman has said, should I be confirmed, this would actually be my second opportunity to serve as part of the Council of Economic Advisers. Fourteen years ago, I took a year leave from graduate school to serve on the staff of the Council and there I learned the valuable role that the Council plays in providing advice and analysis in economic policy.

If confirmed, I will have the privilege of working with an absolutely superb staff who come to Government for a year or two to provide empirically grounded, theoretically grounded advice and analysis of important economic issues that are before us.

Mr. Chairman, you have summarized my background quite well. I just also wanted to mention that I have worked with a lot of international financial institutions, such as the IMF, World Bank,

and the Inter-American Development Bank, as well as the Federal Reserve Board and regional Federal Reserve banks on numerous macroeconomic and regulatory policies.

I have also been a Visiting Professor at the Stockholm School of Economics and the Free University of Berlin.

The United States and the world economy obviously faces many challenges, but also many opportunities. As part of my portfolio at the Council, I will be looking at international economics, macroeconomic issues, and a variety of regulatory issues.

So, I would like to thank you very much, Mr. Chairman, and the Committee, for the prompt consideration of my nomination and I would be delighted to answer any questions that you might have.

Chairman SARBANES. When you say the issues that you would be looking at, I take it you engaged in a discussion with Chairman Hubbard and presumably McClellan as well.

Mr. KROSZNER. Yes.

Chairman SARBANES. To work out the allocation of responsibility.

Mr. KROSZNER. Yes.

Chairman SARBANES. Your portfolio, then, is to be what, now?

Mr. KROSZNER. Primarily international economic issues, macroeconomic issues, and certain regulatory issues, depending as they come up.

Chairman SARBANES. Senator Gramm.

Senator GRAMM. Mr. Chairman, let me say that I think that, with this confirmation, we will have three outstanding Members of the President's Council of Economic Advisers.

I said during the Clinton Administration that I thought his appointments were excellent people. I think that is true during the Bush Administration.

Certainly, the nominee before us has excellent credentials. Any department of economics in any college or university in America would be happy to have the nominee on their faculty.

Are you going to remain the editor of the *Journal of Law and Economics?*

Mr. KROSZNER. No. I have already resigned from being editor, so that I can devote full time to the Council of Economic Advisers.

Senator GRAMM. I was going to urge you to do something about your backlog in consideration, but I won't. Thank you.

[Laughter.]

Chairman SARBANES. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

Mr. Kroszner was courteous enough to come by my office, and I visited with him. And like the rest of you, I am impressed with him and will be happy to vote for his nomination.

Chairman SARBANES. I understand that you have a leave of absence from the University of Chicago for 2 years. Is that correct?

Mr. KROSZNER. That is correct.

Chairman SARBANES. And is there a possibility of its extension at the end of that time?

Mr. KROSZNER. In certain extraordinary circumstances, one can request an additional year's leave. But that is something that I was not able to negotiate up front.

Chairman SARBANES. Well, I would say, given the comments I made earlier about serving out your term and everything, although

you do not exactly have a term—we realize this limitation that most universities place on their people leaving and then returning and we just have to, in a sense, I think, accommodate in order to be able to draw highly qualified people into public service.

We do not really expect someone to give up a tenured faculty position. Sometimes it happens because they stay on. But in any event, you are certainly committed for the 2 year period. Is that correct?

Mr. KROSZNER. Yes.

Chairman SARBANES. I have no further questions. In a sense, I do not want to say saved by the vote because I do not think there was anything to save you from.

[Laughter.]

Ordinarily, I think we would have had a somewhat longer hearing with you and explored some of the economic issues. But since we have a vote, I am going to bring this hearing to a close.

Thank you very much, sir.

Mr. KROSZNER. Thank you very much.

Chairman SARBANES. The hearing stands adjourned. We will try to figure out when we can vote on the nominees.

[Whereupon, at 11:37 a.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF SENATOR KAY BAILEY HUTCHISON

It is such an honor to be here today to introduce Eduardo Aguirre, Jr. to be the First Vice President and Vice Chairman of the Export-Import Bank of the United States. Of course, it is always an honor to introduce yet another Texan for an important role—and, the Ranking Member will be very pleased to hear, this Texan has a daughter at Texas A&M.

At this time, as our war against terrorism heats up, and as America faces a struggling economic situation, it is critical that we have a highly qualified person in charge of keeping our economy robust. By facilitating U.S. exports through financing that supplements private capital, the so-called Ex-Im Bank will be a pivotal part of our Nation's recovery.

This is a decisive time for our Nation as we engage many nations both as our enemies and as our allies in our fight against terrorism—and as we engage them not just on a war level, but on a monetary one as well. Mr. Aguirre's wealth of knowledge and experience, especially in international finance, as well as his vision and character more than qualifies him for this position.

Mr. Aguirre retired from Bank of America, one of the largest banks in the United States, in September, where he was the President of its International Private Bank. He currently serves on the National Commission for Employment Policy, on the Board of Regents of the University of Houston System, and as the Chairman of the Board of Trustees of the Texas Bar Foundation. In addition, he serves on numerous other professional and civic Boards, including the Texas Children's Hospital, Operación Pedro Pan Group Inc., and Houston Livestock Show and Rodeo—many of you may have heard me tell the story of when I took Senator Mikulski to this Rodeo. Trust me, it is an experience!

A recipient of many honors, Mr. Aguirre is a graduate of Louisiana State University, and of the American Bankers Association National Commercial Lending Graduate School. Most important, he and his wife have lived in Houston for 27 years, and raised their two children there.

Known as a brilliant thinker and an effective and hard worker, as well as an important spokesman and advocate, he is known to have the right touch to create solutions through research and principle.

I cannot think of anyone better to fill the position of the First Vice President and Vice Chairman of the Export-Import Bank, and therefore it is my honor to introduce my friend Eduardo Aguirre, and to encourage all of you to support his nomination.

PREPARED STATEMENT OF ALLAN I. MENDELOWITZ

BOARD MEMBER-DESIGNATE, FEDERAL HOUSING FINANCE BOARD

NOVEMBER 15, 2001

Mr. Chairman, Senator Gramm, Members of the Committee, it is an honor to appear before you today to testify on my nomination to be a Member of the Board of Directors of the Federal Housing Finance Board (Finance Board). I would like to thank President Bush for nominating me and I would like to thank you, Senator Sarbanes, and Senator Daschle for your encouragement and support.

I would also like to thank my wife of almost 35 years, Shereen, who is here today. Without her support and encouragement I never would have been able to arrive at this point. She has been a reservoir of unending patience over the years in the face of many evenings when—unplanned—I stayed late in the office, weekends spent at work, and long absences when on travel.

Last, I have had the opportunity to work with your Committee over the past two decades in several different capacities and on a number of diverse issues. It has been a privilege to work with the staff of this Committee because they stand out for their integrity, dedication, and talent. I would like to take this opportunity to express my appreciation, in particular, to Steve Harris, Marty Gruenberg, and Pat Malloy (who served the Committee for many years in the past) of the Majority staff, and Wayne Abernathy of the Minority staff.

The Federal Home Loan Bank (FHLBank) System plays an important role in promoting homeownership and lending by community financial institutions. In a time of rising direct capital market intermediation, the FHLBanks provide small community financial institutions access to the liquidity needed to meet the demand for creditworthy loans in their communities. The role of the Finance Board is to assure both the safety and soundness of the FHLBank System and the achievement of the public purposes for which the System was created.

This is a time of great change and complex challenges for the FHLBank System. Some changes have been mandated by statute and others are the result of the rapidly evolving state of financial institutions and markets in this country.

The Gramm–Leach–Bliley Financial Services Modernization Act mandated the Finance Board to develop a modern risk-based capital rule for the FHLBanks. That mandate included a very tight timeframe under which the rule had to be completed. The Finance Board received broad-based substantive input, including comments and suggestions, from FHLBank members, the Congress, Executive Branch agencies, trade associations, and the FHLBanks themselves. The final capital rule received widespread support and was completed within the timeframe mandated by Congress. As required by statute, every FHLBank submitted a proposed capital plan to the Finance Board by the end of October and we are in the process of reviewing them. This could not have been achieved without the hard work and skills of the Finance Board's staff, which I have found to be some of the most capable and committed professionals with whom I have had the opportunity to work.

Another important matter with which we are grappling is how to respond to the implications for the FHLBank System of the dramatic changes that are taking place in the financial markets, in general, and the membership of the FHLBanks, in particular. The Finance Board has received several unprecedented petitions that have prompted consideration of these issues. These petitions, which have been received from three FHLBanks, request that some FHLBank members be allowed to join more than one FHLBank. These applications were the result of changes in the membership of the FHLBank System that followed from mergers and acquisitions that cut across the boundaries of different FHLBank districts.

To respond to the broad ranging and complex issues raised by these petitions, the Finance Board on September 26, 2001, issued a Solicitation for Comments that addresses the full range of issues raised by these petitions. I look forward to receiving good, creative, and thoughtful comments from all interested parties. I also look forward to working with this Committee, and others in the Congress, on this important issue. The resolution of these complex issues will require good information and analysis, and careful and thoughtful deliberation.

In closing, I would like to say again that I am honored to appear before you. If confirmed, I pledge to work closely with the Committee and continue the longstanding spirit of cooperation that has existed between the Federal Housing Finance Board and the Congress. I would also like to pledge to you today that I will work hard to ensure the safety and the soundness of the System and to ensure that the FHLBanks fulfill their public mission.

Mr. Chairman, this concludes my statement and I will be happy to try to answer any questions you or the Committee may have.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: **Mendelowitz** (Last) **Allan** (First) **Irwin** (Other)

Position to which Nominated: Member, Federal Housing Finance Board

Date of Intent to Nominate: October 16, 2001

Date of birth: 01 (Day) May, (Month) 1943 (Year)

Place of birth: Middletown, Connecticut

Martial Status: Married

Full name of spouse: Shereen Lee (nee Lawall) Mendelowitz

Names and ages of children: Eitan G. Mendelowitz, Age 29
Rina Y. Mendelowitz, Age 24

Education:	**Institution:**	**Date Attended:**	**Degrees Received:**	**Dates of Degrees:**
	Columbia University	09/62-06/66	A.B.	1966
	Northwestern University	09/66-08/70	M.A.	1969
	Northwestern University	09/66-08/70	Ph.D	1971

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

Columbia University Scholarship (1963-1966)
N.D.E.A. Title IV Fellowship (at Northwestern University) 1966-1969
Brookings Institution Economic Policy Fellowship (1975 – 1976)
Omicron Delta Epsilon Economics Honor Society
Who's Who in Finance; International Who's Who of Professionals
Senior Executive Rank of Meritorious Executive (1988)
GAO Distinguished Service Awards (1989, 1995)
GAO Meritorious Service Awards (1980, 1985)

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

Organization	Office held (if any)	Dates
American Economic Association		1967 – Present

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

Research Assistant, Economics Department, Northwestern University, Evanston, Illinois,1967-1970.

Assistant Professor, Rutgers University, New Brunswick, N.J. 1970-1975.

Economic Policy Fellow, Brookings Institution, Washington, DC, 1975-1976.

Assistant Director (Regulatory Analysis), U.S. General Accounting Office, Washington, D.C. 1976-1979.

Senior Economist and Representative of the Comptroller General, Chrysler Corporation Loan Guarantee Board, Washington, DC, 1980.

Managing Director for International Trade, Finance and Competitiveness, U.S. General Accounting Office, Washington, DC, 1981-1995 (Responsibilities progressed from Associate Director, Senior Associate Director, Director through Managing Director).

Executive Vice President, U.S. Export-Import Bank, Washington, DC, 1996-1998.

Vice President, Economic Strategy Institute, Washington, DC, 1999.

Executive Director, U.S. Trade Deficit Review Commission, Washington, DC, 1999-2000.

Member of the Board of Directors, Federal Housing Finance Board, Washington, DC December, 2000 - Present (Chairman 12/2000-6/2001).

Government experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

All government work experience is included in the answer to the preceding question.

Published Writings:

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

Please see the attached list of publications.

Political Affiliations and activities:

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

Member - Democratic Party. No offices held or services rendered.

Political Contributions:

Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

None.

Qualifications:

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

Please see attached sheet.

Future employment relationships:

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

N/A - Present employer is the Federal Housing Finance Board

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

No.

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

No.

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

Yes.

Potential conflicts of interest:

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

None.

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

None.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of Interest with the position to which you have been nominated.

None.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

All activity that may have directly or indirectly influenced legislation or government activity over the past ten years was undertaken as a U.S. government employee.

5. Explain how you will resolve any Conflict of Interest that may be disclosed by your responses to the items above.

I have no conflicts of interest.

Civil, criminal and investigatory actions:

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

None.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were subject of the proceeding, inquiry or investigation.

None.

PUBLICATIONS

"Finding a New Deal for America" (with Robert E. Litan), Financial Times, February 28, 2001.

"The New World of Government-Supported International Finance" in EX-IM BANK IN THE 21st CENTURY, Edited by Gary Hufbauer and Rita Rodriguez, Institute for International Economics, Washington, DC, 2001.

"It's a Small World After All: The Global Economy in the Networked Age", in Globalization and International Trade Liberalization: Continuity and Change, Edited by Martin Richardson, Edward Elgar, Northampton, MA, 2000.

"Business in the IT age: Does the Net change everything?" CEDA Bulletin, October, 1999.

"A Government Export Credit Agency in a Market Economy?" The Prague Forum on Export Credit & Political Risk Insurance, September, 1997.

"The WTO Should Back Open Market Reforms" (with P. Morici), Financial Times, June 1, 1999.

"Program in Search of a Policy: The Chrysler Loan Guarantee" (with B. Freeman), Journal of Policy Analysis and Management, Summer, 1982.

"The Covariability of Industrial Concentration and Employment Fluctuations" (with S. Lustgarten), The Journal of Business, April, 1979.

"The Municipal Bond Auction: An Alternative View" (with H. Rockoff), National Tax Journal, March 1976.

"U.S. General Accounting Office Assistance to the U.S. Congress on International Trade Issues", Government Auditing Review, The Journal of the Board of Audit of Japan, March 1994.

"Why Quality", Annual Review of Communications: National Engineering Consortium (Vol. 46), 1992.

"Congress and U.S. Trade Policy in the '90s" (with R.J. Ahearn and A. Reifman), in The Uruguay Round and Beyond: Problems and Prospects, Robert E. Baldwin and J. David Richardson, Editors, National Bureau of Economic Research, 1991.

"The U.S. Trade Deficit and the Passing Illusion of Economic Sovereignty" (with J. Natalicchio), The GAO Journal, Spring 1988.

"U.S. Mining Investments in Developing Countries" (with J. Watson), in American Strategic Minerals, G.J. Mangone, Editor, Crane, Russak &Company, 1984.

"The Mixed Goals of Regulation" in The Dialogue That Happened, Proceedings of the Workshop on the Private Costs of Regulation, Marketing Science Institute, 1978.

"Research and Innovation: Regulatory Impediments and Reform Alternatives", Proceedings of the 32nd National Conference on the Advancement of Research, Denver Research Institute, 1978.

"Prices, Subsidies, and the Transportation Problem", in New Jersey Trends, T. Norman, Editor, Rutgers University Institute of Environmental Studies, 1974.

"The Measurement of Economic Depreciation", Proceedings of the American Statistical Association, Business and Economic Statistics Section, December 1970.

Allan I. Mendelowitz

QUALIFICATIONS

I believe that I have a mix of knowledge, skills, abilities and experience that equip me to carry out the responsibilities of a member of the Board of Directors of the Federal Housing Finance Board.

I have thirty years experience as a professional economist. My professional training as an economist provides me with the analytical framework within which to assess the responsibilities assigned to the FHFB and better understand the impact of FHFB actions undertaken to carry out its legislative mandate.

Twenty-five years experience as a senior government career official has helped to prepare me for the responsibilities of a FHFB member in a number of other ways. This experience has included such matters as assessing the oversight of the safety and soundness of financial institutions, effectiveness of government regulation, and the assessment of the extent to which implementation of federal laws both meet legislative mandates and fall within the limits specified by the enabling statutes. The insights and lessons learned from this work experience are directly applicable to the responsibilities of the FHFB.

Twenty years of executive level management responsibilities have given me the opportunity to develop strong leadership skills, experience in building effective management systems, and a track record of dealing with operational challenges.

Lastly, I have extensive experience testifying before the Congress of the United States and speaking before large audiences. This public speaking experience will be helpful in explaining the undertakings of the FHFB to constituent groups.

PREPARED STATEMENT OF FRANZ S. LEICHTER

BOARD MEMBER-DESIGNATE, FEDERAL HOUSING FINANCE BOARD

NOVEMBER 15, 2001

Mr. Chairman, Senator Gramm, and distinguished Members of this Committee, thank you very much for the opportunity to appear before your Committee. It is a great honor and privilege to be here as President Bush's nominee to the Board of Directors of the Federal Housing Finance Board.

I want to express my appreciation to you, Mr. Chairman, Senator Daschle, and to my Senator who sits on this Committee and who I call a friend, Senator Schumer. I want to acknowledge the presence of my wife Melody Anderson and thank her for her support and encouragement.

I have had the distinct pleasure of serving on the Federal Housing Finance Board (Finance Board) since August 2000. It has been a productive and stimulating experience. The Federal Home Loan Bank (FHLBank) System plays an important role in promoting affordable homeownership in America. The FHLBank System is a key source of liquidity for small community financial institutions to meet the credit needs in their communities. The role of the Finance Board is to ensure both the safety and soundness of the FHLBank System and the achievement of the public policy mission for which the System has been created.

I think we can all take pride in the System's Affordable Housing Program (AHP), which the Congress had the foresight to enact as part of FIRREA in 1989. This year the AHP topped the billion-dollar mark.

The System continues to evolve to meet the needs of a rapidly changing financial sector. Some changes have been mandated by statute and others are the result of consolidation in the financial services industry.

The Finance Board is presently in the process of implementing a new risk-based capital structure to implement the provisions of the Gramm–Leach–Bliley Financial Modernization Act. I am pleased to say that the Finance Board met the timeframe set forth by the Congress and approved the final capital rule in December 2000 after a process in which we received input from key constituencies of the FHLBank System, including FHLBanks, its members, Congress, the Executive Branch, and trade groups. As required by statute, each FHLBank submitted a proposed capital plan by the end of October 2001. At this time, the Finance Board staff is reviewing the plans and we expect that the capital plans will be approved and in place shortly. The staff of the Finance Board deserves great credit for the professional and expeditious manner in which they have handled this capital process.

A crucial issue facing the System is how to respond to the dramatic changes that are taking place in financial markets and the implications of these changes on membership in the FHLBanks. Several institutions have petitioned the Finance Board to address directly the issue of membership changes as a result of mergers and of acquisitions across the boundaries of different FHLBank districts.

In order to address the issues raised in these petitions in a System-wide manner, the Finance Board issued a Solicitation for Comments in September 2001 that focuses on the range of issues raised by the petitions. Any solutions must take into account that the financial markets have changed significantly since the System was created in 1932 to serve small savings institutions. The Finance Board looks forward to receiving comments from all interested parties to help guide us in taking appropriate action within the present statutory framework. I look forward to working with the Committee, and others in the Congress, on this important issue. The resolution of these complex issues will require a great deal of careful reflection and analysis.

In closing, if confirmed, I promise to work hard to ensure the safety and soundness of the System and to ensure that it meets its public policy mission. I would like to reiterate that it is an honor to appear before this Committee. I will continue the tradition of cooperation that has existed between the Federal Housing Finance Board and the Congress.

Mr. Chairman, this concludes my statement and I will be pleased to try to answer any questions you or the Committee may have.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Leichter (Last) Franz (First) S. (Other)

Position to which nominated: Member, Board of Directors Federal Housing Finance Board

Date of nomination: _____

Date of birth: 19 (day) August (Month) 1930 (Year) Place of birth: Vienna, Austria

Marital Status: Married Full name of spouse: Melody M. Anderson

Names and ages Of children:

Katherine L. Leichter	Age 34
Joshua W. Leichter	Age 33

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Swarthmore College	1948-1952	B.A.	1952
Harvard Law School	1952, 1955-57	Dr. of Jurisprudence	1957

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

Scholarship from Swarthmore College while I attended 1948-1952.
I have received two awards from the Austrian Government.

I have received numerous awards from civic, community, political and advocacy groups by virtue of my work as a member of the New York State Senate.

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

Organization	Office held (if any)	Dates
Amnesty International		since approx. 1984
American Society for Yad Vashem		since approx. 1991
American Jewish Congress		since approx. 1996
American Civil Liberties Union		since approx. 1970
Association of the Bar of the City of New York		since approx. 1961
B'nai B'rith		since approx. 1975
Bouqet River Association		since approx. 1994
Common Cause		since approx. 1986
DOROT	Director	since 1999
Essex County Historical Society		since approx. 1990
Hudson River Park Trust	Director	since 1999
New York State Bar Association		since approx. 1978
New York State Public Employees Federation		since 1999
Octavia Condominium Association	Director	since 1998
PBS Station WNET		on and off since approx. 1985
Planned Parenthood		since 1998
Public Radio – WNYC -		on and off since approx. 1985
Public Radio – WHMT -		on and off since approx. 1985
Sierra Club		since 1999
Symphony Space		since 1990
U.S. Memorial Holocaust Museum		since 1994
Vermont Public Radio		since approx. 1985
Wave Hill		since 1997
Westport Chamber of Commerce		since 1996
World Jewish Congress		since 1997

See political activities below for Democratic Party organizations

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

Federal Housing Finance Board	Member of the Board of Directors, Washington, D.C., regulator of safety and soundness and mission for the Federal Home Loan Bank System.	2000 - present
Walter, Conston, Alexander & Green, P.C.	Of Counsel to WCA&G, P.C., New York City 60 Lawyers, engaged in general commercial practice specializing in representing foreign clients.	1988 - 1999
Wachtell, Manheinm & Grouf	Partner in a New York City law firm, 10-12 lawyers engaged in general commercial practice, specializing in representing foreign clients.	1974 – 1988
Robbins, Bondi & Leichter	Partner in New York City, 5 lawyers, engaged in general commercial practice.	1971 – 1973
Robbins, Galton & Bondi	Associate; Predecessor to previously mentioned firm with similar practice.	1968 – 1971
Benjamin Galton & Robbins	Associate in New York City Law Firm, predecessor to previously mentioned firm with similar practice.	1959 – 1968
Demov & Morris	Associate in New York City law firm, 10 lawyers engaged in general practice with emphasis upon real estate and land use.	1958 – 1959
Department of the Navy	Associate, Office of the Counsel, Department of the Navy, New York City Office.	1958
U.S. Army	Stationed in US and Japan – honorably discharged as corporal	1953 – 1955
Law School	Held part-time jobs as bellhop, librarian legal researcher	1953, 1955 - 1957

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

Member of the Board of Directors, Federal Housing Finance Board	2000 - present
Member of the New York State Assembly	1969 – 1974
Member of the New York State Senate	1975 – 1998
Member, State of Commission on Revision of the Penal Law and Criminal Code	1969 – 1973
Member, Temporary State Commission on Cultural Resources	1970 – 1973
Member, Temporary State Commission on Living Costs and the Economy	1973 – 1975
Member, Clean Ocean and Shore Trust of New York and New Jersey	1996 – 1998
Director, Hudson River Valley Greenway Council	1992 - 2000
Director, Hudson River Park Trust	1999 - present

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

Empire State Report	9/98	"On Bucking the System"
New York Daily News	12/98	"Albany's Awful but it can be fixed"
Troy Record	6/12/97	"Closing Financing Loopholes"
New York Daily News	4/7/96	"New Yankee Stadium is not Worth the Money"
New York Daily News	4/2/95	"Corporate Welfare or Job Creation? – Stop the Tax Giveaways"
New York Daily News	10/22/95	"The $91 Million Cup of Coffee – Corporate Welfare Doesn't Pay"
New York Newsday	6/8/1992	"Policing Brutality"
New York Newsday	1/31/91	"Ripping Off Rent Control"
New York Times	3/9/91	"Read Mario Bush's Lips"
New York Newsday	2/20/90	"The State's Unkindest Cut"
New York Newsday	5/8/90	"Our Overdue Stealth Budget"
New York Newsday	4/21/89	"It's Beer that Keeps us Afloat"
New York Times	7/8/89	"Times Square Deserves a More Sensible Safety Plan"(co-written)
New York Newsday	9/21/89	"They Are Taking Us for a Ride (Transit Authority)"
New York Newsday	11/7/89	"Crime Square"
New York Times	12/13/89	Re: Cutting Transit Authority expenses without reducing service
New York Newsday	12/23/88	"A Lie of Mind"
New York Newsday	3/2/88	"Albany Viewed His Antic"
New York Post	7/14/88	"42nd Street Hoopla Stalls Cleanup"(co-written)
Crains New York Bus.	7/25/88	"The Job of New York Banks"
Crains New York Bus.	11/14/88	"Chase Deal: $100 Million Just for Tired NBC Rerun"
New York Newsday	1/29/87	"Give City Vice Its Own Cure"
New York Times	4/16/87	"The Times Square Project is Already Obsolete"
New York Times	6/13/87	
New York Law Journal	9/85	"Strict Compliance with Letters of Credit (co-writer Stephen Harnik)"

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

Member, New York County Democratic Committee (entire 10 years)
Delegate, Democratic National Convention 1996
I was (and still am) a member of numerous local Democratic Party clubs in the New York Senate District I represented.

Political Contributions:

Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

I contributed $1,000 in February 1998 and $500 in August 1997 to the Reelection of Judge Stuart Cohen to the Civil Court in New York State.

Contributions were also made through my campaign committee, "Friends of Leichter." See attached rider for contributions.

Qualifications:

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

See Rider

Future employment Relationships:

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

   Yes. I severed all relationships upon recess appointment to the Federal Housing Finance Board in August 2000.

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

   None

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

   No

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

   Yes

Franz S. Leichter
Rider
Political Contributions from "Friends of Leichter"

Friends of Oliver Koppell (Attorney General)	1997	$ 500.00
New York State Democratic Senate Campaign Committee	1998	$ 850.00
	1997	$1,075.00
	1996	$6,440.00
	1995	$1,700.00
	1994	$ 230.00
	1993	$1,045.00
	1992	$3,000.00
	1991	$ 500.00
New York County Democratic Committee	1999	$ 150.00
	1998	$ 500.00
	1997	$ 550.00
	1996	$ 125.00
	1995	$ 425.00
	1994	$ 400.00*
	1993	$ 300.00*
	1992	$ 300.00*
Liberal Party of New York State	1998	$ 250.00
	1997	$ 150.00
	1996	$ 300.00
	1995	$ 200.00*
	1994	$ 150.00*
	1993	$ 150.00*
	1992	$ 150.00*
	1991	$ 150.00*
County Bronx Democratic County Committee	1998	$ 300.00
	1997	$ 300.00
	1996	$ 300.00
	1995	$ 300.00
	1994	$ 300.00*
	1993	$ 300.00*
	1992	$ 300.00*

* Estimated based on price for annual dinner – records not readily available.

Franz S. Leichter

Rider on Qualifications

I have served as a director at the Federal Housing Finance Board from August 2000 until the present.

I was a Member of the New York State Legislature for thirty years and served as a Member of the Senate from 1975 to 1998. At the same time, I have been a practicing attorney. I was of counsel with the firm of Walter, Conston, Alexander & Green, P.C., with offices in New York and Europe, specializing in the representation of foreign clients.

I have had extensive background and experience in banking, both as a senior member of the New York State Senate Banking Committee and as an attorney representing foreign banks in litigation, and other matters. I have worked actively for many years with community groups and organizations representing consumers on community investment by financial institutions and access to banking services. Over the years, I have worked with various Superintendents of Banking in New York State on banking matters and particularly on investments in affordable housing.

I have issued numerous studies and reports on how banks are serving their communities and have advanced proposals on how financial institutions can improve credit needs. In my capacity as a member of the New York State Senate Banking Committee for over twenty years, I have introduced and supported numerous measures on financial consumer protection. I sponsored a bill that expedited fund availability for depositors, which became the first such law enacted in the nation.

Over the past 30 years, I have been associated and worked with numerous organizations that have been actively involved in representing community interests in banking services, credit needs, housing and financial consumer protection.

Potential conflicts of interest:

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

   None

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

   None that I am aware of

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for your self, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

   None that I am aware of

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

As a member of the New York State Senate, I have voted on resolutions memorializing Congress and the President and have written on occasions in my capacity as a State Senator to members of the Congress, the President and employees of the Executive Branch on matters of concern to my constituents. None of these were done for compensation and I do not consider that my activities in this regard were lobbying.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses of the items above.

I do not believe I have any conflict.

Civil, criminal and investigatory actions:

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

I was charged with the violation of disorderly conduct by participating in two peaceful acts of civil disobedience in front of the South African and Soviet Union Consulates in New York City in 1984 and 1985. The charge was dismissed. I have never been the subject of any inquiry or investigation. Along with the members of the New York State Senate, I was questioned in 1987 by the Office of the District Attorney for New York County whether any of my legislative staff had been employed for, or were mainly performing campaign activities. I was never charged with any wrongdoing.

I was a co-defendant in a civil litigation, Weinstein v. Wachtell, Manheim & Grouf, et al, bought by a former law partner for a declaratory judgment as to the liability of the Partnership for outstanding claims. The case was settled.

2. Give the fill details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

SCHEDULE OF CLIENTS

Mediator in American Home Assurance Company v. Durawool.
Estate of Albert Blumberg
Estate of Lois Siegel
Eleven Financial Services
Grand Central Food Corporation
Kiska Construction Company
Korean Agricultural Trade and Information Center
Jorge LaSalvia
Guardian of the person and property of Eva W. Schloss
Receiver of 65 East 55th Street, New York, NY
Shields and Dean Concession, Inc.
Naohiko Suyama
Nacional Financiara
Trustee U/L/W/T of Julius Siegel

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: KORSMO (Last) JOHN (First) THOMAS (Other)

Position to which nominated: Director, Federal Housing Finance Board Date of nomination: October 9, 2001

Date of birth: 31 (Day) July (Month) 1950 (Year) Place of birth: Grand Forks, North Dakota

Martial Status: divorced Full name of spouse: None

Name and ages of children: John Edward II 24
Charles Randolph 23
Joseph Ruf 18

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Georgetown University Law Center	1972-1975	J.D.	1975
University of Minnesota	1968-1972	B.A.	1972

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

None

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

Organization	Office held (if any)	Dates
Fargo Lodge #260, B.P.O.Elks	Exalted Ruler 1984	1971 to present
International Basketball Assn.	Vice President	1995 to 1999
North Dakota Farm Bureau		1979 to present
Fargo, ND, Chamber of Commerce	Director	1977 to 1996
Virginia State Bar		1975 to present
Greater North Dakota Assn.	Director	1977 to 1996
State Bar Assn. of North Dakota		1977 to present
Capitol Hill Club		1976 to present
American Legion		1971 to present
Fargo Country Club		1997 to 2001
Dakota Medical Foundation		1995 to present

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

President, Korsmo Consulting Services, Inc., Fargo, ND, 1998-2001
Vice President, Physician Relations and Network Development,
Dakota Heartland Health System, Fargo, ND, 1997-1998
Legislative/Policy Director,
North Dakota Governor's Office, Bismarck, ND, 1996-1997

Operating Partner, Wild Hair Sports, Inc., Fargo, ND, 1995-1999
President, 1995-1996, Vice President/Treasurer, 1977-1995,
Cass County Abstract Company, Fargo, ND

President, Red River Title Services, Inc., Fargo, ND, 1993-1996

President, The Title Company of Fargo, Fargo, ND, 1983-1992

Shareholder, Korsmo and Wheeler, P.C., Fargo, ND, 1988-2001
Assistant Director of Government Relations,
American Meat Institute, Washington, DC, 1975-1977
Executive Director,
National Association for Milk Marketing Reform, Washington, DC, 1975

Talk Show Host, WDAY-AM, Forum Communications, Fargo, ND, 1993

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

North Dakota Board of Higher Education 1999-2001

North Dakota Judicial Nominating Committee, Chair 1997-2001

North Dakota State Banking Board 1981-1985

National Advisory Council, U. S. Small Business Administration 1981-1989

City of Fargo Board of Adjustment 1978-1996

Legislative/Policy Director, North Dakota Governor's Office 1996-1997

Chair, Cass County, ND, Home Rule Charter Commission

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

Opinion article concerning a controversy involving healthcare institutions in Fargo, ND, published March 1, 1998, in The Forum in Fargo, ND

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

Treasurer, Dorso for Congress Committee, 1999-2001

Chair, North Dakota Republican Party, 1993-1995

Chair, Fargo, ND, United Republican Committee, 1997-2001

Republican nominee, U. S. House of Representatives, at-large district of North Dakota, 1992

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

$1,000	8/25/00	Dorso for Congress Committee
$1,000	4/15/99	Bush for President Inc.
$ 500	1/ 4/95	North Dakota Republican Party
$1,000	1/14/94	North Dakota Republican Party
$1,000	2/26/93	North Dakota Republican Party

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

Future employment relationships:

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

Yes

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

No

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

No

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

Yes

John T. Korsmo

QUALIFICATIONS

I believe I possess the right combination of skills, experience, and industry knowledge to be an effective Director of the Federal Housing Finance Board. My business and management experience, long-time real estate, housing, and housing finance industry affiliations, and extensive involvement in the policy development and implementation process all fit well, I believe, with the needs and requirements of the FHFB in advancing its mission.

My primary focus for most of my professional career has been as a real estate title abstracter, title insurer, and closing and escrow agent. I literally grew up in the business, progressing from performing delivery and rudimentary title abstracting duties in high school to owning and managing a much-expanded Cass County Abstract Company in my hometown of Fargo, North Dakota, thirty years later. Along the way, I became a licensed real estate title abstracter and title insurance agent in both North Dakota and Minnesota; I founded the first independent escrow and closing company in North Dakota and northwestern Minnesota; and I came to appreciate the important role played by mortgage loan officers, homebuilders, and realtors in helping people achieve the American Dream of homeownership.

Those mortgage loan officers, homebuilders, and realtors, and the homebuyers they served, were my customers for over twenty years. My guess is that, if I have the privilege of being confirmed, I will be the first member of the Federal Housing Finance Board who has actually closed a home mortgage package, and I have closed hundreds of them. As a result, I understand the real-world implications of fluctuations in mortgage interest rates and the availability of adequate mortgage loan funds, and the importance of simplifying accessibility to affordable housing and community investment programs.

I am also an experienced real property lawyer. I graduated from Georgetown University Law Center and was admitted to the Virginia State Bar in 1975 and the Bar of the State of North Dakota in 1979. I co-founded the law firm of Korsmo and Wheeler, P.C., in Fargo, specializing in real estate practice and title examination. I was a member of the North Dakota Bar's Real Property Section and chaired North Dakota's Judicial Nominating Committee for four years, directing the selection of two of the North Dakota Supreme Court's five current members.

In addition, I have experience as a bank regulator, having served as the public interest member of the North Dakota State Banking Board for four years. The Banking Board is responsible for supervising and ensuring the safety and soundness of state-chartered financial institutions in North Dakota, a role directly comparable to a critical function of the Federal Housing Finance Board.

Potential conflicts of interest:

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

None

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

IRA shares of Community First Bankshares, Inc., Capital Corp of the West, EMC Insurance Group, Inc., Republic Bancorp, Inc., and U. S. Bancorp

Korsmo Consulting Services, Inc., of which I am the sole shareholder, owns shares of Old Republic International Corp.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

I will divest all holdings listed in paragraph 2 above within 90 days of date of appointment, as provided in an Ethics Agreement dated October 11, 2001.

Civil, criminal and investigatory actions:

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

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: AGUIRRE , JR. (Last) EDUARDO (First) -- (Other)

Position to which nominated: First Vice President & Vice Chairman of Export-Import Bank of the United States Date of nomination:

Date of birth: 30 (Day) 7 (Month) 1946 (Year) Place of birth: Havana, Cuba

Martial Status: Married Full name of spouse: Maria Teresa P. Aguirre

Name and ages of children: Eduardo Aguirre, III (23)
Maria Teresa Aguirre (20)

Education:

Institution	Dates attended	Degrees received	Dates of degrees
American Bankers Assoc.' National Commercial Lending Graduate School	'78 + '79	Certified Commercial Lender	1979
Louisiana State University	'63 to '69	Bach of Science	1969
Holy Cross School, New Orleans, La.	1963	High School Dip.	1963

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

Doctor Honoris Causa - Universidad Tecnologica de Santiago. Dom. Rep. 1996

Honorary Professorships - BeijingPolytechnic + Univ. for Nationalities,PRC

Delta Sigma Pi - 2000 Career AChievement Award + 1997 Outstanding Alumni

Hispanic Business Magazine ('90+'91+'92) 100 Most Influencial Hispanics

Houston Hispanic Chamber of Commerce- American All-Star - 1993

63rd. Joint Civilian Orientation Conference (JCOC63) - Dept of Defense

U.S. Senate (101st. Congress) Conference Task Force on Hispanic Affairs nominated by Sen. Phil Gramm.

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

ALL NON PROFIT Volunteer Basis

Organization	Office held (if any)	Dates
University of Houston System	Board of Regents	'95 to Present
Texas Bar Foundation	Chair-Elect/Trustee	'99 to Present
Houston Livestock Show & Rodeo	Director	'91 to Present
Texas Children's Hospital	Director	'99 to Present
Houston International Festival	Director	'99 to Present
Operacion Pedro Pan, Inc.	Trustee	'98 to Present
The Learning Planet Inc.	Director	'00 to Presen
Central Houston, Inc.	Director	'00 to Presen

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

1- 3/77 to Present - Bank of America - President of International Privat Bank

2- 10/72 to 3/77 - First Union National Bank - Vice President + Manager of Latin America Area

3- 9/71 - 9/72 - Texas Commerce Bank - Banking Officer - Mexico City Representative Office.

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

University of Houston System - Board of Regents ('95 to Present)

National Commission for Employment Policy - Commissioner ('91 to '93)

State Bar of Texas - Non-attorney Director ('90 to '92)

U.S. District Court - Merit Review Panel to reappoint U.S. Magistrate Judge

State of Texas Job Training & Coordinating Council ('87 to '90)

Harris County Health Facilities Development Corp. - President ('88 to '93)

City of Houston Employee Pension Fund - Trustee ('88 to '92)

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

* As Regent and former Chair of the University of Houston, I have delivered commencement addresses, speeches and lectures related to the importance of education.

* As a Commissioner of the National Commission for Employment Policy, I have given testimony and speeches related to employment and job training

* as a Director of the State Bar of Texas I have given speeches and testimony on the legal profession and access to legal aid by those in need.

* As President and Officer of HISPAC, I have given speeches and written letters to the media on the importance of political inclusiveness and voter turnout.

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

HISPAC - Hispanic Political Action Committee - President '92 to '93 / Vice President 91 to '92 and Secretary '89 to '91. - Bipartisan PAC focused on Hispanic issues.

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

Republican Party - George Bush - President's Club

$500 - 1999 + $1,000 - 2000 + $1,000 - 2001

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

Please see attached one page Bio.

Future employment relationships:

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

If confirmed, I will retire from Bank of America and will receive ordinary retirement benefits.

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

No

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

No

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

Yes

FROM: EDUARDO AGUIRRE
FAX 713-247-6736
PHONE 713-247-6226
eduardo.aguirre@bankofamerica.com

Eduardo Aguirre, Jr.

Biographical Introduction

Eduardo Aguirre is a nationally recognized business and civic leader. For three consecutive years, Mr. Aguirre was named "one of the 100 most influential Hispanics in the nation" by Hispanic Business Magazine. In 1997, he received Bank of America Chairman Hugh McColl's coveted Crystal Grenade Award; Aguirre and the Bank were featured in *Latino Success* published by Simon & Schuster in 1996.

Mr. Aguirre is the President of Bank of America's International Private Bank, with locations in Washington, D. C., Miami, Houston, El Paso, San Diego, Los Angeles, San Francisco, Seattle, Vancouver and Grand Cayman. Bank of America's Private Bank manages over $135 billion in assets for wealthy individuals and families, and is the largest private bank in North America. Bank of America is the largest bank in the United States. Mr. Aguirre participates in several corporate-wide leadership initiatives.

Governor George W. Bush appointed him to the Board of Regents of the University of Houston System for a six-year term until 2001; serving from 1996 to 1998 as chairman. President George H. W. Bush appointed him to the National Commission for Employment Policy; and the Supreme Court of Texas appointed him to the State Bar as a non-attorney Director.

Mr. Aguirre serves as Trustee and Chair-Elect of the Texas Bar Foundation; and is on the Boards of the Houston Livestock Show and Rodeo, Texas Children's Hospital, and Central Houston among others. Secretary of Defense Cohen appointed him to the 63rd Joint Civilian Orientation Conference (JCOC63) appointed him.

He is a graduate of Louisiana State University, and of the American Bankers Association's National Commercial Lending Graduate School. He was awarded an Honorary Doctorate Degree at the Universidad Tecnológica de Santiago, Dominican Republic; and Honorary Professorships by Beijing Polytechnic University and by The Central University for Nationalities in Beijing, China. Mr. Aguirre is Delta Sigma Pi's Career Award recipient for 2000, and its 1997 Outstanding Alumni. He is a graduate of Holy Cross High School in New Orleans, La.

Eduardo and his wife Tere, have lived in Houston for 24 years and have a son Eddy at the University of Houston, and a daughter Tessie at Texas A & M University.

November, 2000.

Potential conflicts of interest:

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

Due to my on-going financial interests in Bank of America, I will recuse from discussions or actions related to Bank of America.

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

Same as # 1 above.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

Ethics agreement.

Civil, criminal and investigatory actions:

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

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

PREPARED STATEMENT OF RANDALL S. KROSZNER

BOARD MEMBER-DESIGNATE, COUNCIL OF ECONOMIC ADVISERS

NOVEMBER 15, 2001

Mr. Chairman and other distinguished Members of the Committee, I am pleased and honored to appear before you today as the President's nominee to be a Member of the Council of Economic Advisers.

Should I be confirmed, this would be my second opportunity to be part of the Council. Fourteen years ago, I took a year leave from graduate school to serve on the staff of the Council. There I learned about the valuable role that the Council plays in providing advice and analysis of economic policy. If confirmed, I will have the privilege of working with a superb group of economists who are at the Council.

I am on leave from the Graduate School of Business of the University of Chicago where I am Professor of Economics. I have also been a Research Associate of the National Bureau of Economic Research and Associate Director of the Center for the Study of the Economy and the State at the University of Chicago. I have worked with International Monetary Fund, World Bank, and Inter-American Development Bank, the Federal Reserve Board, and regional Federal Reserve Banks on numerous policy issues. In addition, I have held visiting professorships at the Stockholm School of Economics and the Free University of Berlin.

The United States and world economies face many opportunities and challenges. The portfolio of issues that I will focus on will include international and macroeconomic issues, as well as a number of regulatory issues. I look forward to having your input and advice on these issues.

In closing, I would like to take this opportunity to thank you, Mr. Chairman, and the Committee for the prompt consideration of my nomination. Mr. Chairman, I would be delighted to answer any questions you and the other Members of the Committee may have.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: KROSZNER (Last) RANDALL (First) SCOTT (Other)

Position to which nominated: Member, Council of Economic Advisers Date of nomination: November 5, 2001

Date of birth: 22/ (Day) 6/ (Month) 1962 (Year) Place of birth: Englewood, New Jersey

Marital Status: Single Full name of spouse:

Name and ages of children: N/A

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Harvard University	1984-1990	Ph.D.	1990
Harvard University	1984-1990	M.A.	1987
Brown University	1980-1984	Sc.B. (magna cum laude)	1984

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

Bertil Danielson Visiting Professor of Banking and Finance, Stockholm School of Economics, Sweden, 1998-99

Editor, Journal of Law and Economics, 2000-present

Editorial Advisory Board, Regulation Magazine, 2001-present.

Brattle Prize for Best Corporate Finance Paper in Journal of Finance, 1999

Program Committee, Financial Management Association Annual Meeting, 1999

Associate Editor, Journal of Financial Services Research, 1999-present

Associate Editor, Journal of Economics and Business, 1998-present

Associate Editor, Economics of Governance, 1997-present.

(CONTINUED ON A SEPARATE SHEET)

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

Organization	Office held (if any)	Dates
George Stigler Center for the Study of the Economy and State	Associate Director	1999-present
National Bureau of Economic Research	Faculty Research Fellow	1998-present
Center for Study of Central Banks, New York University	Affiliate Scholar	1994-present
American Law and Economics Association	Member	1992-present
Public Choice Society	Member	1992-present
American Economic Association	Member	1993-present
American Finance Association	Member	1991-present
Western Finance Association	Member	1993-present

(CONTINUED ON A SEPARATE SHEET)

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

Profesor of Economics, Graduate School of Business, University of Chicago, 1999-present; Associate Professor of Economics, 1994-1999; Assistant Professor of Economics, 1990-1994

Junior Staff Economist, Council of Economic Advisers, Executive Office of the President, Washington, DC, 1987-1988

John M. Olin Visiting Fellow in Law and Economics, University of Chicago Law School, 1999-2000

Visiting SCholar, Research Department, International Monetary Fund, Washington, DC, 1993, 1994, 1995, 2000

Visiting Professor, Institute for International Economics Studies, Stockholm University, 1996

Visiting Professor, Kennedy Institute of North American Studies, Free University of Berlin, Germany, 1995

Visiting Professor, Finance Dept, Stockholm School of Economics, Sweden, 1994

Research Fellow, G.T. Management (Asia) Ltd., Hong Kong, 1990

Economist, The Economics Resource Group, Cambridge, MA, 1989-1990

KROSZNER, RANDALL S. October 2001

QUESTIONNAIRE STATEMENT FOR COMPLETION
BY PRESIDENTIAL NOMINEES

CONTINUATION SHEET

Honors and Awards
Center for the Study of the Economy and the State Grant, Graduate School of Business, University of Chicago, 1994-present.

Center for International Business Education and Research Grant, Graduate School of Business, University of Chicago, 1993-1999.

National Science Foundation Grant SES-9211231, 1992-1994.

William S. Fishman Scholar, Graduate School of Business, University of Chicago, 1992-1993.

R.C. Hoiles Postdoctoral Fellowship, 1989-1990.

Claude R. Lambe Fellowship, 1989-1990.

Richard M. Weaver Fellowship, 1988-1989.

National Science Foundation Graduate Fellowship, 1984-1987.

Phi Beta Kappa, Member, 1983-present

Sigma Xi (Scientific Research Society of North America), Member, 1983-present

Memberships
Cliometrics Society, Member, 1992-present.

Government experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

Junior Staff Economist, Council of Economic Advisers, Executive Office of the President, Washington, DC, 1987-1988

Research Consultant, Research Departemnt, Federal Reserve Bank of Chicago, 1994 - present

Visiting Scholar, Research Departemnt, Federal Reserve Bank of New York, 1996, 1998-present

Visiting Scholar, Board of Governors of the Federal Reserve, Division of International Finance, 1999, Division of Research & Statistics, 1995

Visiting Scholar, Federal Reserve Bank of Minneapolis, 1999

Visiting Scholar, Research Dept, Federal Reserve Bank of Kansas City, 1997

Visiting Scholar, Research Dept, Federal Reserve Bank of St. Louis, 1996

Visiting Scholar on International Financial Markets, U.S. Securities & Exchange Commission, 1992

Published Writings:

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

SEE CV

Political Affiliations and activities:

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

NONE

Political Contributions:

Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

NONE

Qualifications:

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

(attach sheet) My qualifications are summarized by my professional experience as an economist (see attached curriculum vitae).

Future employment relationships:

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

I am on an unpaid leave of absence from the University of Chicago, Graduate School of Business.

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

I plan to return to the University of Chicago after completion of government service.

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

I have tenure at the University of Chicago and can return after I finish my unpaid leave of absence.

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

N/A, since there is no fixed term for CEA Member.

Potential conflicts of interest:

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

NONE

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

I understand that the following stock or limited partnership holdings present a potential conflict of interest, although it has been determined that it is not necessary at this time for me to divest these interests: Citigroup, Dominion Resources, General Electric, IBM, J.P. Morgan Chase, Pharmacia, Reebok International, Scana Corp., Texaco, Inc., Walmart Stores, and WMX Technologies. Upon confirmation, I will divest myself of my interest in AT&T, AT&T Wireless, Bell South, Lucent Technologies, Quest, and Vodafone/Airtouch.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

NONE

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

NONE

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

I will not participate personally and substantially in any particular matter that will have a direct and predictable effect on the financial interests of the entities listed in question #2 above, unless I first obtain a written waiver or qualify for a regulatory exemption. However, upon confirmation, I will divest myself of my interest in AT&T, AT&T Wireless, Bell South, Lucent Technologies, Quest, and Vodafone/Airtouch.

Civil, criminal and Investigatory actions:

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

NONE

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

NONE

November 2001

RANDALL S. KROSZNER

Graduate School of Business
University of Chicago
1101 East 58th Street
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Phone: (773) 702 - 8779
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Email: randy.kroszner@gsb.uchicago.edu
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2000 Lincoln Park West
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Chicago, IL 60614
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Cell: (773) 251 - 9311

Education:

Harvard University, Ph.D., Department of Economics, 1990.
Harvard University, M.A. Department of Economics, 1987.
Brown University, Sc.B., magna cum laude, Applied Mathematics-Economics (Honors) and History, 1984.

Employment:

Graduate School of Business, University of Chicago,
Professor of Economics, 1999 - present.
Associate Professor of Economics, 1994 - 1999.
Assistant Professor of Economics, 1990 - 1994.
Council of Economic Advisers, Executive Office of the President, Washington, DC,
Junior Staff Economist, 1987 - 1988.

Related Professional Experience:

Associate Director, George J. Stigler Center for the Study of the Economy and the State, 1999 - present.
Faculty Research Fellow, National Bureau of Economic Research, 1998 - present.
Research Consultant, Research Department, Federal Reserve Bank of Chicago, 1994 - present.
Visiting Scholar, Research Department, Federal Reserve Bank of New York, 1996, 1998 - present.
John M. Olin Visiting Fellow in Law and Economics, University of Chicago Law School, 1999 -2000.
Visiting Scholar, Research Department, International Monetary Fund, 1993, 1994, 1995 and 2000.
Visiting Scholar, Board of Governors of the Federal Reserve, Division of International Finance, 1999, and Division of Research and Statistics, 1995.
Visiting Scholar, Federal Reserve Bank of Minneapolis, 1999.
Visiting Scholar, Financial Markets Group, London School of Economics, 1999.
Bertil Danielson Visiting Professor of Banking and Finance, Stockholm School of Economics, Sweden, 1998 - 1999.
Visiting Scholar, Research Department, Federal Reserve Bank of Kansas City, 1997.
Visiting Professor, Institute for International Economic Studies, Stockholm University, 1996.
Visiting Scholar, Research Department, Federal Reserve Bank of St. Louis, 1996.

Visiting Professor, Kennedy Institute of North American Studies, Free University of Berlin, Germany, 1995.
Visiting Professor, Finance Department, Stockholm School of Economics, Sweden, 1994.
Visiting Scholar on International Financial Markets, U.S. Securities and Exchange Commission, 1992.
Research Fellow, G.T. Management (Asia) Ltd., Hong Kong, 1990.
Economist, The Economics Resource Group, Cambridge, MA, 1989 - 1990.

Teaching:

Money and Banking (Business 331).
International Financial Institutions and Markets (Business 481).
Political Economy of the Regulation of Financial Institutions (Law 903).

Articles:

"Bankers on Boards: Monitoring, Conflicts of Interest, and Lender Liability," Journal of Financial Economics, forthcoming, with Philip Strahan.

"The Rise in Managerial Stock Ownership," Journal of Applied Corporate Finance, Fall 2000, 8-18, with Clifford Holderness and Dennis Sheehan.

"Congressional Committees as Reputation-Building Mechanisms: Repeat PAC Giving and Seniority on the House Banking Committee," Business and Politics, April 2000, 35-52, with Thomas Stratmann.

"What Drives Deregulation? Economics and Politics of the Relaxation of Bank Branching Restrictions in the United States," Quarterly Journal of Economics, November 1999, 1437-67, with Philip Strahan.

"Interests, Institutions, and Ideology in Securing Policy Change: The Republican Conversion to Trade Liberalization after Smoot-Hawley," Journal of Law and Economics, October 1999, 643-73, with Douglas Irwin.

"Can the Financial Markets Privately Regulate Risk? The Development of Derivatives Clearing Houses and Recent Over-the-Counter Innovations," Journal of Money, Credit, and Banking, August 1999, 569-618.

"Were the Good Old Days that Good? Changes in Managerial Stock Ownership since the Great Depression," Journal of Finance, April 1999, 435-69, with Clifford Holderness and Dennis Sheehan (winner of the Brattle Prize for Best Corporate Finance Paper in the Journal of Finance).

"Interest Group Competition and the Organization of Congress: Theory and Evidence from Financial Services Political Action Committees," American Economic Review, December 1998, 1163-87, with Thomas Stratmann.

"The Political Economy of Banking and Financial Regulatory Reform in Emerging Markets," Research in Financial Services, vol. 10, 1998, 33-51.

"Rethinking Banking Regulation: A Review of the Historical Evidence," Journal of Applied Corporate Finance, Summer 1998, 48-58.

"Organization Structure and Credibility: Evidence from Commercial Bank Securities Activities before the Glass-Steagall Act," Journal of Monetary Economics, August 1997, 475-516, with Raghuram G. Rajan.

"Log-Rolling and Economic Interests in the Passage of the Smoot-Hawley Tariff," Carnegie-Rochester Conference Series on Public Policy, December 1996, 173-200, with Douglas A. Irwin.

"Regulatory Incentives and the Thrift Crisis: Dividends, Mutual-to-Stock Conversions, and Financial Distress in the Thrift Industry," Journal of Finance, September 1996, 1285-1320, with Philip E. Strahan (nominated for the Smith Breeden Prize for best paper of the year in the Journal of Finance).

"Is the Glass-Steagall Act Justified? A Study of the U. S. Experience with Universal Banking before 1933," American Economic Review, September 1994, 810-32, with Raghuram G. Rajan.

"Money's Marketability Premium and the Microfoundations of Keynes' Theory of Money and Interest," Cambridge Journal of Economics, August 1994, 379-90, with Tyler Cowen.

"German-Language Precursors of the New Monetary Economics," Journal of Institutional and Theoretical Economics (Zeitschrift fuer die gesamte Staatswissenschaft), September 1992, 387-410, with Tyler Cowen.

"Empirical Predictions of the New Monetary Economics: Perspectives on Velocity," Journal of Policy Modelling, Summer 1990, 265-79, with Tyler Cowen.

"Scottish Banking Before 1845: A Model for Laissez-Faire?" Journal of Money, Credit, and Banking, May 1989, 221-31, with Tyler Cowen (reprinted in Lawrence H. White, ed., International Library of Macroeconomic and Financial History, no. 11, Aldershot, UK: Elgar 1993).

"The Development of the New Monetary Economics," Journal of Political Economy, June 1987, 567-90, with Tyler Cowen (reprinted in Lawrence H. White, ed., International Library of Macroeconomic and Financial History, no. 11, Aldershot, UK: Elgar, 1993).

Books:

The Economic Nature of the Firm: A Reader, second edition, New York: Cambridge University Press, 1996, co-edited with Louis Putterman. (First edition 1986. Spanish language edition, 1994.)

Explorations in the New Monetary Economics, Cambridge: Basil Blackwell, 1994, with Tyler Cowen.

Book Chapters:

"Obstacles to Optimal Policy: The Interplay of Politics and Economics in Shaping Bank Supervision and Regulation Reforms," pp. 233-66 in Frederic S. Mishkin, ed., Prudential Supervision: What Works and What Doesn't, Chicago: University of Chicago Press and National Bureau of Economic Research, 2001, with Philip Strahan.

"Is the Financial System Politically Independent? Perspectives on the Political Economy of Banking and Financial Regulation," pp. 127-62 in Finanssektorn Framtid [Government Inquiry on the International Competitiveness of the Swedish Financial Sector], Volume D, Stockholm: Swedish Ministry of Finance, 2000.

"Global Government Securities Markets: Economics and Politics of Recent Market Microstructure Reforms," pp. 86-110 in Guillermo Calvo and Mervyn King, eds., The Debt Burden and its Consequences for Monetary Policy, London: Macmillan, 1997.

"How Should Financial Institutions and Markets Be Structured? Analysis and Options for Financial System Design," pp. 97-122 in Liliana Rojas-Suarez, eds., Safe and Sound Financial Systems: What Works for Latin America, Washington: Inter-American Development Bank and Johns Hopkins University Press, 1997, with George Kaufman (reprinted in translation in Ilter Turan, ed., Finansal Piyasalarin Derinlesmesi, Istanbul: Koc Universitesi, 1997).

"Free Banking: The Scottish Experience as a Model for Emerging Market Economies," pp. 41-64 in Gerard Caprio and Dimitri Vittas, eds., Reforming Financial Systems: Historical Implications for Policy, New York: Cambridge University Press, 1997.

"The Political Economy of Banking and Financial Regulation in the U.S." pp. 200-13 in George M. von Furstenberg, ed., The Banking and Financial Structure in the NAFTA Countries and Chile, Boston: Kluwer Academic Publishers, 1997.

"The Evolution of Universal Banking and Its Regulation in Twentieth Century America," pp. 70-99 in Anthony Saunders and Ingo Walter, eds., Universal Banking: Financial System Design Reconsidered, Chicago: Irwin, 1996.

"Scottish Free Banking," pp. 398-400 in John Eatwell, Murray Milgate, and Peter Newman, eds., New Palgrave Dictionary of Money and Finance, London: Macmillan, 1992, with Tyler Cowen.

Working Papers:

"Throwing Good Money After Bad? The Role of Board Linkages and Bank Lending during Distress," with Philip Strahan, June 2001.

"Currency Competition in the Digital Age," May 2001.

"Stock Market Responses to Bank Restructuring Policies during the East Asia Crisis," World Bank Working Paper 2571, March 2001, with Daniela Klingebiel, Luc Laeven, and Pieter van Oijen.

"Does Political Ambiguity Pay? Corporate Campaign Contributions and the Rewards to Legislator Reputation," National Bureau of Economic Research Working Paper 7475, revised July 2000, with Thomas Stratmann.

"Is It Better to Forgive than to Receive? Evidence from the Abrogation of Gold Indexation Clauses in Long-Term Debt during the Great Depression," November 1999.

"Bank Powers and Bank Mergers," Testimony before the Committee on Banking and Financial Institutions, U. S. House of Representatives, April 29, 1998.

"Much Ado About Nothing? Capital Market Reactions to Changes in Precedent concerning Exclusive Territories," Center for the Study of the Economy and the State, Working Paper No. 102, November 1994, with Sherry Glied.

"The Political-Economy of the Reconstruction Finance Corporation's Bail-Out of the U.S. Banking System during the Great Depression," April 1994.

Shorter Papers, Policy Papers, Comments, and Book Reviews:

"Private and Public Interests in Bank Regulatory Reform: Understanding Branching Deregulation in the United States," Jahrbuch fuer Wirtschaftsgeschichte, forthcoming.

"The Motivations behind Banking Reform: Why Do Lawmakers Pursue Deregulation?" Regulation, Summer 2001, pp. 36-41.

"Lessons from Financial Crises: The Role of Clearinghouses," Journal of Financial Services Research, December 2000, vol. 18, pp. 157-71.

"Commentary: The Supply of and Demand for Financial Regulation -- Public and Private Competition around the Globe," Global Economic Integration: Opportunities and Challenges, Jackson Hole Symposium, Federal Reserve Bank of Kansas City, 2000, pp. 137-49.

"The Economics and Politics of Financial Modernization," Federal Reserve Bank of New York's Economic Policy Review, October 2000, 25-37.

"The Legacy of the Separation of Banking and Commerce Continues in Gramm-Leach-Bliley," Federal Reserve Bank of Minneapolis' The Region, June 2000, 18-21.

"Summary and Closing Remarks," pp. 433-35 in Joseph R. Bisignano, William C. Hunter, George G. Kaufman, eds., Global Financial Crises: Lessons from Recent Events, Boston: Kluwer Academic Publishers, 2000.

"Less is More in the New International Financial Architecture," pp. 447-52 in William C. Hunter, George G. Kaufman, and Thomas H. Krueger, eds., The Asian Financial Crisis: Origins, Implications, Solutions, Boston: Kluwer Academic Publishers, 1999.

"A Comment on 'The Impact of Consolidation and Safety-Net Support on Canadian, U.S., and UK Banks, 1893-1992'," Journal of Banking and Finance, February 1999, pp. 572-77.

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1997, pp. 299-306.

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"New Monetary Economics," pp. 487-89 in David Glasner, ed., Business Cycles and Depressions: An Encyclopedia. New York: Garland Press, 1996, with Tyler Cowen.

"Comment on Richard Sylla's 'The 1930s Financial Reform in Historical Perspective'," pp. 30-33 in Dimitri Papadimitriou, ed., Stability in the Financial System, New York: St. Martins, 1996.

"Reforming U.S. International Telecommunications Regulation," Via Satellite, February 1991, 57-64, with Robert W. Hahn.

"Lost in Space: U.S. International Satellite Communications Policy," Regulation, Summer 1990, 57-66, with Robert W. Hahn.

"Banking in Hong Kong: Regulation, Stability, and the Role of Money Market Mutual Funds," Asian Monetary Monitor, July/August 1990, 16-36.

"Mutual Fund Banking," Cato Journal, Spring/Summer 1990, 223-37, with Tyler Cowen.

"Futures Markets, Loans, and Asset Marketability: A Review Essay on Jeffrey Williams's The Economic Function of Futures Markets," Market Process, Spring 1990, 77-81, with Tyler Cowen.

"An Assessment of Deregulation and Privatization in the United States," Business in the Contemporary World, Spring 1989, 55-63, with Thomas Gale Moore.

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"Technology and the Control of Labor: A Review of David Noble's Forces of Production," Critical Review, Spring 1987, 6-16.

"Recent Developments in the New Monetary Economics," Zeitschrift fuer Wirtschaftspolitik, vol. 36, 1987, 207-20, with Tyler Cowen.

Professional Activities, Grants, and Honors:

Editor, Journal of Law and Economics, 2000 - present.
Editorial Advisory Board, Regulation Magazine, 2001 - present.
John M. Olin Fellowship in Law and Economics, University of Chicago Law School, 1999 - 2000.
Brattle Prize for Best Corporate Finance Paper in the Journal of Finance in 1999.

Program Committee, Financial Management Association Annual Meeting, 1999.
Associate Editor, Journal of Financial Services Research, 1999 - present.
Associate Editor, Journal of Economics and Business, 1998 - present.
Associate Editor, Economics of Governance, 1997 - present.
Academic Advisory Council, Federal Reserve Bank of Chicago, 1998 - present.
Center for the Study of the Economy and the State Grant, Graduate School of Business, University of Chicago, 1994 - present.
Center for the Study of Central Banks, Affiliate Scholar, New York University, 1994 - present.
Center for International Business Education and Research Grant, Graduate School of Business, University of Chicago, 1993 - 1999.
National Science Foundation Grant SES-9211231, 1992 - 1994.
William S. Fishman Scholar, Graduate School of Business, University of Chicago, 1992 - 1993.
R. C. Hoiles Postdoctoral Fellowship, 1989 - 1990.
Claude R. Lambe Fellowship, 1988 - 1989.
Richard M. Weaver Fellowship, 1988 - 1989.
National Science Foundation Graduate Fellowship, 1984 - 1987.
Phi Beta Kappa.
Sigma Xi, Scientific Research Society of North America.
Member of the American Economic Association, American Finance Association, Western Finance Association, American Law and Economics Association, Public Choice Society, and Cliometrics Society.

Recent Academic Presentations:

American Law and Economics Association, Annual Conference, Georgetown University, May 2001.
Cornell University, Economics Department of Economics and Graduate School of Management, April 2001.
Indiana University, Kelley School of Business, Departments of Finance and Public Policy, March 2001.
Public Choice Society Annual Meeting, San Antonio, TX, March 2001.
American Economics Association, Annual Meeting, New Orleans, January 2001.
University of Tokyo, Department of Economics, Tokyo, Japan, November 2000.
Victor Cullen Memorial Lecture,University of Illinois, Department of Finance, Champaign-Urbana, October 2000.
University of Pennsylvania, Wharton School, Conference on Management Strategy and the Business Environment, September 2000.
University of Tennessee, Department of Economics, Distinguished Lecture, September 2000.
Harvard University, Government Department, Conference on Political Institutions and Economic Policy, May 2000.
Hebrew University of Jerusalem, Department of Economics, Conference on Financial Systems and Institutions in the Third Millennium, May 2000.
University of Virginia, School of Law, Conference on Law and Finance, May 2000.
University of Florida, Department of Finance, February 2000.
University of Alabama, Department of Finance, February 2000.
National Bureau of Economic Research, Conference on Prudential Supervision, January 2000.
American Economics Association, Annual Meeting, January 2000.
American Finance Association, Annual Meeting, January 2000.
Ohio State University, Department of Economics, November 1999.
American University, Washington Area Economic History Seminar, November 1999.

Princeton University, Department of Politics, October 1999.
London Business School, Department of Finance, October 1999.
Columbia University, Graduate School of Business, Department of Finance, October 1999.
The World Bank, Financial Sector Research Department, Washington, DC, September 1999.
American Political Science Association Annual Meeting, Atlanta, GA, September 1999.
Federal Reserve Bank of Atlanta, Research Department, September 1999.
Federal Reserve Bank of Minneapolis, Research Department, September 1999.
Center for Economic Policy and Research, European Summer Symposium in Financial Markets, Gerzensee, Switzerland, July 1999.
Bank for International Settlements, Research Department, Basel, Switzerland, July 1999.
Board of Governors of the Federal Reserve, Division of International Finance, June 1999.
Banque de France, Research Department, June 1999.
Stockholm School of Economics, Department of Finance, June 1999.
London School of Economics, Financial Markets Group, June 1999.
American Law and Economics Association, Annual Conference, Yale University, May 1999.
Federal Reserve Bank of Chicago, Bank Structure and Competition Conference, May 1999.
University of California, Los Angeles, Conference on "Political Economy of Financial Obligations: The Case of Bankruptcy," April 1999.
New York University, Department of Economics, April 1999.
Stockholm School of Economics, Department of Finance, March 1999.
Gothenburg School of Economics, Department of Economics, March 1999.
Brown University, Department of Economics, March 1999.
Vanderbilt University, Department of Economics, February 1999.
University of California, San Diego, Graduate School of International Relations and Pacific Studies, February 1999.
University of Southern California, Finance and Business Economics Department, February 1999.
Stanford University, Law and Economics Seminar, February 1999.
Federal Reserve Bank of Dallas, Research Department, December 1998.
Federal Reserve Bank of New York, Research Department, November 1998.
National Bureau of Economic Research, Corporate Finance Program Meeting, November 1998.
University of California, Los Angeles, Economics Department, November 1998.
Stanford University, Graduate School of Business, November 1998.
Center for Advanced Studies in the Behavioral Sciences, Stanford University, November 1998.
University of California, Berkeley, School of Business and Institute of Government Studies, November 1998.
University of North Carolina, Chapel Hill, Kenan-Flagler Business School, November 1998.
Federal Reserve Bank of Cleveland, Conference on "The Role of Central Banks in Money and the Payments System," October 1998.
University of Washington, Seattle, School of Business Administration, October 1998.
Brown University, Conference on "Agency, Risk-Bearing and Incentives in Firms," October 1998.
University of California, Berkeley, Economics Department, September 1998.
Federal Reserve Bank of San Francisco, Conference on "Financial Modernization and Regulation," September 1998.
Stockholm School of Economics, Department of Finance, September 1998.
Dartmouth College, International Political Economy Conference, July 1998.
National Bureau of Economic Research, Law and Economics Summer Institute, July 1998.
University of British Columbia, Pacific Institute of Mathematical Sciences Conference on Industrial Organization, July 1998.
National Bureau of Economic Research, Development of the American Economy Summer Institute, July 1998.
Western Economics Association, Annual Conference, Lake Tahoe, June 1998.

Federal Reserve Bank of Chicago, Bank Structure and Competition Conference, May 1998.
Midwest Political Science Association Annual Meeting, Chicago, April 1998.
Yale University, Law, Economics, and Organization Seminar, New Haven, April 1998.
Public Choice Society Annual Meeting, New Orleans, March 1998.
Federal Reserve Bank of Cleveland, Research Department, March 1998.
American Economics Association Annual Meeting, Chicago, January 1998.
University of Rochester, William E. Simon School of Business, October 1997.
National Bureau of Economic Research, Law and Economics Summer Institute, August 1997.
Federal Reserve Bank of Kansas City, Research Department, July 1997.
Western Economic Association Annual Conference, Seattle, July 1997.
Western Finance Association Annual Conference, San Diego, June 1997.
American Law and Economics Association, University of Toronto, May 1997.
Federal Reserve Bank of Philadelphia, Research Department, April 1997.
Public Choice Society Annual Meeting, San Francisco, March 1997.
University of Alabama, Department of Economics and Finance, February 1997.
Smith Chair Lecture in Economics, Brigham Young University, January 1997.

Selected Policy Conference Presentations and Testimony:

"The Origins and Evolution of Central Banking," Federal Reserve Bank of Cleveland, Cleveland, OH, May 2001.
"World Conference 2001: Millennium and Beyond," International Financial Architecture Panel, World Conference Group of the University of Chicago, Chicago, April 2001.
"Designing an Effective Deposit Insurance Structure: An International Perspective," Financial Stability Forum of the Bank for International Settlements and Federal Reserve Bank of Chicago, Chicago, December 2000.
"Developing Corporate Bond Markets in Asia," Asian Development Bank Institute, Tokyo, Japan, November 2000.
"Understanding Financial Architecture: Legal and Political Frameworks and Economic Efficiency," Center for Economic Policy Research and Center for Financial Studies, Frankfurt, Germany, November 2000.
"Corporate Governance and Antitrust," U.S. Department of Justice, Antitrust Division, Washington, DC, September 2000.
"Global Economy Integration: Opportunities and Challenges," Federal Reserve Bank of Kansas City, Jackson Hole, WY, August 2000.
"Specialization, Diversification, and the Structure of the Financial System: The Impact of Technological Change and Regulatory Reform," Federal Reserve Bank of New York Conference, June 2000.
"Deposit Insurance," World Bank, Washington, DC, June 2000.
"Anna Schwartz: The Policy Influence," American Enterprise Institute, Washington, DC, April 2000.
"Understanding Social Change," Mercatus Center, Fairfax, VA, April 2000.
"Financial Services Modernization," Cato Institute, Washington , DC, April 2000.
"Lessons from Recent Global Financial Crises," Bank for International Settlements and Federal Reserve Bank of Chicago, Chicago, IL, October 1999.
"Is Banking Regulation Necessary?," American Enterprise Institute, Washington, DC, October 1999.
"Financial Disintermediation: Implications for Financial Instability," Bank of England, London, June 1999.
"Symposium on the International Competitiveness of the Swedish Financial Industry," Finance Ministry of Sweden and Central Bank of Sweden, Stockholm, March 1999.

"Understanding Global Financial Chaos," Mercatus Center Retreat for Capitol Hill Chiefs of Staff, Annapolis, MD, January 1999.

"Asia: An Analysis of Financial Crisis," Federal Reserve Bank of Chicago and International Monetary Fund, Chicago, IL, October 1998.

"The Japanese Financial System: Restructuring for the Future," Center on Japanese Economy and Business, Columbia Business School, New York, NY, October 1998.

"Bank Powers and Bank Mergers," Testimony before the Committee on Banking and Financial Institutions, U.S. House of Representatives, April 1998.

"Building Better Banking Systems," Annual Meetings of the World Bank Group and International Monetary Fund, Hong Kong, September 1997.

"Maintaining Financial Stability in a Global Economy," Federal Reserve Bank of Kansas City, Jackson Hole, WY, August 1997.

"Building Modern and Effective Banking Systems in Latin America and the Caribbean," Central Bank of Argentina and Inter-American Development Bank, Buenos Aires, August 1997.

"Safe and Sound Financial Systems: What Works for Latin America?" sponsored by the Inter-American Development Bank, Washington, DC, September 1996.

"Monetary and Financial Integration in an Expanding NAFTA," sponsored by the Center for International Studies, University of Toronto, Canada, May 1996.

"The Debt Burden and Its Consequences for Monetary Policy," sponsored by the International Economics Association, Frankfurt, Germany, March 1996.

"International Symposium on the System Restructuring of Commercial Banks in China," sponsored by the China Institute for Reform and Development and the Bank of China, Hainan, China, November 1995.

"Has the Time Come to Repeal the Glass-Steagall Act?," sponsored by the American Enterprise Institute, Washington, DC, February 1995.

"Lessons from the Past for Reformers of the Present," sponsored by the World Bank, Washington, DC, May 1994.

"Federal Deposit Insurance Reform," sponsored by Household Bank, Prospect Heights, IL, January 1994.

"U.S. Treasury Securities Market: The Scholars' Assessment," sponsored by the Catalyst Institute, Washington, DC, May 1993.

"Reforming Economics and Business Curricula in Central and Eastern Europe," sponsored by the Charles University, Prague, Czech Republic, June 1991.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES FROM ALLAN I. MENDELOWITZ

Q.1. Several of my colleagues on the Senate Banking Committee have expressed concern over the possible adverse impact to the Federal Home Loan Bank of New York and its programs resulting from the acquisition of The Dime Bank by Washington Mutual. There is a concern that the departure of The Dime Bank from the Federal Home Loan Bank of New York would have adverse consequences for the viability of the Bank and its funding of the Affordable Housing Program. It is my understanding, that at the last meeting of the Federal Housing Finance Board of Directors, the Chairman directed the staff to develop alternative solutions that would enable Washington Mutual to continue to do business with the Federal Home Loan Bank of New York in place of The Dime.

In order to better understand the implications of such an action, I would like to know to what extent would the departure of The Dime's business affect the stability and viability of the Federal Home Loan Bank of New York?

A.1. The departure of a large member like The Dime will reduce the assets, capital, and profits of the Federal Home Loan Bank of New York (FHLBNY). I believe, however, that the departure of The Dime will not have a material adverse impact on the viability and stability of FHLBNY. I reached this conclusion for a couple of reasons. The first reason is that the relative size and profitability of FHLBNY is not diminished by the departure of The Dime Bank. For example, FHLBNY is the third largest of the 12 FHLBanks *both before and after* The Dime's departure. The second reason is that the departure of The Dime does not adversely affect the ability of FHLBNY to pay competitive dividends or provide other services to the remaining member institutions of FHLBNY.

I used financial data from midyear 2001, which was about the time that Washington Mutual (WAMU) announced its intended acquisition of The Dime Bank, to try and understand the impact of The Dime's departure on FHLBNY. In doing the analysis, I used the most conservative assumptions possible. That is, all possible impacts were estimated using assumptions that would yield the most adverse impact on the financial condition of FHLBNY. Therefore, all other things being equal, it is likely that FHLBNY will fare better than the conclusions I reached in my assessment of the impact of The Dime's departure, and it is highly unlikely that it will fare worse.

For example, in assessing the impact of The Dime departure on operating costs, the analysis used the assumption that there would be no reduction in the operating costs of the FHLBNY. That is, FHLBNY is assumed to have the same number of staff, administrative costs, rent, etc., whether or not FHLBNY has or does not have The Dime book of business. The treatment of the profitability of the advances held by The Dime is treated in the same conservative approach. The profitability of FHLBNY's advances to The Dime is assumed to be the average profitability for all of FHLBNY's advances. This assumption is used even though it is my understanding that all of The Dime's advances are very short and such advances tend to be less profitable than longer term advances for an FHLBank. The Dime's advances typically have only a few days

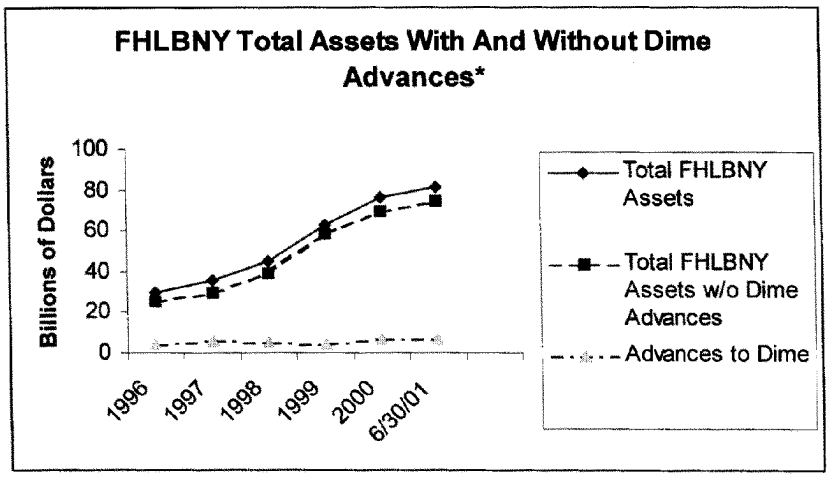
maturity because they are used to fund mortgages held by The Dime for the very short period of time that passes between when the mortgages are closed and when they are subsequently resold to the secondary market. The spread on advances—the source of profits earned on advances—tends to be much narrower for very short-term advances than it is for medium- and long-term advances. (A reasonable estimate is that the spread earned on very short-term advances is in the 8 to 10 basis points range, while the spread on longer term advances tends to be in the 18 to 20 basis point range.)

As regards the relative size and profitability of FHLBNY, as compared to other FHLBanks in the Federal Home Loan Bank System (FHLBank System), they are not adversely affected by The Dime's departure.

RANKING of FHLBNY
(Compared to all 12 Federal Home Loan Banks)

	FHLBNY with DIME	FHLBNY without DIME
ASSETS (As of 6/30/2001)	3rd largest out of 12 ($81 billion)	3rd largest out of 12 ($73 - 75 billion)
PROFITS (GAAP Net Income for 12 months preceding 6/30/2001)	3rd largest out of 12 ($290 million)	3rd largest out of 12 ($263 million)

In addition, FHLBNY, after the departure of The Dime, will continue to be significantly larger than it was in the recent past. Using the midyear 2001 financial data as the point of comparison, FHLBNY's total assets without The Dime would still be 6 percent to 9 percent larger than they were with The Dime only 1 year before, that is, at midyear 2000. This result reflects the fact that FHLBNY has grown rapidly in recent years. However, new advances extended to The Dime did not cause that growth. As the following graph shows, advances to The Dime were fairly level over the past half-decade.



*Data are from Federal Home Loan Banks Financial Reports, 1996-2001

The financial analysis also demonstrates that the *Return on Equity* of FHLBNY may actually increase slightly with the departure of The Dime. This outcome results from the fact that the departure of The Dime will likely reduce the equity of FHLBNY by more than it will reduce profits. Each of the remaining shareholders may have an absolutely larger share of the remaining profits of the FHLBNY after The Dime's departure. As a result, the ability of FHLBNY to pay competitive dividends and to preserve the value proposition for other members will be maintained—or even enhanced—after The Dime's membership ceases.

This particular consequence of The Dime departure on FHLBNY should not come as a surprise. It is a reflection of the basic structure of the FHLBank System. As a cooperative system, the capital stock of an FHLBank is designed to expand and contract as members are added or lost. There are a number of examples, over the past decade, of FHLBanks that have successfully expanded and contracted in response to gaining or losing members. The issues surrounding The Dime departure form FHLBNY are not unique in the System.

Therefore, the departure of The Dime will neither negatively affect the viability or stability of the FHLBNY nor will it adversely affect the ability of FHLBNY to meet the needs of its other members. Consequently, the departure of The Dime will not affect the ability of FHLBNY to fulfill its housing finance and community development responsibilities.

Q.2. How would the departure of The Dime affect the Affordable Housing Program at the Federal Home Loan Bank of New York?

A.2. There are two ways to look at the impact of The Dime's departure from FHLBNY on the Affordable Housing Program. The first is the impact of The Dime's departure on the available funding for AHP. The second is the impact of The Dime's departure on the ability of FHLBNY member institutions to effectively use AHP funds. I believe that the departure of The Dime will not have a

large impact on the availability of AHP funds in the FHLBNY district, nor will The Dime's departure adversely affect the ability of FHLBNY members to effectively use AHP funds.

Availability of AHP Funds at FHLBNY: The departure of The Dime Bank from FHLBNY will lower funding of AHP at FHLBNY. For the year 2001, FHLBNY had $31 million available for AHP. The departure of The Dime will likely have a maximum adverse impact on funds available for AHP of about $3 million per year, or about 10 percent of FHLBNY's AHP funds available for allocation in 2001.

The FHLBNY district currently has 11.0 percent of the U.S. population. At the funding level for AHP in 2001, the FHLBNY district had 12.6 percent of the FHLBank System's total funding for AHP. In other words, its share of AHP funds was 1.6 percent more than its district's share of the U.S. population. With the departure of The Dime, the FHLBNY district will have about 11.4 percent of the FHLBank System's AHP funds (assuming that the New York AHP funds decline by $3 million, but the total FHLBank System's funds remain the same). That is, after the departure of The Dime, FHLBNY will still have a larger share of the total AHP funds than its district's share of the U.S. population. Therefore, while the departure of The Dime will reduce FHLBNY AHP funds, everything else equal, the AHP program in the New York district would not be subjected to a large absolute or relative reduction in the annual AHP funds.

Effective Utilization of AHP Funds: Different member banks make greater or lesser use of the AHP. Some member banks make very good use of the funds, while others make very little use of the program. As a general rule, larger institutions tend to be more active users of the AHP relative to smaller institutions. This tends to be the case because the AHP requires members to make a significant commitment of resources to a potential beneficiary project: Preparing applications, monitoring of compliance with rules and regulations during a project's development, and additional post-completion monitoring and certification that may stretch a decade into the future. Because The Dime is a relatively large member, with approximately 15 percent of the advances outstanding from FHLBNY, the loss of The Dime Bank could represent the loss of an active AHP supporter from the program. If this were true, the effective utilization of AHP funds could be adversely affected. However, this does not appear to be the case. In the first 12 years of the program, The Dime successfully applied for AHP funding for beneficiary projects in only 7 of those years. Over the life of the program, the nine successful Dime initiated applications accounted for only 3.9 percent of all AHP funds that were allocated competitively by FHLBNY. Therefore, the loss of The Dime is not likely to represent a material reduction in the ability of FHLBNY member institutions to support the AHP and effectively use the available AHP funds. In fact, over the life of the program more than 120 different FHLBNY member institutions have successfully applied for AHP funds.

If there is still a concern that some sort of temporary action is needed during the interval of time during which the FHFB will be deliberating on the complex implications of the rise of interstate

banking and the cross-district mergers, WAMU has within its own capacity the ability to resolve this matter without any extraordinary action by the Finance Board. If a member bank ceases to exist because it is absorbed in a merger or acquisition, the outstanding advances do not become due and payable on the cessation of membership. The outstanding advances are permitted to mature and roll off the books of the FHLBank based on their original terms. If WAMU were to instruct The Dime to roll over its existing advances (before the acquisition closes) into new ones with a longer term, these advances would remain on the books of FHLBNY until they come due. For example, if The Dime were to extend its book of advances for a period of 2 years, The Dime advances—and their associated profits and AHP funding—would remain on the books of FHLBNY for 2 years, irrespective of the end of The Dime charter and its membership in FHLBNY. In a similar case, FHLBNY has advances taken out by Summit (a member which was merged into Fleet Bank in March 2001) that do not mature for 15 years and will remain on the books of FHLBNY until 2016.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BENNETT AND SENATOR CRAPO FROM ALLAN I. MENDELOWITZ

Q.1. Although the Finance Board has complied with the Gramm–Leach–Bliley Act of 1999 and capital plans have been submitted by the twelve Federal Home Loan Banks, there is concern the Finance Board may not act to approve these new capital plans for some time. In fact, some industry representatives claim the Finance Board has stated it may be until next spring until capital plans are approved. It is very important to approve the capital plans soon to assure a permanent capital base that is stable and will enhance safety and soundness for the System. When can you estimate that the Finance Board will be starting to approve the capital plans and will they approve all the plans simultaneously or on an individual basis?

A.1. I am pleased to report that the approval process is currently underway. The staff of the Finance Board is evaluating each plan in terms of its internal consistency and examining how it affects the System as a whole. We are also evaluating the technical capabilities of the FHLBanks to fulfill their responsibilities under the plans. It is my hope that we can finish this process quickly. My preference is to start approving individual plans sooner rather than later. When we find that the capital plan of any individual FHLBank is complete and meets the requirements of the capital rule, that the FHLBank has the technical capability to implement all aspects of the plan, and that the proposed capital plan does not adversely affect the System as a whole, if confirmed, I would be prepared to promptly consider a Board recommendation for the approval of that plan.

Q.2. As consolidation of the financial arena continues we will continue to see merging across FHLBank districts. As we know the financial world is changing and the System itself rests on the ability of the Finance Board to change with the times. Rules and regulations restricting membership when financial institutions merge from neighboring districts are outdated and are hampering the

ability of the FHLBank System to adapt to the times and market fluctuations. When do you see the Finance Board addressing the multidistrict membership issue and specifically do you see the Finance Board ruling to allowing member banks to become members in adjoining FHLBank districts?

A.2. The Finance Board is actively addressing this issue. In September 2001, the Finance Board issued a request for comments to address the dramatic changes taking place in financial markets and the membership of the FHLBanks. The breadth and quality of the responses to this request for comments are very important because the Finance Board does not yet have all of the information and analysis needed to reach a conclusion on the full implications of these changes, including the issue of multidistrict membership. I will continue to maintain an open mind on this issue predicated on the expectation that I will receive the necessary legal, financial, and public policy data and analysis on which to make a sound decision. I see no reason why the Finance Board will not be in a position to resolve these issues next spring. Any action the Finance Board may consider will, of course, be limited to the authority provided in our statute.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES FROM FRANZ S. LEICHTER

Q.1. Several of my colleagues on the Senate Banking Committee have expressed concern over the possible adverse impact to the Federal Home Loan Bank of New York and its programs resulting from the acquisition of The Dime Bank by Washington Mutual. There is a concern that the departure of The Dime Bank from the Federal Home Loan Bank of New York would have adverse consequences for the viability of the Bank and its funding of the Affordable Housing Program. It is my understanding, that at the last meeting of the Federal Housing Finance Board of Directors, the Chairman directed the staff to develop alternative solutions that would enable Washington Mutual to continue to do business with the Federal Home Loan Bank of New York in place of The Dime.

In order to better understand the implications of such an action, I would like to know to what extent would the departure of The Dime's business affect the stability and viability of the Federal Home Loan Bank of New York?

A.1. Chairman Sarbanes, I would like to thank you for voting to confirm my nomination to the Board of Directors of the Federal Housing Finance Board (Finance Board). Your help in shepherding my nomination through this process has been invaluable and I am most grateful.

In response to your inquiry regarding The Dime Savings Bank's (The Dime) acquisition by Washington Mutual, there would be some adverse impact on the New York Federal Home Loan Bank (NYFHLB) should the business of The Dime leave the New York district. An analysis based on the current Dime's activity with the NYFHLB indicates that the NYFHLB would lose annually approximately $27 million in net income and its assets would be reduced by $8 billion. The NYFHLB's Affordable Housing Program (AHP) allocation would be reduced by approximately $3 million, or 10 percent of the AHP funds available for allocation in 2001. The Dime

represents 11 percent of the total advances of the NYFHLB and 10.9 percent of capital. In terms of the AHP, The Dime currently has projects totaling approximately $7.5 million and could be expected to produce similar volume in the future. While this AHP amount is not a huge share of total AHP projects at the New York Bank, it does represent a sizable investment of 1,479 units—vital housing needed in this period of economic difficulty in New York.

Another issue for the Finance Board to consider if The Dime's activities were transferred to the San Francisco Federal Home Loan Bank (SFFHLB), where Washington Mutual is a member, is that it would increase Washington Mutual's advances in the SFFHLB to $115 billion, 48 percent of the SFFHLB's total advances.

The NYFHLB has asked that a waiver be granted permitting Washington Mutual to continue with the activities of The Dime even though it is a member of the SFFHLB. This raises the issue of multidistrict membership. As you know, the Finance Board has issued a Solicitation of Comments dealing with the wide variety of complex issues surrounding multidistrict membership.

In resolving the multidistrict membership issue, my goal is to first ensure the safety and soundness of the Federal Home Loan Bank System and to maintain its cooperative character. I would like to see multidistrict membership resolved in a way that ensures the continued viability of the System, treats all members fairly but takes into account the differing needs of members of various sizes.

The Finance Board is now considering whether it is appropriate to maintain the status quo in the NYFHLB by permitting The Dime activity to be continued by Washington Mutual while the Finance Board acts on a system-wide resolution of the multidistrict membership issue. The Finance Board must determine whether the immediate termination of the business relationship between The Dime and the NYFHLB upon the merger with Washington Mutual could prove to be an unnecessary disruption in the business operations of the NYFHLB if the Finance Board ultimately determines that an institution may be admitted to membership in more than one FHLBank. In making this decision, we are considering the views of all interested parties and maintaining close communications with Members of Congress and your staff.

I look forward to working with you on this and other issues facing the Federal Home Loan Bank System in the foreseeable future. If you have any questions, please contact me.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BENNETT AND SENATOR CRAPO FROM FRANZ S. LEICHTER

Senator Bennett and Senator Crapo, I would like to express my gratitude for your consideration of my nomination for Director of the Federal Housing Finance Board. I offer the following response to your follow-up questions:

Capital. The Federal Home Loan Banks submitted final capital plans in October 2001. Prior to the submission of those final plans, the Finance Board gave the Banks feedback on their draft capital plans. Accordingly, much progress has already been made in reviewing the capital plans of the Federal Home Loan Banks.

If confirmed, I would urge the Federal Housing Finance Board to move expeditiously to approve the capital plans. Throughout this

approval process, I have sought to ensure the safety and soundness of the Federal Home Loan Bank System. This involves a complex analysis of both policy and technical issues. In addition, we must work toward commonality among the plans, to make sure that no one Federal Home Loan Bank has the advantage over another.

Multiple-District Membership. The issue of the multidistrict membership for members of the Federal Home Loan Bank System poses a great challenge to the System. In September, the Finance Board issued a Solicitation of Comments to address this issue. I have urged an open process with input from the Federal Home Loan Banks, its members, community and trade groups, as well as Congress. Multidistrict membership requires the consideration of numerous legal and policy issues. Upon confirmation, I would seek a solution that preserves the safety and soundness and the cooperative nature of the System. It is my hope that this issue will be dealt with expeditiously.

Again, I would like to thank you for the confirmation hearing graciously afforded to me last week. I look forward to working with you on capital and multidistrict membership, as well as other important issues facing the Federal Home Loan Bank System. If you have any further questions, please feel free to contact me.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES FROM JOHN T. KORSMO

Q.1. Several of my colleagues on the Senate Banking Committee have expressed concern over the possible adverse impact to the Federal Home Loan Bank of New York and its programs resulting from the acquisition of The Dime Bank by Washington Mutual. There is a concern that the departure of The Dime from the Federal Home Loan Bank of New York would have adverse consequences for the viability of the Bank and its funding of the Affordable Housing Program. It is my understanding, that at the last meeting of the Federal Housing Finance Board of Directors, the Chairman directed the staff to develop alternative solutions that would enable Washington Mutual to continue to do business with the Federal Home Loan Bank of New York in place of The Dime.

In order to better understand the implications of such an action, I would like to know to what extent would the departure of The Dime's business affect the stability and viability of the Federal Home Loan Bank of New York? How would the departure of The Dime affect the Affordable Housing Program at the Federal Home Loan Bank of New York?

A.1. As I have only recently been confirmed to become a Director of the Federal Housing Finance Board, I have not had an opportunity to fully explore the extent of the effect on the Federal Home Loan Bank of New York (FHLBNY) of the departure from membership of The Dime Savings Bank of New York. It is my understanding, however, based on information provided by Finance Board staff, that the loss of The Dime Bank would, to some extent, have a negative impact on FHLBNY's book of business and operating income and diminish the resources available for FHLBNY's Affordable Housing Program (AHP).

According to the Finance Board staff, as of November 30, 2001, The Dime held 11.7 percent of the total outstanding advances of

the FHLBNY ($6.698 billion out of $57.190 billion). In addition, The Dime holds 11.1 percent of FHLBNY's capital stock ($404 million out of a total of $3.644 billion). The reduction in revenue and income that would result from the withdrawal of The Dime's capital stock is, of course, proportional to The Dime's share of the total. While I believe it would be too strong a statement to suggest that these reductions would "affect the stability and viability of the Federal Home Loan Bank of New York," I think there is little question there would be an adverse effect on the Bank's Affordable Housing Program. Given this year's estimated AHP set-aside of $30.3 million, the reduction in AHP funds in the first year without The Dime would be $3.37 million, again using estimates provided by the Finance Board staff. Because each dollar of AHP "seed" money is leveraged at a ratio of around 16 to 1, that $3.37 million may, in reality, translate to a potential loss of approximately $50 million in development funds. Subsequent years' AHP amounts would also be reduced proportionately. Given the competitive nature of the AHP process and the large number of applicants, this year as in the past, The Dime is not currently likely to sponsor winning AHP projects that claim 11 percent of total AHP funds. The loss of the funding generated by The Dime's business, however, would have a negative impact on other FHLBNY member lenders by reducing the pool of already-scarce funding available for community investment and affordable housing in the New York/New Jersey region, and, in the wake of the September 11 attacks, the need for these subsidies may be even greater than in more normal years.

Loss of The Dime's activity has an additional impact on the remaining member lenders of FHLBNY. Given the cooperative nature of the Federal Home Loan Bank System, participation in the System by large members, including The Dime, helps reduce the cost of products and services made available to all Federal Home Loan Bank members, including the smallest members. This allows members to better serve the financial needs of their communities with lower-cost products. The large-volume FHLBank customers carry more of the overhead and contribute more to the bottom line than some of the smaller members and, in so doing, help produce more reasonable dividends on the member lenders' capital investment and make liquidity, lower-cost funding, and technical assistance more readily available to all FHLBank members.

Financial services consolidation is likely to continue, and, as it does, we will be required of necessity to consider its impact on the Federal Home Loan Bank System. For that reason, the Federal Housing Finance Board on September 26, 2001, approved a Notice and Solicitation of Comments specifically seeking to identify the issues surrounding multiple FHLBank membership and the implications of such membership on the System as a whole. The notice solicits public comment on a series of policy questions relating to whether a single financial institution should be permitted to become a member concurrently of more than one FHLBank, with particular attention given to the situation in which a member of one FHLBank acquires or merges with a member institution in a different FHLBank district.

The assumption at this point is that Washington Mutual's acquisition of The Dime will be completed before the Federal Housing

Finance Board has had an opportunity to review the results of the solicitation for public comment and, if needed, to promulgate appropriate regulations. (The comment period, in fact, has recently been extended until March 4, 2002.) In anticipation of a near-term closing of the Washington Mutual-Dime deal, Senators Schumer and Clinton, of New York, and Senators Toricelli and Corzine, of New Jersey, have in a letter requested that the Federal Housing Finance Board conditionally "approve individual applications (such as FHLBNY's waiver request) on one track and on another track thoughtfully draft and implement the regulations necessary to maintain an efficient and balanced FHLBank System."

The management and staff of the Federal Home Loan Bank of New York are to be commended, not only for the successful evacuation of their facility on September 11 without any loss of life, but also for the speed and efficiency with which they were back up and running, despite the complete destruction of their headquarters and the inconvenience of operating from temporary quarters. But the reality is that the full effect of the attack on the operation of the Bank and on the economy of the region is yet to be fully felt and measured. What is clear even from the fragmentary data is that the area has taken a terrible "hit," and perhaps thousands of jobs have been lost. Given the surrounding circumstances and the timing of the Washington Mutual-Dime transaction, I believe that the request of the FHLBank of New York for some form of "status quo" relief, narrow in scope, limited in time, and consistent with the need not to prejudice or impair the full and careful review of the underlying issue of multidistrict membership, should be considered. Action aimed at holding the FHLBank of New York's largest customer "in place" while the Federal Housing Finance Board addresses the multidistrict membership issue does not strike me as unreasonable, particularly when we recognize the added imperative of providing the New York bank a measure of stability and continuity at a time of extraordinary stress on the New York/New Jersey regional economy. As has been suggested by the four New York and New Jersey Senators, we should not fail to acknowledge the value to the morale of the region that even such a limited show of support by a Federal agency could provide.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BENNETT AND SENATOR CRAPO FROM JOHN T. KORSMO

Q.1. Although the Finance Board has complied with the Gramm–Leach–Bliley Act of 1999 and capital plans have been submitted by the twelve Federal Home Loan Banks, there is concern the Finance Board may not act to approve these new capital plans for some time. In fact, some industry representatives claim the Finance Board has stated it may be until next spring until capital plans are approved. It is very important to approve the capital plans soon to assure a permanent capital base that is stable and will enhance safety and soundness for the System. When can you estimate that the Finance Board will be starting to approve the capital plans and will they approve all the plans simultaneously or on an individual basis?

A.1. As a nonincumbent nominee to the Federal Housing Finance Board, I have not been involved to date, of course, in the Board's

capital plan review process. I am aware, however, that the Finance Board worked closely with the Federal Home Loan Banks throughout the period of capital plan development and, as a result, the Finance Board staff does not anticipate any major problems in approving the plans as submitted. My assumption is that, once it is assured that the plans meet the requirements of the capital rule and, taken together, do not adversely affect the safety and soundness of the Federal Home Loan Bank System as a whole, the Finance Board will act expeditiously to approve the individual plans. I can assure you that, if confirmed, that will be my intention.

Q.2. As consolidation of the financial arena continues we will continue to see merging across FHLBank districts. As we know the financial world is changing and the System itself rests on the ability of the Finance Board to change with the times. Rules and regulations restricting membership when financial institutions merge from neighboring districts are outdated and are hampering the ability of the FHLBank System to adapt to the times and market fluctuations. When do you see the Finance Board addressing the multidistrict membership issue and specifically do you see the Finance Board ruling to allow member banks to become members in adjoining FHLBank districts?

A.2. As you know, the Finance Board has issued a Notice and Solicitation of Comments on the question of multiple Federal Home Loan Bank memberships. The solicitation seeks comments on the implications for the Federal Home Loan Bank System of precisely the type of structural changes occurring in its membership base that you cite. Comments are due by January 2, 2002. I believe the issue is broader, however, than simply allowing member banks to become members in adjoining Federal Home Loan Bank districts. I appreciated Senator Gramm's remarks at the November 15 hearing for Finance Board nominees when he said, "I think it is time for a comprehensive review, and I would just like to ask each of you when you are confirmed to sit down and look at the mission of this agency." It thus appears that consideration of the multiple membership question, by affording the Finance Board the opportunity to conduct a comprehensive review of its form and function, could not have come at a more opportune time. I have not prejudged the multiple district membership issue. There may be a number of methods, for example, by which changes in the membership structure of individual banks can be accommodated without jeopardizing either their safety and soundness or their participation levels in their affordable housing programs. Once all the comments are in and the data has been carefully evaluated, however, I believe the Finance Board, working with members of the Congress, should, again, move expeditiously to answer the policy questions raised by changes in the nature and structure of the Nation's financial markets. If confirmed, I promise to do just that.