

May 30, 2018

The Honorable Elizabeth Warren
United States Senate
Washington, D.C. 20510

Dear Senator:

Enclosed are my responses to the written questions you submitted following the May 15, 2018¹, hearing before the Committee on Banking, Housing, and Urban Affairs. A copy has also been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I can be of further assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Michelle Obama", with a long horizontal flourish extending to the right.

Enclosure

¹ Questions for the record related to this hearing were received on May 23, 2018.

Questions for Ms. Michelle Bowman, Member-Designate, Board of Governors of the Federal Reserve System on behalf of Senator Warren:

1. Do you believe that any US banks are Too Big to Fail?

- **If so, what can and should the Fed do to address this problem?**
- **If not, what evidence supports your conclusion?**

I believe substantial progress has been made in making the financial system more resilient, particularly as a result of stronger capital, liquidity, stress testing, and resolution planning requirements that were introduced in the wake of the financial crisis. Activities and risks in the financial sector evolve quickly, however, especially at the largest firms, so I also believe that regulators need to closely monitor risks to the financial system over time and act accordingly.

2. Section 402 of S.2155, which recently passed the Senate and allows banks “predominantly engaged in custody, safekeeping, and asset servicing activities” to have less capital.

- **Do you believe that language applies to JPMorgan Chase and Citigroup?**

Section 402 of the Economic Growth, Regulatory Relief, and Consumer Protection Act allows depository institution holding companies that qualify as “custodial banks” to exclude reserves at certain central banks for purposes of leverage capital requirements. This section defines a custodial bank as any depository institution holding company that is predominantly engaged in custody, safekeeping and asset servicing activities (and any subsidiary depository institution of such a holding company) and the banking agencies could issue regulations to implement these provisions. Diversified bank holding companies, such as JPMorgan Chase and Citigroup, have significant custodial operations but these operations are relatively small compared to the companies’ overall operations. Therefore, these organizations would not appear to qualify as “custodial banks.”

- **Would that analysis hold if those two banks created intermediate holding companies to house their custody services?**

The Federal Reserve Board’s (Board) regulatory capital rules are based on financial consolidation. Consolidation combines the assets and activities of the top-tier company and its subsidiaries so that they can be viewed holistically. In my current understating, if a depository institution holding company reorganized all of its custodial services under an intermediate holding company but made no other changes, the assets and activities of the top-tier, consolidated depository institution holding company would not be affected. Housing the custody services under an intermediate holding company therefore would not affect whether a company received capital relief under section 402 of the Economic Growth, Regulatory Relief, and Consumer Protection Act.

3. Banks today reported record profits – up 27.5% from the first quarter of last year. The economy is nearly a decade into a long expansionary period.

- **Why is a reduction in capital requirements necessary or appropriate at this time?**

It is clear that a resilient, well-capitalized financial system that is strong enough to withstand even severe shocks and support economic growth by lending through the economic cycle is needed. To that end, the U.S. banking agencies have acted to substantially strengthen regulatory capital requirements for U.S. banking firms, resulting in improved quality and an increase in our amount of capital in our banking system. At the same time, it is important to monitor the capital rules on an ongoing basis, to determine whether the framework is effectively measuring and addressing risk and working as intended, and to adjust the framework as needed.

Reforms proposed by the Federal Reserve suggest that the enhanced supplementary leverage ratio standards may be currently calibrated too high, creating potential incentives for firms to disengage from certain low-risk, low-return financial activities that are beneficial for the economy. Modest recalibration may reduce these negative incentives while not materially changing overall large bank capital requirements.

4. Fed Chair Powell recently announced that the Fed's Board of Governors would vote on whether to relieve Wells Fargo from the growth restriction the Fed imposed on it pursuant to its February 2018 consent order.

- **What kind of changes at Wells Fargo would you need to see before voting to lift the growth restriction?**

As specified in the Consent Order, the firm must adopt and implement the remediation plans the Consent Order requires to improve Wells Fargo's governance and risk management, including internal controls and testing of those controls, particularly for compliance and operational risk.

I understand that the firm must also engage a third party to review the implementation of the plans and required improvements.

And furthermore, that a number of improvements must be made to the firms' governance and risk management practices to be fully compliant with the terms of the Consent Order. If confirmed, with regard to lifting the asset cap imposed, I would only vote to do so if the required improvements are implemented to the satisfaction of the Board.

- **Do you believe the Fed should place more emphasis on finding diverse leaders for the regional banks? If so, how do you recommend changing the current hiring process so that it produces more diverse leaders?**

My impression is that the Federal Reserve System and its leadership has placed considerable emphasis on increasing the diversity of senior leadership, and with some significant successes. However, I think all also agree that more must still be done. If confirmed, I will join the Board with the intent to devote time and attention to understanding the full range of challenges in this space, and think creatively about how the Board in particular can engage more effectively in support of the shared goal of a more diverse senior leadership.

In reviewing recent searches, I have observed that search committees have used a variety of new channels to solicit input on important attributes for the districts' presidents, as well as suggestions of specific individuals for consideration. They have also worked to make the process as transparent as possible. Outreach has occurred through social media--for example, webinars and YouTube videos--and also through more traditional efforts, such as meetings with key constituencies, including non-profit and advocacy groups as well as the business community. All of this seems promising and important, and represents a foundation on which I hope we can continue to build.

I believe the Federal Reserve is committed to making further progress and to better understanding the challenges to promoting and improving diversity of ideas and backgrounds. It has described this as an ongoing objective, and I assure you that diversity will remain a high-priority objective for the Federal Reserve, if I am confirmed.

- **The Fed is apparently participating in an interagency effort to reform regulations implementing the Community Reinvestment Act. In April, the Treasury Department sent a memo to the Fed, the OCC, and the FDIC recommending several rule changes. Do you disagree with any of the Treasury recommendations?**

I understand that the Treasury's recommendations were based on a broad outreach effort and the summary sent to the agencies includes helpful insights.

As with any process, I believe that it is likely that some recommendations may be difficult to implement as a practical matter, such as the recommendation to standardize the examination schedules across the regulatory agencies.

If confirmed, I would want to review the recommendations to see which would result in improving the effectiveness of the Community Reinvestment Act (CRA), while focusing on potential ways to relieve regulatory burden for community banks.

I would like to see the agencies work together to find ways to accomplish both goals.

- **What are your priorities for CRA reform?**

There is a great deal of consensus among banks, community development organizations, and others regarding the need to make CRA evaluations more consistent and transparent.

I also agree that CRA should be revised in a way that encourages more lending and investment in underserved areas.

I believe these are good goals for the agencies to pursue and that any revisions to the CRA regulations need to balance the interests of both community and industry stakeholders.