THE FEDERAL RESERVE'S SEMI-ANNUAL MONETARY POLICY REPORT

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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THE FEDERAL RESERVE'S SEMI-ANNUAL MONETARY POLICY REPORT

Wednesday, February 12, 2025

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

The committee met, pursuant to notice, at 10:07 a.m., in room 2128, Rayburn House Office Building, Hon. French Hill [chairman of the committee] presiding.

Present: Representatives Hill, Lucas, Sessions, Huizenga, Wagner, Barr, Williams of Texas, Loudermilk, Davidson, Rose, Timmons, Stutzman, Norman, Meuser, Kim, Donalds, Garbarino, Fitzgerald, Flood, McClain, Salazar, Downing, Haridopolos, Moore, Waters, Velázquez, Sherman, Meeks, Scott, Lynch, Green, Cleaver, Himes, Foster, Beatty, Vargas, Gonzalez, Casten, Pressley, Tlaib, Torres, Garcia, Williams of Georgia, Fields, Bynum, and Liccardo.

Chairman HILL. The committee will come to order.

Without objection, the chair is authorized to declare a recess of the committee at any time.

This hearing is titled, "The Federal Reserve's Semi-Annual Monetary Policy Report."

Without objection, all members will have 5 legislative days within which to submit extraneous materials to the chair for inclusion in the record.

I will note at the outset that this hearing has a hard stop at 1 p.m., which we will strictly observe.

I will now recognize myself for 4 minutes for an opening statement.

OPENING STATMENT OF HON. FRENCH HILL, CHAIRMAN OF THE COMMITTEE ON FINANCIAL SERVICES, A U.S. REPRESENTATIVE FROM ARKANSAS

Welcome Chairman Powell, thank you for being with us today. For the last 4 years, inflation has crushed Americans. Today, it takes $1.21 to purchase what just cost $1 in January 2021, as measured by the Consumer Price Index. The erosion of Americans' incomes and, thereby, their savings was caused by a combination of irresponsible fiscal policy, supply chain disruptions, but also by, in my view, the Federal Reserve fighting the last war, staying too low for too long.

Chairman Powell, you and I have discussed at previous hearings that the Federal Reserve System (Fed), like many others, assumed that the pre-pandemic era of low inflation and low interest rates would continue. This belief was one of the reasons the Fed changed its monetary policy framework in August 2020, only 7 months before inflation began its 4 decades steep march upward in March 2021. In hindsight, the adoption of the so-called flexible average inflation targeting appears ill-timed and ill-fitted for a post-pandemic world.

As the Fed undertakes a review of its monetary policy framework, you must account for the lessons of the last 4 years and think about what is ahead over the horizon, not what has been. The Fed has made progress on inflation, but it is the last mile that seems the hardest. As Bank of America economist, Stephen Juneau, said yesterday, "Inflation is stuck above target, with risks to the upside." In August 2022, with inflation raging, you gave a speech that echoed some of your predecessors as chair. You vowed to keep at it until we are confident the job is done. It is a vow you should fulfill.

With this morning's confirmation that inflation is well above the 2 percent target at 3 percent and making move upwards, other economic indicators are positive. As you reported yesterday, a low inflation rate, solid growth domestic product (GDP), growth, and financial conditions continue to support expansion and investment. This is not a time to say that there are no risks, but some perhaps unseen. However, these risks, in comparison to the risk of a resurgence of inflation present, are modest. Given the already high prices due to President Biden's inflation, Americans simply cannot afford further price increases at the grocery store and gas pump. Such a resurgence would likely force the Fed to begin another tightening cycle, making mortgages, credit cards, and small business loans unattainable for many. That is why I urge the Fed to forge ahead with its monetary policy duties until you are confident the mission is complete, and price stability has been restored.

The fact is, over the past decade, we have witnessed too many distracting additional mandates diluting the Fed's core mission of price stability. This is the reason we formed the Task Force on Monetary Policy, Treasury Market Resilience, and Economic Prosperity that will be led by Chair Frank Lucas. The Task Force's purpose is to ensure that the monetary policy actions of the Fed are put under a magnifying glass and prioritized for this committee, and I look forward to our first hearing of the Task Force.

I now want to turn to some of the other Fed responsibilities, bank regulation and supervision. The Fed was created by Congress to be an independent Agency. The intent is to insulate the Federal Reserve's monetary policy from political influence. Unfortunately, in the last 2-and-a-half years of the Biden Administration, the Fed took on serious liberties with its independence in the areas of supervision. In law, the Federal Vice Chair for Supervision is to develop policy recommendations that then have been brought to the Board of Governors for consideration. In my estimation, over the years, you and the board have been too deferential to the statutory vice chairman for supervision.

Vice Chair Barr turned the Basel III Endgame rulemaking into a partisan attempt to propose a massive hike on capital on American banks, making them less competitive. The Fed has a chance right now to get back on the right track and preserve its independence for the long-term benefit of the American people, and with that, I yield back.

The chair recognizes Mr. Lucas, the Chair of the Monetary Policy, Treasury Market Resilience, and Economic Prosperity Task Force, for 1 minute.

OPENING STATEMENT OF HON. FRANK D. LUCAS, CHAIRMAN OF THE TASK FORCE ON MONETARY POLICY, TREASURY MARKET RESILIENCE, AND ECONOMIC PROSPERITY, A U.S. REPRESENTATIVE FROM OKLAHOMA

Mr. LUCAS. Thank you, Mr. Chairman. While there are differences of approach in this room, a bipartisan guiding principle is that maximizing economic growth is the path to economic prosperity. It is the single greatest factor in delivering opportunity and improving the quality of life for the folks back home. The actions of the Federal Reserve and the machinery of monetary policy play an important role in economic stability. With the 5-year review of the monetary policy framework underway, I hope this will be an opportunity to evaluate the effectiveness of the Fed's toolkit and its vast influence on the lives of every American. The creation of the new Monetary Policy, Treasury Market Resilience, and Economic Prosperity Task Force will afford us the opportunity to dive deeper into this topic.

Chairman Powell, thank you for being here. There are real issues that deserve our attention, and I hope today will be productive. I look forward to hearing your testimony on the state of the economy, where we are, and where we are headed. I yield back, Mr. Chairman.

Chairman HILL. The gentleman yields back. The chair recognizes Mr. Vargas, the Ranking Member of the Monetary Policy, Treasury Market Resilience, and Economic Prosperity Task Force, for 1 minute.

OPENING STATEMENT OF HON. JUAN VARGAS, RANKING MEMBER OF THE TASK FORCE ON MONETARY POLICY, TREASURY MARKET RESILIENCE, AND ECONOMIC PROSPERITY, A U.S. REPRESENTATIVE FROM CALIFORNIA

Mr. VARGAS. Thank you very much, Mr. Chairman, and thank you, Ranking Member. Thank you, Chairman Powell, both for your years of public service and for appearing before our committee today. As the Ranking Member of the newly formed Monetary Policy, Treasury Market Resilience, and Economic Prosperity Task Force, I look forward to working with Chairman Lucas and the rest of my colleagues to address these important issues.

The research is clear. Independent central banks perform better in carrying out their mandates than politically motivated central banks. The independence of the Federal Reserve is crucial to achievement of these dual mandate goals to maintain both maximum employment and stable prices, and although this dual mandate has been criticized by some, it continues to serve Americans well. It has not prevented the Fed from making substantial progress on driving down inflation, all the while avoiding a recession which many saw as inevitable. I look forward to your testimony, Chairman Powell, and I yield back.

Chairman HILL. The gentleman yields back. I would like to turn to the gentleman from Michigan and yield to him for a point of personal privilege, Mr. Huizenga.

Mr. HUIZENGA. Thank you, Chairman Hill, and as we all know, all good things must come to an end. I want to take a minute to recognize someone who is leaving the committee but has been an integral part of the oversight work Republicans have done over the last 5 years. Although Nicholle Vo is all of 29 years old, something that we tease her about on a fairly regular basis, I quickly realized that despite her physical stature, she was a force to be reckoned with. Her dedication to my team, this committee, her colleagues, and this institution is something that we all should aspire to achieve.

Nicholle has effectively served in various roles, from a professional staff member right out of law school to now deputy general counsel in this particular Congress. In her time with the committee, Nicholle has worked on or led investigations in the Sam Bankman-Fried, the bank collapses of 2023, terrorist financing, culture and corruption at the Federal Deposit Insurance Corporation (FDIC), and the Securities Exchange Commission's (SEC's) climate disclosure rule, just to name a few. I have sat through her questioning, and it is fierce and tenacious and directed.

Myself, my team, and, frankly, the whole Financial Services Committee team cannot thank Nicholle enough for her work and what she has done on behalf of this organization. Like all good staffers, she has become a confidant, a sounding board, and has the ability to say no in a very nice way, but in a very tough way as well. Although Nicholle will be leaving the committee, her contributions will not be forgotten and are deeply cherished. Thank you, Nicholle. We deeply appreciate all your work, and I yield back. [Applause.]

Chairman HILL. Mr. Chairman, we welcome your testimony. Chairman Powell, you will be recognized for 5 minutes to give an oral presentation of your testimony.

Without objection, your written statement will be made part of the record. You are now recognized for 5 minutes.

STATEMENT OF HON. JEROME H. POWELL, CHAIRMAN OF THE BOARD OF GOVERNORS, THE FEDERAL RESERVE SYSTEM

Mr. POWELL. Chairman Hill, Ranking Member Waters, and other members of the committee, I appreciate the opportunity to present the Federal Reserve's Semi-Annual Monetary Policy Report.

The Federal Reserve remains squarely focused on achieving our dual-mandate goals of maximum employment and price stability for the benefit of the American people. The economy is strong overall and has made significant progress toward our goals over the past 2 years. Labor market conditions have cooled from their formerly overheated state and remain solid. Inflation has moved much closer to our 2 percent longer-run goal, though it remains somewhat elevated. We are attentive to the risks on both sides of our mandate.

I will review the current economic situation before turning to monetary policy.

Recent indicators suggest that economic activity has continued to expand at a solid pace. GDP rose 2.5 percent in 2024——

Chairman HILL. Mr. Chairman, can we ask you to pull your mic a little closer, please? Thank you so much.

Mr. POWELL. Sure. Recent indicators suggest that economic activity has continued to expand at a solid pace. GDP rose 2.5 percent in 2024, bolstered by resilient consumer spending. Investment in equipment and intangibles appears to have declined in the 4th quarter but was solid for the year overall. Following weakness in the middle of last year, activity in the housing sector seems to have stabilized.

In the labor market, conditions remain solid and appear to have stabilized. Payroll job gains averaged 189,000 per month over the past 4 months. Following earlier increases, the unemployment rate has been steady since the middle of last year and at 4 percent in January remains low. Nominal wage growth has eased over the past year, and the jobs-to-workers gap has narrowed. Overall, a wide set of indicators suggests that conditions in the labor market are broadly in balance. The labor market is not a source of significant inflationary pressures. The strong labor market conditions in recent years have helped narrow longstanding disparities in employment and earnings across demographic groups.

Inflation has eased significantly over the past 2 years but remains somewhat elevated relative to our 2 percent longer-run goal. Total Personal Consumption Expenditures (PCE) prices rose 2.6 percent over the 12 months ending in December, and excluding the volatile food and energy categories, core PCE prices rose 2.8 percent. Longer-term inflation expectations appear to remain well anchored, as reflected in a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets.

Our monetary policy actions are guided by our dual mandate to promote maximum employment and stable prices for the American people. Since last September, the Federal Open Market Committee (FOMC) lowered the policy rate by a full percentage point from its peak after having maintained the target range for the Federal funds rate at 5.25 to 5.5 percent for 14 months. That recalibration of our policy stance was appropriate in light of progress on inflation and the cooling in the labor market. Meanwhile, we have continued to reduce our securities holdings.

With our policy stance now significantly less restrictive than it had been and the economy remaining strong, we do not need to be in a hurry to adjust our policy stance. We know that reducing policy restraint too fast or too much could hinder progress on inflation. At the same time, reducing policy restraint too slowly or too little could unduly weaken economic activity and employment. In considering the extent and timing of additional adjustments to the target range for the Federal funds rate, the FOMC will assess incoming data, the evolving outlook, and the balance of risks.

As the economy evolves, we will adjust our policy stance in a manner that best promotes our maximum-employment and price-stability goals. If the economy remains strong and inflation does not continue to move sustainably toward 2 percent, we can maintain policy restraint for longer. If the labor market were to weaken unexpectedly or if inflation were to fall more quickly than anticipated, we can ease policy accordingly. We are attentive to the risks to both sides of our dual mandate, and policy is well positioned to deal with the risks and uncertainties that we face.

This year, we are conducting our second periodic review of our monetary policy strategy, tools, and communications, the framework used to pursue our congressionally assigned goals. The focus of this review is on the FOMC's statement on longer-run goals and monetary policy strategy, which articulates the committee's approach to monetary policy and on the committee's policy communications tools. The committee's 2 percent longer-run inflation goal will be retained and will not be a focus of the review. Our review will include outreach and public events involving a wide range of parties, including Fed Listens events around the country and a research conference in May. We will take on board the lessons of the last 5 years and adapt our approach where appropriate to best serve the American people, to whom we are accountable. We intend to wrap up the review by late summer.

Let me conclude by emphasizing that at the Fed, we will do everything we can to achieve the dual mandate goals Congress set for monetary policy. We remain committed to supporting maximum employment, bringing inflation sustainably to our 2 percent goal, and keeping longer-term inflation expectations well anchored. Our success in delivering on these goals matters to all Americans. We understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission.

Thank you, and I look forward to your questions. Thank you, Mr. Chairman.

[The prepared statement of Mr. Powell follows:]

For release at
8:30 a.m. EST
February 12, 2025

Statement by

Jerome H. Powell

Chair

Board of Governors of the Federal Reserve System

before the

Committee on Financial Services

U.S. House of Representatives

February 12, 2025

Chairman Hill, Ranking Member Waters, and other members of the Committee, I appreciate the opportunity to present the Federal Reserve's semiannual *Monetary Policy Report*.

The Federal Reserve remains squarely focused on achieving its dual-mandate goals of maximum employment and stable prices for the benefit of the American people. The economy is strong overall and has made significant progress toward our goals over the past two years. Labor market conditions have cooled from their formerly overheated state and remain solid. Inflation has moved much closer to our 2 percent longer-run goal, though it remains somewhat elevated. We are attentive to the risks on both sides of our mandate.

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Current Economic Situation and Outlook

Recent indicators suggest that economic activity has continued to expand at a solid pace. Gross domestic product rose 2.5 percent in 2024, bolstered by resilient consumer spending. Investment in equipment and intangibles appears to have declined in the fourth quarter but was solid for the year overall. Following weakness in the middle of last year, activity in the housing sector seems to have stabilized.

In the labor market, conditions remain solid and appear to have stabilized. Payroll job gains averaged 189,000 per month over the past four months. Following earlier increases, the unemployment rate has been steady since the middle of last year and, at 4 percent in January, remains low. Nominal wage growth has eased over the past year, and the jobs-to-workers gap has narrowed. Overall, a wide set of indicators suggests that conditions in the labor market are broadly in balance. The labor market is not a source of significant inflationary pressures. The strong labor market conditions in recent years have helped narrow long-standing disparities in employment and earnings across demographic groups.[1]

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Monetary Policy

Our monetary policy actions are guided by our dual mandate to promote maximum employment and stable prices for the American people. Since last September, the Federal Open Market Committee (FOMC) lowered the policy rate by a full percentage point from its peak after having maintained the target range for the federal funds rate at 5-1/4 to 5-1/2 percent for 14 months. That recalibration of our policy stance was appropriate in light of the progress on inflation and the cooling in the labor market. Meanwhile, we have continued to reduce our securities holdings.

With our policy stance now significantly less restrictive than it had been and the economy remaining strong, we do not need to be in a hurry to adjust our policy stance. We know that reducing policy restraint too fast or too much could hinder progress on inflation. At the same time, reducing policy restraint too slowly or too little could unduly weaken economic activity and employment. In considering the extent and timing of additional adjustments to the target

[1] The February *Monetary Policy Report* includes as a special topic an update on employment and earnings across demographic groups.

range for the federal funds rate, the FOMC will assess incoming data, the evolving outlook, and the balance of risks.

As the economy evolves, we will adjust our policy stance in a manner that best promotes our maximum-employment and price-stability goals. If the economy remains strong and inflation does not continue to move sustainably toward 2 percent, we can maintain policy restraint for longer. If the labor market were to weaken unexpectedly or inflation were to fall more quickly than anticipated, we can ease policy accordingly. We are attentive to the risks to both sides of our dual mandate, and policy is well positioned to deal with the risks and uncertainties that we face.

This year, we are conducting the second periodic review of our monetary policy strategy, tools, and communications—the framework used to pursue our congressionally assigned goals of maximum employment and stable prices. The focus of this review is on the FOMC's Statement on Longer-Run Goals and Monetary Policy Strategy, which articulates the Committee's approach to monetary policy, and on the Committee's policy communications tools. The Committee's 2 percent longer-run inflation goal will be retained and will not be a focus of the review.

Our review will include outreach and public events involving a wide range of parties, including *Fed Listens* events around the country and a research conference in May. We will take on board lessons of the past five years and adapt our approach where appropriate to best serve the American people, to whom we are accountable. We intend to wrap up the review by late summer.

Let me conclude by emphasizing that at the Fed, we will do everything we can to achieve the two goals Congress set for monetary policy—maximum employment and stable prices. We remain committed to supporting maximum employment, bringing inflation sustainably to our 2 percent goal, and keeping longer-term inflation expectations well anchored. Our success in delivering on these goals matters to all Americans. We understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission.

Thank you. I look forward to your questions.

Chairman HILL. The chairman yields back. I want to recognize the ranking member of the full committee, Ms. Waters from California, for a 4-minute opening statement.

OPENING STATEMENT OF HON. MAXINE WATERS, RANKING MEMBER OF THE COMMITTEE ON FINANCIAL SERVICES, A U.S. REPRESENTATIVE FROM CALIFORNIA

Ms. WATERS. Good morning, everyone. Welcome Chair Powell.

Our country is on the precipice of an economic disaster unlike anything we have seen in recent memory. While Trump promised lower prices for working class families, we are seeing the exact opposite. In fact, grocery prices are rising. According to the Labor Department, eggs are up, 40 percent more expensive than they were even a year ago. In my home State of California, we have seen eggs as high as $9 and more for a dozen. Inflation is rising, and it is up to 3 percent for the first time since June, and other staples are about to get more expensive as Trump levies new taxes on steel and aluminum.

America's consumers and businesses are facing uncertainty and chaos. This is all because Trump and his unelected billionaire Co-President, Elon Musk, are taking a sledgehammer to our economy and democracy. In recent days, they attempted to illegally kill the Consumer Financial Protection Bureau, the same Agency created after the financial crisis of 2008. Since its inception, Consumer Financial Protection Bureau (CFPB) has successfully fought on behalf of working-class families against abuse of big banks and predatory lenders and, not to mention, returned $21 billion back to families who were swindled. Chair Powell, you explained yesterday that with the CFPB shutdown, there is no agency to supervise big banks to ensure they follow consumer finance law. In the face of these illegal, cruel, and relentless attacks, Chair Hill, it is both urgent and critical that you immediately convene a long-overdue hearing with CFPB Acting Director Vought, Members of Congress, and, importantly, the American public deserves answers as to why Musk and his Department of Government Efficiency (DOGE) minions are in possession of sensitive consumer information and what they are doing with it.

Additionally, Trump is simultaneously threatening import taxes on U.S. companies that will increase the cost of groceries and other basic supplies for all. Trump is freezing funds for housing assistance and community development and whittling down the Federal workforce so that his billionaire boys club can suck any of these workers' salaries into their own pockets. This is all part of Trump's Project 2025 playbook.

You know what else he has taken from Project 2025, Chair Powell? Their plan to eliminate the Fed. We are watching this play out as Trump doubles down on his efforts to gut the independence of the Fed, as we have seen with demands that you drop rates immediately. In fact, his Co-President Musk attacked Fed independence in a tweet earlier this year. Chair Powell, I know you have been adamant about the independence of the Fed and have thus far resisted pressure from Trump, but after your decision to eliminate diversity, equity and inclusion (DEI) initiatives following Trump's illegal order. I am concerned that Trump has more influence over you than you let on.

I speak for all of my colleagues on the Democratic side when I say that you must stand firm in defending the Fed's independence. Reject any attempt by Elon Musk and his DOGE minions to gain access to the Fed, its systems and data, and speak forcefully about what is at stake for our economy. The American public must hear from you, our central bank, today. I yield back.

Chairman HILL. The gentlewoman yields back. I yield myself 5 minutes for questions.

Thank you again, Chairman Powell, for being with us. Let me start with the Fed's bank regulation and supervisory function. As I mentioned in my opening statement, over the past 2-and-a-half years, the outgoing vice chair for supervision has pushed new regulations that would move the United States toward a one-size-fits-all approach to prudential regulation that disregards the congressional mandate that has been quite clearly established for regulators to tailor bank regulation based on an institution's size, complexity, and risk profile.

Earlier this year, the Fed Board announced that Michael Barr would be stepping down from his position as vice chair on February 28, 2025, or earlier, should a successor be confirmed. Significantly, the Board also announced at that time that it does not intend to take up any major rulemakings until a vice chair for supervision successor is confirmed. I have discussed this with you. I have concerns about that. You are not abdicating your supervisory response while we wait around for a vice chair for supervision. Do you agree that it is the Board of Governors that has the responsibility for bank supervision policy?

Mr. POWELL. I do, and I would also agree that we need to carry on with our regulatory and supervisory duties. We cannot take a holiday, and we will proceed with the things that we should be proceeding with.

Chairman HILL. You testified in the Senate yesterday, and I know you enjoyed time with the senators, and you talked a little bit about Basel III Endgame. Again, in my opening statement, I talked about that the intent was to harmonize those rules, true for the largest institutions in the world, but also do that in a way that is capital neutral. Many of us here in Congress, on both sides of the aisle, felt like Vice Chairman Barr's approach was gold plating already high standards for American banks. You testified yesterday that you think bank capital levels are about right for those large institutions. Would you tell the committee today that it is your intent to repropose a Basel III Endgame approach, just speaking on behalf of the Fed only, not the other supervisors, and that it be taken into account the comments and that it be generally capital neutral?

Mr. POWELL. We do intend to repropose Basel III Endgame, and we intend to do that just as soon as we can get together with the new leadership at the two other banking agencies. As I mentioned, I think we can do that pretty promptly once those people are in place. I look forward to doing that. My long-held view, as I have said in many of these hearings, is that capital in the banking system for the largest banks, is it about right, and that would be my starting point on going into these discussions. I do want to leave it for my upcoming new leadership at those agencies to have their own views on that.

Chairman HILL. I think that is important. I think it needs to be coordinated and harmonized among our supervisory agencies. I do want you to take into account how Basel III Endgame proposal interacts with other pending rules, whether they are on liquidity or the other things like operating risk in the companies. I think that was a lot of centrality of the comments that we saw on your Barr proposal.

Turning to monetary policy, looking back at 2020 and 2021, I was looking at all the principal monetary policy rules that you report in your semi-annual report, and had you followed any of the monetary policy rules that you track, they would have had you tighten sooner in the cycle rather than waiting and maybe not seen a 40-year high in inflation. Using the benefit of hindsight, do you think you should have looked at those rules more closely in the open market operations and tightened sooner?

Mr. POWELL. I will say, and I have said before, that hindsight suggests that it would have been good if we had tightened earlier. I do not know how much difference that would have made, but I would be very careful with those rules. Those rules in the middle of last year suggested that our policy rate was a couple 100 basis points too high, so they are a starting point, not an ending point——

Chairman HILL. Right. We have had this conversation before. The point is that they do offer a road map, and you do mention them in writing, in your monetary policy reports, except for one time during the pandemic. I think, though, that you are adding that to your reference point in your forward guidance and in your communications, I think would be important. Can you tell us about the review of the inflation targeting and when you expect to complete that?

Mr. POWELL. I expect to complete it late in the summer this year. We are just beginning it now, and we are going to look at all the decisions that we made, and why we made them back in 2020. We are going to ask ourselves, what has changed? We are going to be open to criticism and good ways of thinking about it, and I think we will make appropriate discrete adjustments.

Chairman HILL. I thank you for being with us today, and I turn to the ranking member of the full committee, Ms. Waters, for 5 minutes for your questions.

Ms. WATERS. Thank you very much, Mr. Chairman. It is no secret that President Trump, that he wants to do away with the Federal Reserve altogether. He said he knows interest rates much better than you do. I want you to know that some of us here have been fighting to make sure that everybody understands the importance of the central bank: every country dealing with crypto, that central bank is involved. But of course, Trump and the opposite side of the aisle fought us, and that is one of the reasons we were not able to come together with a bipartisan agreement on stablecoins. You previously said that you would not resign if Trump asked you to do that. Do you stand by that commitment?

Mr. POWELL. I have no changes to that.

Ms. WATERS. I cannot hear you.

Mr. POWELL. Yes.

Ms. WATERS. Thank you. Please let the record record that adequately. I appreciate that because you have a right to your position, not to be interfered with by law, I believe, or even Constitution. When Musk comes knocking at the Fed's door, are you going to let him in?

Mr. POWELL. I do not have anything for you on that.

Ms. WATERS. Would you like to tell us today that you will not let DOGE into the Federal Reserve, have access to the systems and the data?

Mr. POWELL. We have had no contact, and I have nothing for you to report today on that.

Ms. WATERS. You know what happened to Treasury, and you know what happened over at the CFPB. The people of this country are being violated because all of our privacy is being taken up by Elon Musk and Trump, and we do not know what all they have on us, our bank accounts, everything in our lives. I want to protect it in the Fed.

Mr. Powell, the last time you testified before this committee, you said, "Really successful institutions in the United States generally are those that do a really good job on diversity, and get the best out of people, and attract a broad, diverse range of talents to the table. That is the way we feel about it, and that is what we have been doing and will continue to do." Chair Powell, how will you ensure that the Fed continues to attract the best and most diverse employees?

Mr. POWELL. Institutions like ours, private and public, are in a constant contest to hire the best talent in the country. We have all learned, I think, and certainly we have, that we will go anywhere to find that talent and include places that we did not go 25 years ago, and we will just continue to do that. We are recruiting, as you know, at many, many, many universities and colleges, including historically Black universities and colleges, and others, and that is what we find and that is our practice. We think that is the best way to go about it.

Ms. WATERS. Thank you very much, and that is what I have always felt about the Fed. No matter what they call it, you only attracted and hired the best qualified people in your operation, no matter what they refer to it as, what they call it, whatever way they define it. Is that right?

Mr. POWELL. Yes.

Ms. WATERS. Thank you very much. Chair Powell, are you willing to provide my staff with an immediate briefing from your Agency on the status of your Office of Minority and Women Inclusions (OMWIs) and Equal Employment Offices?

Mr. POWELL. Yes.

Ms. WATERS. Thank you. I believe that you know that the OMWIs were created with the Dodd-Frank reforms. It is in law, and as I understand it, any attempt to dismantle OMWIs would have to come before the Congress of the United States of America. Is that your understanding?

Mr. POWELL. Yes. Section 342 of Dodd-Frank, which is the OMWI section, is the law.

Ms. WATERS. Thank you. Chair Powell, to what extent have you consulted with other Board members in determining how your Agency is complying with Section 342 of Dodd-Frank, and as well as any other Federal antidiscrimination law?

Mr. POWELL. I think we have consulted with senior staff and Board members quite a bit.

Ms. WATERS. Chair Powell, days after his inauguration, President Trump issued an executive order on digital assets, which includes a prohibition on central bank digital currencies or CBDCs. The executive order banned any "form of digital money or monetary value dominated and denominated in the national unit of account that is a direct liability of central bank." I am concerned that this extremely broad definition could go far beyond CBDCs. Thank you very much. My time is up, but I appreciate your presence here today, and I appreciate your willingness to stand up for your right to be the chair.

Chairman HILL. The gentlewoman's time has expired.

Ms. WATERS. I now yield back. Thank you.

Chairman HILL. I do invite the chairman to respond to the gentlewoman's question on CBDCs in writing.

[The information referred to was not submitted prior to printing.]

Chairman HILL. Now we turn to the vice chair of the full committee, Bill Huizenga, the gentleman——

Ms. WATERS. Thank you.

Chairman HILL [continuing]. from Michigan.

Mr. HUIZENGA. Thank you, Mr. Chairman, and, Chair Powell, good to see you again. You had talked a little bit about your review. I am going to start there. Obviously, a lot has changed in the last 5 years, pandemic, inflation, higher interest rates, to name a few. However, I believe your dual mandated maximum employment and stable prices should remain the ultimate objective. I assume you agree with that.

[Nonverbal response.]

Mr. HUIZENGA. Let the record reflect a slight head nod on that. This committee is going to be very focused on monetary policy, and with my good friend from Oklahoma, Mr. Lucas, chairing a task force that I am happy to be a part of, we are going to be addressing some of those issues. Chair Hill touched on some of the rules that have been discussed. I, for one, have always been particular to the Taylor Rule, but there are a number of rules. I know you go through those. At one point, I suggested that we could call it the Yellen Rule with Chair Yellen on that, but there needed to be some sort of public declaration of what to benchmark against, and I still feel that is of some importance. You outlined your timeline on this particular review, but I am curious. Do you believe that the last policy framework limited the Fed's response to raising inflation, something that you and I have talked about over the years?

Mr. POWELL. No. I will tell you why we did not raise rates. We thought the inflation was transitory. I can show you forecasts from the end of 2021 by us, by staff, by the blue chip. Everybody thought it was going to be transitory. That is why we did not raise rates.

Mr. HUIZENGA. I also distinctly remember a hearing where you and Secretary Yellen, at the time, were sitting next to each other, and it looked like you visibly scooted away when I asked you both whether it was still transitory, and you had, for the first time ever, a separate answer. Her answer was, yes, it still was transitory. You gave a very Fed speak answer of we no longer believe the data shows that, so no, and we, to kind of go to Chair Hill's point, we think that might have been a little late on that.

Back to the review. I am curious, what sort of input are you looking for from the public and from Congress as you go into that review?

Mr. POWELL. From the public, we will do a series of Fed Listens events, which were very successful the last time, and it involves us sitting down and meeting with people, some of whom know a lot about what the Fed does, some of them whom just tell you what is going on in their communities. It was a very successful part of our outreach last time. In terms of Congress, we will keep you informed of our progress. We welcome anything you may offer, but we are open to the public on this. It is a public review as distinct from what we were doing before, and so we are welcoming views from all over.

Mr. HUIZENGA. Not to get ahead of the chairman, but I look forward to us having more conversations about that with the working group.

I want to switch topics and focus a bit back to the bank supervision. Michael Barr has stepped down from his position as vice chair for supervision, effective at the end of the month, and whether, frankly, President Trump fills that position is entirely up to him, but in the absence of a vice chair for supervision, you are still working, I think, on it. I think your quote to the chairman was, there is no time for a holiday. Now, this vice chair for supervision is a Fed Governor that has, frankly, extraordinary powers and responsibilities. Ultimately, my question to you is, does the Fed really need a separate vice chair to complete its work? Now, I got in here after the 2010 election, 2011, shortly after Dodd-Frank was passed. I know this vice chair position was created by Dodd-Frank. I have just been dealing with the echo effects now for the last going on 15 years of Dodd-Frank. Do we really need to have a vice chair for supervision?

Mr. POWELL. For many years, as you know, we did our business without a vice chair for supervision. What that means is, everything goes through the full Board.

Mr. HUIZENGA. It was effective?

Mr. POWELL. I think it was, and, also, there was less volatility.

Mr. HUIZENGA. Explain that. Why was there less volatility?

Mr. POWELL. Because you have a group of seven people on the Board, and as appointments change, there will be some changes in the approach to regulation. Putting it all on a single person, admittedly, just to recommend to the Board, it can lead to sort of some volatility in these things, which is really——

Mr. HUIZENGA. Larger swings in policy?

Mr. POWELL. Yes, larger swings and the kind of things, and that is not great for the institutions that we want to regulate. We want to have a good set of regulations that do not swing back and forth very much. The question of whether it is a good thing to have in the law is really one for you. I will tell you, once Vice Chair Barr completes his term in a few weeks, we will continue on until there is a new vice chair for supervision, and we can very much get our work done.

Mr. HUIZENGA. If there is one. With that, Mr. Chairman, my time has expired.

Chairman HILL. I thank the vice chairman. Mr. Huizenga yields back. I recognize the gentleman from California, Mr. Sherman, for 5 minutes of questions.

Mr. SHERMAN. Chairman Powell, you are the only bipartisan person or thing left in Washington. You were appointed by Obama. Trump gave you a promotion. Biden reappointed you, and you are the only Biden appointee not to hear the words "You are fired" from our President. I hope we listen to what you have to say because you are the only person that I can identify in Washington that has support on both sides of the aisle.

Mr. Huizenga mentions the importance of your dual mandate. Project 2025 calls for abolishing the dual mandate and eliminating a mandate that you focus on employment. If we were to give you just one mandate dealing with price stability and take away the mandate on employment, over the next 10 years, would our GDP be higher or lower?

Mr. POWELL. It would not be possible for me to say.

Mr. SHERMAN. Does the fact that you focus on employment as one of your dual mandates lead to lower unemployment, higher employment in our country?

Mr. POWELL. It may do so. We do balance those things. To some extent, that may be right.

Mr. SHERMAN. Chair Hill spoke about how important it is that you maintain your independence. I noticed that in light of the hiring freeze, the Fed has removed all its job postings. I am hoping that your personnel policy will be as independent as everything else at the Fed, but I am more concerned with the President's statement at 7:58 this morning where he said, "Interest rates should be lowered." He said it. Will that influence what the Fed actually does?

Mr. POWELL. I, as a practice, never comment on anything the President says, but I think people can be confident that we will continue to keep our heads down, do our work, make our decisions based on what is happening in the economy, the outlook, the balance of risks.

Mr. SHERMAN. Statements by elected officials are not among the things that cause you to act one way or the other?

Mr. POWELL. That is correct.

Mr. SHERMAN. Thank you. He went on to say, he said, "Interest rates should be lowered, something which would go hand in hand with upcoming tariffs. Let us rock and roll, America." I certainly agree with the rock and roll America, but the Peterson Institute says that the policies that the President ran on will raise the consumer price index (CPI) by between 4 and 7.5 points, and I think the biggest element of that is the proposed tariffs. If we have higher tariffs across the board, say, 10 to 25 percent, would that increase the cost-of-living, and would an increase in the CPI or related indexes of the cost of living lead to higher interest rates?

Mr. POWELL. There are many organizations, public and private, whose role is to speculate publicly about what this might be. What we are doing is we are reserving judgment until we actually know what the policies are.

Mr. SHERMAN. If we have a higher cost of living, does that lead to higher interest rates? The CPI or personal consumption expenditures (PCE) go up?

Mr. POWELL. If inflation goes up in general.

Mr. SHERMAN. Yes.

Mr. POWELL. Forget about tariffs. In general, of course, we will use our tools, which is the interest rate, to bring it back down to 2 percent over time.

Mr. SHERMAN. Okay. Yesterday, you told the Senate, "We are going to release the stress test scenarios before we implement them." Will you take a holistic look at large bank capital requirements, including the risk-based capital ratios like Basel III Endgame stress testing, to make sure that you do not have a contraction in the ability of credit to main street businesses?

Mr. POWELL. Yes.

Mr. SHERMAN. Great. There is a proposal in Project 2025 that we abolish Fannie and Freddie. If there was no explicit or implicit Federal guarantee for those who invest in mortgages, would that lead to higher mortgage interest rates?

Mr. POWELL. Since you are no longer will be borrowing on the credit of the United States, in other words, so Fannie and Freddie would be privately funded, it could lead to that. I think privatizing Freddie and Fannie might have other virtues, too, though, as has been considered many times by this committee and others.

Mr. SHERMAN. Might have some virtues, but it would lead to higher mortgage rates?

Mr. POWELL. It could.

Mr. SHERMAN. The CFPB has been put on ice, but all the regulations remain in force. If you are a bank that wants to comply with those regulations, there is nobody that can give you any clarification. You do not know, and if you are a bank that does not want to comply, the next presidential election may put into practice a CFPB that enforces all the regulations that the Trump Administration has tried to eliminate. Does that cause confusion for banks?

Mr. POWELL. You are speculating about what the situation might be. I would say that it could, yes.

Mr. SHERMAN. I yield back.

Mr. LUCAS [presiding]. The gentleman yields back. I now recognize myself for 5 minutes.

Chair Powell, let us talk about the balance sheet. As we have discussed several times before, the consistent and massive growth of the Federal debt creates long-run challenges for both the United States and saddles future generations with an onerous burden, but it also creates a challenging environment for the markets. As the Treasury market expands in kind, as the Fed engages in quantitative tightening allowing the Treasuries to roll off, the Fed is careful to ensure that there are ample reserves for the balance sheet. Could you briefly discuss the conditions that determine the ideal level of reserves?

Mr. POWELL. Sure. Let me say that we intend to slow, and we have slowed, but then stop the process of shrinking our balance sheet at a time when we think that reserves are somewhat above the level that we judge to be consistent with our ample reserves framework. What that means is we want reserves to be ample, meaning we do not want there to suddenly appear to be shortages of reserves. We are going to think of where those shortages might appear, and we are going to put a buffer on top of that, because nothing good happens when there is not enough liquidity. That is our overall framework, and right now, we feel like all the evidence suggests that reserves are still abundant, which is more than ample.

Mr. LUCAS. As you know, in early 2021, the Fed stated that it would invite comments on the supplemental leverage ratio. That has not happened yet. I have made the point that the growth of the U.S. Treasury market, paired with a decreased willingness of banks to act as intermediaries, is a major issue on the horizon. When former Treasury Secretary Yellen was before this committee last year, I asked her about the resiliency of the Treasury market, specifically about the wisdom of permanently modifying the supplemental leverage ratio (SLR). She said it is something that the banking regulator should consider. Does the Fed plan to finally look at the SLR?

Mr. POWELL. Yes, I believe we will. I have for a long time, like others, been somewhat concerned about the levels of liquidity in the Treasury market. The amount of Treasuries has grown much faster than the intermediation capacity has grown, and one obvious thing to do is to reduce the effective supplemental leverage ratio—the bindingness of it. That is something I do expect we will return to and work on with our new colleagues at the other agencies, and get it done.

Mr. LUCAS. I think my colleagues are aware that over the course of recent times, literally, we have 8 times as much debt to process, but only half as many major market makers. The Federal Reserve is not immune to politics. You, like every Fed Governor, go through a lengthy confirmation process in the Senate, and, of course, you are required to answer to Congress in hearings like this. I can trace a major political turning point at the Fed to the passage of Dodd-Frank, which greatly expanded the Fed's regulation and supervision authority. Chairman Powell, do you worry that the independence of the Federal Reserve's monetary policy function is any way hindered by its role as a bank regulator? Can you do both?

Mr. POWELL. We can and we do, and we will continue to do that. Clearly the regulatory and supervisory side is more contentious in political circles, but we will continue to carry it out as best we can and to do so in a nonpolitical way as best we can. Clearly that will be a major discussion topic in the task force. In my remaining time, could you discuss the Fed's 5-year review of monetary policy? What are the categories of issues you think that will be helpful to receive feedback on?

Mr. POWELL. A good part of it will be looking at the changes we made in 2020, which were made in an environment where we had been stuck at the effective lower bound at zero for 7 years. The highest we got our rate really was, sustainably was 1.5 percent, and that was the highest of any advanced economy central bank. The concern was that at the slightest downturn, we would be back at zero lower bound, and we would be stuck, so we were looking for ways to make up for that. Then the question is, we got this inflation out of the pandemic and the events related to it, are we in a different place now? I think the chances are pretty good that maybe that the effective lower bound is still a concern, but it is not the base case anymore. We need to look at that and decide what are the implications of that for our framework.

Mr. LUCAS. Thank you, Chairman, and I look forward to several more discussions on these topics. With that, I yield back the balance of my time, and I recognize the gentleman from New York, Mr. Meeks, for 5 minutes.

Mr. MEEKS. Thank you, Mr. Chairman. Chair Powell, thank you for being here today, and you have indicated in past hearings that geopolitical tensions pose important risks to global economic activity. Back around this time last year when you appeared before the committee, you and I discussed how conflicts around the world, specifically, the war in Ukraine, had impacted the cost of things like groceries in the United States of America. At that time, you indicated that the war had caused commodity prices to move sharply back home. Does that sound correct to you, familiar to you?

Mr. POWELL. Yes, it does.

Mr. MEEKS. Just to reiterate, in this interconnected world that we live in, would it be safe to say that economic instability in other countries has the potential to impact economic factors here in the United States?

Mr. POWELL. Sometimes, yes.

Mr. MEEKS. Given that fact, would it seem like a smart move for the U.S. Government to remove one of our most effective strategic tools that, by mandate, assist U.S. commercial interests by supporting developing countries' economic growth in building countries' capacity to participate in the world trade? Would you agree with that?

Mr. POWELL. It is not for me to be the judge or to say on that.

Mr. MEEKS. Like U.S. Agency for International Development (USAID), they buy a lot of their agricultural products, et cetera, from American farmers, and, in fact, it helps the U.S. economy when you look at the volume of agricultural products that are being bought so that we can continue to be a part of the rest of the world. Would that be correct?

Mr. POWELL. As far as I know, yes.

Mr. MEEKS. Today, we find ourselves facing a situation where the President and his DOGE buddy, Elon Musk, seem hell bent on dismantling USAID, no matter the consequences, even if they are dire. To me, the assault on this congressionally authorized body represents an attack on the rule of law and should outrage every Member of this body, every Member, Democrats and Republicans alike. I know that your interest is squarely within your dual mandate, and not foreign policy. I sit on both committees. I am here, but I am also the Ranking Member on the Foreign Policy Committee, and so I cannot sit here today and pretend that what we are doing will not impact employment and economic stability right here in the United States of America. Weakening USAID will fuel global crises, endanger American security, embolden other nations, like China and Russia, and leave us here and the Trump Administration solely responsible for the fallout.

I have to take this opportunity to urge my colleagues on the other side of the aisle to also stand up for USAID. Anytime we travel, we go visit what they do, we go visit the good that they do. We go visit what their and how their economies improve so that they can be part of the global economy. If not because people just care about the rest of the world, then because we care about our country and recognize that instability elsewhere threatens our stability right here. It is extremely important in an interconnected world because the economy is interconnected around the world. We cannot isolate ourselves from the rest of the world. I thank you, Mr. Chairman, and I yield back the balance of my time.

Mr. LUCAS. The gentleman yields back. The chair recognizes the gentleman from Texas, Mr. Sessions, for 5 minutes.

Mr. SESSIONS. Mr. Chairman, thank you very much. Chairman Powell, welcome. We are delighted to be here, and I hope that this comes with greetings from every single member that we appreciate and respect you taking the time. Even though you are expected here, we thank you for showing up, and we admire you.

Mr. Chairman, you and I both know that way back when, and we assumed 2021 there was a decision made by the Fed that gets close to quantitative easing and then the term tapering, and we know that it was sold as a monetary stimulus to help the country, and I get that. There was about, in my opinion, $2.3 trillion that were taken out in loans, and the chairman just spoke a minute ago about the term debt versus growth, debt vs. growth, about this amount of money that sits out there on the debt side. Could you please take a minute and discuss this issue and how we should be looking at it? Thank you.

Mr. POWELL. Sorry, Mr. Sessions, are we talking about asset purchases that we made during the——

Mr. SESSIONS. We are. We are talking about when the Fed went and sold Treasuries.

Mr. POWELL. No, we bought Treasuries.

Mr. SESSIONS. Bought Treasuries.

Mr. POWELL. Yes, we bought Treasuries, so it was a situation. I will tell you why we did it. We were just out of the worst part of the pandemic, and we did not know how, frankly, how good things were going to be, how strong the economy—we were very concerned. Coronavirus disease (COVID) was still raging and it actually had a very strong wave right into 2022, but we did not want to stop buying Treasuries too soon because that has a stimulative effect on the economy because we did not want to provoke an unwanted tightening in financial conditions at a time when we thought the economy was still vulnerable. If you look back in hindsight, we probably could have done that earlier and halted purchase earlier. In any case, we turned right around and started shrinking the balance sheet, and we have——

Mr. SESSIONS. You moved it from about $120 a month to $110.

Mr. POWELL. We have been tapering for 2 years now, and we are down more than——

Mr. SESSIONS. That is correct.

Mr. POWELL [continuing]. more than $2 trillion, so and we are still going. We are still going, so that is why we did what we did.

Mr. SESSIONS. Tell me what that looks like in the longer-term aggregate versus with what the chairman said, debt versus growth because we believe the debt remains and the growth is not equaling that ability to pay it back.

Mr. POWELL. What happens is we borrow money to cover the spending that Congress has done. Our purchases do not affect that. We are basically issuing reserves, which is cash, and we are retiring Treasury securities, and the effect of that is to drive down long-term rates. That is the whole reason for quantitative easing (QE).

Mr. SESSIONS. What are you paying for those long-term rates?

Mr. POWELL. Market rates. We are paying exactly the market.

Mr. SESSIONS. What would that market be approximately a year ago or to now?

Mr. POWELL. The 10-year, and we are not, of course, we are going in the other direction now, we are shrinking now. The 10-year was yielding very, very low. The 10-year was quite low during the pandemic, extremely low because growth was slow. There was a lot of demand for Treasuries, so we were pushing down rates to support economic activity. When you cannot lower your policy rate anymore and you want to do more stimulus, that is really the main thing you can do. Actually, the forefather of that was Milton Friedman, who came up with that thought way back in the past, but that is what we did. Then, as I mentioned, we turned around. As soon as we lifted off and started raising rates, we immediately started shrinking the balance sheet, and we have shrunk it a lot, $2 trillion and still counting.

Mr. SESSIONS. You have shrunk it $2 trillion?

Mr. POWELL. Yes, we have.

Mr. SESSIONS. Okay. What do you believe remains, and you believe you are now stable for moving forward?

Mr. POWELL. I think we have a way to go. Actually, the level of reserves, which is the thing we are focused on, has not really changed. All of that has come out of what is called the overnight reverse repo facility. I would be happy to spend some time with you on this. This stuff is very complicated and difficult.

Mr. SESSIONS. Yes, I have tried to find new data on it, and the last I found, really, was a Congressional Research Source (CRS) report of 2022, so I——

Mr. POWELL. It is very, very big changes——

Mr. SESSIONS [continuing]. January 27, 2022, and so the changes that you speak of are important.

Mr. POWELL. Yes.

Mr. SESSIONS. I would appreciate that time because——

Mr. POWELL. I will be happy to do that.

Mr. SESSIONS. Great. I want to thank you for being here. The confidence that the American people have that we will turn not just the economics of their lives, but of the country is very important. I today spoke about the country, and I want to thank you for your service and time. Mr. Chairman, I yield back.

Mr. LUCAS. The gentleman yields back. The chair now recognizes the gentleman from Georgia, Mr. Scott, for 5 minutes.

Mr. SCOTT. Thank you very much, Chairman, and welcome, Chair Powell. Chair Powell, I am worried about these tariffs, and I want you to kind of share with us your thoughts on these tariffs.

I think the President is wrong here. Tariffs can cause a terrible situation to the economy. I am concerned about the inflationary impact on tariffs, and where cost increases from the tariffs, there is a cost to these tariffs, and we need not move into this area blindly. Some of these costs will be observed by business companies, but there are other costs that will be borne by the American consumers. We do not even understand this, and yet you have the President just using these tariffs as a means of fight or like a war, and this is going to do it. Everybody is not going to be Mexico or Canada. While we got a little time, I want your thoughts on the dangers of these tariffs, the stock market is anticipating rate cuts. What will these tariffs do about that? Does the Fed see financial market stability as a factor in its decision making process when considering the rate cuts?

Here is specifically what I want you to get to. In light of the President, and politely, I will say, his ill-crafted tariff strategy, do you foresee future rate cuts as a result of inflationary issues or due to a weaker labor market? What do you consider to be promising inflation data? That is our big fight, and these tariffs are going to just add to inflation like a rocket ship. Your thoughts? Give us your opinion of the danger of these. There is a cost here. Tell us what you think about this.

Mr. POWELL. The President has certain authorities over tariffs. Congress has authorities over tariffs. The Commerce Department is involved in some ways, but the Fed has no role in setting tariffs, and we do not comment on decisions made by those who do have that authority. We try to stick to our own knitting. In this particular case, it is possible that the economy would evolve in ways that, because of tariffs or partly because of tariffs, that we would need to do something with our policy rate, but we cannot know what that is until we actually know what policies are enacted.

Remember, it is not just tariffs. There are significant changes to immigration policy, fiscal policy, and also regulatory policy. You put all four of those, and all four of those were things that the President was elected to do. We will then try to make an intelligent judgment about the overall effect on the economy of those and conduct our policy accordingly. It is not our role in any way to comment on the wisdom of the policies that are enacted by Congress or by the administration.

Mr. SCOTT. He has an effect on whether or not you will resume your plan to cut the interest rates this year or continue to hold?

Mr. POWELL. We will make our decisions as we go about what to do with interest rates based on the data that we see, the evolving outlook, and the balance of risks, and we will be considering all of those things. We will not be focusing on any particular policy, and I cannot tell you what we will be doing because it will really depend. It is a fairly uncertain environment right now.

Mr. SCOTT. Yes.

Mr. POWELL. The underlying economy is very strong, but there is some uncertainty out there about new policies. We are just going to have to wait and see what the effects of those policies are before we think about what we can do or should do.

Mr. SCOTT. All I want to say, God bless you. I know your strength. We have worked together over the years on many things, and this Nation is grateful that we have you, your wisdom, and intellect at this time.

Mr. LUCAS. I agree, but the gentleman's time has expired.

Mr. SCOTT. The gentleman yields back.

Mr. LUCAS. The chair now recognizes the gentlelady from Missouri, Mrs. Wagner.

Mrs. WAGNER. I thank the chair, and it is good to see you again, Chairman Powell. Chair Powell, under the Biden Administration, American families were hit with a huge stealth tax from, as we have spoken about inflation, that drove up grocery prices and led to high rates on things like mortgages and car loans. Since 2021, the average Missouri household is paying about $1,100 more per month due to inflation. To put that number into perspective, the median family income in Missouri is $69,000. These families have had to spend $13,000 more of their annual income on the exact same goods. What specifically is the Federal Reserve's plan for making life easier for everyday Americans?

Mr. POWELL. The best thing we can do for Americans is to vigorously pursue both stable prices and maximum employment. We are trying to get back to a long expansion where prices are stable around 2 percent.

Mrs. WAGNER. You seem to be there on labor as you have pointed out, so tell me what else.

Mr. POWELL. Sorry?

Mrs. WAGNER. You seem to be there on labor, so what else?

Mr. POWELL. I would say we are close, but not there on inflation, and you did see today's inflation print, which says the same thing. We have made great progress toward 2 percent. Last year, inflation was 2.6 percent, so great progress, but we are not quite there yet. We want to keep policy restrictive for now so that we can see——

Mrs. WAGNER. We are definitely not there for 30-year mortgages, upwards of 7 percent, Chair Powell. Let me switch topics. I continue to believe that, as we have spoken about and as was brought up, prior colleagues here, that the Federal banking agencies, including the Federal Reserve, should scrap the flawed Basel III Endgame proposal and start over. You talked a little bit about how you plan to perhaps do that and a timeline potentially. How will the public, Chair Powell, be able to provide comments on any revised proposal as required by the Administrative Procedures Act?

Mr. POWELL. I fully expect, and I think it is a good idea for the United States to finish Basel III in a way that is in keeping with Basel and also with what other jurisdictions are doing, comparable jurisdictions.

Mrs. WAGNER. The key there is "Endgame." This has been going on for 2 decades.

Mr. POWELL. Where is the end already, right? We will put all of that out for comment again and welcome the comments for all commenters.

Mrs. WAGNER. I just want to make sure we are following the Administrative Procedure Act——

Mr. POWELL. Oh, yes.

Mrs. WAGNER [continuing]. as you as you move forward.

Mr. POWELL. We will. We will.

Mrs. WAGNER. Chair Powell, I understand you are interested in making the stress test scenarios that assess how a bank will perform through a crisis, more transparent. As things stand now, while the Fed may make some information public, it does not show its math, which makes it difficult to assess the robustness and analytical rigor of the stress test. Recently, the Federal Reserve announced that due to the "evolving legal landscape, it would begin to take public comment on its stress test models and annual scenarios." Can you describe the changes in the legal landscape that have caused the Federal Reserve to suddenly seek public comment on its stress test regime and why it did not seek public comment from the beginning?

Mr. POWELL. We are an Agency that is strongly committed to following the law as written by Congress and as interpreted by the Supreme Court. In the past few years, we have seen a string of administrative law cases from the Supreme Court which are dealing with different issues, but there is a common theme, and that is significantly less deference to the views of agencies——

Mrs. WAGNER. Correct.

Mr. POWELL [continuing]. as compared to those of courts. Also, just raised expectations for compliance with the Administrative Procedures Act, we take that very much to heart, and this is one of the things that we are doing because of that. We feel the appropriate——

Mrs. WAGNER. You can look at things like Chevron deference, you can look at the Environmental Protection Agency (EPA) ruling by the courts, and they are returning the power back to the people and the Congress, not the administrative State, not those agencies or rulemakers.

Mr. POWELL. Because of those things, as you went through it, we are putting the models and everything else out for comment and taking similar steps.

Mrs. WAGNER. I am glad to see that. I understand the Fed intends to complete a comprehensive review of its monetary policy strategy, tools, and communications practices. You mentioned that. What is the timeline?

Mr. POWELL. We expect to complete our work and announce the results by the end of the summer.

Mrs. WAGNER. End of the summer. Thank you. I yield back.

Mr. LUCAS. The gentlelady yields back. The chair recognizes the gentleman from Massachusetts, Mr. Lynch for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman. Welcome, Chair Powell. Good to see you. Thank you for your good work. Chairman Powell, the Senate just filed a bill called the GENIUS Act. I am always worried about anything that comes over from the Senate with the title "genius" in it, but it is an attempt to provide a regulatory framework for cryptocurrency. In that proposal, which is similar in some respects to the House proposal, it would allow individual States to oversee issuers, and there would be no central Federal authority. The idea is to disperse the responsibility from State to State. My overriding concern is that with that spread and expansion of crypto, and the President is 100 percent behind it. He just started his own meme coin. He is making a lot of money off of that, which is another issue. My concern is that the spread of an expansion of crypto will infect the traditional banking system because it is a volatile, speculative asset, and we have seen some very sudden disasters with crypto.

I am just wondering, are there any backstops that we can use, any firewalls that we can put in place that might insulate the traditional banking system because they have access to the discount window and they are FDIC insured, so there may be second order impacts if we have a collapse of a major crypto issuer. Are there any extra things that we can do to protect the traditional banking system?

Mr. POWELL. Yes. First, I would say there are really two things that are happening. One is banks are serving crypto customers, and we do not want to get in the way of banks serving perfectly legal customers as long as they understand the risks and that sort of thing. We do not want to single out any particular——

Mr. LYNCH. Are you speaking to custody?

Mr. POWELL. The second thing is——

Mr. LYNCH. Right, Okay.

Mr. POWELL [continuing]. undertaking activities on their own, right? In that case, I do think it is appropriate to, as usual, as bank supervisors, make sure that we understand and banks understand the risks that are involved in the activity that they are taking inside an insured depository. On the other hand, you do not want to go too far. I think there were a bunch of disasters, as we all remember and we do not want to, and we were reacting to some extent to those. You do not want to go so far as to overplay your hand on that. I think we need to be mindful that many of these activities can very well be done inside of banks, and custody may well be one of them. In fact, in Fed-regulated banks, there are lots of crypto activities happening now. They have just happened under a framework where we made sure that the bank understood and we understood exactly what they were doing.

Mr. LYNCH. Right. We also have the example of Silicon Valley Bank, Signature Bank, and First Republic Bank. One of the triggering events there, obviously, the risk management, was very poor in that respect, and they got on the wrong side of interest rates. There were also some failures of issuers who had huge deposits at Silicon Valley, I believe, or Signature, maybe both of them, and the suddenness of their collapse caused a run for the exits, and luckily, with the scramble, we were able to sort of save that situation, so it did not create a greater contagion. Are there steps that we can take that might strengthen our ability to respond to that type of collapse as well?

Mr. POWELL. Yes. In the wake of Silicon Valley Bank, we did work with many, many medium-sized banks that had any of the characteristics that we saw. You mentioned a long position in long-term securities that was underwater along with a very unstable deposit base made up mostly of uninsured deposits. In the case of Silicon Valley Bank, it was a lot of similar private equity and venture capital and hedge fund companies where they all just pulled their money out at the same time, so it was a bank run. Bank runs are very destructive whenever they happen.

We looked for that pattern. We worked with companies, too, who had any aspect of that pattern, and we were successful, I think, in not having that crisis spread very broadly, and that was a good thing. Looking forward, though, we need to not forget that lesson and make sure that funding bases are stable and that we are focused on the basics of banking, which are credit risk, interest rate risk, and liquidity risk.

Mr. LUCAS. The gentleman's time has expired.

Mr. LYNCH. Thank you. I yield back.

Mr. LUCAS. The gentleman yields back. The chair recognizes the gentleman from Kentucky, Mr. Barr, for 5 minutes.

Mr. BARR. Chairman Powell, let me ask you a quick monetary policy question and then turn to bank regulation and Treasury market structure. I know hindsight is 20/20, but it is important to learn from mistakes, as you know, and you have conceded that the Fed miscalculated on inflation and mischaracterized inflation as transitory in 2021–2022 time period. Given that inflation remains stuck above the Fed's 2 percent target, will you commit to scrapping the flexible average inflation targeting framework, and if not, why would you not commit to returning just to a simple 2 percent target?

Mr. POWELL. We are just beginning the review. It will be done, as I mentioned, by the end of the summer, and that is the exact question we will be asking. I cannot commit to a particular outcome. I need to respect the process and the views of the other 18 participants on the FOMC.

Mr. BARR. Yes. I appreciate that, and I just hope that in that process that you and your colleagues recognize that framework allowed rising inflation to persist and allowed the Fed to mislabel it as transitory.

Let me turn to bank regulation. In October of last year, I led a bipartisan Congressional Delegation (CODEL) to Basel, Switzerland, met with the Basel Committee on Bank Supervision, and there, the committee actually conceded to us, agreed with me that the Michael Barr proposal of July 2023 actually gold plated bank capital requirements, and instead of actually promoting international harmonization, actually made American banks less competitive. They conceded that to us. I applaud the Fed for not moving forward on that July 2023 proposal that would have made it harder for large banks to, among other things, facilitate the smooth functioning of the U.S. Treasury market, including holding Treasuries on the balance sheet. Couple of questions. One is, should the goal of our bank capital rule, should it be regulatory harmonization internationally or should it be American economic competitiveness?

Mr. POWELL. Clearly, the goal is to have a strong banking system that supports American economic activity and growth. That is the ultimate goal. What you get from Basel is a global floor so that the other banks cannot run on less capital and sort of have a short-term advantage. That was the whole point of Basel, was to get everybody to the same kind of level so that it would not be the race to the bottom.

Mr. BARR. I see that utility, but I think the goal of our regulatory system should be America First, and it should be about American economic growth and competitiveness but let us talk about the Treasury market issues. Obviously, we are issuing a ton of debt right now. In fact, according to BlackRock, we are issuing $573 billion of Treasury bonds every week. To put that in perspective, the entire National debt of Australia is $573 billion, so we are issuing Australia every week in this country, if you want to think of it that way. Would reducing excessive capital and liquidity requirements on U.S. banks for intermediating U.S. Treasury market take the heat off of U.S. capital markets and increase Treasury market liquidity and stability?

Mr. POWELL. I strongly think it would help.

Mr. BARR. Well, I think that is especially an important comment in terms of your regulatory approach because as you know, maturing bonds were being financed at an average of near zero during COVID, and now they are about double the cost of the average of about 3.5 percent. Now is not the time to make it more difficult for banks to hold Treasuries.

Let me just drill down with a little bit more detail on this Treasury market structure issue. Do you agree that the supplementary leverage ratio and the enhanced supplemental leverage ratio, eSLR, enhanced supplementary leverage ratio, are problematic as they create a disincentive for banks, especially large banks, broker-dealer affiliates, to serve as intermediators in the primary, secondary, and repo markets for U.S. Treasury securities?

Mr. POWELL. I do.

Mr. BARR. Would you commit to reviewing the eSLR framework to create greater capacity for our banks to provide liquidity in the Treasury market?

Mr. POWELL. I think it is time to move on the eSLR, and we proposed doing so several years ago. We just did not follow through on it, so I do think it is time.

Mr. BARR. Thank you for that. Finally, yesterday, during your appearance in front of the Senate Banking Committee, Senator Warren asked you about the future of consumer protection laws now that the CFPB is abolished. Is it not true, Chairman Powell, that prior to Dodd-Frank, consumer protection laws were implemented by financial institutions' primary prudential regulators?

Mr. POWELL. Yes.

Mr. BARR. If there were a decision by the Congress and DOGE or whatever to repeal the CFPB, we could return the consumer protection law enforcement function to other financial regulators.

Mr. POWELL. You could. Yes.

Mr. BARR. Thank you. I yield back.

Mr. LUCAS. The gentleman yields back. The chair now recognizes the gentleman from Texas, Mr. Green, for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman. I thank the ranking member as well and would like to associate myself with the comments of the ranking member. Mr. Powell, I would like to compliment you for standing up to the President for literally preserving the independence of the Fed. It was one of those pivotal moments in time. It would have been more than you simply resigning. It would have been the President taking control of the Fed with one of his Pluto puppets.

Mr. Powell, I would like to speak about the process of collecting tariffs. When the tariff is collected, at what point does that actually happen? If we impose a tariff, product is coming into the country, where is that tariff collected?

Mr. POWELL. Great question. I am not an expert on that. I am going to say the Customs Bureau collects it, but I stand to be corrected by anyone who——

Mr. GREEN. I believe you are correct. That is what my research reveals. Permit me to extend this. When it is collected, it goes into a coffer. I believe we call that coffer the general fund. Is this correct?

Mr. POWELL. I do not know actually.

Mr. GREEN. It does. The tariff goes into the general fund. A tariff is another way of saying tax, I believe, for many people. Is that a fair statement?

Mr. POWELL. It is sometimes characterized as a tax.

Mr. GREEN. If the President imposes a tariff, which is a tax, and the tax is collected by some entity on the product before it gets into the country, then the President is putting tax dollars into a general fund such that they may, at some point, and these dollars, by the way, are coming from the consumer. At some point, they may be used to cover some of the appropriations of this very House that the President has enormous control over. In a sense, what the President can do is aid with the payment of what he would call a tax break, but aid with putting dollars in the pockets of his billionaire buddies that he collects on the tariff that the people in this country ultimately have to cover.

I think that the President, while he seems to always avoid the question of how the tariffs are going to be disbursed, he knows that he can, at some point, use that money to help pay the taxes that he plans to return to his billionaire buddies. I think that is a very sinister way of doing business to require the consumer to fund tax breaks. I think this President knows what he is doing. I think he believes that the very wealthy need more to do more and that the poor can do more with less. I do not agree with it, and I will do all that I can to prevent it. I yield back the balance of my time.

Mr. LUCAS. The gentleman yields back the balance of his time. The chair recognizes the gentleman from Texas, Mr. Williams, for 5 minutes.

Mr. WILLIAMS of Texas. Thank you, Mr. Chairman, and over here, Mr. Powell. Thank you. Good to see you.

Mr. POWELL. How are you?

Mr. WILLIAMS of Texas. All right. The Federal Reserve recently withdrew from the Network for Greening the Financial System, stating that its work had extended beyond the Fed's statutory mandate. While I agree with this decision, I still have concerns with how previous Fed policies may have discouraged lending to traditional energy sectors like oil and gas, and it should not be the role of the government and the Federal Reserve to be in the business of picking winners and losers. My question is, can you clarify whether the Fed will ensure that financial institutions are not pressured to making lending decisions based on political or climate considerations rather than sound financial risk analysis?

Mr. POWELL. I confirm that is not our policy. That would be inappropriate and absolutely not something we should be doing.

Mr. WILLIAMS of Texas. Okay. Thank you. The Basel Committee on Banking Supervision intended for the Basel III Endgame proposal changes to be implemented in a capital-neutral manner to ensure a level playing field for U.S. banks. Following this intent, the previous Federal Reserve Vice Chair for Supervision initiated implementation efforts with capital neutrality in mind. However, his successor politicized the process, imposing harsher requirements that exceeded the Basel Committee on Banking Supervision (BCBS) recommendations, and this approach not only made the proposal more difficult for banks and their customers, but also weakened U.S. banks' global competitiveness. Ultimately, he took his eye off the ball and went in the wrong direction. Mr. Chairman, will the Federal Reserve commit to conducting a more thorough economic impact analysis before finalizing any capital requirements to ensure that they do not hinder economic growth?

Mr. POWELL. Yes.

Mr. WILLIAMS of Texas. Regulatory overreach disproportionately impacts community and regional banks, which do not pose systematic or system risk, yet they face many of the same capital and compliance requirements as the largest institutions. Many of these banks serve as lifelines for small businesses, rural communities, and the first-time home buyers, and it is key for the Federal Reserve to protect these institutions and ensure that they are not subject to one-size-fits-all regulations. Mr. Chairman, what steps is the Federal Reserve taking to ensure that new regulations do not force consolidation in the banking industry, therefore, make it a little harder for smaller institutions to compete?

Mr. POWELL. Like everybody else, we see the consolidation that has happened really over the last 30, 40 years and community banks going out of business and just fewer and fewer banks. We know that may be happening due to technology and various things, and also just people moving to cities, and away from rural areas, but we do not want our regulation to in any way foster that. We try as hard as we can to make sure that we are not letting the heavier regulation that we apply to the Global Systemically Important Banks (G-SIBs), and even to the regionals slip down to smaller institutions that are serving their community and generally doing a good job at that, and we try hard to do that. This is tailoring. It is very much of a basic value that we have, and it is also what we are instructed to do under the law. I will not say we are perfect, but we do keep this in mind.

Mr. WILLIAMS of Texas. I would like to say thank you for being here. Good to see you. With that, I yield my time back, Mr. Chairman.

Mr. LUCAS. The gentleman yields back the balance of his time. The chair turns to the gentleman from Missouri, Mr. Cleaver, for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman. Thanks to our very capable and courageous ranking member. Mr. Chairman, thank you for being here today.

As you know—my words—the CFPB has been disemboweled over the last 10 days or so, which probably may not be much concern here on the Hill, in certain quarters. There are two things that I want to ask you about. Rules over at CFPB must be from time to time updated. Right now, there is no system for updating any of the rules. One of the other issues is that, is there a regulatory gap or are there regulatory gaps that you can see clearly that people can feel, because there is essentially no CFPB for the first time since the end of the Great Recession?

Mr. POWELL. I do not think we know where this comes to rest. You may have seen last night that the administration nominated somebody to be the permanent head of the CFPB, so I am not sure what the end intention is here, but if you assume that it goes away, then yes, there would be a gap. There would not be anyone, any Federal Agency, that can examine banks above $10 billion, whether they are State member banks or State non-member banks or national banks, that would be the case, but I am not sure we know what the end game really is here.

Mr. CLEAVER. In terms of regulatory gaps that are created when the Agency was essentially shut down, now, I am assuming that there has been somebody appointed to complete the murder of the CFPB. If I am correct, that means that there have to be or they have been tricking us all these years that they were not doing any regulations, but that is my political position. I was very proud in my community to get the Hispanic chamber and the Black chambers to come together. We got a building functioning, big celebration all across my congressional district in Missouri. Then, about 2 weeks ago, I started getting these phone calls, as I think many of us on both sides of the aisle have received, about 64 percent of small businesses have invoices unpaid for more than 60 days. The FedNow, the Fed's real-time payment system, allows individuals and small businesses to send and receive money instantly, which is step in the right direction, Mr. Chairman. What is the status of the FedNow adoption for financial institutions?

Mr. POWELL. It is coming along. As was the case with Automated Clearing House (ACH) back in the day, it takes quite a while. There is investment that has to take place on the part of banks, and so we are working with a lot of small and medium-sized banks to get them comfortable with the requirements of FedNow so that this can build up over time. It is something that we expected to be slow in terms of uptake, and it has been a bit slow.

Mr. CLEAVER. Is technology adoption a barrier for smaller community banks and mission-based lenders?

Mr. POWELL. Yes, it is. There are nonbank service providers that do reach out and do a good job with smaller institutions, and we encourage that. Those institutions cannot actually have direct access, but they have the information, and they can go to smaller institutions and show them how to do this. There is a lot of that going on and we encourage that.

Mr. CLEAVER. Thank you. Let me just say, I have been here on this committee for 20 years, and I have seen chairmen, Republicans and Democrats. Whether they are Republican or Democrat, they need to be independent. Thank you, Mr. Chairman.

Mr. LUCAS. The gentlemen's time has expired. The gentleman yields back. The chair recognizes the gentleman from Ohio, Mr. Davidson, for 5 minutes.

Mr. DAVIDSON. Thank you. Thanks for joining us today, Chairman Powell. First, I want to reflect on our hearing on February 24 here in this same room, frankly, via Zoom for a lot of people because it was in the height of COVID. During my 5 minutes, you felt confident that inflation being at 1.4 percent would stand or control, and it would not be an issue despite the very large increase in the supply of money. We talked about M2. In a subsequent meeting, frankly, in my office, we discussed Milton Friedman's Quantity Theory of Money in depth, and you believed that it was no longer relevant that inflation would not hit consumers. We debated asset prices during the hearing, and you claimed that the Federal Reserve's massive purchases of Treasuries did not distort the market. Last, during the Biden Administration, you were actively calling for more fiscal stimulus at times. At some point along the way, more dollars chasing fewer goods seems to have actually resulted in higher prices. All of these things—inflated money supply, inflated asset prices, inflated consumer prices—happened on your watch. In light of the actual outcomes, have your views changed?

Mr. POWELL. I think we have learned a lot but maybe not the lessons that you think, but I do think we have learned a lot from the situation. We and essentially all of mainstream macroeconomics thought that this would be transitory, and what that meant was it would go away fairly quickly as the supply side healed and as demand came down, and it did not. It actually did go away and substantially for those reasons, but it took 2 years.

Mr. DAVIDSON. To that point, you felt like in the fall that it was going away, and things were going to be under control, and you had achieved your soft landing, but the market pretty quickly spoke. Frankly, rates went up over 100 basis points where you guys were going down, and now in today's reports, we see that inflation is actually trending up quite a bit from where it was in the fall. Again, in light of the facts, would you reassess what you are doing with the central planning?

Mr. POWELL. You are right that long-term rates went up, but they did not go up because of expectations of higher inflation. There is no evidence of that. It is actually different things. It is not about inflation. Look at markets. Markets are pricing in break-even. I will show you the chart——

Mr. DAVIDSON. The markets do not believe there is increased risk with massive fiscal spending in the market, and they are not demanding a higher premium because there is more risk.

Mr. POWELL. More risk, yes. It is not mainly about prior higher inflation.

Mr. DAVIDSON. When you see asset price inflation and rate inflation, does not that result in consumer price inflation?

Mr. POWELL. It is not a question of that. You are saying that the rate increases at the long end are caused by expectations of higher inflation.

Mr. DAVIDSON. They certainly influence the inflation.

Mr. POWELL. That is largely not true.

Mr. DAVIDSON. If they do not influence the inflation, why do you guys try to steer inflation by controlling the rates? The reality is, you got pressure, including from the President, to lower rates. Are you going to be able to get lower inflation with lower interest rates?

Mr. POWELL. I think our policy is in a good place. I think inflation has come down from high levels to 2.6 percent last year. My colleagues and I are holding where we are, awaiting further evidence of inflation.

Mr. DAVIDSON. A lot of the data that you guys are looking at lag, just like when you said it was 1.4 percent, and everything is fine. I think a lot of people said it is not fine. You got to go out and talk to regular people and constituents in Southwest Ohio, just like all over the country, are not saying they are fine. They might go that the rate of increase has slowed down a bit, but they know that the prices are not going down. They are still getting hit pretty hard, and meanwhile, you guys still continue some of these policies. Like, you are paying banks still not to put their capital at risk in the market, interest on excess reserves, going back prior to the 2008–2009 financial crisis. You did not even pay banks for reserves. Now you are paying them for an unlimited amount of reserves that they want to hold on it. To what extent is that distorting the market by pulling capital out of the market?

Mr. POWELL. None. Not at all. You are right, though. People are unhappy about the price level, and what we need is several years of real wages moving up higher than inflation.

Mr. DAVIDSON. Okay. If they are having no impact at all, why is the Fed paying the interest? What is the rationale for the policy? Is it monetary policy, or is it regulatory policy, because, as Chairman Barr pointed out, you guys are effectively gold plating the standards, and U.S. is actually holding way more reserves than we are required to, and part of that is interest rate on excess reserve (IOER).

Mr. POWELL. What is your question?

Mr. DAVIDSON. Yes. If it is not distorting the market, what is the purpose for doing it? If it has no impact on the market, why are you doing it?

Mr. POWELL. It is the way we control. It is the way we exercise interest rate control in the market. I did not say it does not affect the market.

Mr. DAVIDSON. It has an impact, and so I will have questions for the record, and I yield back.

[The information referred to can be found in the appendix.]

Mr. LUCAS. The gentleman yields back. The chair recognizes the gentlelady from Ohio, Mrs. Beatty, for 5 minutes.

Mrs. BEATTY. Good morning, Chairman Powell, and thank you for being here. I want to thank you for your leadership at the Fed over the last 7 years, which I have had the pleasure of being here that entire time. Under both Republican and Democratic Presidents, through an unprecedented pandemic, and certainly an uncertain economy, your apolitical guidance is a testimony to the historic independence of the Federal Reserve, which is absolutely essential for you to carry out your mandate, keep prices stable, and achieve maximum unemployment.

Over the last few years, inflation, as we all have witnessed, has come down from a high of 9.1 percent in 2022 to about 2.8 percent. During your tenure under President Biden, we saw the unemployment rate drop to a staggering 3.4 percent in 2023, its lowest rate that we have seen in some 55 years, and now it sits at around 4.1 percent, which is still low by historic standards. Although the economy has a way to go and American families, as we have heard throughout today, are still struggling to pay for expensive groceries and gas, and the list goes on. It is truly remarkable what the Fed has managed to achieve over the last few years.

Chairman Powell, while I have sat on this committee, you and I have frequently discussed the importance of representation at the Federal Reserve and the benefits of recruiting the best and the brightest that this country has to offer by broadening the talent pool. The Fed has been a great partner to this committee on this issue, which, as everyone knows, has been very personal to me. However, the White House's recent attacks on these very basic concepts are incredibly concerning to me, as many of my Democratic colleagues. I am just going to ask you a few questions, and you may answer them, for the sake of time "yes" or "no." Will the Fed continue to follow existing law, as passed by Congress, that requires all financial institutions' reform, recovery, and enforcement agencies to maintain offices dedicated to recruiting from a broad talent base and fostering an inclusive workplace? Yes or no.

Mr. POWELL. Yes.

Mrs. BEATTY. I am pleased to hear, as my ranking member mentioned OMWI, and also talked about implementing it under Dodd-Frank Section 342, but I also am pleased to see that the Fed recruits from Ohio schools that I am from, that great State of Ohio, institutions like the Ohio State University or Case Western Reserve University, Denison University, Kenyon University, and Oberlin. Do you agree that hiring the best and the brightest, whether it is an economist, whether it is an analyst, a lawyer, a researcher, or information technology (IT) professionals, that this country has to offer means that you do not have to recruit just from Ivy League schools, but you can find these individuals, whether it is an Historically Black Colleges and Universities (HBCU), or it is also a State school? Have you found success in recruiting from those universities?

Mr. POWELL. Yes, we have.

Mrs. BEATTY. Thank you. Do you agree that these recruitment programs at their core do, in fact, prioritize merit and skill and simply expand the pool of candidates being considered?

Mr. POWELL. Yes.

Mrs. BEATTY. Do you agree that the Federal Reserve has directly and concretely benefited from initiatives to attract, hire, and retain a highly skilled and diverse workforce?

Mr. POWELL. I do.

Mrs. BEATTY. As I mentioned at the top, the United States economy has come a long way since the pandemic and peak inflation, but hardworking families still are struggling. Last night, I was in a store, night before last, eggs here in Washington, DC, were $14.99. So, I am concerned about how recent policies from the executive branch would impact the Fed's dual mandate. We are seeing reports, of course, from the Department of Government Efficiency's attempt to conduct massive layoffs. Do these policies, whether you agree with them or not, affect the labor market, unemployment, and the United States economy, and how does the Fed plan to achieve maximum employment during these circumstances?

Mr. POWELL. We have, I want to say, 170 million people in the labor force, so they would affect the numbers technically, but it is not clear that it would be material.

Mrs. BEATTY. Okay. Thank you. My time is up. I yield back and thank you again for being here.

Chairman HILL [presiding]. The gentlewoman yields back. The gentleman from Georgia, Mr. Loudermilk, is recognized for 5 minutes.

Mr. LOUDERMILK. Thank you, Mr. Chairman, and, Chairman Powell, thank you for being here.

Before I ask my questions, I want to spend just a moment on data privacy. I find it very ironic that my colleagues on the other side of the aisle and the ranking member in her remarks just take a sudden interest in data privacy, and especially information regarding individual's transactions when in the Inflation Reduction Act (IRA), bill, they worked very hard to force banks to report the financial transactions of individuals at $600. However, data privacy is something that I have been very serious about since I have been here. I have been fighting the Securities Exchange Commission with their unconstitutional acquisition of personal identifiable information (PII) from individual investors. We are attempting to reform and modernize the Bank Secrecy Act to limit the amount of information taken from individuals. They often turned a blind eye to the abuses by the CFPB, but it is encouraging to know that they are finally interested in some level of data privacy.

I bring that up because there is something about data and data security I want to ask you about. The U.S. Department of Justice announced that it was prosecuting a senior Federal Reserve official for economic espionage, and this just came out in the past few days. This economist who apparently had access to sensitive monetary policy documents allegedly provided non-public information to representatives of the Chinese Communist Party. I know you are limited in what you can share about this case in a public setting, but to say that I am concerned would be, as others, be an understatement. What you can share with us, if you will, please answer a few of these questions. Do you know what kinds of sensitive non-public information would this individual have access to in his role at the Federal Reserve?

Mr. POWELL. Him personally, no, I do not. As I said, "I really do not know the facts of the case, and I could not comment about it."

Mr. LOUDERMILK. Okay. Just assuming certain types of information from the role he is in, is there any idea, if information was provided to the Chinese Communist Party (CCP) what advantages would that give them?

Mr. POWELL. Without knowing what it is, I can tell you what staffers generally get, which is kind of the economic analysis that we do in advance of an FOMC Market meeting, and in modern central banking, we try to be as transparent as possible. I do not want to sound like I am dismissing this case, which we take very, very seriously, just as you do. The truth is, what we have that is secret is knowledge of what we are going to do in the future, and in modern central banking, the whole idea is to be transparent about what you are going to do. Nonetheless, we take this case very seriously, to your question.

Mr. LOUDERMILK. Yes, and I appreciate it, and this is not adversarial at all. I am really just trying to get to what possibly the Chinese could have done and if they have done anything with it. Of course, if you are unaware of the type of information he had access to, you could not answer that question, but does the Federal Reserve have an insider threat program designed to combat this kind of espionage?

Mr. POWELL. We have very, very strict information handling requirements. We do background checks on every Federal Reserve employee, and we start those before they start working there. We do everything we can on this.

Mr. LOUDERMILK. Obviously, certain things do happen, and people slip through the crack. Does this open the door for a more strategic analysis of the Federal Reserve and how to protect critical economic information?

Mr. POWELL. Yes. Once we see this unfold a little bit and know what the facts are, I think we will absolutely look and make sure that our controls and that employees understand the consequences of this, and I think they do, but with a few thousand employees, there is going to be one sometimes that breaks the rules. Again, I cannot comment on this case, but——

Mr. LOUDERMILK. I understand it is sensitive, but as things move forward, I would ask if you could at some point share with me and this committee more information so we can work with you to make sure that our Nation's policies are more so kept away from our adversaries. With that, Mr. Chairman, I yield back.

Mr. POWELL. I would be glad to do that.

Chairman HILL. The gentleman yields back. The gentlemen from California, Mr. Vargas, Ranking Member on our Monetary Policy Task Force, is recognized for 5 minutes.

Mr. VARGAS. Thank you very much, Mr. Chairman. Chairman Powell, thank you. I do not want to insult you in any way, but I hear you are a Deadhead.

Mr. POWELL. I will own up to that.

Mr. VARGAS. I assume that with the few words, oftentimes you would know one of the songs of the Grateful Dead, so I am going to give you here a quote to see if you know who said this: "The risk of a dispute over the position could be a distraction to our mission." Do you know who said that?

Mr. POWELL. No, I do not.

Mr. VARGAS. Michael Barr did, and I would be remiss if I did not say and mention that what Governor Barr did recently was very selfless and noble. The rest of that quote, by the way is, "In the current environment, I have determined that I would be more effective in serving the American people from my role as a Governor." I think he himself took the position that it would be a distraction to continue in that role. I personally think he is a person of great distinction that always managed himself in a way that was appropriate, and I appreciate the role that he played. I did not always agree with him. He was always agreeable and certainly was able to communicate with him our disagreement. Again, I just want to thank him because I think what he just did is what a lot of people cannot do, and that is make a decision that, for the betterment of the situation that we are in for our country. He would purposely do something that was not necessarily beneficial to him personally. Anyway, I would be remiss if I did not thank him.

Since I am asking tough questions, I do want to ask you another tough question, see if you know this one. Do you know what the Ponte dei Sospiri is?

Mr. POWELL. I do not.

Mr. VARGAS. Okay. You might know it in English. It is called the Bridge of Sighs. Are you familiar with the Bridge of Sighs?

Mr. POWELL. Rings a bell. I cannot——

Mr. VARGAS. Okay. In Venice, the Doge, who was the leader of Venice, had a palace, and across the palace, he had his prison. Oftentimes, a prisoner would be taken into the palace and interrogated in very rough way, then be tortured, and then after he confessed to something he normally did not do, he would have to walk over the bridge and then into the dungeon and oftentimes die there. However, before he completed the task of crossing the bridge, there are two windows there, and he would stop at the windows, and he would look out over the magnificent city of Venice. It is the last time, oftentimes, that a person would get to see Venice, and so he would sigh, and that is why it is called the Bridge of Sighs, the Ponte dei Sospiri.

The reason I bring that up is I think a lot of Americans feel that way right now, that they are crossing this bridge, and maybe it is the last time they have seen the beautiful America that we have had, and they are worried. They are worried about the usurpation of powers. They are worried about the balance of powers. Now, I was very proud of you when you stood up and said, "I cannot be fired. The President, cannot fire me. I am staying." Can anyone up here fire you?

Mr. POWELL. Anyone up there?

Mr. VARGAS. Yes.

Mr. POWELL. No, no single person can.

Mr. VARGAS. No single person can, right? I hope you continue with that independence because I think this moment is very important. Someone mentioned it earlier, and I think it is very, very important.

With that out of the way, I did want to talk about the dual mandate, especially the employment issue. For a lot of people in America, their job really is the most important thing for them—not even their investment—their job, and that is why employment is such an important position, I think, and so important to be part of the dual mandate. Are you looking at changing, in any way, the dual mandate?

Mr. POWELL. We do not have that authority.

Mr. VARGAS. Who has the authority to do that?

Mr. POWELL. Congress.

Mr. VARGAS. Only Congress?

Mr. POWELL. Yes. Congress would have to pass a bill, which would be signed by the President.

Mr. VARGAS. Say that again. I am sorry.

Mr. POWELL. Congress would need to pass a bill to change the dual mandate that the President signs.

Mr. VARGAS. That is right, and so I hope that you maintain your independence, at the same time follow the law that there is a dual mandate, and that is, I think, very, very important to most Americans. With that, again, I thank you for your service. I thank Michael Barr for his service. I know he is going to continue to serve. I know he will serve honorably like he always has, and with that, Mr. Chairman, I yield back.

Chairman HILL. The gentleman yields back. We recognize the gentleman from Middle Tennessee, Mr. Rose, for 5 minutes.

Mr. ROSE. Thank you, Chairman Hill and Ranking Member Waters, for holding the hearing today, and thank you, Chair Powell. Always good to see you here with us.

Chair Powell, you may recall, the last time we spoke, I brought up the issue of credit risk transfers, CRTs, and urged you to allocate more resources to ensure that framework applicants were receiving decisions from the Federal Reserve. I have recently heard back from stakeholders that they are receiving decisions from the Federal Reserve regarding CRT applications. I hope that the Federal Reserve team continues to be focused on cutting down the backlog so that financial institutions can take risk off their balance sheets. Thank you for that. However, I still have concerns that we are not fully optimizing the use of CRTs.

In the case of mortgage risk, CRTs have successfully shifted risk from taxpayers to private capital, including capital markets and global reinsurers, while government-sponsored entities have clear regulatory treatment under the Federal Housing Finance Agency. Financial institutions lack similar clarity, particularly under Basel III. I understand that the Federal Reserve has begun to provide guidance, but more is needed to ensure that financial institutions can effectively manage risk, stay competitive globally, and serve their customers. Chair Powell, do you believe that there should be greater alignment in CRT treatment between banks and Government Sponsored Enterprises (GSEs)?

Mr. POWELL. That is a great question. I will take your feedback back. Honestly, I do not know the answer to that.

Mr. ROSE. I just wonder what steps could the Federal Reserve take to clarify and harmonize capital rules to promote financial stability and competitiveness in this space.

Mr. POWELL. Again, I will take back your feedback, and that is our objective is to be timely and thoughtful in that work.

Mr. ROSE. Thank you. I appreciate that. In April 2024, Synapse Financial Technologies, a financial technology (fintech) company that provided banking as a service solution, filed for Chapter 11 bankruptcy. This event significantly impacted its partnerships with various fintech firms and banks, including Evolve Bank and Trust. To this day, I have constituents in Tennessee's 6th District who are not able to access thousands of dollars of their funds, and there has been no communication regarding the timeline for resolution. Chair Powell, since the Federal Reserve Board is a supervisor of the Evolve Bank and Trust, could you provide any updates on what you are doing to ensure that my constituents receive their funds and the expected timeline for them to receive their funds?

Mr. POWELL. As their supervisor, as you point out, we have been pressing that bank to get money back to their customers, and we are actively engaged with the bank as they take steps to do so and return that money. We are deeply concerned about the complaints that we have heard and are aware of concerns raised during the bankruptcy proceedings, and to the extent there are violations of law and will follow-up on that.

Mr. ROSE. Thank you again. Are there any specific steps that my constituents could take to expedite the process or ensure that they receive their rightful balances?

Mr. POWELL. I will have to come back to you on that. There may be, but I do not have anything for you on that today.

Mr. ROSE. Thank you.

[The information referred to was not received prior to printing.]

Mr. ROSE. Chair Powell, is there anything else that the Federal Reserve Board is considering to prevent situations such as this on a going-forward basis?

Mr. POWELL. I think when we see things, it is a lot of pattern recognition, so we will be looking to avoid things like this happening in the future.

Mr. ROSE. All right. Thank you. I think there has been a lack of appreciation for the work that President Trump has done to restore the American workforce. It is his example of calling Federal employees back to the office that we are now seeing corporate America follow as well. Chair Powell, as the Federal Government and companies move to end work-from-home policies and bring employees back to the office, how do you anticipate this shift will impact key economic indicators, such as productivity, urban commercial real estate markets, and consumer spending patterns?

Mr. POWELL. That is a really good question. I am not sure of the answer. I have always felt that I am personally more productive in the office, and that is where I work, except on weekends, when I work at home. In terms of productivity, I think there are different views. I know a lot of CEOs feel strongly that people are more productive in the office, and we will just have to see. I also think, though, that on the other side, work from home did allow very high levels of labor force participation among, for example, women. We had all-time record high participation by women, so I think there are benefits from work from home. I hope we continue to realize those.

Chairman HILL. The gentleman's time has expired.

Mr. ROSE. Thank you. Okay. I yield back.

Chairman HILL. The gentleman from Illinois, the Ranking Member on our Financial Institution Subcommittee, Mr. Bill Foster, 5 minutes.

Mr. FOSTER. Hi. Thank you and thank you for everything you do. I would just like to get some sort of level setting on what you have been facing in recent. It is my understanding that your inspector general in the Federal Reserve has not yet been fired. Is that correct?

Mr. POWELL. That is correct.

Mr. FOSTER. Okay. You have not also had the high-level resignations of senior personnel as they have had in Treasury, nothing like that?

Mr. POWELL. No, nothing like that.

Mr. FOSTER. As of yet, no examples of junior personnel being given administrative access to your technical systems?

Mr. POWELL. Are you talking now about the payment systems that——

Mr. FOSTER. No, payment systems or other technical systems.

Mr. POWELL. No.

Mr. FOSTER. Email systems, nothing like that?

Mr. POWELL. None of that.

Mr. FOSTER. Okay. All right. So far you have not suffered through what Treasury has. Have you had any inquiries from other central bankers or commercial bankers from around the world about what can we—uncertainty about whether the Federal Reserve will be able to continue doing its job if you suffer the same sort of intrusion that Treasury did?

Mr. POWELL. I have not, no.

Mr. FOSTER. You have not. Anyone called you up and said, what the heck is going on, do we have to defend ourselves against unknown software being installed on the system?

Mr. POWELL. I have not had any such calls.

Mr. FOSTER. Okay. All right. Let us see. We have also seen resumption of calls to audit the Fed, all right, which as you can remember from that gentleman up on the wall there, this was a big theme. First off, the Fed does get audited, correct?

Mr. POWELL. We are audited in the sense that everyone understands that word to mean, which is we have a big four accounting firm who looks at our books and gives us an opinion, does an audit, and publishes that opinion. That is all public.

Mr. FOSTER. Right, and it is my recollection that there have never been any big problems uncovered in that sense?

Mr. POWELL. No. We actually have quite a simple business model, although we have a large balance sheet where we are like a big community bank, only with no credit risk and very simple.

Mr. FOSTER. In the ordinary sense, talk of auditing, the Fed is——

Mr. POWELL. Fully audited.

Mr. FOSTER. It makes no sense, but what was really meant, certainly when we were talking a decade ago, I guess it was really all about micromanaging Fed monetary policy that they said we want to audit the monetary policy, which does not really make sense, since it is a policy thing. Do you have any indication of whether the resumption of calls to audit the Fed will be audits or some new effort to politically micromanage the monetary policy?

Mr. POWELL. I have no way of knowing. Really, what it is, is the Government Accountability Office (GAO) is free to work in every area of the Fed except monetary policy and does so. We have GAO reports all over the place, over many years, but they do not audit monetary policy. The threat would be, if that were to go away, you would have investigations into decisions on monetary policy, and that would be a different thing. I think it was designed by its designer, to be a step on the way to eliminating the Fed.

Mr. FOSTER. That is correct, yes. The calls to end the Fed came from the same wing of the Republican Party and, I guess, still exists. I think we are up to something like 20 Republican sponsors of the end of the Fed bill.

Let us see. I was sort of surprised to see that the word, “tariff,” only occurred twice in your monetary policy report, whereas, if you look at financial trade journals, it is mentioned 5 times above the fold for those of them that read hard copies. This must be a very hard thing for you to deal with because as you are aware, Trump's tariffs and other trade policies put us in a manufacturing recession a year before COVID hit. This is not a small thing if these resume, but you have to sort of filter out the chaotic noise and the guidance that varies hour by hour or week by week. How do you actually filter that? You say correctly, let us wait to see what the actual policies are, but then that depends if you listen one day you get these are the actual policies. At some point you have to feed these into your macro models of what happens, and how do you do that filtering when there is just so much random noise on the signal?

Mr. POWELL. I think it is straightforward now in the sense that no one knows pretty much what the exact policies will be. That is still evolving, and so you cannot really take action. You can do analysis of various hypothetical things, and we have been doing a lot of that, but ultimately, it matters what happens, what is tariffed for how long, are there substitutes. Many, many, many questions that will have to be answered, and even then, the question will be, how much of that will transfer to the consumer? As you know, that can fall on the exporter, the importer, or the retailer or the consumer.

Mr. FOSTER. In my case, manufacturers are at both ends of this.

Mr. POWELL. Yes, so we really just do not know.

Mr. FOSTER. If that sort of analysis——

Chairman HILL. The gentleman's time has expired. The gentleman from South Carolina, Mr. Norman, is recognized for 5 minutes.

Mr. NORMAN. Thank you, Mr. Chairman. Thank you, Mr. Powell. I appreciate you coming and addressing our body.

In 2011, Vice Chairman Yellen made a statement of concern about the long-term debt situation and the imbalance that we have with our budget. In the 4th quarter when she made the statement, the Federal debt held by the public as a percentage of GDP was 64.75 percent. Now the same debt-to-GDP, as identified by Congressional Budget Office (CBO), was 99 percent at the end of 2024. Do you express the same concern that Ms. Yellen had about the severity of where we are with our continued long-term imbalance?

Mr. POWELL. I have done so on many occasions, and, essentially, that the U.S.—we are on an unsustainable path, and the debt level is not unsustainable, but the path is unsustainable. Certainly, it is past time for Congress to work on that, but that is what I can say. I cannot say more than that.

Mr. NORMAN. We are in the middle of the budget situation now, trying to debate particular reconciliation. What would you say is a benchmark, what level of cuts, in your opinion, would ease your concern over what we are doing with $37 trillion now, but when you add the agents, the mandatory spending we have on Social Security as examples, going bankrupt in 2035, Highway Trust Fund running a balance, what level do you think will give you, I guess, some assurance that we are going to get our house in order?

Mr. POWELL. I do not have a specific number—it would not be appropriate—but I will say this. In having looked at this, the successful programs to get back on the right track, they tend to make progress over a long period of time. In other words, you have to get to a place where the economy is growing faster than the debt, and then you need to stay on that path for 20 years. This is not the kind of thing where we can fix it overnight. We just need to be making progress. Right now, we are running very large deficits at a time of full employment, so we need to start moving. You are either making progress, or you are not. Right now, we are not. So, the key thing is for it to become a big issue and then people work together. The things that need to be done are things that can only be done on a bipartisan basis, only. These are the things that need to be dealt with, cannot be dealt with by one political party. I will leave you with that.

Mr. NORMAN. It is going to be a tall order——

Mr. POWELL. It is.

Mr. NORMAN [continuing]. to get bipartisan.

Mr. POWELL. It will only grow. It gets taller every year.

Mr. NORMAN. Yes, it does. I say that is one of my issues we are having now. The level of growth, you would think with what President Trump is doing with giving Americans confidence, with the DOGE Commission, which is giving Americans hope that we would, we are seeing things that are being spent at the taxpayers' dollars that we never imagined, that we could not get to, now he is exposing that. What level of growth you think, with the confidence growing under Trump, that we will be able to reach this year and the years after because the 20 years you are talking about, we have to have a pretty solid. It has to be, would you say 1.8, 2 percent growth of GDP?

Mr. POWELL. You know, for a long time, people thought that U.S. potential growth was a little bit below 2 percent. I think we have had 5 years of good productivity growth, and we hope that will continue. If that does continue, then it might be 2 or 2-and-a-quarter. If you are just talking about long-term budget assumptions, though, I would be conservative and say 2 percent.

Mr. NORMAN. You think that is doable?

Mr. POWELL. Two percent, yes.

Mr. NORMAN. On another note, the stress tests that banks run and that the public has been given information on everything, but how that stress test relates to them. Most people do not understand what it is. Why is it not broadcast more, in your opinion?

Mr. POWELL. Why the stress tests?

Mr. NORMAN. Correct.

Mr. POWELL. The theory from the beginning was not to disclose the whole models and the way that they work because, in a way that felt like giving the test in advance. This was a brand-new initiative that started coming out of the global financial crisis, very successful generally. Over time, the argument for not giving away the models, giving the models out has, I think, weakened, and also the law has moved. The Supreme Court has moved to reduce the level of deference given to agencies and increased our obligations to be transparent under the Administrative Procedure Act, and so it is time to expose the models.

Chairman HILL. The gentleman's time has expired.

Mr. NORMAN. Thank you so much.

Mr. POWELL. Thank you.

Chairman HILL. I thank the gentleman. The gentleman yields back. The gentleman from Texas, Mr. Gonzalez, is recognized for 5 minutes.

Mr. GONZALEZ. Thank you, Mr. Chairman, and thank you Chairman Powell for joining us this morning. As you know, the United Kingdom, European Union, Mexico, Brazil, India, and Japan all allow nonbank payment service providers access to their instant payment services. This allows improved access to liquidity for users by ensuring they can send and receive payments instantly without waiting multiple days, taxes, or money. I believe this is especially important for those who have tighter cash-flows and for those sending payments to loved ones abroad, both which happens quite frequently in South Texas and across the country. With that in mind, does the Federal Reserve plan to allow nonbank payment service providers access to FedNow payment rail?

Mr. POWELL. We do not plan that right now. What we really want to do is to have the consumer not care. The consumer can have access, but our payment rails go through the banks, and so you have to go through a bank.

Mr. GONZALEZ. There are no plans for changing that?

Mr. POWELL. No, not that I am aware of.

Mr. GONZALEZ. Okay. Getting on Consumer Price Index, what Consumer Price Index reading would cause you to cut rates? Is it 2 percent exactly, or is it a trend closer to 2 percent? How much more movement downward do you need to see in CPI for the Fed to start looking at rate cuts?

Mr. POWELL. Remember, we are looking at two things. We are looking at the labor market and inflation. Headline inflation last year was 2.6 percent, and we have said, assuming the labor market remains solid and strong, we want to see further progress. We did not actually make much progress on core PCE inflation last year for reasons that I can explain, but nonetheless, the progress was not there, so we want to see a resumption of progress. I am not going to put a really specific number on it. The truth is, the economy is strong, the labor market solid, and we have the luxury of being able to wait and let our restrictive policy work to get inflation coming down again, and that is what we are doing.

Mr. GONZALEZ. Is there any concern at the Fed that deporting millions of undocumented workers that do a lot of crucial work in the agriculture industry and construction, in hospitality business, will create upwardly pressure on inflation in this country?

Mr. POWELL. We do not have concerns about policies. We just look at the data. The new labor supply from immigration has actually come down quite sharply over the second half of last year, and there is every reason to think that will continue. Demand has also come down. The unemployment rate has actually been flat since July. We are going to look at supply and demand——

Mr. GONZALEZ. Will not taking a million workers out of the economy have a direct impact on it?

Mr. POWELL. It could. You will just have to see how supply and demand match up. In any case, we are not here to comment on immigration. We are here to achieve maximum employment——

Mr. GONZALEZ. Right. I totally get that. I am just figuring, if you take a million people out of the workforce, how do we make that up, and how would that have an upwardly inflationary pressure on our economy? Moving on, recently, the Cleveland Fed's New Tenant Rent Index tumbled to a negative 2.4 year-over-year rate. Does that type of deflation in shelter make you more positive on future interest rate cuts?

Mr. POWELL. Yes, but the thing is, what we are really looking at is in the aggregate housing services—inflation—I believe that is a measure of current rents, so market rents that are happening and market rents have not been showing much inflation for a long time. Market rents do not make their way into rents until existing leases turn over and that has been the slow part of the process. We have seen a lot of progress on that, but we are not there yet. We are not back to levels of housing services inflation, which is what I described, but we are getting there. We are making clear progress.

Mr. GONZALEZ. You recently said that employment prospects are solid, and construction employment, which represents 6.1 percent of all private employment, is falling significantly. Does this concern you?

Mr. POWELL. We look at the aggregate numbers. There are always industries that are growing and not growing. I think the last few job reports have been significant job creation. You saw the one here a week or so ago, which were vised up the last 2 months and strong job creation. In fact, it looks like the job creation may actually have picked up a little bit around the end of the year, last couple months.

Mr. GONZALEZ. Thank you. Just very briefly, given that we had a business capital expenditure (CapEx) recession, the last time the economy faced uncertainty with large tariffs, are you monitoring CapEx developments closer this time around?

Mr. POWELL. We are monitoring them carefully, yes.

Mr. GONZALEZ. Thank you. I yield back.

Chairman HILL. The gentleman yields back. The Chair of our Oversight and Investigation Subcommittee is recognized for 5 minutes.

Mr. MEUSER. Thank you, Mr. Chairman, and thank you very much, Chairman Powell. Good to see you. I did recently chair an Oversight Subcommittee hearing on de-banking. During our hearing, we revealed evidence that the FDIC directly pressured banks to de-bank crypto. What do you think of that situation?

Mr. POWELL. I think we are all struck at the number of complaints and the breadth of them and want to understand. We want to take a fresh look at this area. We are not telling banks that they cannot bank certain people from certain institutions, anything like that. Nonetheless, we are hearing these things, and I take at least some of are real. We need to understand it and stop it from happening, because if you look at what the banks are saying, they are really saying that a lot of this is that the enforcement of any money laundering is so tough, that at any sign, any flag at all that gets raised, they just cut people off, and they cannot explain. That may be part of it, but I think we need to do some work, get to the bottom of it and address this.

Mr. MEUSER. Thanks, Chairman. There were hundreds of letters, by the way, that were pretty clear that——

Mr. POWELL. Yes.

Mr. MEUSER [continuing]. banks should avoid doing business with crypto companies. No such pause letters as they refer to a communication of this coming from the Fed?

Mr. POWELL. Not that I am aware of. No, it has not been our policy. Our banks are doing business with crypto companies, and they are doing crypto inside the bank, some of them are. We have been a little bit careful with it, but I really do not think we have been telling people they cannot do it.

Mr. MEUSER. I think a lot of people, including us, would appreciate it if you keep doing a careful review of that. The banking industry itself is concerned that there is no vice chair for supervision to provide clarity on multiple issues from Basel III to Reg II and de-banking. Do you expect to have an acting vice chair for supervision? When do you expect to have an acting vice chair?

Mr. POWELL. We need to have a confirmed vice chair if we are going to have a vice chair. There is no such thing as acting for us, but I do not know. That is up to the administration. I will tell you the way we look at it is, we are going to do our jobs, and I think there are a number of things that can be done that will be very constructive. If there is a new vice chair for supervision, I will welcome that person and do everything I can to make them successful.

Mr. MEUSER. Okay. Thank you. Yesterday, you noted that Basel III Endgame could be finalized fairly quickly, given last year's extensive public comments. Will you ensure the rule does not restrict access to capital and fully incorporates industry feedback? As you stated, you felt that the capital reserves for banks were about right, so I would imagine you not looking for anything too drastic there?

Mr. POWELL. No, that is right. Yes, that is correct.

Mr. MEUSER. Okay. Great. The CPI this morning came in a little hotter than expected at 3 percent. Did this surprise you?

Mr. POWELL. The CPI reading was above almost every forecast, but I would just offer two notes of caution on this. One is, we do not get excited about one or two good readings, and we do not get excited about one or two bad readings. The second thing, though, is we target PCE inflation because we think it is simply a better measure of inflation, and so you need to know the translation from CPI to PCE, and we get more data on that. Tomorrow, we will get the Producer Price Index. I think it is always wise, and the people who follow us closely know this, we will know actually what the PCE readings are late tomorrow.

Mr. MEUSER. Okay. In the past, as you well know, you called inflation transitory, then the Fed signaled three rate cuts for 2024, and the markets priced in six. Now that you are saying that there is no rush to cut rates, do you find this forward guidance stabilizing markets or fueling volatility?

Mr. POWELL. This is the summary of economic projections, the dot plot, and I think markets like it. It is the forward guidance that we give. We do not really mean it as forward guidance, but markets do take it. Sometimes they take it too seriously. I think most market participants understand that it is highly conditional and dependent on what actually happens in the economy.

Mr. MEUSER. That is the feedback that you do receive——

Mr. POWELL. Yes. Yes. When we talk about getting rid of it, market participants will tell you, please do not do that.

Mr. MEUSER. Okay. If DOGE found a trillion dollars in wasteful, unnecessary spending—the Department of Government Efficiency, of course—and would not that have a positive effect on inflation, allowing you to perhaps lower interest rates and of course, reduce our deficit spending?

Mr. POWELL. This is if a trillion dollars of spending were eliminated. You have to run that through a model but ultimately hard to say exactly how it would affect the economy.

Mr. MEUSER. Okay. You got a $6 billion budget at the Fed. Would you welcome DOGE to have a look under the hood?

Mr. POWELL. We have not heard from them, and I have nothing for you on that today.

Mr. MEUSER. Thank you, Chairman. I yield back, Chairman.

Chairman HILL. The gentleman's time has expired. The gentleman from Illinois, Mr. Casten, is recognized for 5 minutes.

Mr. CASTEN. Thank you, Mr. Chair. Chair Powell, always a pleasure to see you again. I want to start there, and I do not expect you to comment on the policy here, but there has been a number of actions from the Trump Administration of scrubbing or limiting data that the private sector has historically relied on to understand the direct and indirect impacts on the economy, public health data, information about breaking things down by gender, by race, that we need to understand granular shifts in the economy. I realize that you do not rely exclusively on government data, but has there been anything that has happened since the Trump White House was sworn in that has limited the Fed's access to information you need to fulfill your dual mandate?

Mr. POWELL. Not that I am aware of, no.

Mr. CASTEN. If there was, will you commit to sharing it with Congress so that we can fulfill our oversight responsibilities?

Mr. POWELL. Sure.

Mr. CASTEN. Okay. When you were here in July, I asked you this question, and I just want to confirm that you still feel the same way. Is it still your view that, the Federal Reserve, climate change constitutes an emerging threat to U.S. financial stability?

Mr. POWELL. I guess I would say it this way, I would not say that climate change is currently a threat to U.S. financial stability.

Mr. CASTEN. An emerging threat?

Mr. POWELL. I would say that it may emerge over time as such.

Mr. CASTEN. Okay, so $250 billion of losses in California. We have now got multiple States where the insurer of last resort is insolvent, reporting today that California is having to bail it out. I know we have a difference of opinion on Network for Greening the Financial System (NGFS). I do not want to go into that, but is the Fed monitoring what is happening to our financial system as those insurers pull out, as insurance rates go up, and people's both access to property insurance and the cost of insurance are going up? Are you monitoring what is happening systemically in our economy as a result of that?

Mr. POWELL. Yes. If the question is, is it a threat to the financial stability of the United States, that is really the question, and, of course, we are following that very, very carefully.

Mr. CASTEN. Okay. If you are monitoring it, where is the risk that was being backed by the insurance industry moving? Where in the economy does that risk now live?

Mr. POWELL. Insurance companies, as you know, can cancel policies and not issue them, and they can leave States, and they are doing a lot of that. Where do those risks fall? They fall on homeowners and other beneficiaries, and they fall on State Governments and to some extent, the Federal Government. They do not cause large financial institutions to fail.

Mr. CASTEN. Are you seeing shifts in mortgage servicers, their willingness to provide loans to homes as those insurance rates go up or disappear?

Mr. POWELL. Implicitly. If you cannot get insurance, then there will not be a mortgage. I cannot point to episodes where that is happening, but that is certainly where this looks like it is headed.

Mr. CASTEN. Okay, because there have been reports going back several years now that the more prone your property is to flood risk, to fire risk, the more likely you are as a bank to offload that on to Fannie and Freddie, right? We have seen that data happening. That then raises the question of, and this is maybe just purely academic and wonky. If you own a set of cash-flows and you want to sell them to me, we both have full information. I am only going to buy them from you at an accretive value to you to the extent that I have a lower cost of money than you do, right? Just, Sort of like ECON 101, right? If we own Fannie and Freddie, right now because they are in receivership and they are throwing off a string of cash-flows to the Treasury, setting aside the nuances of how the CBO scores all these sorts of things, is not the sale of Fannie and Freddie on the assumption that the buyer and seller have perfect information, the same information on both sides of that transaction? If that is accretive to the American taxpayer, does not it implicitly assume that we have to sell to somebody with a lower cost of capital than we do?

Mr. POWELL. I followed your logic there, yes.

Mr. CASTEN. Okay. That would only not be true to the extent, I suppose, either that the buyer violates every rule I had in my mergers and acquisitions (M&A) career of paying for upside, as they say, or that the buyer lacked information that the seller had, right?

Mr. POWELL. Fair.

Mr. CASTEN. Okay. What I would like to understand is, does that create a conflict of interest for the U.S. Government, because if we have information about climate change being scrubbed from our data sets and we have a White House that would like to sell Fannie and Freddie, are we committed to efficient markets that depend on accurate, transparent information, or are we committed to making a quick buck, in which case we might want people not to be uninformed? Is the Fed committed to transparent markets, I guess is the first question, and then the second one, do you feel that conflict?

Mr. POWELL. I think we are getting a little away from our mandate at the Fed. The idea of privatization is to get this off the balance sheet of the Fed and get private capital backing it up.

Mr. CASTEN. Sure, and there would be good reasons for that, but if that is coming at the expense of value to the American taxpayer, we need to be transparent about it.

Chairman HILL. The gentleman's time has expired.

Mr. POWELL. Right, but we have private sector banks. All credit could be made cheaper if offered by the central government, right.

Mr. CASTEN. I yield back.

Chairman HILL. The gentleman yields back. The gentleman from South Carolina, Mr. Timmons, is recognized for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman, and thank you to Chair Powell for joining us today. Yesterday in an exchange with Senator Warren on stress testing, you said that the Fed is having to change their approach "because the ground has shifted very substantially in administrative law." While, yes, the ground has certainly shifted since last year, I am slightly confused, because after reading up on the banking industry's lawsuit against the Fed, I do not see a direct connection between their case and the loss of Chevron deference. Their case seems to center on the Fed not complying with the long-established process laid out by the Administrative Procedures Act. While some at the Fed may not classify stress tests as a rulemaking. When they require banks to alter their capital levels, they have the effect of rulemaking.

Chair Powell, I am hoping you can clear this up for me. Is this a matter of adapting to a post-Chevron world, or was this the Fed unlawfully using stress tests as a back door to increase capital requirements on banks without issuing a formal rulemaking and having to go through the legally required notice and comment Administration Procedure Act (APA) process?

Mr. POWELL. Pretty good chance that the next sentence I say would be evidence in the court case that we are having, so I am not going to get into debating what the law is because we are in litigation. I will say it is not just Chevron, though. I think it is clear from other cases that expectations under the Administrative Procedure Act are also raised, just generally speaking, and so we felt that, overall, that really has changed the playing field.

Mr. TIMMONS. Any changes in capital requirements are very disruptive, and having a more predictable process is helpful for long-term stability of the U.S. economy.

On to the next question. Foreign banks, many of which are smaller than their domestic counterparts, play a larger role in providing financing in the Treasury market. U.S. banks, on the other hand, are less involved than they could be, primarily because regulators have made this activity less profitable for them. Stricter capital requirements, liquidity buffers, and compliance costs stemming from regulations, like Dodd-Frank, make it more costly for U.S. banks to engage in Treasury market operations, particularly in repo and securities lending. As a result, foreign banks facing fewer regulatory hurdles have stepped in to take on this crucial role, providing the liquidity and financing needed. This shift has significantly altered the market landscape with foreign institutions now holding a larger share of financing operations, that were once dominated by U.S. banks.

My question is this. Why are we setting up a system where the U.S. Treasury market needs to rely so much on foreign banks for proper functioning, and do you see that as a national security threat?

Mr. POWELL. The trend that I see is that we have very significantly raised the capital costs of supporting market activity, especially for low-risk activities that are low risk, low return. What has happened is the amount of Treasuries has grown much greater than the capital that is allocated to intermediate it. That is why you see low intermediation and relative lack of liquidity, and I think it is appropriate to do something about that. That is something that we will be looking at is to reduce the enhanced supplemental leverage ratio to account for that. This is something that we proposed before, which, I think, is intended to increase liquidity in the capital markets for banks subject to it.

Mr. TIMMONS. Thank you for that. I want to end on a positive note. I want to discuss the optimism among the American public. Small business optimism experienced its largest increase in 40 years following President Trump's recent election, with continued positive momentum in the months since. This surge reflects growing confidence in the economy spurred by expectations of favorable policies and reduced regulatory burdens for small businesses. The index is not only well above its 50-year average but also reached its highest point in December since late 2018. This shift has caught the attention of many across the economic landscape. Back home in South Carolina, I frequently speak with small business owners who are enthusiastic about the future and eager to help their businesses thrive under the new administration. My question is this. How do you see this significant jump in optimism translating into tangible outcomes in terms of investment, hiring, and overall growth for small businesses?

Mr. POWELL. We know that sentiment really matters. It is really hard to model it, but you do think about it. When you are thinking about your forecast, you think about optimism and that kind of thing because that is what supports investment. All the investments that companies make—they have to have on some level, optimism that it is worth shelling out this money to do what it is they are doing. It is a key part of how economies work.

Mr. TIMMONS. Given the potential for increased investment, are there specific policy adjustments or economic factors that you are watching closely to ensure that this optimism leads to sustainable growth in the long-term?

Mr. POWELL. Best thing we can do is achieve price stability and also full employment, maximum employment, and then create a stable environment where businesses and households cannot worry about inflation and we have steady, sustainable growth.

Mr. TIMMONS. As one of the millions of Americans about to get a mortgage, interest rates going down would be helpful. Thank you, Mr. Chair. I yield back.

Chairman HILL. The gentleman yields back. The gentlewoman from Massachusetts, Ms. Pressley, is recognized for 5 minutes.

Ms. PRESSLEY. Chairman Powell, we are at an inflection point and we need leaders who are courageous enough to speak truth, and who are committed to helping every person who calls this country home. There are many who wrongfully justify Trump's presidency and the lawless work of DOGE as good for the economy.

Chairman Powell, you actually know something about the economy. The Federal Reserve has a dual mandate—maximizing employment and stabilizing prices—and it is clear to me that Donald Trump and Elon Musk's actions are impeding your work. The threats of tariffs against our allies are not helping the Fed do its job, nor will they help people across our country. The Boston Federal Reserve put out a report last week, which estimated tariffs would be inflationary and raise prices.

Chair, I ask unanimous consent to enter into the record the report titled, "The Impact of Tariffs on Inflation."

Chairman HILL. Without objection.

[The information referred to was not received prior to printing.]

Ms. PRESSLEY. Additionally, Donald Trump has threatened mass deportations. He seeks to terrorize immigrant communities and separate families, claiming it will help the economy. I do not think so and neither do the Peterson Institute for International Economics, who estimated that employment would drop 7 percent.

Chair, I ask unanimous consent to enter into the record the report titled, "Mass Deportations Would Harm the U.S. Economy."

Chairman HILL. Without objection.

[The information referred to was not received prior to printing.]

Ms. PRESSLEY. Now, Chairman Powell, I want the Federal Reserve to be successful, so if Elon Musk and his DOGE bros were to walk into the Federal Reserve, intimidate staff, access classified data and take control of the Agency the same way they did USAID and the Consumer Financial Protection Bureau, would that help or hurt our economy?

Mr. POWELL. We do not have that happening. I am not going to speculate.

Ms. PRESSLEY. On your own website, it says, "The Federal Reserve is accountable to the public and the U.S. Congress," so I would like to see a clear answer on this. Your staff are watching, Wall Street is watching, Donald and Elon are certainly watching, and we all want to know. What is your view if DOGE does to the Federal Reserve what it has already done to other independent agencies?

Mr. POWELL. What we are going to do at the Fed is keep our heads down and keep working, wait to see what new policies emerge, and try to make a thoughtful, sensible set of policies on our part once we understand the implications of those.

Ms. PRESSLEY. All right. If Elon Musk or anyone from DOGE attempts to access the Federal Reserve's private data, will you immediately alert the members of this committee?

Mr. POWELL. Sure.

Ms. PRESSLEY. Thank you. This is as clear to me as night and day. Donald Trump and Elon Musk are not trying to help working-class people. They are trying to help themselves. They want the Fed to be a tool that helps the rich get richer, banks get bigger, and regulations disappear altogether, but that is not your mandate. The Fed must maintain its independence and integrity. At the interest of the public before Elon Musk, the world's richest man, does not care about the price of eggs. He does not have to when he has already bought the presidency. I yield back.

Chairman HILL. The gentlewoman yields back. The gentlewoman from California, Mrs. Kim, recognized for 5 minutes.

Mrs. KIM. Thank you, Chairman Hill, and, Chairman Powell, thank you for joining us today, and I want to commend you again for ignoring the outside noise and staying true to Fed's dual mandate. Chairman Powell, it seems the advent of artificial intelligence and other emerging technologies has helped the United States increase productivity when compared to other countries around the world, that makes our country more competitive and envy of economic growth. Do you believe that this boom in productivity is sustainable in the long term, and if so, how does that increase in productivity affect your models to forecast inflation, therefore, monetary policy?

Mr. POWELL. We have had a boom in productivity. It is most welcome, and, of course, it would be great if it were sustained. I think if you look at the candidates that try to explain it, some of them are kind of one-time things and some of them could be more sustained. You mentioned technology and artificial intelligence (AI). To the extent that is part of it, that could be a sustainable increase in the rate of growth and productivity. To the extent it was more about job reallocation, people switching jobs coming out of the pandemic, that is kind of a one-time thing.

Also, we had a wave of startups, a wave of early-stage companies, that also tend to be linked to productivity. That, too, could just be a one-time increase in productivity. Literally, no one has the record of being able to successfully forecast productivity for very long, but again, it is going to depend on many things. As long as we have this increased productivity, it is most welcome and important.

Mrs. KIM. Thank you. Over the past decade, we have seen Fed intervene with more regular frequency to maintain the orderly functioning of the U.S. Treasury market. Much more than decades before, it seemed like the private sector was able to manage this without too much Fed intervention pre-financial crisis, and a longstanding and growing bipartisan consensus that the SLR and other regulations may be causing this. If so, what do you think the solution is to reduce the need for frequent Fed intervention?

Mr. POWELL. I do think we need to work on Treasury market structure, and part of that answer can be, and, I think, will be reducing the calibration of the supplemental leverage ratio, as you mentioned. That is something that I have long supported and for the reason that the quantity of Treasuries has grown really significantly and the capital allocated to intermediating trades in Treasuries, in fact, has shrunk. We need a liquid Treasury market, and this is one of the things that we can and should do: is to reduce the calibration of that measure.

Mrs. KIM. Thank you. I want to go back to March 2023, in response to the fallout of Silicon Valley Bank. It is my understanding that the Fed is analyzing ways to create a more efficient process for financial institutions to access the discount window. One issue that has come up is that it can take extended periods of time to assess and determine the lendable value of collateral, potentially denying the institution's ability to access liquidity quickly. Is the

Fed looking at ways to streamline the process to assess and determine the value of collateral at discount window?

Mr. POWELL. We are. There are sort of impediments to the efficiency of the discount window and those are things we can work on, we are working hard on. There is also the question of stigma, though, that banks are reluctant to use it because of the so-called stigma of using it, and that is a very hard problem to solve. We are also working on that one.

Mrs. KIM. Regarding the Fed's review of the discount window operations, can you give us an update on what problems the Fed was able to identify, what solutions you are pursuing, and what the estimated timeline is for any action?

Mr. POWELL. The study is ongoing right now, the work is ongoing, but essentially, you touched on some of this. It is inefficient, slow, and we need to have collateral processes that are very quick and very efficient because they need to be quick and efficient in a crisis, so that is part of it. Just general modernization, investing in technology, modernizing the discount window, that is part of it. The harder part is really turning it into something that banks are comfortable using because they feel it is not stigmatized, and we are working on that, too.

Mrs. KIM. Opening the discount window 24/7 could really help the banks in California, especially the State that I represent, the Southern California that I represent. Thank you.

Mr. POWELL. Thank you.

Chairman HILL. The gentlewoman yields back. The gentleman from New York, Mr. Torres, is recognized for 5 minutes.

Mr. TORRES. Thank you, Mr. Chair. President Donald Trump asserting among the most aggressive and expansive claims of presidential power that we have seen in our Nation's history has taken the unitary executive theory to new extremes. He is claiming to have the authority to defund whatever agency he wishes, to abolish whatever agency he wishes, and to fire whomever he wishes, even if it means violating an act of Congress. Mr. Chairman, suppose for a moment the President were to ignore the congressional statute that establishes the independence of the Federal Reserve. What economic consequences would result from the Fed losing its independence?

Mr. POWELL. I think research over many, many years in many, many jurisdictions shows that some degree of independence is very important in keeping inflation under control, and the connection is obvious. If politicians are going to want to be reelected and things like that, they are not going to be focused on the longer term. We have the mandate to remain separate from all of that, to stay out of all of that so that we can just focus on, not on election cycles or helping or hurting any political party or politician, but just on serving the public as a whole. That is essential, and it is uniform, I think, across all advanced economy central banks.

Mr. TORRES. Much like the Bureau of Fiscal Service, the Federal Reserve, has highly sensitive payment systems. President Trump and Secretary Bessent granted Elon Musk and his team of outsiders access to the central payment system of the Federal Government, a system that is often described as America's checkbook. Would you as the Federal Reserve Chair ever grant a team of outsiders access to the Fed's central payment system without sufficient vetting and sufficient security clearance?

Mr. POWELL. No, but let us remember, we are the Treasury's fiscal agent. Everything we do is under their direction. There are Treasury payment systems and then there is our side of the wall, which is the actual payment to the recipients, and so we control access to that very, very carefully.

Mr. TORRES. The Treasury issues the payments and then you process them?

Mr. POWELL. They order us to pay someone, and we just pay. We do not question payments. We just make the payments, and we control access to those payment systems very carefully.

Mr. TORRES. What would be the danger of lightly granting access to the Fed's payment system to outsiders without sufficient vetting? Like, what could go wrong?

Mr. POWELL. The reason why we are so careful about it is, just for one thing, the possibility of mistakes and someone coming in and changing the code, and things like that, so we have very careful access. Another one is just you open it up to more cyber risk and things like that. I think all really important computer programming is subject to very, very careful access restrictions, and we are no exception.

Mr. TORRES. Right. You believe, as I do, that granting an insufficiently vetted team of outsiders access to the payment systems of the Treasury or the Fed would radically raise the risk of a cyber breach at the hands of foreign adversaries, like China and Russia?

Mr. POWELL. We are talking hypothetically here, right? I can tell you that we can speak to the systems that the Treasury has asked us to operate on their behalf, and that has not happened in those systems.

Mr. TORRES. Okay. I represent one of the poorest congressional districts in America. I have cash-strapped constituents who pay exorbitant fees simply to transfer their own money, often to loved ones abroad. Access to Fedwire could play a role in radically reducing the cost of remittances and payments for the lowest-income Americans. What is your position on expanding Fedwire access for the purpose of reducing the cost of remittances and payments?

Mr. POWELL. Fedwire is really between banks. These are very large wholesale transactions. It is one of the world's most important, if not the most important, financial market utility. I do not think we are looking to open it up to retail customers. I think faster retail payments, and particularly cross-border payments, are a subject of a lot of work in the international sphere, and I think we all understand it is important to lower the costs and the risks of those.

Mr. TORRES. The commercial real estate, do you feel that continues to be a ticking time bomb within the financial system? What is your sense of——

Mr. POWELL. I would not say that. We have been saying, and I think it is still true, that this is a problem that has been with us, and it is going to be with us for a while. If I can say something modestly constructive, it does not seem to be getting worse.

Mr. TORRES. Okay.

Mr. POWELL. There are a lot of embedded losses, a lot, and they are just going to need to be realized. We are working with financial institutions to make sure they have a plan and understand their losses and can manage them.

Mr. TORRES. Okay. I see my time has expired. Thank you.

Chairman HILL. The gentleman yields back. The gentleman from Florida, Mr. Donalds, is recognized for 5 minutes.

Mr. DONALDS. Thank you, Mr. Chairman. Chair Powell, good seeing you again. I want to start with just a broad-based conversation. I know the Fed has been making adjustments to the Fed funds rate over the last several months, and what we have noticed is, although there has been movement on short-term rates, there really has been minimal impact on, in my view, intermediate to long-term rates. Can you expound on why you think this phenomenon is starting to exist with respect to Fed rate monetary policy versus the general borrowing rates for businesses and consumers?

Mr. POWELL. Right, so you are right. Of course, we have lowered the Federal funds rate, and as sometimes happens, longer rates have gone up. They have gone up and come down and gone back up. They moved around, but they are higher, and the reason is that we do not control long-term rates. They react to a whole bunch of different things, including a sense of more deficit spending coming, including expectations of more growth and risk of higher inflation. Markets are not pricing in higher inflation, but maybe pricing that the risk of that is there, and that could be a reaction to new policies or not. Ultimately, though, the increase in longer-term rates is really mostly not about Fed policy or our job of maintaining price stability. It is about other things, the term premium, in particular. I would be happy to meet with you and go through this in a lot of detail, more than you can do here.

Mr. DONALDS. No, I would love to do that. One of the concerns I have, as well as a lot of my colleagues up here on the Hill, is there is about so much that the Fed can do with respect to rate policy, and I fully acknowledge that one to get your views on that, but I think it is also the desire in this conversation happening right now, obviously, with DOGE and Elon Musk, and the desires for efficiencies, but then also stability in Federal spending and even bending the cost curve. Fiscal policy from Capitol Hill, do you think that would yield positive results in medium and long-term rates, borrowing rates, not just for the Federal Government, but for the American consumer?

Mr. POWELL. When you say, "fiscal policy," you mean fiscal policy that would reduce deficits over time?

Mr. DONALDS. Yes, fiscal policy that will reduce deficits, fiscal restraint. I would say fiscal common sense over the intermediate and long-term for the United States.

Mr. POWELL. Yes. I think part of what market participants think about when they buy Treasuries is how much more of this is coming, are we going to get on a sustainable path, and they want to get paid. If the answer to that is, we do not have a lot of confidence in that, so the term "premium," the so-called term premium goes up for that reason, and there is no question if we were on a more sustainable path, I do think rates would be lower.

Mr. DONALDS. No, and I appreciate that testimony because one of the things that, while we do talk about, obviously, tax policy and another committee regulatory policy throughout the entire Federal Government, I think it is important for the American people to know that Washington does have to be fiscally responsible, and if we are not—and I say all of Washington—if we are not, then the risk premium, so to speak, for borrowings in the marketplace are going to increase, not because of the American consumer, not because of the strength of the American engine, but simply because the amount of Treasuries that we are putting out to market are just demanding a higher premium for every new dollar that we borrow because simply people want to be paid back.

It is just something where, Chairman, you do not have to comment on that, just something, I think, is important for the American people to understand that is the major issue, if you will, over the next 10 to 20 years for the Federal Government, that we have to get our fiscal House in order if we are going to give the American consumer who might be poor, trying to make a way in this country, middle income, trying to just take care of their children and figure out what the next stage in life is going to look like, people who are in the upper middle class, who are now forming businesses, building some real wealth for themselves and for their family. All of that is at risk if the U.S. Government does not take its fiscal health as serious as any other family and any other business would do.

Real quick, Chairman. You said yesterday that as long as you are chairman, the United States will never have a central bank digital currency. Is the Federal Reserve or any of its member banks currently conducting any studies on CBDCs, either for retail or wholesale purposes?

Mr. POWELL. We are not doing any work that is designed to lead to a retail CBDC. That is not happening, and we do not support one, we do not have legal authority to do one, so no. The notion of a wholesale CBDC is really not one that we think about or accept. Take Fedwire, Fedwire is a real-time digital process of trillions of dollars every day between banks. Is that a CBDC? Some people would say that——

Chairman HILL. The gentleman's time has expired.

Mr. DONALDS. Thank you, Chairman. I yield back. Thank you, Chairman.

Chairman HILL. The gentleman yields back. The gentlewoman from Texas, Ms. Garcia, is recognized for 5 minutes.

Ms. GARCIA. Thank you, Mr. Chairman, and, Chairman Powell, thank you so much for being here today. It is always a pleasure visiting with you. I am going to talk about a topic that both Congressman Gonzalez and Representative Pressley brought up, which is something that, I think, does impact our Federal economy, but I know certainly does impact my district in Texas. I am really concerned about President Trump's mass deportations efforts and their impact on your dual mandate.

I believe the last time you were in front of this committee, I asked you about the impact immigration had on monetary policy given last year's Congressional Budget Office estimates. As a reminder, the report estimated that the labor force in 2033 will be larger by 5.2 million people, largely due to the immigration surge. Since then, there have been more reports and research about the impact immigration has on our economy, both in maximizing employment and stability in our prices. For example, immigrants are fulfilling lower-paying and oftentimes dangerous jobs more frequently than U.S.-born workers. They earn more money, pay taxes, invest back in our economy for everyday goods and services, and help create even more jobs. A study done by the National Academies of Science, Engineering, and Medicine found that foreign-born workers, or, as some people say, immigrants, pay $237,000 more in taxes over their lifetime than they receive in benefits. Let me say it again, $237,000 more. These mass deportations will have a massive impact on both our economy and workforce, leading to a drop in production and spending. We are already seeing some of that in my district.

Chairman Powell, I recognize that the Federal Reserve does not weigh in on policy, and so before you say that in your response, I already know that. However, immigrants impact our economy, does impact both the unemployment and prices, as Representative Gonzalez detailed, in terms of some of the work that they do. Does the Federal Reserve account for immigrants in its interest rate decisions?

Mr. POWELL. Indirectly, yes. We are looking at the labor market, and part of what drives growth in the labor market is population growth, and part of what drives population growth is immigration. Sure, it can matter and sometimes it matters a lot.

Ms. GARCIA. Right, and do you look at the Consumer Price Index in terms of the immigrants as consumers, and if they are afraid to go out because they may get deported, they are buying less. That is what I am hearing from businesses in my district.

Mr. POWELL. I think things like that would show up in the aggregate data, but we do not single out any particular group for that.

Ms. GARCIA. Okay. Can you quickly list some of your Federal Reserve responsibilities, and do you have capacity to assume the role of being our consumer watchdog as the President now is focused on getting rid of the Consumer Financial Protection Bureau?

Mr. POWELL. Before Dodd-Frank, the Office of the Comptroller of the Currency (OCC), the FDIC, and the Fed all conducted consumer exams and enforcement for the banks that they regulate and supervise: for us, it is State member banks and for the FDIC; State non-member banks and for the OCC, national banks. Dodd-Frank took all banks over $10 billion in assets away just for purposes of consumer examinations and enforcement and gave them to the CFPB. Statutorily, you could give that back to us or not, but it is certainly possible to restate the old order, but that would have to be something that's a matter for Congress.

Ms. GARCIA. No, I realize you have also said that your team will be there to get the job done. You have your nose to the grind, so——

Mr. POWELL. We sent a bunch of people over to CFPB. We would need those people back. We do not have the people now who could take that over. They moved many people from the Fed and the OCC, and the FDIC moved——

Ms. GARCIA. There would have to be a reallocation of resources?

Mr. POWELL. Yes.

Ms. GARCIA. Okay. All right. It sounds like you are obviously willing to do it, and we may have to convince the President to make that reallocation of resources, so thank you for that.

Mr. Chairman, now I would like to ask for unanimous consent to submit for the record three articles, one, Brookings, "The Labor Market Impact on Deportations," and the other, "The Federal Reserve Bank of Dallas: Migration to Texas Fills Critical Gaps in Workforce," and third one on, "President Biden's Immigration Policies Have Helped Boost Job Growth in the United States"

Chairman HILL. Objection.

[The information referred to can be found in the appendix.]

Ms. GARCIA. I yield back with 2 seconds.

Chairman HILL. The gentlewoman yields back. The last member to question the chairman today will be the gentleman from New York, the Vice Chairman of the Subcommittee on Capital Markets. Mr. Garbarino, and you are now recognized for 5 minutes.

Mr. GARBARINO. Thank you, Mr. Chairman. Chairman Powell, it is good to see you again. After the last Open Market Committee meeting, you said that the labor market conditions remain solid, unemployment has stabilized, and conditions in the labor market are balanced. This comes on the heels of the jobs report this past Friday that indicated the economy added 140,000 jobs during the month of January. Yet, when you peel back this data and look at recent employment data for the smallest of small businesses, the mom-and-pop shops to firms not with 100 employees, like those included in the jobs report, you see that small businesses are actually consistently losing jobs. In fact, the latest Intuit QuickBooks Small Business Index showed that employment for U.S. small businesses with 1 to 9 employees decreased by 42,000 jobs compared to January. Last month in my home State of New York, small business employment decreased by 0.33 percent and revenue decreased by 0.62 percent, which is a decrease of $350 per small business on average. Do you believe that we are seeing the same economic and business trends between companies with fewer than 10 employees and larger companies?

Mr. POWELL. I guess not, no. I think it is always the case that there are differences between sectors and size of companies and all that, and we are really left with looking at the aggregate numbers.

Mr. GARBARINO. Do you take into account the current macroeconomic trends of the smallest of the small businesses when setting policies?

Mr. POWELL. We do.

Mr. GARBARINO. You do?

Mr. POWELL. Yes. For one thing, we read the same data you do. The Reserve Bank Presidents come in, talk about their districts at length, and if you read the Beige Book, they are going to talk about small businesses, probably nonprofits, everything, so we look at everything. At the end of the day there is only one national unemployment rate, but there are many, many subtle changes in the data that we monitor, too.

Mr. GARBARINO. We all know small businesses drive the economy, and I know a company in my district, Brickman Hardware, 40 years ago, they started with less than 10 employees. Now they have over 200, so they are able to grow, and they do great work, but I think just making sure monetary policy really does focus on helping small businesses grow is key to making sure the economy continues to grow.

I would like to move on to a topic that we have discussed on a few different occasions, Basell III Endgame. It is well known that I had some serious concerns with the initial proposal. One of those concerns that we have not discussed is how the proposal would have impacted the securitization framework. At the time of the proposal, there was no narrative explanation, data, quantitative analysis, or financial modeling rationale for why the P-factor was doubled. While I understand that Mr. Barr promised we would see an economic analysis to support the proposed change, I believe that was never released. Chairman Powell, I am wondering, in your opinion, have you seen any market pressures or changes that would have necessitated such an increase in the P-factor?

Mr. POWELL. I cannot point to anything. I will say that we are going to look at all that, again, when we get together again with the other agencies and try to move this forward.

Mr. GARBARINO. Okay. The proposed doubling of the P-factor would significantly increase the amount of capital required for securitization exposures, making securitization more expensive for banks to participate in and raising the cost of limiting the availability of credit for households and businesses. I appreciate that you will look at that, but given how this proposed change may negatively impact a bank's ability to act as market makers in the securitization markets, when looking at this again, like you just said you would, can you commit to review this substantial increase given its outsized impact?

Mr. POWELL. Sure.

Mr. GARBARINO. I appreciate that, Chairman. I just want to expand on one other topic that my colleague, Representative Lucas, brought up earlier. Over the past decade, we have seen the Fed intervene with more regular frequency to maintain orderly functioning of the U.S. Treasury market, much more so than decades before. It seems like the private sector was able to manage this without too much Fed intervention, pre-financial crisis. Do you think regulation, like supplemental leverage ratio, which some of your colleagues have commented on, is causing this, and if so, what do you think the solution is which will reduce the need for frequent Fed intervention?

Mr. POWELL. I think part of the answer is going to be to reduce the calibration of the supplemental leverage ratio. There are a number of things that probably need to happen with Treasury market structure, but that is one of them.

Mr. GARBARINO. That is one of the solutions, but you think there are other things, and you will all work on that?

Mr. POWELL. I do, yes.

Mr. GARBARINO. Okay. I appreciate that, Chairman. Thank you very much for being here today, and I yield back.

Chairman HILL. The gentleman yields back. I want to thank Chairman Powell for being with us today. Thank you for your testimony.

Without objections, all members will have 5 legislative days to submit additional written questions for the witness to the chair. The questions will be forwarded to the witness for his prompt response. Chairman Powell, please respond no later than March 31, 2025.

[The information referred to can be found in the appendix.]

Chairman HILL. This hearing is adjourned.

[Whereupon, at 1:03 p.m., the committee was adjourned.]

APPENDIX

MATERIALS SUBMITTED FOR THE RECORD

BROOKINGS

COMMENTARY

The labor market impact of deportations

Chloe East

September 18, 2024

Immigration is one of the most important topics in this presidential election cycle. Former President Trump has promised ↗ to conduct a massive deportation effort that would remove millions of people per year. The latest statistics ↗ show about 11 million unauthorized immigrants are living in the U.S., and several million more people have arrived in the past two years on parole or with an uncertain legal future. Would a mass deportation effort improve the U.S. economy and provide more jobs for U.S.-born workers? Recent, rigorous economics research sheds light on the consequences of increasing the number of deportations on the U.S. labor market. This research consistently points to deportations hurting the U.S. labor market and leading to worse labor market outcomes for U.S.-born workers.

Landscape of deportations in the US

A deportation is a mandatory departure of a noncitizen out of the U.S. based on a formal order of removal. Official estimates of the cost of deportations are scarce but the best ↗ estimates ↗ suggest that each deportation costs about $13,000 in current dollars.

There has been a dramatic increase in the number of deportations ↗ in the U.S. in the last few decades. Deportations, including removals at the border and those from the interior, increased from about 200,000 per year in the early 2000s to 400,000 per year in the late 2000s. Deportations were then steady at about 300,000 per year until the COVID-19 pandemic. Since the pandemic, deportations of long-term residents have fallen, but other types of removals from the U.S. increased, especially at the border.

A real-world test of the effects of deportation

To isolate the causal effects of deportations on the economy, economists study the rollout of an immigration enforcement policy called Secure Communities (SC). The Secure Communities program increased information sharing between local law enforcement agencies and Immigration and Customs Enforcement (ICE) with the express purpose to identify and deport people who were in the U.S. without authorization. About 400,000 people ↗ were deported under SC between 2008 and 2014, after which SC was replaced with the Priority Enforcement Program (PEP). While the first counties implemented SC in 2008, it was implemented county by county with the last counties implementing the program in 2013. The timing of enactment was based on how close the counties were to ICE offices and how quickly the technology could be set up in a county. Bottlenecks in implementation meant some counties were put on waitlists. Because of this, the exact timing of when a county implemented SC was out of their direct control, and counties that adopted the program early compared to late are otherwise very similar. Thus, researchers can compare the labor market outcomes in counties that implemented SC earlier compared to later.

While only people who were arrested had their immigration status checked under SC, the policy nonetheless impacted a large portion of immigrants. There were broad "chilling effects" of the policy that meant even people not targeted for deportation became fearful ↗ of leaving their house to do routine things like go to work ↗. This is partly because the program did not only target serious criminals ↗—the most serious criminal conviction for 79% of those deported was non-violent, including traffic violations and immigration offenses, and another 17% were not convicted of any crime.

Increased deportation is associated with poorer economic outcomes for US-born workers

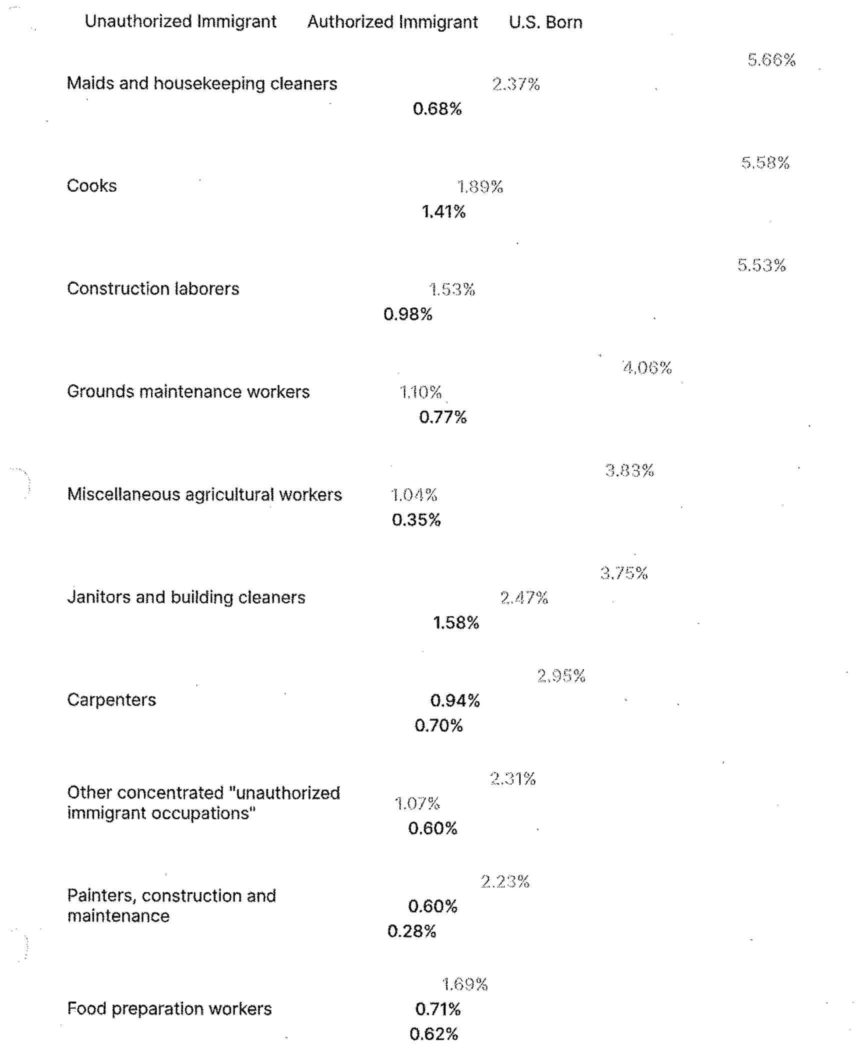
Across multiple studies, including my own research ↗ with Annie Hines, Philip Luck, Hani Mansour, and Andrea Velásquez, economists have found that once SC is implemented, the number of foreign-born workers in that county declines and the employment rate among U.S.-born workers also declines.

Why do deportations hurt the economic outcomes of U.S.-born workers? The prevailing view used to be that foreign-born and U.S.-born workers are substitutes, meaning that when one foreign-born worker takes a job, there is one less job for a U.S.-born worker. But economists have now shown several reasons why the economy is not a zero-sum game: because unauthorized immigrants work in different occupations from the U.S.-born, because they create demand for goods and services, and because they contribute to the long-run fiscal health of the country.

First, unauthorized immigrant workers and U.S.-born workers work in different types of jobs. Figure 1 shows the percentage of unauthorized immigrant workers, authorized immigrant workers, and U.S.-born workers that are in each of the 15 most common occupations among unauthorized immigrants.

FIGURE 1

Share of US-born, authorized, and unauthorized immigrant workers in top 15 occupations for unauthorized immigrants



Software developers, applications and systems software	1.51%	1.70%	0.53%
Packers and packagers, hand	1.35%	0.61%	0.27%
Dishwashers	0.98%	0.24%	0.20%
Roofers	0.92%	0.16%	0.10%
Packaging and filling machine operators and tenders	0.78%	0.33%	0.14%

Source: Pew Research Center, created with Datawrapper

Note: Pew estimates based on 2014 American Community Survey (IPUMS). Reported is the percentage of each occupation's workers that are in each demographic group (U.S. born, authorized, and unauthorized workers) and total number of workers by occupation. From this we calculate the number of workers in each demographic group by occupation. Finally, the % share of U.S.-born, authorized, and unauthorized immigrant workers in each occupation is the number of workers of each demographic group in the occupation divided by the total number of workers of each group.

Center for Economic Security and Opportunity at BROOKINGS

It is clear that unauthorized immigrants take low-paying, dangerous and otherwise less attractive jobs ↗ more frequently than both U.S.-born workers and authorized immigrant workers. For example, almost 6% of unauthorized immigrants work as housekeepers, construction laborers, or cooks, compared to about 2% of authorized immigrant workers and 1% of U.S.-born workers (See Figure 1).

Occupations common among unauthorized workers, such as construction laborers and cooks, are essential to keep businesses operating. Deporting workers in these jobs affects U.S.-born workers too. For example, when construction companies have a sudden reduction in available laborers, they must reduce ↗ the number of construction site managers they hire. Similarly, local restaurants need cooks to stay open and hire for other positions like waiters, which are more likely to be filled by U.S.-born workers.

Caregiving and household service jobs are also common among unauthorized immigrants. The availability and cost of these services in the private market greatly impacts ↗ whether people can work outside the home. My research ↗ with Andrea Velásquez and new research ↗ by Umair Ali, Jessica Brown and Chris Herbst find that Secure Communities impacted the childcare market—the supply of childcare workers fell. This led to a reduction ↗ in the number of college-educated mothers with young children working in the formal labor market.

Several (https://www.brookings.edu/articles/immigration-to-address-the-caregiving-shortfall/) recent (https://www.brookings.edu/articles/how-immigration-reforms-could-bolster-social-security-and-medicare-solvency-and-address-direct-care-workforce-issues/) Brookings pieces have highlighted the role that immigrants play in caregiving jobs, which are becoming increasingly important as the U.S. population ages. These pieces call for increasing the number of legal pathways for immigrants willing to work in these types of jobs to come to the U.S.

Another important way in which immigrants help create jobs for U.S.-born workers is that unauthorized immigrants contribute to local demand ↗ for goods and services like haircuts, food, and cars. This means deportations lead to less revenue for local barber shops, grocery stores, and auto dealerships, causing them to hire fewer workers, including U.S.-born workers.

Finally, deportations impact tax revenue and the fiscal health of the federal, state, and local governments. A comprehensive study ↗ by the National Academies of Sciences, Engineering, and Medicine found that, in a given year, each foreign-born person and their dependents pay on average $1,300 more in federal taxes than they receive in federal benefits, and, looking over a 75-year time horizon, immigrants are a net fiscal positive at all levels—they pay $237,000 more in taxes over their lifetime than they receive in benefits from federal, state, and local governments. While these estimates are not broken out by immigration status, the study indicates that the net fiscal impacts of unauthorized immigrants are larger than authorized immigrants because unauthorized immigrants are more likely to be of working age. Thus, deportations reduce tax revenue both because of a reduction in taxes paid by unauthorized immigrants, and through a reduction in taxes paid by U.S.-born workers who lose their jobs. Unauthorized immigrants and their children also facilitate the solvency of the Social Security and Medicare systems by paying into these systems when they are not eligible to receive any benefits.

Implications for policy

Immigration law has not been comprehensively updated for 34 years ↗ and as a result is designed for an outdated labor market and an outdated demographic reality. With so much political discussion about immigration this year, it's important to understand the role of unauthorized immigrant workers in the U.S. economy. Recent economics research shows that unauthorized immigrant workers help to create more jobs for U.S.-born workers. Large-scale deportation efforts would be very disruptive in some industries and would hamstring the current growth (https://www.brookings.edu/articles/strong-labor-market-boosted-us-born-employment/) in employment, which has been driven in large part by increased immigration. Instead, Congress should set its sights on reform and expansions in legal immigration pathways.

AUTHOR

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Federal Reserve Bank of Dallas

Migration to Texas Fills Critical Gaps in Workforce, Human Capital

Diego Morales-Burnett, Pia Orrenius and Madeline Zavodny
November 29, 2022

People moving to Texas have historically helped fuel the state's economic growth. While international migration to Texas has eased during the pandemic, domestic migration has filled the gap, sustaining the state's expansion.

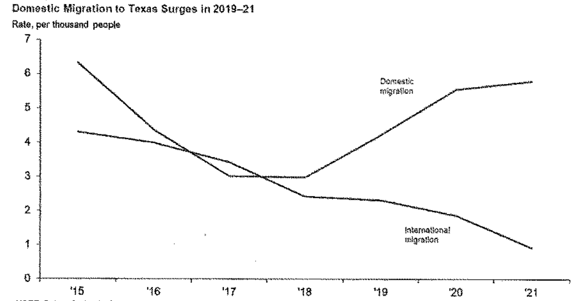
Those arriving tend to be younger and more educated than Texas' overall population; those leaving the state are, too. Continuing to retain working-age Texans and attract new ones from around the country and abroad is vital to maintaining the state's workforce—its human capital—as baby boomers retire and birth rates decline.

Populations grow in two ways: natural increase and migration. Texas' rate of natural increase—births minus deaths—differs little from the U.S. rate. Migration provides Texas an edge because annual net migration—the number of people moving into the state minus those moving out—is typically large and positive.

Texas has experienced positive net in-migration for most of its history, and it's the main reason the population grew from less than 21 million in 2000 to almost 30 million in 2021. About half of population growth during the past two decades is attributable to net migration into the state. Net domestic migration has averaged 108,000 people per year over the period and international migration about 83,000.

The domestic migration rate of 5.8 people per 1,000 residents in 2021 equaled 170,307 new arrivals from other states, about twice the population of Bryan, Texas (*Chart 1*).

Chart 1
Domestic Migration to Texas Surges in 2019–21



NOTE: Data reflect net migration to Texas.
SOURCES: Census Bureau; author's calculations.
Federal Reserve Bank of Dallas

Texas in-migration ebbs and flows with economy

Texas has experienced net out-migration a few times, as it did in the late 1980s when the oil bust and savings and loan crisis sent the state economy into a tailspin. Absent such sharp shocks, net inflows are usually positive and ebb and flow with the relative strength of the state economy.

Domestic net migration eases when economic growth in the rest of the U.S. closes in on the growth in Texas. For example, Texas net domestic migration grew during 2019–21 after being generally flat during 2015–18, according to Census Bureau estimates. The earlier period of 2015–16 included an energy downturn that slowed growth in the region relative to the nation.

Credit bureau data on address changes also indicate that net inflows continued to grow in 2021, with Texas second only to Florida among states gaining residents.

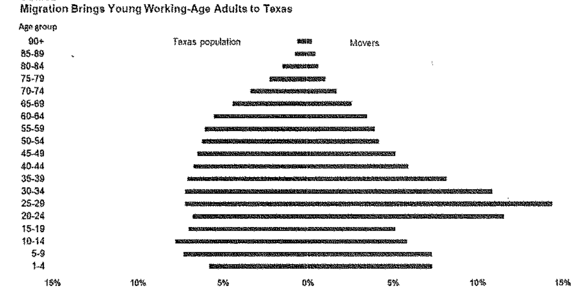
International net migration to Texas was slowing even before pandemic-related border closures in 2020. Overall, such changes in Texas largely mirror national trends. Net international migration to the U.S. peaked in 2016 and then fell sharply. There was little movement between the U.S. and foreign countries during the height of the pandemic. International inflows to Texas have since picked up, with strong labor markets acting as a magnet.

Perhaps as important as how many people come and go is *who* moves. Losing retirees to Florida or San Miguel de Allende, Mexico, while gaining young adults who are near the start of their careers packs a different economic punch than the converse.

New arrivals to Texas tend to be young

Movers—arriving and departing—are almost twice as likely as the Texas population to be ages 20 to 29 and are less likely to be younger than 20 or older than 39 (*Chart 2*).

Chart 2
Migration Brings Young Working-Age Adults to Texas



NOTE: Movers include domestic in-migrants, domestic out-migrants and international in-migrants.
SOURCES: American Community Survey, 2015–20; authors' calculations.

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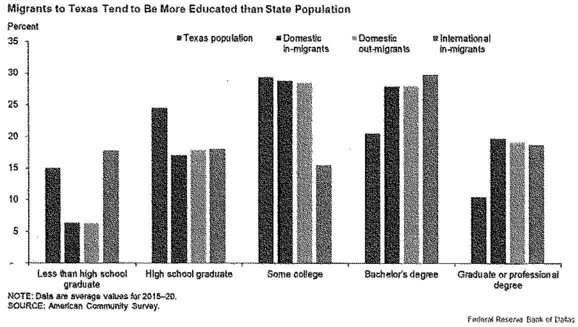
There are few differences in the age distributions of in-migrants and out-migrants. While that may seem to suggest that young adults moving into Texas just offset those moving out, the state actually gains young adults on net since inflows are bigger than outflows.

Teens account for a surprisingly small share of movers, but the data do not include many college students because we exclude people living in group quarters, such as dormitories. In addition, parents of school-age children may be reluctant to move since it's disruptive to schooling and relationships.

Migrants more likely to have college degree or greater

Relative to the Texas population, domestic in-migrants and out-migrants are far more educated, possess similar household income and individual earnings, and have a higher unemployment rate, American Community Survey data show (*Chart 3*). While only 32 percent of Texans have a four-year college degree or higher, nearly 50 percent of movers do.

Chart 3
Migrants to Texas Tend to Be More Educated than State Population



Interestingly, the median annual wage and salary of domestic migrants, $32,779, is similar to that of the Texas population, $36,080, according to American Community Survey data. Despite the education gap between the two groups, migrants' incomes are slightly lower, in part because migrants are younger and haven't fully reached their earnings potential.

New international migrants' median annual wage and salary of $23,233 is much lower, largely because of the mix of educational attainment within the group—while half have college degrees or higher, more than one-third don't have formal education beyond high school.

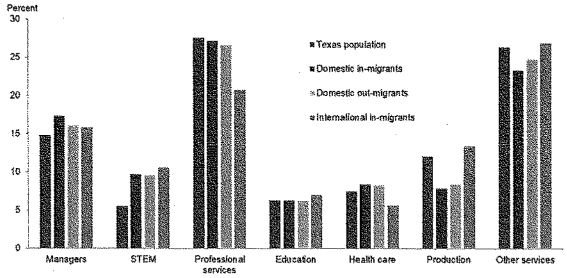
The higher unemployment rate among movers suggests it can take a while for them to find a job if they don't relocate to Texas with one already in hand. And the low labor force participation rate among international in-migrants is concentrated among Hispanic immigrant women, who may choose not to work because they are caring for young children, among other reasons.

Filling in-demand jobs where worker supply is short

Employers may count on in-migrants to help fill jobs for which Texans are in relatively short supply, while out-migrants may move for better job opportunities. The distributions of Texans and migrants across occupation groups suggest some differences in the types of jobs they fill.

Migrants are much more likely than Texas workers as a whole to hold jobs in science, technology, engineering and mathematics (STEM) occupations (*Chart 4*). They are also more likely to be managers. If coming from elsewhere in the U.S., they are somewhat more likely to work in health care.

Chart 4
Movers to Texas More Likely to Work in STEM, Management



NOTES: Each occupational sector is expressed as the proportion of workers ages 18–65 by migration status. STEM refers to science, technology, engineering and mathematics.
SOURCE: Authors' calculations based on American Community Survey, 2015–20.

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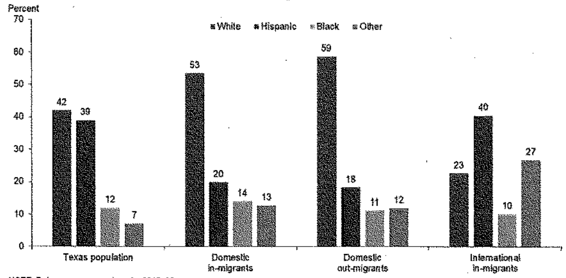
International in-migrants are overrepresented in management and STEM occupations, as well as in education, but are less likely to work in professional services and health care than the other groups.

Because many international in-migrants are either less-educated than the average Texan or have skills that don't transfer readily to the U.S. labor market, they are more likely to work in occupations that require less formal schooling, such as production (manufacturing, extraction and construction) and other services (protective services, personal care and food preparation).

International migration increases racial, ethnic diversity in Texas

Hispanic and Black Texans make up more than half of the Texas population (*Chart 5*). Domestic migrants reflect the demographic make-up of the rest of the country, which remains majority white. International in-migrants are largely Hispanic and Asian, with the preponderance coming from Mexico, Central America, India and China.

Chart 5
International Migrants to Texas Bolster State's Diversity



NOTE: Data are average values for 2015–20.
SOURCE: American Community Survey.

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State's rapid employment growth largely attributable to migrants

Employment grows on average about twice as fast in Texas as in the nation. Consistent and sustained net in-migration from other states and abroad makes this possible.

Migrants differ in their attributes from each other and from native Texans, and this is also why they are so important. The state economy depends on these predominantly young people to contribute to growth, now and in the future, in a diverse set of industries and occupations.

What the state workforce lacks can largely be made up with domestic and international in-migrants as long as they are willing and able to come.

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Federal Reserve Bank of Dallas

Unprecedented U.S. immigration surge boosts job growth, output

Pia M. Orrenius, Ana Pranger, Madeline Zavodny and Isabel Dhillon
July 02, 2024

The current U.S. immigration surge is unprecedented. The influx flew under the radar for some time, dismissed simply as pent-up immigration from when the borders essentially closed during the pandemic. But this year's Congressional Budget Office (CBO) budget and economic outlook brought new attention to the migrant inflow and its expected economic effects.

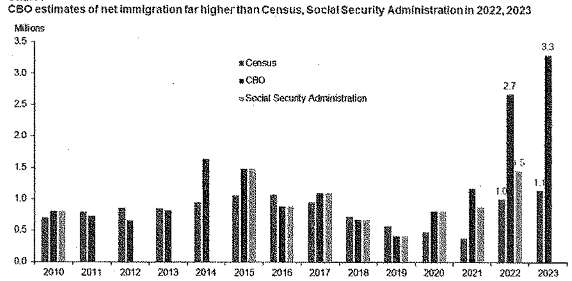
By incorporating previously unavailable data on migration along the southwest border into the government's economic and fiscal outlook, the macroeconomic implications of such high levels of migration come into focus.

The labor force in 2033 will be larger by 5.2 million people, mostly because of higher net immigration, according to CBO estimates. As a result of the immigration surge, GDP will be higher by about $8.9 trillion and federal government tax revenues by $1.2 trillion over the 2024-34 period. Deficits will be lower by $900 billion.

No consensus on volume of immigration

Government estimates of net immigration differ wildly. Census 2023 estimates (July to July) put net immigration at 1.1 million, far from CBO's calendar-year 2023 estimate of 3.3 million (*Chart 1*). CBO similarly estimated a much higher net immigration number than other agencies in 2022—2.7 million.

Chart 1
CBO estimates of net immigration far higher than Census, Social Security Administration in 2022, 2023



NOTES: Net international migration. Census change is from July 1 of the previous year to July 1 of the given year.
SOURCES: U.S. Census Bureau; Congressional Budget Office (CBO); Social Security Administration.
Federal Reserve Bank of Dallas

Downloadable chart | Chart data

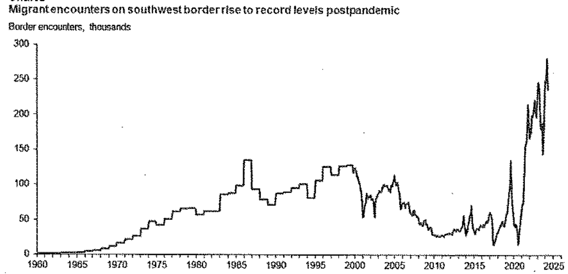
Net immigration is the sum of individuals who enter the country minus those who leave. Entries can be permanent or temporary but exclude short-term visitors such as tourists. Entries can also be legal, when people come with U.S. government visas, or otherwise, such as humanitarian migrants (asylum seekers and, more recently, humanitarian parolees) and unauthorized immigrants.

CBO included real-time data on the number of border crossers allowed into the country, statistics that the Department of Homeland Security (DHS) recently made available. Recently released 2023 data on immigrant work permits cast doubt on the lower immigration estimates in Chart 1 and are broadly supportive of CBO's higher numbers.

Border surge sets record

In 2023 alone, Customs and Border Protection (CBP) personnel encountered 2.54 million migrants at the southwest border (*Chart 2*). This is about the same as the 2.58 million migrants in 2022, a record year. This compares with the prepandemic annual average of 500,000 migrants.

Chart 2
Migrant encounters on southwest border rise to record levels postpandemic



NOTES: Data are through April 2024. Data before October 1999 are only available at the annual level; those figures are the annual fiscal year numbers divided by 12. Monthly figures are seasonally adjusted.
SOURCES: Customs and Border Protection; seasonal adjustments by the Federal Reserve Bank of Dallas.

Federal Reserve Bank of Dallas

Downloadable chart | Chart data

Since the pandemic began in the U.S. in February 2020, CBP has recorded almost 8 million encounters at the southwest border, along with almost 2 million encounters at the northern border, coastal border and airports.

"Encounters," previously known as apprehensions, include all people at and between ports of entry who are either stopped by the Border Patrol or who turn themselves in. In recent years, an increasing share of migrants simply approaches the Border Patrol and states an intention to seek asylum.

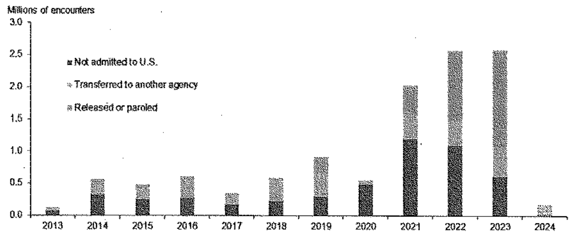
During the pandemic and until May 2023, some of these migrants, typically single adults, were immediately expelled under a provision known as Title 42, used to deny migrants entrance because of public health concerns related to COVID. However, more consideration was given to families and unaccompanied minors, and so even before the end of Title 42, the volume of migrants far exceeded available detention space. As a result, the majority of migrants has been paroled or otherwise released into the country to pursue asylum claims or other immigration pathways.

Notably, Border Patrol encounters do not include got-aways, or unauthorized immigrants, who escape the notice of Border Patrol while crossing or who are seen but not stopped. DHS publishes estimates of such migrants, although the figures differ significantly from estimates by demographers, at least in recent years.

Immigration policy, labor market shortages drive immigration

Though the number of encounters does not necessarily translate directly to the number of migrants admitted into the U.S., a smaller share is getting turned away than previously. In 2023, fewer than a quarter of encounters at the southwest U.S. border ended in migrants being refused entry into the U.S., and 58 percent of encounters resulted in migrants released or paroled into the interior (*Chart 3*).

Chart 3
Higher share of border encounters result in release into the U.S.



NOTES: Non-admits include Title 8 repatriations, returns to Mexico under Migrant Protection Protocols and, between March 2020 and May 2023, Title 42 expulsions to Mexico. Transfers to other agencies include transfers to Immigration and Customs Enforcement (ICE) and the release of unaccompanied children to the Department of Health and Human Services. Releases and paroles include those processed along the southwest border by the U.S. Border Patrol and its Office of Field Operations. Data for 2024 are through January.
SOURCE: Department of Homeland Security.

Federal Reserve Bank of Dallas

Downloadable chart | Chart data

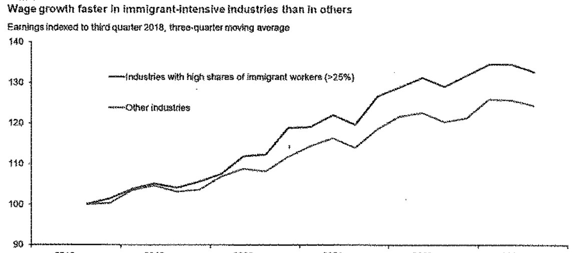
This is a reversal from the previous nine years, when more than half of the 8.7 million migrants apprehended at the southern border were not admitted to the U.S., and less than a quarter were allowed in.

Harsh and deteriorating conditions in many Latin American and Caribbean nations, including Cuba, Haiti, Nicaragua and Venezuela, prompted the U.S. government to expand programs such as humanitarian parole for those nations' natives. Many migrants risk the trip to not only escape difficult circumstances, but also on the belief they can enter the United States under humanitarian provisions.

Another pull factor is the availability of work and rising wages. The postpandemic U.S. labor market was extremely tight, especially in sectors that tend to rely on immigrant labor. The job openings rate, or the number of job vacancies as a share of total employment in a sector, reached record highs in 2021 and 2022 for accommodation and food services, retail trade and health care and social assistance, among others.

Wages also rose faster in immigrant-intensive occupations and industries than in those that had a lower share of immigrants (*Chart 4*). Studies have shown that U.S. labor market conditions are among the main drivers of unauthorized immigration.

Chart 4
Wage growth faster in immigrant-intensive industries than in others



NOTE: High-immigrant industries are defined as three-digit industries in the North American Industry Classification System with greater than 25 percent foreign-born workers based on 2009-22 American Community Survey data. The values shown are the three-quarter moving average of those wages indexed to the 2018 third-quarter value based on the Quarterly Census of Employment and Wages.
SOURCE: American Community Survey; Quarterly Census of Employment and Wages.

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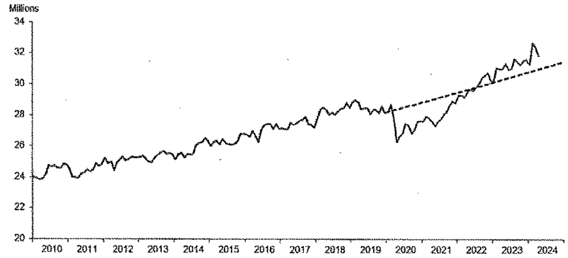
Downloadable chart | Chart data

Influx has significant employment and GDP effects

With this recent immigration wave, the foreign-born labor force has recovered completely from the pandemic drop, even exceeding what would have been expected absent the pandemic (*Chart 5*). The foreign-born labor force reached February 2020 levels in November 2021, and surpassed trend growth in August 2022, according to the Current Population Survey.

Chart 5
Foreign-born labor force surpasses prepandemic trend growth



NOTES: The projected labor force assumes 2000-19 trend (2.2 percent) annualized growth beginning in January 2020. Data are through April 2024.
SOURCES: Current Population Survey, authors' calculations.

Federal Reserve Bank of Dallas

Downloadable chart | Chart data

If the foreign-born labor force had grown at the 2000–19 trend rate of 2.2 percent per year starting in January 2020, it would have been smaller by almost 900,000 people in April 2024.

The jump in ready-to-work immigrants has boosted population, labor force and job growth in the postpandemic U.S. economy. Estimates from the Hamilton Project suggest higher immigration boosted payroll job growth by 70,000 jobs per month in 2022 and by 100,000 jobs per month in 2023 and so far in 2024. The upper end of the range of job growth has doubled to 200,000 from 100,000 jobs per month absent the surge of immigration.

It's not unusual for immigration to account for high shares of job growth. Before the pandemic, from 2010 to 2019, the share of job growth attributable to immigration averaged 45 percent.

The jump in jobs, along with immigrants' consumption of goods and services in the United States, also bolsters GDP growth. According to the Hamilton Project study, higher immigration has contributed about 0.1 percentage points to GDP growth annually in 2022 and 2023 and is projected to do so again in 2024.

The effect on inflation, meanwhile, could be neutral on average. Higher immigration represents a labor supply shock, which should be disinflationary. But immigrants are also consumers and add to aggregate demand. While certain sectors that extensively depend on immigrants should see costs and prices fall—for example, landscaping and child care—the population influx could put upward pressure on rents and house prices, particularly in the short run before new supply can be built.

Long-run outlook uncertain, but immigration needed for growth

The immigration surge has surprised many, and not everyone agrees with the CBO numbers. But household survey data from the Current Population Survey (CPS) are consistent with CBO estimates of immigration in 2023.

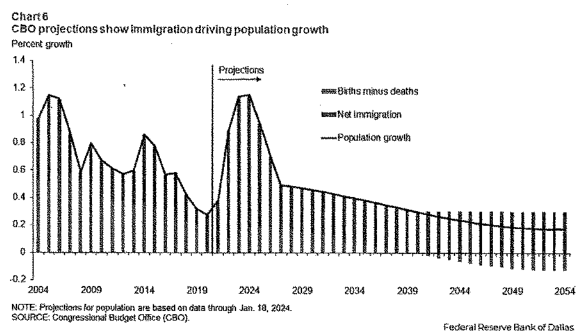
According to the CPS, the foreign-born population rose by 2.5 million from December 2022 to December 2023, even as we estimate about 500,000 immigrants died. These data points are consistent with a net immigrant inflow of at least 3 million over the year. The doubts about CBO's large number involve problems with encounter data (it measures events, not individuals), debates about migrant return rates and criticism of the household survey (whether it overcounts or undercounts immigrants).

CBO's immigration projections are even more uncertain, with expected net immigration of 3.3 million in 2024, 2.6 million in 2025, 1.6 million in 2026 and a return to the historical average 1.1 million in 2027–33.

It's unclear what factors drive these transitions. Potential changes in U.S. immigration policy, such as the Biden administration's recent executive action limiting the entry of some migrants, or an economic downturn could result in gradual normalization of immigration at the border. Even so, many of the migrants who arrived in recent years will want to stay in the United States.

Asylum approval rates have risen since 2020 but reflect cases filed in years prior. It's impossible to know what approval rates will be for those who filed their claims more recently. Humanitarian parolees, in contrast, are supposed to return to their home countries after two years.

If immigration normalizes, it will return to rates that are insufficient to sustain the type of economic growth the U.S. is accustomed to. The nation is in a sort of demographic autumn, and winter is coming. The retirement of the baby boomers and overall aging of the workforce, as well as low and falling birth rates mean population growth will become entirely dependent on immigration by 2040, as deaths of U.S.-born will outpace births (*Chart 6*).



Downloadable chart | Chart data

Because economic growth depends on labor, capital and productivity, growth in these factors will set the speed limit of the economy. While technological advances and incentives for investment will contribute to productivity growth, immigration will be vital to propping up labor force growth.

About the authors

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The views expressed are those of the authors and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 25, 2025

The Honorable Frank D. Lucas
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the February 12, 2025,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on March 4, 2025.

<u>Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Frank D. Lucas:</u>

1. **By multiple measures, inflation is still above the Federal Reserve's 2 percent target. We have seen the year-over-year inflation rate in the Consumer Price Index and the PCE Price Index move up every month since September 2024. Why does the Federal Reserve believe inflation is trending upwards again and what is the Federal Reserve doing to assure that there is not a resurgence of inflation?**

Inflation has come down a great deal but is running a bit above our 2 percent objective. After peaking at 7.2 percent in 2022, estimates indicate that 12-month total PCE inflation had declined to 2.3 percent in March. The Federal Open Market Committee's (FOMC) goal is to maintain the strength in the labor market as our restrictive policy helps bring inflation sustainably down to 2 percent. Our policy stance remains restrictive and is well positioned to deal with the risks and uncertainties we face. The outlook today is highly uncertain, and our policy is not on a preset course. As the economy evolves, we will adjust our policy stance in a manner that best promotes our maximum-employment and price-stability goals.

We take seriously our obligation to keep longer-term inflation expectations well anchored. As we act to meet that obligation, we will balance our maximum employment and price-stability mandates, keeping in mind that, without price stability, we cannot achieve the long periods of strong labor market conditions that benefit all Americans. If we find ourselves in the challenging situation in which our dual-mandate goals are in tension, we would consider how far the economy is from each goal, and the potentially different time horizons over which those respective gaps would be anticipated to close.

2. **In 2019, the Federal Reserve undertook its first ever public review of its monetary policy strategy, tools, and communication practices. This review resulted in the August 2020 revisions to the Federal Reserve's Statement on Longer-Run Goals and Monetary Policy Strategy, updating, among other things, the Federal Reserve's inflation-targeting framework to incorporate what is commonly called flexible average inflation targeting (FAIT). Namely, that the Federal Reserve would seek inflation in the PCE Price Index that averages two percent over time, allowing inflation to run above two percent to counterbalance periods in which it has persistently been below two percent.**

   Prior to this, the Federal Reserve had used a constant two percent inflation target, presumably seeking, as an ideal, attainment of a two percent inflation rate at all times with the understanding that inflation would vary somewhat from period to period.

   a. **Based on the experience of high inflation since March 2021, should the Federal Reserve return to the previous strategy that focuses on keeping prices stable and inflation contained?**

   b. **In the current five-year review, does the Federal Reserve expect to place as much emphasis on the potential for and consequences of a low-interest rate environment as it did in the 2019 review?**

c. **How is the Federal Reserve thinking about the potential for a world in which upwards inflation pressures are more persistent?**

d. **How is the Federal Reserve thinking about the potential for a world in which "higher for longer" interest rates are the norm? With inflation having been persistently above the two percent target for almost four years, how does the Federal Reserve conceptualize and employ the FAIT framework now?**

e. **Will the Federal Reserve consider the FAIT framework and other aspects of the Statement of Longer-Run Goals and Monetary Policy as part of its review?**

   i. **What specific changes or new language might the Federal Reserve consider?**

f. **Why did the Federal Reserve choose to explicitly exclude the two percent inflation target from the current review whereas in the 2019 review the Federal Reserve reaffirmed its two percent inflation target?**

g. **Will the current review incorporate the Federal Reserve's supervision and regulation policies and, if not, will the Federal Reserve consider a public review of its supervisory and regulatory policy strategy, tools, and communication practices?**

In responding to your questions, I would first emphasize that we are firmly committed to our congressionally mandated goals of maximum employment and price stability and see a 2 percent inflation rate as both a rate corresponding to price stability and the inflation rate most consistent with achieving both sides of our mandate. The FOMC has reaffirmed its 2 percent inflation objective every year since 2012. The 2019-20 review did not change this objective, and neither will the current review. These reviews are about the strategy, tools, and communication practices the FOMC employs to best pursue its congressionally mandated goals.

By the time of the 2019-20 review, the general level of interest rates had declined steadily over several decades, and the proximity of the policy rate to the effective lower bound (ELB) had become the preeminent monetary policy challenge. As a result, the Federal Reserve had less scope to support the economy during an economic downturn by simply cutting the federal funds rate, leading to potentially worse economic outcomes in terms of both employment and price stability. A particular concern at the time was that if inflation runs below 2 percent following economic downturns but never moves above 2 percent even when the economy is strong, then over time inflation will average less than 2 percent, which could cause an unwelcome fall in longer-term inflation expectations and leave less room for the FOMC to cut interest rates when needed to support the economy.

In response to this concern, the FOMC's Statement on Longer-Run Goals and Monetary Policy Strategy (also known as the consensus statement) was changed in 2020 to state that "the [FOMC] seeks to achieve inflation that averages 2 percent over time" and that "following periods when inflation has been running below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time."

The current economic environment differs greatly from the period leading up to the 2019-20 review. Today, inflation is a bit above target and policy rates are at levels that were more typical before the Global Financial Crisis. The ELB is not currently relevant for our policy decisions.

At the January meeting of the FOMC, we began discussions related to the current review. We think it is important that the FOMC's monetary policy framework remains robust to a wide range of economic circumstances, including to changes in the natural or longer-run interest rate consistent with maximum employment and stable prices, and to economic environments in which there is persistent upward pressures on inflation. We will continue to emphasize the FOMC's firm commitment to achieving maximum employment and 2 percent inflation, as well as the importance of keeping longer-term inflation expectations well anchored.

In light of the experience of the past five years, we assessed at our January meeting that it will be important to consider potential revisions to the consensus statement, with particular attention to some of the elements introduced in 2020. Specific areas of consideration are likely to be the statement's focus on the risks to the economy posed by the ELB, the approach of mitigating shortfalls from maximum employment, and the approach of aiming to achieve inflation moderately above 2 percent following periods of persistently below-target inflation. For example, in our discussion of labor market dynamics and the maximum employment goal at our March meeting, participants indicated that they thought it would be appropriate to reconsider the shortfalls language as we review changes to the consensus statement in coming meetings.

As the review continues, we look forward to the input we will receive from our outreach engagements, including Fed Listens events with the public and our research conference in May. We are open to new ideas and critical feedback, and we will take on board lessons drawn from the last five years' experience.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

May 16, 2025

The Honorable Andy Barr
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to questions 1 and 4 through 6 that you submitted following the February 12, 2025,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. This concludes my responses to your questions.[2]

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

Sincerely,

Jerome H. Powell

Enclosure

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[1] Questions for the record related to this hearing were received on March 4, 2025.
[2] Responses to questions 9 through 12 were sent to your office and the Committee on April 18, 2025. Responses to questions 2, 3, 7, and 8 were sent to your office and the Committee on April 29, 2025.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Andy Barr:

The Position of Vice Chair for Supervision

1. **In your testimony before this Committee, you expressed concerns about the volatility of policy associated with the Vice Chair for Supervision, particularly due to changes in presidential administrations. Before the position was created, the Federal Reserve developed regulatory policy recommendations in the Committee on Supervision and Regulation, which were then voted on by the full Board of Governors. Would returning to this previous framework be preferable to the current structure?**

While policy decisions are voted on by all of the Federal Reserve Board (Board) members, the Board has internal committees to carry out its work efficiently and effectively. As Chair of the Board, I designate all members of these Board committees, including the Committee on Supervision and Regulation. When there is a Vice Chair for Supervision serving on the Board, that individual serves as the Chair of the Committee on Supervision and Regulation.

As you are aware, Governor Michael Barr stepped down from the position of Vice Chair for Supervision effective February 28, 2025. However, the Board will continue to carry out its important supervisory and regulatory duties. In the absence of a Vice Chair for Supervision, the Chair may designate a Board member to lead the Committee on Supervision and Regulation. As Governor Michelle Bowman has been a member of the Committee on Supervision and Regulation since 2019, and in light of her recent nomination to the position of Vice Chair for Supervision, I named her to serve as the Chair of the Committee. I look forward to continuing to work productively with Governor Bowman as she takes the lead on supervisory and regulatory matters at the Board.

Sequencing of Proposed Regulations

4. **In the last few years, the Federal Reserve has proposed a number of new regulations while leaving some long-standing issues, such as the Supplementary Leverage Ratio (SLR), unaddressed. The SLR's "enhanced" version has been cited as a cause of Treasury market illiquidity for nearly a decade yet has not been revisited while attention has focused on regulations such as the Basel III Endgame and changes to the GSIB Surcharge. Meanwhile, the Fed has acknowledged that its stress testing framework likely violates the Administrative Procedure Act (APA) and is working on new stress test models and scenarios for notice and comment, which could lead to changes in the Stress Capital Buffer (SCB). There are also concerns that the Basel III Endgame market-risk component's Fundamental Review of the Trading Book (FRTB) may overlap with the SCB's Global Market Shock (GMS) component potentially increasing capital requirements for banks. How does the Federal Reserve plan to sequence these regulatory changes to avoid duplication of purpose and unintended consequences?**

Our rules should support an effective and efficient regulatory framework that promotes the safety and soundness of the financial system and supports a strong American economy, while imposing no more burden than is necessary.

Proposals of this nature put forward by the Board are accompanied by economic impact analyses. Where appropriate, those analyses acknowledge the potential interactions of the proposals with other regulations. We request, and carefully consider public input on all aspects of our proposed rulemakings, including the economic analysis and potential interactions within the regulatory framework.

5. **When crafting the slate of proposals, did the Federal Reserve, along with other federal banking agencies where applicable, coordinate with the SEC, CFTC, or FINRA to ensure that proposals on bank capital requirements, long-term debt, and other matters would not negatively impact the functioning of U.S. capital markets?**

As noted in my response to question 4, our rules should support an effective and efficient regulatory framework that promotes the safety and soundness of the financial system and supports a strong American economy, while imposing no more burden than is necessary. Striking this balance is critical, but it is also challenging. Therefore, public input and thoughtful deliberation are essential. Specifically, with respect to the Board's proposals on Basel III Endgame and long-term debt, we asked questions as a part of the proposals to invite public input on how they would impact the capital and debt markets. The Board received helpful comments from the public on these proposals.

International Regulatory Harmonization

6. **U.S. regulators have consistently imposed higher requirements on U.S. firms than those recommended by intergovernmental organizations, such as the Basel Community on Banking Supervision (BCBS), a practice often referred to as "gold-plating." For example, the U.S. has a higher capital surcharge for GSIBs than other jurisdictions. In 2023, the federal banking agencies proposed further gold-plating under the Basel III Endgame proposal, exceeding BCBS recommendations. Does the Federal Reserve believe more stringent standards are necessary to maintain a safe and sound banking system in the United States?**

    a. **The intent of the BCBS framework is to promote global harmonization. If so, why are U.S. international peers not subject to similar standards, and why do they often deviate from the recommended global minimum standards?**

The Federal Reserve participates in the Basel Committee on Banking Supervision (BCBS) in support of our statutory responsibilities to regulate and supervise financial institutions. In a globally interconnected financial system, financial shocks can quickly propagate across national borders, and the Federal Reserve seeks to promote the stability of the U.S. financial system by supporting strong and consistent minimum regulatory standards and effective supervisory practices for financial institutions globally. Engagement with international organizations such as BCBS has also been an effective and efficient means for the Federal Reserve to help shape international standards and recommendations to the nature and needs of the U.S. financial system. While the Federal Reserve benefits from participation in these organizations, it is under no obligation to adopt any standards or recommendations developed. Standards and recommendations issued by international organizations are not binding on any jurisdiction or member, including the United States and the Federal Reserve. The Federal Reserve makes decisions about policy on the basis of its own domestic statutory mandates and responsibilities.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 29, 2025

The Honorable Andy Barr
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to questions 2, 3, 7, and 8 that you submitted following the February 12, 2025,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. Responses to your remaining questions will be forthcoming.[2]

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on March 4, 2025.
[2] Responses to questions 9 through 12 were sent to your office and the Committee on April 18, 2025.

<u>**Question for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Andy Barr:**</u>

Rulemaking in the Absence of a Vice Chair for Supervision

2. **In announcing Vice Chair for Supervision Michael Barr's resignation on January 6, 2025, the Federal Reserve stated that it would not take up major rulemakings until a successor is confirmed. However, in your testimony, you noted the Fed is likely to address the Supplementary Leverage Ratio (SLR), expressing long-standing concerns about liquidity in the Treasury markets, especially as Treasury issuance has outpaced market intermediation capacity.**

    a. **Given the critical role of Treasury markets in both domestic and global finance, delaying adjustments to the SLR due to absence of a vice chair seems unwise. Will the Federal Reserve wait for confirmation of a Vice Chairman of Supervision before moving forward?**

The Federal Reserve Board (Board) aims to ensure that risk-based capital and leverage requirements function as intended, with leverage requirements acting as a backstop to the risk-based capital requirements. When a leverage requirement is a firm's binding capital requirement, it can create incentives for the firm to replace low-risk, low-return assets with high-risk assets.

We are looking at potential adjustments to the supplementary leverage ratio requirements that would remove a disincentive for large banking organizations to intermediate in the Treasury market, without undermining their safety and soundness. Any revisions to the supplementary leverage ratio requirements would be subject to notice and public comment.

3. **On December 23, 2024, the Federal Reserve announced that it would review its stress testing framework and the related Stress Capital Buffer (SCB), which will significantly affect the level of capital that covered banks to hold. and, by extension, the amount of capital they can deploy to lending and other activities. Will the Federal Reserve wait for confirmation of a Vice Chairman for Supervision before moving forward?**

    a. **The Fed cited evolving legal considerations and potential adherence issues with the Administrative Procedure Act (APA) as the reason for reviewing the stress test and SCB framework. Does the Fed believe these legal concerns should be overridden by the delay in rulemaking due to waiting for a Vice Chair for Supervision to be confirmed?**

Recent Supreme Court decisions have made clear that courts will be less deferential to federal agencies going forward and will have increased expectations with respect to Administrative Procedure Act requirements. The Board remains committed to following the law.

On April 17, 2025, the Board requested comment on a proposal to reduce the volatility of the capital requirements stemming from the Board's annual stress test results.[1] The proposal would average stress test results over two consecutive years to reduce the year-over-year changes in the capital requirements that result from the stress test, delay the annual effective date of the stress capital buffer requirement from October 1 to January 1 of the following year to give banks additional time to adjust to their new capital requirements, and make targeted changes to streamline the Board's stress test-related data collection. Later this year, the Board intends to propose additional changes to improve the transparency of the stress test. All proposed changes will follow the standard rulemaking process.

7. **In December, the Federal Reserve announced it would seek public comment on its stress test models and annual scenarios due to an evolving legal landscape and changes in administrative law. These models and scenarios affect banks by determining the capital they must hold based on stress test performance, and the APA requires such rules to be subject to public comment.**

   While the Federal Reserve has conducted stress tests for 15 years, it has never sought public comment on the models or scenarios, despite the APA's requirements remaining unchanged over that time. What legal or administrative changes now prompt the Federal Reserve to seek public comment? Were specific cases influential in this shift?

   a. **Given that the APA's requirements have been the same for 15 years, would it have been more transparent, accountable, and legally sound for the Federal Reserve to have subjected its stress test regime to notice and comment rulemaking from the beginning?**

Recent Supreme Court decisions have made clear that courts will be less deferential to federal agencies going forward and will have increased expectations with respect to Administrative Procedure Act requirements. The Board remains committed to following the law.

On April 17, 2025, the Board requested comment on a proposal to reduce the volatility of the capital requirements stemming from the Board's annual stress test results.[2] The proposal would average stress test results over two consecutive years to reduce the year-over-year changes in the capital requirements that result from the stress test, delay the annual effective date of the stress capital buffer requirement from October 1 to January 1 of the following year to give banks additional time to adjust to their new capital requirements, and make targeted changes to streamline the Board's stress test-related data collection. Later this year, the Board intends to propose additional changes to improve the transparency of the stress test. All proposed changes will follow the standard rulemaking process.

8. **On December 23, 2024, the Federal Reserve announced that it would "soon seek public comment" on its stress test models and annual stress test scenarios due to changes in administrative law, seemingly bringing its 15-year-old stress testing regime into**

[1] *See* https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250417a.htm.
[2] *See* https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250417a.htm.

compliance with the APA. However, on February 5, 2025, the Federal Reserve released the hypothetical scenarios for the 2025 stress test in complete form, without a prior period of public comment.

a. Given the Federal Reserve's previous announcement, should it have concurrently stated it would issue the 2025 stress test scenarios for public comment as a sign of good faith?

As noted, on April 17, 2025, the Board requested comment on a proposal to reduce the volatility of the capital requirements stemming from the Board's annual stress test results, and later this year, the Board intends to propose additional changes to improve the transparency of the stress test. All proposed changes will follow the standard rulemaking process. We look forward to reviewing all the comments we receive.

For the 2025 stress tests, we intend to further increase transparency into the stress test while we continue to work on those changes.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 18, 2025

The Honorable Andy Barr
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to questions 9 through 12 that you submitted following the February 12, 2025,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. Responses to your remaining questions will be forthcoming.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on March 4, 2025.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Andy Barr:

Regulation II

9. What is the current status of the Regulation II rulemaking?

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires the Federal Reserve Board (Board) to prescribe standards for assessing whether the amount any interchange fee received by a debit card issuer is reasonable and proportional to the cost incurred by the issuer with respect to the transaction. The Board fulfilled this statutory mandate in 2011 when it adopted the interchange fee cap in Regulation II.

In October 2023, the Board proposed to update the interchange fee cap for the first time based on the latest data at the time, and also proposed to update the interchange fee cap every other year going forward by directly linking the interchange fee cap to data from the Board's biennial survey of large debit card issuers. The Board requested comment on all aspects of the proposal, and the public comment period closed on May 12, 2024.

The Board received over 4,000 comments on the proposal from debit card issuers, merchants, consumers, and other stakeholders, which have been under review. The Board has not made any decisions about the timing or substance of any action on the proposal.

10. Given concerns about the accuracy of the data used in the drafting of the proposed Regulation II rule, will you commit to pausing or withdrawing the proposal to allow more analysis of its impact on consumers and debit card issuers?

The Board's proposal included a statutorily-required analysis of the economic impact of the proposal on various parties, including debit card issuers and consumers. As stated in the proposal, the Board's analysis of economic impact was based on the predictions of economic theory, information regarding debit card industry structure and practices, issues raised during the original Regulation II rulemaking, and the experience of debit card industry participants since the current interchange fee cap was adopted in 2011.

The Board received over 4,000 comments on the proposal from debit card issuers, merchants, consumers, and other stakeholders. The Board considers all commenter feedback, including feedback regarding the economic impact of the proposal. The Board has not made any decisions about the timing or substance of any action on the proposal.

Engagement with Intergovernmental Organizations

11. On January 17, 2025, the Federal Reserve announced its withdrawal from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), citing the broadening scope of NGFT's work beyond the Federal Reserve's statutory mandate.

a. What statutory or other authority does the Federal Reserve cite as justification for joining intergovernmental organizations generally?

b. What specific NGFS activities did the Federal Reserve consider within its statutory mandate when it decided to join the NGFS in 2020?

c. What specific NGFS activities did the Federal Reserve identify as outside its statutory mandate when it decided to withdraw in 2025?

When the Board originally joined the Network for Greening the Financial System (NGFS) in 2020, it sought to enhance the Federal Reserve's understanding of climate-related financial risks, as well as how other central banks are approaching such risks. While the Board appreciated its engagement with the NGFS and its members, the work of the NGFS had increasingly broadened in scope, covering a wider range of issues that are outside of the Board's statutory mandate, such as nature-related risks and biodiversity.

CFPB Funding

12. In a Senate Banking Committee hearing on February 11, 2025, Senator Katie Britt raised concerns about the Federal Reserve's continued funding of the Consumer Financial Protection Bureau (CFPB), despite the Federal Reserve incurring losses since September 2022. The CFPB's statute requires funding "from the combined earnings of the Federal Reserve," but the Federal Reserve currently has no earnings. In response, you stated that "it's very clear on the law and the legislative history that we're still required to make those payments." Will you provide the Committee with the legal rationale for this claim, including any legal memorandum from the Federal Reserve Board's Legal Division?

When Congress created the Consumer Financial Protection Bureau (CFPB) under the Dodd-Frank Act, Congress established that the Federal Reserve System (System) would be a source of funds for CFPB operations.[1] Specifically, the Dodd-Frank Act states that "[e]ach year (or quarter of such year), beginning on the designated transfer date, and each quarter thereafter, the Board of Governors shall transfer to the Bureau from the combined earnings of the Federal Reserve System, the amount determined by the Director to be reasonably necessary to carry out the authorities of the Bureau under Federal consumer financial law, taking into account such other sums made available to the Bureau from the preceding year (or quarter of such year)."[2]

This obligation to fund CFPB operations is subject to an annual cap equal to 12 percent of the operating expenses of the System in 2013, adjusted each year using the percent increase (if any) for the employment cost index for total compensation for state and local government workers for the 12-month period ending on September 30 of the year preceding the transfer.[3]

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[1] 12 U.S.C. § 5497.
[2] 12 U.S.C. § 5497(a)(1).
[3] 12 U.S.C. § 5497(a)(2).

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 25, 2025

The Honorable Warren Davidson
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the February 12, 2025,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on March 4, 2025.

<u>Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Warren Davidson:</u>

1. **NY Fed Coordinating with Foreign Central Banks:**

   Given that the Federal Reserve Bank of New York is responsible for the Second District of the Federal Reserve System, I want to know why it is coordinating with central banks outside of its statutory scope of New York, the 12 northern counties of New Jersey, Fairfield County in Connecticut, Puerto Rico, and the U.S. Virgin Islands. The New York Fed has coordinated with the Bank of England, and the Bank of International Settlements, and other central banks abroad.

   a. **For instance, the BIS Innovation Hub, in partnership with the New York Fed, has been involved in strategic initiatives, including Project Cedar, which involves exploring wholesale CBDCs in collaboration with the Monetary Authority of Singapore. Chairman Powell, can you elaborate as to why the New York Fed has the authority to spend its time and resources engaging with international entities?**

The Federal Reserve Bank of New York (FRBNY) often participates alongside Federal Reserve Board (Board) staff in engagement with international bodies, with the Board and FRBNY coordinating closely regarding these efforts. FRBNY participates in supervising the largest, internationally active banks, and is responsible for processing international payments, conducting foreign exchange transactions, and carrying out other financial market operations and monitoring. As a result, FRBNY staff have substantial expertise relating to domestic and international financial markets and cross border banking activities, as well as other operational matters. In general, the Board benefits from FRBNY's expertise and the additional resources it brings to bear in international forums.

   b. **The New York Fed also worked with seven central banks—the Bank of England, Bank of France, Bank of Japan, Bank of Korea, Bank of Mexico, and the Swiss National Bank—on the collaboration of international wholesale payments. Chairman Powell, was this bank designated as an international collaborator?**

Please see my response to question 1a.

   c. **Can you please describe the specific criteria the Federal Reserve applies when assessing the establishment, duration, or extension of a central bank swap line with a foreign country?**

The dollar liquidity swap lines help maintain the flow of credit to U.S. households and businesses by reducing risks to U.S. financial markets caused by financial stresses abroad. They improve liquidity conditions in both U.S. and foreign financial markets by providing foreign central banks with the capacity to deliver U.S. dollar funding to institutions in their jurisdictions during times of market stress. By helping to stabilize dollar markets, these swap lines positively benefit the U.S. economy through many channels, including confidence and trade. Given the purpose of the swap lines, the Federal Reserve looks at several characteristics to determine with whom to establish the lines, including the importance in global dollar funding markets of the local dollar market, the importance of the country's economy to the U.S. economy, and the extent to which the country has pursued prudent economic policies, including central bank independence. These characteristics help measure the potential for financial stresses abroad to negatively affect the U.S. economy, and the potential of increased dollar liquidity to help.

2. Monetary Policy and Inflation:

a. Does a surge in M2 diminish the strength of USD?

b. Is deficit spending good for the stability of USD?

The most important drivers of the exchange value of the dollar are factors that influence international capital flows, such as interest rate differentials and the relative growth outlook between the United States and foreign economies. While M2 does not have a significant direct effect on the exchange value of the dollar, it can be correlated with changes in the value of the dollar with the direction of the correlation depending on the underlying factors. For example, if the economy experienced an adverse development that depressed output and resulted in households and businesses shifting their portfolios out of risky assets toward safe and liquid assets in M2, one might expect the resulting expansion of M2 to be associated with a weakening of the dollar. Conversely, if the economy experienced a positive development that boosted output and incomes, one might expect to see an expansion of M2 along with a strengthening dollar.

The Federal Reserve does not target dollar exchange rates, and we do not take a position on the appropriate value of the dollar. Exchange rate policy is the responsibility of the U.S. Department of the Treasury. At the Federal Reserve our monetary policy decisions are aimed at achieving our congressional mandates of maximum employment and stable prices.

3. The Federal Reserve's Reverse Repo Balance:

The decline in reserve liquidity since September 2024 clearly suggests a tightened liquidity environment in the banking system. This often precedes economic slowdowns and financial stress. Quantitative Easing (QE), a potential monetary policy reflex, is an abhorrent failure. QE always was a failure and it always will be.

Chairman Powell, will the Federal Reserve pursue QE in response to the recent liquidity collapse in the banking system?

The Federal Open Market Committee (FOMC) is carefully monitoring a range of indicators in assessing reserve and money market conditions. At present, most indicators continue to suggest that the banking system remains very liquid, and reserves remain above levels necessary to implement monetary policy efficiently and effectively. Based on its assessment of reserve market conditions, the FOMC elected to slow the pace of balance sheet runoff at its March 2025 meeting. As a result, reserves in the banking system will be declining even more slowly going forward and that gradual process could continue for a while. As always, the FOMC is prepared to adjust any of the details of its approach to reducing the size of the balance sheet in light of economic and financial developments.

4. Outside Audit of the Federal Reserve:

I'm aware that the Federal Reserve Board of Governors, the 12 Federal Reserve Banks, and the Federal Reserve System as a whole are subject to audit and review.

Chairman Powell, given that the Board's financial statements are audited annually by an outside auditor retained by the independent Office of Inspector General (OIG), would you yield to an outside audit—at the direction of the President—an additional entity, such as DOGE?

In the Federal Reserve Act (FRA), Congress set forth various audit requirements applicable to the Board and the Federal Reserve Banks. For example, the FRA requires that the financial statements of the Board and Reserve Banks be subject to an annual independent audit.[1] In addition, the FRA requires that the Board make public a full report on its operations to Congress annually and that the Chair and Vice Chair for Supervision respectively testify at semi-annual hearings before the House and Senate.[2]

5. U.S. Gold Stock Revaluation:

There has been conversation on revaluing U.S. gold stocks from their $42/oz valuation on the U.S. Treasury's balance sheet to the current spot price of approximately $2,900/oz.

Chairman Powell, what is your reaction to this, and do you think this could have an inflationary outcome?

The book value of gold owned by the United States is prescribed by statute, and any decision to change that is up to Congress. If the U.S. Treasury were to monetize the increased value of gold following a revaluation, the additional amount would be reflected as a credit to Treasury's account at the FRBNY. The inflationary or other macroeconomic effects of monetization would depend on how the additional funds were used.

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[1] 12 U.S.C. § 248b.
[2] 12 U.S.C. §§ 225b, 247b, and 248b.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

May 1, 2025

The Honorable Bryan Steil
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the February 12, 2025,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on March 4, 2025.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Bryan Steil:

1. **In At the January FOMC press conference you noted the Fed is not against innovation and that banks are able to serve crypto customers as long as they understand the risks. FRB-supervised banks that seek to engage in crypto-asset related activity are subject to enhanced supervisory standards, including the requirement to obtain a "non-objection" before engaging in such activity.**

    a. **Does requiring individual banks to obtain a non-objection, on a case-by-case basis, slow down bank innovation?**

    b. **Will the fed revise the supervisory non-objection process to provide the necessary clarity for institutions looking to engage in this space?**

On April 24, 2025, the Federal Reserve Board (Board) announced the withdrawal of guidance for banks related to their crypto-asset and dollar token activities and related changes to its expectations for these activities.[1]

The Board has rescinded its 2022 supervisory letter under which state member banks were expected to provide advance notification of planned or current crypto-asset activities.[2] As a result, the Board will no longer expect banks to provide notification and will instead monitor banks' crypto-asset activities through the normal supervisory process.

The Board also rescinded its 2023 supervisory letter regarding the supervisory nonobjection process for state member bank engagement in dollar token activities.[3]

2. **According The FDIC recently announced they were actively reevaluating our supervisory approach to crypto-related activities including replacing Financial Institution Letter 16-2022 and providing a pathway for institutions to engage in crypto- and blockchain-related activities while still adhering to safety and soundness principles.**

    a. **Is the Fed similarly reevaluating its guidance and supervisory approach to crypto-related activities?**

As noted above, the Board has rescinded guidance for banks related to their crypto-asset and dollar token activities. The Board, together with the Federal Deposit Insurance Corporation, joined the Office of the Comptroller of the Currency in withdrawing from two 2023 statements

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[1] *See* "Federal Reserve Board announces the withdrawal of guidance for banks related to their crypto-asset and dollar token activities and related changes to its expectations for these activities" (April 24, 2025), at https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250424a.htm.

[2] *See* SR 22-6 / CA 22-6: Engagement in Crypto-Asset-Related Activities by Federal Reserve-Supervised Banking Organizations (withdrawn) (April 24, 2025), at https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20250424a3.pdf.

[3] *See* SR 23-8 / CA 23-5: "Supervisory Nonobjection Process for State Member Banks Seeking to Engage in Certain Activities Involving Dollar Tokens" (withdrawn) (April 24, 2025), at https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20250424a4.pdf.

jointly issued by the federal bank regulatory agencies regarding banks' crypto-asset activities and exposures.[4] These actions ensure the Board's expectations remain aligned with evolving risks and further support innovation in the banking system. The Board will work with the other bank regulatory agencies to consider whether additional guidance to support innovation, including crypto-asset activities, is appropriate.

[4] *See* "Federal Reserve Board announces the withdrawal of guidance for banks related to their crypto-asset and dollar token activities and related changes to its expectations for these activities (April 24, 2025), at https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250424a.htm.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

May 16, 2025

The Honorable Brad Sherman
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to questions 2 and 3 that you submitted following the February 12, 2025,[1] hearing before the Committee on Financial Services.[2] A copy also has been forwarded to the Committee for inclusion in the hearing record. This concludes my responses to your questions.

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

Sincerely,

Jerome H. Powell

Enclosure

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[1] Questions for the record related to this hearing were received on March 4, 2025.
[2] Responses to questions 4 through 6 were sent to your office and the Committee on April 14, 2025. A response to question 1 was sent to your office and the Committee on April 29, 2025.

<u>Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Brad Sherman:</u>

2. **<u>Bank Merger Guidance</u>: President Biden issued directives to federal bank regulators to increase scrutiny of bank mergers in a June 2021 executive order. The Federal Reserve didn't issue guidance, but FDIC and OCC did. Given the change in Administration, what is the status of the Federal Reserve's reassessment of bank merger guidance, and can we expect any further action on this, especially once Vice Chair for Supervision Michael Barr's resignation goes into effect on February 28th?**

The Federal Reserve continues to assess its bank merger framework to determine whether any adjustments would be appropriate to improve our merger analysis and enhance the processing of applications.

3. **<u>Long-term Debt</u>: The Fed, FDIC, and OCC released the Basel III Endgame and a new long- term debt simultaneously in summer 2023. The long-term debt proposal would require all banks over $100 billion to issue long-term debt equal to 6% of their risk-weighted assets. The "input" to the long-term debt equation is the risk-weighted value of assets, which was to be amended by the Basel III Endgame. What's next for the long-term debt proposal – which hasn't received as much attention as the Basel III revision of capital requirements? Is this long-term debt proposal one that the Fed, FDIC, and OCC are still considering moving forward with?**

In 2023, the Federal Reserve Board (Board), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) jointly proposed a rulemaking related to long-term debt issuance. The agencies received significant comment on all aspects of the rulemaking, including how it would interact with other rulemaking proposals and impact the U.S. economy and regulated firms. As the Board engages with the new leadership at the FDIC and OCC, I expect that there will be a broad discussion of the agencies' approach to joint rulemakings.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 29, 2025

The Honorable Brad Sherman
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to question 3 that you submitted following the February 12, 2025,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. Responses to your remaining questions will be forthcoming.[2]

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on March 4, 2025.
[2] Responses to questions 4 through 6 were sent to your office and the Committee on April 14, 2025.

<u>Question for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Brad Sherman:</u>

3. **<u>Stress Test Review</u>: In December 2024, the Federal Reserve announced in a press release that it will soon seek public comment on significant changes to improve transparency of bank stress tests and reduce volatility of resulting capital requirements. Do you have any update on when the Federal Reserve will move forward and have a proposal on stress test transparency that will be ready for public comment?**

Recent Supreme Court decisions have made clear that courts will be less deferential to federal agencies going forward and will have increased expectations with respect to Administrative Procedure Act requirements. The Federal Reserve Board (Board) remains committed to following the law.

On April 17, 2025, the Board requested comment on a proposal to reduce the volatility of the capital requirements stemming from the Board's annual stress test results.[1] The proposal would average stress test results over two consecutive years to reduce the year-over-year changes in the capital requirements that result from the stress test, delay the annual effective date of the stress capital buffer requirement from October 1 to January 1 of the following year to give banks additional time to adjust to their new capital requirements, and make targeted changes to streamline the Board's stress test-related data collection. Later this year, the Board intends to propose additional changes to improve the transparency of the stress test. All proposed changes will follow the standard rulemaking process.

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[1] *See* https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250417a.htm.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 14, 2025

The Honorable Brad Sherman
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to questions 4 through 6 that you submitted following the February 12, 2025,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. Responses to your remaining questions will be forthcoming.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on March 4, 2025.

<u>Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Brad Sherman:</u>

4. **<u>Basel III & P-Factor</u>: The Basel III Endgame Proposal includes substantial changes to the securitization framework. Capital requirements for securitization exposures are determined by a mathematical function that is scaled by the *p-factor*. This p-factor determines the "securitization surcharge," or the capital required for a pool of assets when held in securitized form. The Basel III Endgame proposed rule would have doubled this securitization surcharge from 50% to 100%. Further, this is a more stringent standard than those implemented in the EU, UK, and Canada. Does the Fed have an assessment of how increasing the p-factor will affect the availability of credit in U.S. financial markets? Do you anticipate that the Fed will recommend increasing the p-factor in the Basel III re-proposal?**

I appreciate your concerns related to the capital proposal's impact on securitizations. Our objective with the Basel III package has been to implement it in a way that is consistent with the Basel agreement and broadly comparable to what other large jurisdictions are doing. The Basel III package is a joint effort among the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC), and we look forward to working with our FDIC and OCC colleagues on it.

5. **<u>Basel III & Mortgage Risk Weights</u>: Current bank capital rules assign a 50% risk weight for residential mortgages with loan-to-value (LTV) ratios at or above 90% if the loans are covered by private mortgage insurance (PMI) and a 100% risk weight absent PMI. During this hearing, you testified that a forthcoming new Basel III proposal would be capital neutral and that you believe banks currently hold an appropriate amount of capital.**

    a. **Do you expect to change the capital treatment of residential mortgage exposures in the new proposal, including the introduction of additional risk weights for these assets?**
    b. **If yes, will banks calculate a mortgage's LTV with or without making adjustments for the presence of PMI on low down payment mortgages? The Federal Housing Finance Agency's capital rule for Fannie Mae and Freddies Mac, the Enterprise Regulatory Capital Framework (ERCF), recognizes the risk protection provided by PMI on low down payment mortgages and provides for capital relief on those mortgages.**
    c. **Regardless of any potential changes to risk weights for residential mortgage exposures, will PMI continue to be a gating criterion for mortgages with LTVs above 90% to receive capital relief?**

I appreciate your concerns related to the capital proposal's impact on residential mortgages. Our objective with the Basel III package has been to implement it in a way that is consistent with the Basel agreement and broadly comparable to what other large jurisdictions are doing. The Basel

III package is a joint effort among the Federal Reserve, FDIC, and OCC, and we look forward to working with our FDIC and OCC colleagues on it.

6. **Federal Home Loan Banks: The Federal Reserve issued a request for information (RFI) last year related to discount window reform. In response to that RFI, the Council of Federal Home Loan Banks provided several suggestions to improve the current interactions between home loan banks and Federal reserve banks, including:**

    - **Establishing a uniform emergency intercreditor agreement and collateral management practices;**
    - **Enhancing information sharing agreements;**
    - **Leveraging the FHLBanks' experience in collateral management and valuation by allowing them to serve as collateral agents for the Federal Reserve Bank;**
    - **Accepting a letter of credit from the home loan bank as collateral to support member borrowing from the Federal Reserve Bank.**

    What is the Fed's assessment of the feasibility of these suggestions? Is the Fed pursuing any of these suggestions (some of which do not require rulemaking)?

The Board is carefully reviewing and considering all of the comments it received in response to its request for information related to discount window reform.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

May 16, 2025

The Honorable Gregory Meeks
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question you submitted following the February 12, 2025,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on March 4, 2025.

Question for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Gregory Meeks:

1. **Chairman Powell, you recently testified that the Federal Reserve can move forward with Basel III Endgame once prudential regulators are in place. I've raised concerns with over 50 of my colleagues about how this rulemaking could impact first-time homebuyers' ability to afford a home, small businesses' access to loans, and underserved communities' access to credit.**

   Additionally, the U.S. approach could discourage crucial capital markets activity, affecting our global competitiveness. You've acknowledged the trade-offs when setting capital requirements, as they could make credit less affordable for those on the margins. Given that the capital framework includes components like the Stress Capital Buffer, GSIB surcharge, and leverage requirements, how will you ensure that Basel III Endgame and the overall capital framework strike the right balance—protecting financial system safety and soundness while promoting affordable lending and capital access for those who need it most, especially with interest rates remaining high?

Our rules should support an effective and efficient regulatory framework that promotes the safety and soundness of the financial system and supports a strong American economy, while imposing no more burden than is necessary.

Proposals of this nature put forward by the Federal Reserve Board are accompanied by economic impact analyses. Where appropriate, those analyses acknowledge the potential interactions of the proposals with other regulations. We request, and carefully consider public input on all aspects of our proposed rulemakings, including the economic analysis and potential interactions within the regulatory framework.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 29, 2025

The Honorable Bill Foster
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the February 12, 2025,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on March 4, 2025.

<u>Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Bill Foster:</u>

During the COVID-19 Pandemic, the Federal Reserve made temporary changes to the calculation of the supplementary leverage ratio (SLR) calculation to "ease strains in the Treasury market resulting from the coronavirus and increase banking organizations' ability to provide credit to households and businesses." Specifically, this change allowed bank holding companies to temporarily exclude U.S. Treasury securities and deposits at Federal Reserve Banks from the calculation of the SLR. Upon the expiration of this temporary relief, the Federal Reserve announced that it would solicit public comment on potential modifications to the SLR to support ongoing discussions among the regulatory community to improve resilience of the Treasury market.

1. **Does the Federal Reserve still intend to invite public comment on potential reforms to the SLR? If so, is there an estimated timeline for this solicitation?**

The Federal Reserve Board aims to ensure that risk-based capital and leverage requirements function as intended, with leverage requirements acting as a backstop to the risk-based capital requirements. When a leverage requirement is a firm's binding capital requirement, it can create incentives for the firm to replace low-risk, low-return assets with high-risk assets.

We are looking at potential adjustments to the supplementary leverage ratio requirements that would remove a disincentive for large banking organizations to intermediate in the Treasury market, without undermining their safety and soundness. Any revisions to the supplementary leverage ratio requirements would be subject to notice and public comment.

2. **Does the Federal Reserve intend to offer specific proposals for reform along with this request for comment? If so, can you describe any options being considered?**

Please see my response to question 1.