Crapo Statement at Hearing on the Semiannual Monetary Policy Report to Congress
July 11, 2019

WASHINGTON – U.S. Senator Mike Crapo (R-Idaho), Chairman of the U.S. Senate Committee on Banking, Housing and Urban Affairs, delivered the following remarks at a hearing entitled “The Semiannual Monetary Policy Report to the Congress.”

The text of Chairman Crapo’s remarks, as prepared, is below.

“We welcome Chairman Powell back to the Committee for the Federal Reserve’s Semi-Annual Monetary Policy Report to Congress.

“In this hearing, the Banking Committee will evaluate the current state of the U.S. economy, the Fed’s implementation of monetary policy, and discuss its supervisory and regulatory activities.

“In the last semi-annual monetary policy report, Chairman Powell provided additional clarity on the Fed’s plans to normalize monetary policy, including how the size of the balance sheet would be driven by financial institutions’ demand for reserves, plus a buffer.

“Since then, the Fed has provided additional information and continued receiving feedback on its monetary policy strategy, tools, and communication, all of which I look forward to hearing an update on today.

“The U.S. economy is still strong, growing at 3.1 percent in the first quarter of 2019, according to the Bureau of Economic Analysis, and the unemployment rate remains low at 3.7 percent, as of June, according to the Bureau of Labor Statistics.

“Wages have continued rising, as well, with average hourly earnings 3.1 percent higher in June compared to a year earlier, which is the eleventh straight month in which wage growth exceeded 3 percent, according to the Bureau of Labor Statistics.

“In fact, the U.S. is officially in its longest expansion of economic growth since 1854, according to the National Bureau of Economic Research.

“In order to continue this positive economic trajectory, regulators must continually evaluate their regulatory and supervisory activities for opportunities to tailor regulations and to ensure broad access to a wide variety of financial products and services.

“With respect to regulation and supervision, it has been over a year since the enactment of S. 2155, the Economic Growth, Regulatory Relief and Consumer Protection Act.

“Mr. Chairman, as you move forward finalizing certain rules required under S. 2155 and consider proposing new ones, I encourage you to consider carefully the following:

“Simplify capital rules for smaller financial institutions while ensuring they maintain significant capital by setting the Community Bank Leverage Ratio at 8 percent;

“Simplify the Volcker Rule, including by eliminating the proposed accounting prong and revising the “covered funds” definition’s overly-broad application to venture capital, other long-term investments and loan creation, to improve market liquidity and preserve access to diverse sources of capital for businesses;

“Harmonize margin requirements for inter-affiliate swaps with treatment by the CFTC by quickly making a targeted change to your margin rules to enhance end users’ ability to hedge against risks in the marketplace;

“Examine whether the recent proposal that applies to U.S. operations of foreign banks is appropriately tailored and whether regulations on intermediate holding companies should be applied based on the assets of the intermediate holding company alone, rather than the assets of all U.S. operations. I also encourage you to align the foreign bank proposal with the domestic bank proposal and exclude inter-affiliate transactions from each of the risk-based indictor calculations;

“Index any dollar-based thresholds in the tailoring proposals to grow over time to improve the rules’ durability; and

“Modernize the Community Reinvestment Act (CRA) to ensure banks are not ignoring their mandate to serve their “entire communities,” which should include legal businesses that banks disfavor operating in their communities.

“A bank responding to political pressure or attempting to manage social policy by withholding access to credit from customers and/or companies it disfavors is not meeting the credit needs of the entire community.

“These approaches would promote economic growth by ensuring that rules are balanced, work for all stakeholders, and do not unnecessarily impede access to financial products and services in the marketplace.

“On a different topic, Facebook announced it is partnering with both financial and non-financial institutions to launch a cryptocurrency-based payments system using its social network.

“The project has raised many questions among U.S. and global lawmakers and regulators, including about its potential systemic importance, consumer privacy, data privacy and protection, and more.

“I am particularly interested in its implications for individuals’ data privacy.

“The Bank of England Governor Mark Carney said, “Libra, if it achieves its ambitions, would be systemically important. As such, it would have to meet the highest standards of prudential regulation and consumer protection. It must address issues ranging from anti-money laundering to data protection to operational resilience.”

“I look forward to hearing more about how the Fed, in coordination with other U.S. and global financial regulators, plans to engage on important regulatory and supervisory matters with Facebook throughout and after the project’s development.

“While Libra’s systemic importance depends on several factors in its future development, there are already some too-big-to-fail institutions that must be addressed: Fannie Mae and Freddie Mac.

“They continue to dominate the mortgage market and expose taxpayers in the case of an eventual downturn.

“In a 2017 speech, Chairman Powell, you publicly referred to Fannie and Freddie as “systemically important.”

“Although my strong preference is for comprehensive legislation, the Banking Committee recently explored one option for addressing Fannie and Freddie, which is for the Financial Stability Oversight Council to designate Fannie and/or Freddie as “systemically important financial institutions,” and to subject them to Fed supervision and enhanced prudential standards.

“Chairman Powell, I appreciate you joining the Committee today to discuss many important issues.”

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