



Rep. Tom Emmer on Emmer Questions Janet Yellen

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****REP. TOM EMMER:**

** Thank you, Mr. Chair, and thank you, Madam Chair, for being here this morning. Madam Chair, I'm going to go a different route. I don't think anybody has asked you about this this morning. Will the Federal Open Market Committee ever rule out going to negative interest rates?

****MADAM CHAIR:**

** Rule out is something we tend not to do. I don't at the moment see a need for negative interest rates. The committee is seeing a domestic economy that's been proceeding on a steady path of improvement. Our focus has been on the possibility that it will be appropriate to begin to raise interest rates. This is something we're actively considering, although no decisions have been made. Look, if circumstances were to change, suppose the economic outlook, which I don't expect, but if it were to deteriorate in a significant way so that we thought we needed to provide more support to the economy, then potentially anything, including negative interest rates, would be on the table. We would have to study carefully how they would work here in the U.S. context.

****REP. TOM EMMER:**

** Let me ask you, because we've seen it in other countries.

****MADAM CHAIR:**

** That's what's new, yes.

****REP. TOM EMMER:**

** When they've had economic difficulties, we've seen other countries use negative interest rates or go to negative interest rates. What impact, Madam Chair, would negative interest rates have on lending and economic activity? What impact do you believe it would have?

****MADAM CHAIR:**

** Most loans would not have negative interest rates, even if a central bank pays negative interest rates on reserves.

****REP. TOM EMMER:**

** I understand, but what impact would it have on lending?

****MADAM CHAIR:**

** It would be intended to spur lending and, I believe, would have some at least modest favorable effect on banks' incentives to lend. It would be undertaken as a measure to support the economy and to encourage additional lending and to move down the yields on interest-bearing assets to stimulate risk-taking investment spending.



****REP. TOM EMMER:**

** I want to change just a little bit. I'd like to talk about this proposal. If you could clarify it for me, the TLAC proposal that was discussed last week, was that finalized last week?

****MADAM CHAIR:**

** No, it's in notice of proposed rulemaking. It's out for comment.

****REP. TOM EMMER:**

** Because it's been around for a while. You've been discussing it for a while. Members of the Fed, Governor Trullo and others, have given speeches on this.

****MADAM CHAIR:**

** It's something that is being discussed internationally in the FSB. In fact, the United States has been contemplating this. We're working jointly with the FDIC. It's an important step in ensuring that the FDIC's single point of entry strategy would be workable in the Title II resolution or in a bankruptcy resolution. We see it as very important. It's been under discussion for quite a long time.

****REP. TOM EMMER:**

** If I can interrupt you, because in the short time left, I have some specific things I'd like to ask you about this TLAC proposal. In fact, some of the analysis that I've been provided regarding the draft proposal suggests that it penalizes firms for what is broadly understood to be a desirable business model, gathering deposits and making loans. In fact, some have even suggested the effect of the new rule could be interpreted as a tax on deposit funding. Would the Federal Reserve benefit, and have you done, because I know this question has been asked before, from a quantitative impact study being conducted by the FSB prior to implementing the new TLAC proposal?

****MADAM CHAIR:**

** I think that that's frankly a mischaracterization of this proposal. The purpose of this proposal is to ensure that if a firm becomes insolvent that there is sufficient . . .

****REP. TOM EMMER:**

** Would you benefit . . . forgive me, I've got 20 seconds left. Would you benefit from a quantitative impact study being done prior to implementation?

****MADAM CHAIR:**

** We have carefully analyzed this proposal, the cost and benefits.

****REP. TOM EMMER:**

** Have you done a quantitative impact study?

****MADAM CHAIR:**

** We have done a quantitative analysis.

****REP. TOM EMMER:**

** Would you share that with us?



****MADAM CHAIR:**

** There is information contained in the proposal that we published.

****REP. TOM EMMER:**

** All right. Well, the analysis, is there any . . . well, it looks like my time has expired.

****MADAM CHAIR:**

** The point is that deposits are not a liability that is capable of absorbing losses when a firm is in trouble. We've seen that in financial crises. And the point of this is to make sure there is enough . . .

****MODERATOR:**

** Thank you. Your time has expired.

****MADAM CHAIR:**

** . . . assets at risk.

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