United States Senate
WASHINGTON, DC 20510

March 21, 2023

The Honorable Michael Barr
Vice Chair for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Vice Chair Barr:

We write regarding vulnerabilities in the banking system revealed by the failures of Silicon Valley Bank (SVB) and Signature Bank and to call on the Federal Reserve (Fed) to exercise its existing authority to implement stronger regulatory standards for banks with assets over $100 billion.

The fall of both SVB and Signature, the near-crash of First Republic, and the struggles of other regional banks[1] shed new light on the systemic importance of banks with assets totaling between $100 and $250 billion. In response to SVB's and Signature Bank's failures, the Department of Treasury, after consultation with the Fed and the Federal Deposit Insurance Corporation (FDIC), approved "systemic risk exceptions" allowing the FDIC to fully compensate the banks' depositors, including those holding deposits above the $250,000 FDIC insurance threshold.[2] In making this determination, regulators acknowledged the systemic significance of banks of this size, and that their failure could have significant spillover effects on the broader banking system.

The *Economic Growth, Regulatory Relief, and Consumer Protection Act* (EGRRCPA) gave the Fed discretion on applying enhanced regulatory standards, including stronger requirements for capital, liquidity, stress testing, and resolution plans, to banks with assets between $100 billion and $250 billion.[3] While this authority has largely gone unexercised since the bill's passage, recent events highlight the consequences of supervision and regulation that is not appropriately tailored to banks of this size. Irresponsible and excessive risk taking by SVB and Signature executives should serve as a clear reminder that banks cannot be left to supervise themselves. The Fed has a responsibility to ensure financial stability, and in order to fulfill that responsibility, it must ensure that all banks with potential systemic significance are subject to rigorous safety and soundness rules.

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[1] NPR, "First Republic becomes the latest bank to be rescued, this time by its rivals," David Gura, March 16, 2023, https://www.npr.org/2023/03/16/1163958533/first-republic-bank-silicon-valley-bank-signature-bank-bank-run.
[2] Federal Deposit Insurance Corporation, "Joint Statement by the Department of the Treasury, Federal Reserve, and FDIC," press release, March 12, 2023, https://www.fdic.gov/news/press-releases/2023/pr23017.html.
[3] Economic Growth, Regulatory Relief, and Consumer Protection Act, Public Law 115-174.

You have recognized the importance of strong oversight for midsize and large banks. In 2018, you argued, "[t]he rules were not meant to only apply to the largest handful of systemically important firms," and that "[i]t is the very antithesis of macro-prudential supervision to focus only on the largest handful of financial firms and to ignore risks elsewhere in the system."[4] Upon your confirmation last year, you announced your intention to strengthen regulatory standards not just for globally systemically important banks (G-SIBs), but for "some of the other largest banks as they grow and as their significance in the financial system increases."[5] New reports indicate that you are currently considering, for banks in the $100-$250 billion range, which at present escape some of the toughest requirements, "[a] raft of tougher capital and liquidity requirements" and "steps to beef up annual 'stress tests' that assess banks' ability to weather a hypothetical recession.""[6] We strongly support this approach.

In order to restore sufficient safety practices to the banking system and restore consumers' confidence in the soundness of their banks, the Fed must immediately exercise its authority to apply enhanced prudential standards and supervision to banks with $100-$250 billion in assets. We appreciate your attention to this matter.

Sincerely,

Elizabeth Warren
United States Senator

Tammy Duckworth
United States Senator

Richard Blumenthal
United States Senator

Bernard Sanders
United States Senator

[4] Wall Street Journal, "Fed to Consider Tougher Rules for Midsize Banks After SVB, Signature Failures," Andrew Ackerman, March 14, 2023, https://www.wsj.com/articles/fed-to-consider-tougher-rules-for-midsize-banks-after-svb-signature-failures-4453fe5d.
[5] Board of Governors of the Federal Reserve, "Remarks by Vice Chair for Supervision Michael S. Barr to at the Brookings Institution," September 7, 2022, https://www.federalreserve.gov/newsevents/speech/barr20220907a.htm.
[6] Wall Street Journal, "Fed to Consider Tougher Rules for Midsize Banks After SVB, Signature Failures," Andrew Ackerman, March 14, 2023, https://www.wsj.com/articles/fed-to-consider-tougher-rules-for-midsize-banks-after-svb-signature-failures-4453fe5d.

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