

# United States Senate

WASHINGTON, DC 20510

March 29, 2023

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

The Honorable Martin J. Gruenberg  
Chairman  
Federal Deposit Insurance Corporation  
550 17th Street NW  
Washington, D.C. 20429

The Honorable Michael J. Hsu  
Acting Comptroller  
Office of the Comptroller of the Currency  
400 7th Street SW  
Washington, D.C. 20219

Dear Vice Chair Barr, Chairman Gruenberg, and Acting Comptroller Hsu:

We write to urge you follow through with establishing strong capital requirements that protect consumers and taxpayers, and preserve the safety and soundness of our banking system. The rapid failure of Silicon Valley Bank (SVB) on March 10, 2023 – which followed the sudden dissolution of Silvergate Bank on March 8, 2023 and set off the collapse of Signature Bank on March 12, 2023<sup>1</sup> – underscores the necessity of the critical work the Federal Reserve (Fed), Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) are currently engaged in to strengthen capital requirements for large banks.<sup>2</sup> Financial industry lobbyists and Republican lawmakers succeeded in weakening some of these rules under the Trump administration<sup>3</sup> and were pressing you to stave off stronger capital standards in the days before the bank failures.<sup>4</sup>

After the failures, they “are now hoping that the narrative coming out of the SVB failure focuses on faults at the Fed and other elements of bank regulation that were eased under the Trump

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<sup>1</sup> The New York Times, “Silicon Valley Bank Collapse: What We Know and How It Happened,” Vivian Giang and Jessica Silver-Greenberg, March 12, 2023, <https://www.nytimes.com/article/svb-silicon-valley-bank-explainer.html>.

<sup>2</sup> Board of Governors of the Federal Reserve System, “Making the Financial System Safer and Fairer,” speech, Michael S. Barr, September 7, 2022, <https://www.federalreserve.gov/newsevents/speech/barr20220907a.htm>.

<sup>3</sup> Board of Governors of the Federal Reserve System, “Statement by Governor Brainard,” press release, March 4, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200304a.htm>.

<sup>4</sup> Politico, “Banks fought to fend off tougher regulation. Then the meltdown came,” Zachary Warmbrodt, March 12, 2023, <https://www.politico.com/news/2023/03/12/banks-regulations-feds-svb-meltdown-00086694>.

administration.”<sup>5</sup> These industry officials are right that bank regulators’ failures are a key part of the reason that Signature and SVB failed – but this does not obviate the need for strong capital requirements. You must resist this industry spin and continue their long-overdue work to implement strong capital standards that keep our financial system safe.

With \$211 billion in assets,<sup>6</sup> SVB was the 16<sup>th</sup>-largest bank in the U.S. at the end of 2022,<sup>7</sup> and its failure is the second-largest in U.S. history.<sup>8</sup> In the immediate aftermath of SVB’s sudden failure, thousands of small businesses, nonprofits, and other customers were thrust into uncertainty, facing serious questions about whether they would be able to pay their employees, make payments, and stay afloat.<sup>9</sup> SVB’s collapse also sparked fears of contagion to other regional banks – including to Signature, which failed soon after – causing a “crisis of confidence,” a \$30 billion injection of funds from multiple megabanks into First Republic Bank, and several trading halts on other regional banks.<sup>10</sup> While regulators have taken extraordinary action to stem the threat of contagion, the failures of SVB, Signature, and Silvergate, are deepening concerns about the resilience of the banking system.<sup>11</sup>

These failures highlight the need to strengthen our prudential regulatory framework, including robust capital requirements that the Fed, FDIC, and OCC have committed to implementing in alignment with the international Basel III framework,<sup>12</sup> which was designed in the wake of the global financial crisis to provide “a regulatory foundation for a resilient banking system that supports the real economy.”<sup>13</sup> As Federal Reserve Vice Chair for Supervision Michael Barr explained in September 2022, “[n]othing is more basic to the safety and soundness of banks and the stability of the financial system than capital. Capital enables firms to serve as a source of strength to the economy by continuing to lend through good times and bad. To continue to perform these functions, banks must have a sufficient level of capital to ensure that they can absorb losses and continue operations during times of stress in the financial system when losses may be significant.”<sup>14</sup> The Basel III framework protects consumers and our financial system by

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<sup>5</sup> Politico, “Banks fought to fend off tougher regulation. Then the meltdown came,” Zachary Warmbrodt, March 12, 2023, <https://www.politico.com/news/2023/03/12/banks-regulations-feds-svb-meltdown-00086694>.

<sup>6</sup> SVB Financial Group, annual report for the fiscal year ended December 31, 2022, <https://d18rn0p25nwr6d.cloudfront.net/CIK-0000719739/f36fc4d7-9459-41d7-9e3d-2c468971b386.pdf>.

<sup>7</sup> Reuters, “SVB is largest bank failure since 2008 financial crisis,” David French, Echo Wang, and Alun John, March 11, 2023, <https://www.reuters.com/business/finance/global-markets-banks-wrapup-1-2023-03-10/>.

<sup>8</sup> The New York Times, “The Second-Biggest Bank Failure,” Karl Russell and Christine Zhang, March 10, 2023, <https://www.nytimes.com/interactive/2023/03/10/business/bank-failures-silicon-valley-collapse.html>.

<sup>9</sup> CNBC, “Companies scramble to meet payroll, pay bills after SVB’s swift failure,” Ari Levy, March 10, 2023, <https://www.cnbc.com/2023/03/10/silicon-valley-bank-customers-scramble-to-meet-payroll-pay-bills.html>;

TheStreet, “SVB Collapse: Small Businesses Caught Up in Bank Closure,” Ellen Chang, March 11, 2023, <https://www.thestreet.com/banking/svb-collapse-small-businesses-caught-up-in-bank-closure>.

<sup>10</sup> CNN, “First Republic secures \$30 billion rescue from large banks,” Matt Egan, Allison Morrow, and David Goldman, March 17, 2023, <https://www.cnn.com/2023/03/16/investing/first-republic-bank/index.html#:~:text=The%20major%20banks%20include%20JPMorgan,a%20tumultuous%20moment%20for%20lenders>.

<sup>11</sup> Bloomberg, “SVB’s Contagion Risk Is Bigger Than Banks,” Jan-Patrick Barnert, March 14, 2023, <https://www.bloomberg.com/news/articles/2023-03-14/svb-s-contagion-risk-is-bigger-than-just-banks>.

<sup>12</sup> Board of Governors of the Federal Reserve System, “Agencies reaffirm commitment to Basel III standards,” press release, September 9, 2022, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20220909a.htm>.

<sup>13</sup> Basel Committee on Banking Supervision, “Basel III: Finalising post-crisis reforms,” p. 1, December 2017, <https://www.bis.org/bcbs/publ/d424.pdf>.

<sup>14</sup> Board of Governors of the Federal Reserve System, “Making the Financial System Safer and Fairer,” Vice Chair for Supervision Michael S. Barr, September 7, 2022,

setting stronger standards for addressing “market risk, operational risk, credit risk and leverage ratios,” increasing resilience throughout the economy.<sup>15</sup> Vice Chair Barr has separately announced a “holistic” review of capital standards for large banks under the Fed’s supervision, noting in December that “[i]n times of stress, banks serve as central sources of strength to the economy, and they need capital to do so.”<sup>16</sup>

Yet just days before SVB’s failure, Republican members of Congress pushed Federal Reserve Chairman Jerome Powell to weaken capital requirements, “echoing concerns from the banking industry” that higher capital standards would hurt the economy.<sup>17</sup> One week before SVB failed, a group of ten Republican members of the Senate Committee on Banking, Housing, and Urban Affairs (BHUA) wrote to Chair Powell, arguing that regulators’ plans to strengthen our banking system’s resiliency appear “unfounded as banks subject to the current regulatory capital regime seem to have weathered the real-life stress test of the COVID-19 pandemic well. Moreover, increasing capital requirements during an inflationary cycle may have serious consequences for lending, market liquidity, and the broader economy.”<sup>18</sup> Three days before SVB’s collapse, during a BHUA hearing at which Chair Powell testified, one Senator told the Fed Chair, “I believe that increasing capital requirements would have a chilling-effect on the economy and the availability of financial services.”<sup>19</sup>

Of course, SVB and Signature – with poor risk management controls,<sup>20</sup> risky investments, and weakened supervision,<sup>21</sup> – failed to “weather the storm” of the obvious risks of rising interest

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<https://www.federalreserve.gov/newsevents/speech/barr20220907a.htm>.

<sup>15</sup> American Banker, “Fed, FDIC, OCC commit to implementing Basel III endgame ‘as soon as possible,’” Kyle Campbell, September 9, 2022, <https://www.americanbanker.com/news/fed-fdic-occ-commit-to-implementing-basel-iii-endgame-as-soon-as-possible>.

<sup>16</sup> Reuters, “U.S. Fed is reviewing capital rules, plans 2023 climate tests -new regulation chief,” Pete Schroeder, September 7, 2022, <https://www.reuters.com/markets/us/us-feds-new-supervision-chief-barr-lay-out-vision-wall-street-oversight-2022-09-07/>; Banking Dive, “Fed’s Barr calls for stricter capital requirements,” Rajashree Chakravarty, December 5, 2022, <https://www.bankingdive.com/news/federal-reserve-barr-stricter-capital-requirements-stress-test/637986/>.

<sup>17</sup> Senate Committee on Banking, Housing, and Urban Development, “The Semiannual Monetary Policy Report to the Congress,” March 7, 2023, <https://www.banking.senate.gov/hearings/02/28/2023/the-semiannual-monetary-policy-report-to-the-congress>; House Committee on Financial Services, “The Federal Reserve’s Semi-Annual Monetary Policy Report,” March 8, 2023, <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408623>; Letter from Senators Tim Scott, Mike Crapo, Mike Rounds, Thom Tillis, John Kennedy, Bill Hagerty, Cynthia Lummis, Katie Boyd Britt, Kevin Cramer, and Steve Daines to Federal Reserve Chair Powell, March 3, 2023, [https://www.banking.senate.gov/imo/media/doc/capital\\_letter\\_to\\_chairman\\_powell.pdf](https://www.banking.senate.gov/imo/media/doc/capital_letter_to_chairman_powell.pdf); The Hill, “Five takeaways from Powell’s House testimony,” Karl Evers-Hillstrom, March 8, 2023, <https://thehill.com/business/3890199-five-takeaways-from-powells-house-testimony/>.

<sup>18</sup> Letter from Senators Tim Scott, Mike Crapo, Mike Rounds, Thom Tillis, John Kennedy, Bill Hagerty, Cynthia Lummis, Katie Boyd Britt, Kevin Cramer, and Steve Daines to Federal Reserve Chair Powell, March 3, 2023, [https://www.banking.senate.gov/imo/media/doc/capital\\_letter\\_to\\_chairman\\_powell.pdf](https://www.banking.senate.gov/imo/media/doc/capital_letter_to_chairman_powell.pdf).

<sup>19</sup> Senate Committee on Banking, Housing, and Urban Development, “The Semiannual Monetary Policy Report to the Congress,” March 7, 2023, <https://www.banking.senate.gov/hearings/02/28/2023/the-semiannual-monetary-policy-report-to-the-congress>.

<sup>20</sup> Forbes, “Silicon Valley Bank Proxy Shows Board’s Secret Yearlong Risk Panic,” Noah Barsky, March 12, 2023, <https://www.forbes.com/sites/noahbarsky/2023/03/12/silicon-valley-bank-proxy-shows-boards-secret-yearlong-risk-panic/?sh=26d8cb631e7b>.

<sup>21</sup> The Intercept, “Silicon Valley Bank Used Former McCarthy Staffers to Weaken Regulations, Lobby FDIC,” Ken Klippenstein, March 11, 2023, <https://theintercept.com/2023/03/11/silicon-valley-bank-used-former-mccarthy-staffers-to-weaken-regulations-lobby-fdic/>.

rates, threatening thousands of small businesses and nonprofits, employees, and vendors,<sup>22</sup> and forcing regulators to take extraordinary action to stave off further contagion.<sup>23</sup> In their push against strong bank capital requirements, prior to the failures of Signature and SVB, Republicans in Congress have toed the banking industry line, reinforcing an aggressive Wall Street lobbying campaign to further weaken rules designed to protect our economy from precisely the kinds of bank failures we saw last weekend. Banking executives and industry groups including the Bank Policy Institute have long lobbied against strengthened capital requirements, with JPMorgan Chase CEO Jamie Dimon warning that high capital requirements were “bad for America” and a “significant economic risk” in October 2022 – just months before SVB’s collapse.<sup>24</sup>

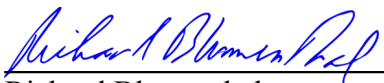
The failures of SVB and Signature, and the regulatory and supervisory failures that enabled its costly collapse, are directly tied to the big banks’ and Republican policymakers’ cynical efforts to weaken our regulatory framework. In order to prevent future bank crises and protect working Americans, we urge your agencies to quickly implement strong capital requirements and resist industry pressure to weaken or delay these requirements.

Thank you for your attention to this matter.

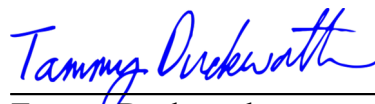
Sincerely,



Elizabeth Warren  
United States Senator



Richard Blumenthal  
United States Senator



Tammy Duckworth  
United States Senator

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<sup>22</sup> CNBC, “Companies scramble to meet payroll, pay bills after SVB’s swift failure,” Ari Levy, March 10, 2023, <https://www.cnbc.com/2023/03/10/silicon-valley-bank-customers-scramble-to-meet-payroll-pay-bills.html>; TheStreet, “SVB Collapse: Small Businesses Caught Up in Bank Closure,” Ellen Chang, March 11, 2023, <https://www.thestreet.com/banking/svb-collapse-small-businesses-caught-up-in-bank-closure>.

<sup>23</sup> 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>.

<sup>24</sup> Bloomberg, “Dimon Blasts Higher Capital Requirements as Bank CEOs Head to Washington,” Hannah Levitt, September 20, 2022, <https://www.bloomberg.com/news/articles/2022-09-20/dimon-blasts-higher-capital-requirements-as-ceos-head-to-capitol>.